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

Final Audit Report

Audit of
BlueCross BlueShield of Vermont
Montpelier, Vermont

Report Number 1A-10-28-19-011
November 19, 2019

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Vermont

Report No. 1A-10-28-19-011 **November 19, 2019**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Vermont (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, such as refunds and provider audit recoveries, from 2015 through September 30, 2018, and administrative expense charges from 2015 through 2017, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2017 through September 30, 2018.

Michael R. Esser
Assistant Inspector General
for Audits

What did we find?

We questioned $55,319 in *net* administrative expense overcharges, 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 subsequently returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits, except for the finding pertaining to excess funds noted in the "Cash Management" section. Overall, we concluded that the Plan timely returned health benefit refunds and recoveries to the FEHBP and properly charged miscellaneous payments to the FEHBP.

- Administrative Expenses – We questioned $52,665 in *net* administrative expense overcharges and applicable LII, consisting of $63,715 for unallocable costs, $2,520 for net executive compensation overcharges, $19,917 for net Affordable Care Act fee undercharges, and $6,347 for LII on the overcharges.

- Cash Management – We determined that the Plan held excess FEHBP funds of $2,654 in the dedicated Federal Employee Program (FEP) investment account as of September 30, 2018. These excess funds were for provider overpayment recoveries that were deposited into the FEP investment account but not returned to the FEHBP letter of credit account.

ABBREVIATIONS

ACA	**Affordable Care Act**
Association	**BlueCross BlueShield Association**
BCBS	**BlueCross and/or BlueShield**
CFR	**Code of Federal Regulations**
FAR	**Federal Acquisition Regulations**
FEHB	**Federal Employees Health Benefits**
FEHBAR	**Federal Employees Health Benefits Acquisition Regulations**
FEHBP	**Federal Employees Health Benefits Program**
FEP	**Federal Employee Program**
LII	**Lost Investment Income**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
PCORI	**Patient-Centered Outcomes Research Institute**
Plan	**BlueCross BlueShield of Vermont**

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I. BACKGROUND

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

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

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

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

The Association has established a Federal Employee Program (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 local BCBS plans, approving or disapproving the

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

reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

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

We included this Plan in each of the following recent focused audits that covered a sample of BCBS plans:

- Final Report No. 1A-99-00-17-001 (dated March 14, 2018) for cash management activities and practices related to FEHBP funds from 2015 through June 30, 2016;

- Final Report No. 1A-99-00-16-010 (dated January 31, 2017) for aging FEP health benefit refunds as of June 30, 2015, and fraud recoveries and medical drug rebates from 2012 through June 30, 2015; and,

- Final Report No. 1A-99-00-14-068 (dated November 16, 2015) for pension and post-retirement benefit costs from 2011 through 2013.

All findings related to the Plan in these recent focused audits 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 July 15, 2019; and were presented in detail in a draft report, dated July 31, 2019. 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.

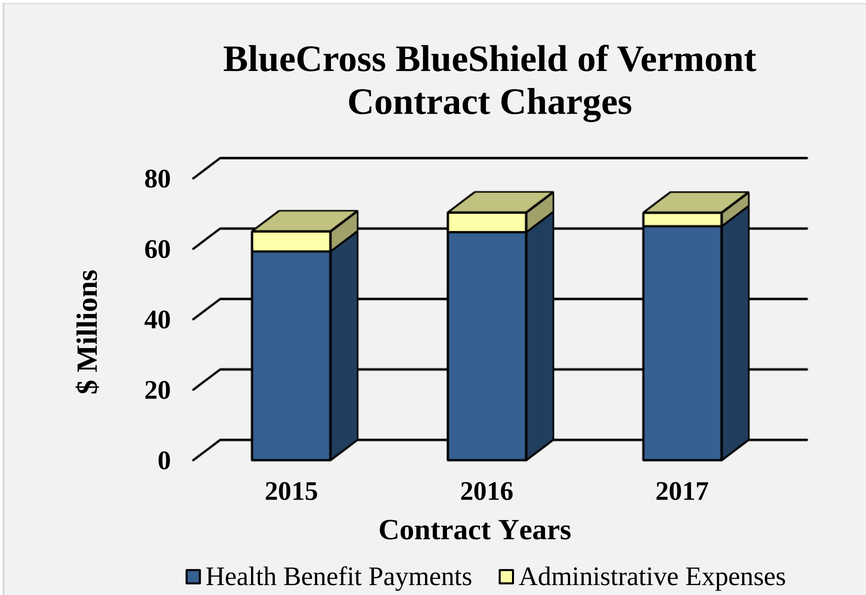
Cash Management

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

SCOPE

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 415 and 915 for contract years 2015 through 2017. During this period, the Plan paid approximately $190 million in FEHBP health benefit payments and charged the FEHBP $15 million in administrative expenses (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash and auto recoupment refunds, provider audit recoveries, and special plan invoices) from 2015 through September 30, 2018, administrative expense charges from 2015 through 2017, and the Plan's cash management activities and practices from 2017 through September 30, 2018.

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 significant matters involving the Plan's internal control structure and 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 Montpelier, Vermont from April 2, 2019, through April 11, 2019. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. through July 15, 2019. Throughout the audit process, the Plan did a great 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 2015 through September 30, 2018, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 50 FEP health benefit refund cash receipts, totaling $672,744 (from a universe of 437 FEP refund cash receipt amounts, totaling $833,284, for the audit scope). Our high dollar sample included the 50 highest refund cash receipt amounts from the audit scope.

- A high dollar sample of 25 FEP health benefit refunds returned via auto recoupments, totaling $1,332,847 (from a universe of 3,883 FEP refunds returned via auto recoupments, totaling $2,726,328, for the audit scope). Our high dollar sample included the 25 highest auto recoupment amounts from the audit scope.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 10 FEP provider audit recoveries, totaling $302,208 (from a universe of 444 FEP provider audit recoveries, totaling $777,468, for the audit scope). For this sample, we selected the 10 highest dollar provider audit recoveries from the audit scope.

- A high dollar sample of 10 FEP subrogation recoveries, totaling $96,242 (from a universe of 24 FEP subrogation recoveries, totaling $106,350, for the audit scope). For this sample, we selected the 10 highest dollar subrogation recoveries from the audit scope.

- A high dollar sample of 14 special plan invoices, totaling $565,363 in net FEP payments (from a universe of 193 special plan invoices, totaling $3,554,839 in net FEP credits, for the audit scope). We judgmentally selected these special plan invoices based on our nomenclature review of high dollar invoice amounts. Specifically, from each year in the audit scope, we selected the special plan invoices with the two highest credit amounts and the two highest payment amounts, if applicable. Special plan invoices are used by the Plan to process items such as miscellaneous health benefit payment and credit transactions that do not include primary claim payments or checks.

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 2015 through 2017. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement; employee health benefits; non-recurring projects; lobbying; executive compensation limits; and Patient Protection and Affordable Care Act fees.[2]

[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 $14,741,025 (before adjustments) to the FEHBP from 49 cost centers that contained 74 natural accounts. From this universe, we selected a judgmental sample of 20 cost centers to review, which totaled $12,013,484 in expenses allocated to the FEHBP. We also selected a judgmental sample of 21 natural accounts to review, which totaled $5,767,904 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.

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 letter of credit account drawdowns, working capital calculations, adjustments and/or balances, United States Treasury offsets, and interest income transactions from 2017 through September 30, 2018, as well as the Plan's dedicated FEP investment account activity during the scope and the balance as of September 30, 2018.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits, except for the finding pertaining to excess funds noted in the "Cash Management" section. Overall, we concluded that the Plan timely returned health benefit refunds and recoveries to the FEHBP and properly charged miscellaneous payments to the FEHBP.

B. ADMINISTRATIVE EXPENSES

1. Unallocable Costs $69,395

The Plan charged unallocable costs of $63,715 to the FEHBP in 2015. As a result of this finding, the Plan subsequently returned $69,395 to the FEHBP, consisting of $63,715 for these unallocable costs and $5,680 for applicable lost investment income (LII) on these questioned charges.

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 31.201-4 states, "A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it -

(a) Is incurred specifically for the contract;
(b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
(c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown."

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 . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

For contract years 2015 through 2017, the Plan allocated administrative expenses of $14,741,025 (before adjustments) to the FEHBP from 49 cost centers that contained 74 natural accounts. From this universe, we selected a judgmental sample of 20 cost centers to review, which totaled $12,013,484 in expenses allocated to the FEHBP. We also selected a judgmental sample of 21 natural accounts to review, which totaled $5,767,904 in expenses allocated to the FEHBP through the cost centers. 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 Plan charged the FEHBP $63,715 for unallocable costs.

Based on our review, we determined that the Plan charged the FEHBP for cost center and natural account expenses that were actual, allowable, allocable and reasonable, with one exception identified in 2015. For this exception, the Plan charged unallocable costs to the FEHBP from natural account "675509" (Other Purchased Services) that was allocated to the FEP through cost center "7480" (Integrated Health Management). Specifically, the Plan inadvertently allocated $63,715 in costs to the FEP from nine journal entries that did not benefit the FEHBP. We noted that these journal entries were for technology and member services that were not related to the FEP.

In total, the Plan returned $69,395 to the FEHBP for this audit finding, consisting of $63,715 for the unallocable costs that were charged to the FEHBP and $5,680 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

<u>Association/Plan Response:</u>

The Plan agrees with this finding.

<u>OIG Comment:</u>

We verified that the Plan returned $69,395 to the FEHBP in May 2019, consisting of $63,715 for the questioned unallocable costs and $5,680 for applicable LII.

Recommendation 1

We recommend that the contracting officer disallow $63,715 for the questioned unallocable costs charged to the FEHBP in 2015. However, since we verified that the Plan subsequently returned $63,715 to the FEHBP for these questioned costs, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $5,680 to the FEHBP for questioned LII calculated on the unallocable costs. However, since we verified that the Plan subsequently returned $5,680 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Limits on Executive Compensation **$3,187**

Our audit determined that the Plan overcharged the FEHBP a net of $2,520 for executive compensation costs from 2015 through 2017. Specifically, the Plan overcharged the FEHBP $8,571 for executive compensation costs in 2015 and 2016, and undercharged the FEHBP $6,051 in 2017. As a result of this finding, the Plan subsequently returned $3,187 to the FEHBP, consisting of $2,520 for net executive compensation overcharges and $667 for applicable LII on the overcharges.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a benchmark amount established each year by the Office of Federal Procurement Policy. Starting in June 2014, this limit is applicable to all contractor employees whose compensation met the benchmark limit. The benchmark compensation amounts were $487,000 in 2015, $500,000 in 2016, and $512,000 in 2017.

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.

The Plan overcharged the FEHBP a net of $2,520 for executive compensation costs.

To determine the allowability of the amounts charged to the FEHBP for executive compensation, we reviewed the Plan's allocations for 2015 through 2017 to determine if the executive compensation amounts were limited to the benchmark amounts set forth in 48 CFR 31.205-6(p). Based on our review, we determined that the Plan did not correctly limit the executive compensation amounts charged to the FEHBP, resulting in net overcharges of $2,520 to the FEHBP.

This oversight occurred because the Plan used incorrect executive compensation limits when determining the benchmarks for 2015 through 2017. In addition, we noted that the Plan made an out-of-system adjustment in 2017 to limit executive compensation costs to the benchmark amount; however, due to a calculation error, the Plan inadvertently reduced the charges to the FEHBP by $6,051 too much. Because of these exceptions, the Plan overcharged the FEHBP by $4,237 and $4,334 for executive compensation costs in 2015 and 2016, respectively, and undercharged the FEHBP by $6,051 in 2017.

In total, the Plan returned $3,187 to the FEHBP for this audit finding, consisting of $2,520 for the executive compensation costs that were net overcharged to the FEHBP and $667 for applicable LII on the overcharges (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

We verified that the Plan returned $3,187 to the FEHBP in April 2019 and May 2019, consisting of $2,520 (net) for executive compensation overcharges and $667 for LII on the overcharges.

Recommendation 3

We recommend that the contracting officer disallow $2,520 for executive compensation costs that were net overcharged to the FEHBP from 2015 through 2017. However, since we verified that the Plan subsequently returned $2,520 to the FEHBP for these questioned net overcharges, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return $667 to the FEHBP for questioned LII calculated on the executive compensation overcharges. However, since we verified that the Plan subsequently returned $667 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. <u>Affordable Care Act Fees</u> <u>($19,917)</u>

Our audit determined that the Plan undercharged the FEHBP a net of $19,917 for Affordable Care Act (ACA) fees from 2015 through 2017. Specifically, the Plan overcharged the FEHBP $253 for the transitional reinsurance fee in 2015 and undercharged the FEHBP $20,170 for the Patient-Centered Outcomes Research Institute (PCORI) fees from 2015 through 2017. As a result, we are questioning a net of $19,917 for ACA fees that were undercharged to the FEHBP from 2015 through 2017.

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

<u>Transitional Reinsurance Fees</u> – From 2014 through 2016, Section 1341 of the ACA provided for a transitional reinsurance program in each State. The reinsurance program imposed an annual fee on health insurers designed to reduce the costs for high-risk enrollees and decrease the premiums for enrollees in the individual market. This yearly transitional reinsurance fee was based on each health insurer’s enrollment count (i.e., covered lives). Starting in 2014, the Department of Health and Human Services collected these contributions annually from all health insurance issuers and self-insured group health plans. In 2015 and 2016, the Plan allocated and charged $828,020 to the FEHBP for the transitional reinsurance fees. This fee was not applicable in 2017. Based on our review, we determined that the Plan inadvertently did not correctly calculate the number of FEP primary covered lives when determining the transitional reinsurance fee for 2015, resulting in an overcharge of $253 to the FEHBP.

The Plan undercharged the FEHBP $20,170 for PCORI fees.

<u>PCORI Fees</u> – Section 6301 of the ACA imposes a fee on issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The PCORI assists individuals in making informed health decisions by advancing the quality and relevance of evidence-based medicine. The PCORI fee is effective for policy and plan years ending on or after October 1, 2012, and before October 1, 2019. The yearly amount of the PCORI fee is equal to the average number of lives covered during the policy or plan year multiplied by a specific dollar amount (e.g., $2.39 for 2017), as determined by the Secretary of Health and Human Services. For 2015 through 2017, the Plan allocated and charged $78,591 to the FEHBP for the PCORI fees. Based on our review, we determined that when calculating the PCORI fees for 2015 through 2017, the Plan incorrectly excluded FEP members who also

had Medicare from FEP's average number of covered lives. This oversight resulted in undercharges of $20,170 to the FEHBP for PCORI fees from 2015 through 2017.

Health Insurance Provider Fees – Section 9010 of the ACA imposes an annual fee on health insurers for funding the health insurance exchange subsidies. This yearly fee is based on each health insurer's share of net premiums written. The Internal Revenue Service calculates the health insurer fee based on a ratio of the health insurer's net premiums written to the total net premiums written by all health insurance providers. The ACA required all health insurance providers to collectively contribute $11.3 billion for 2015, $11.3 billion for 2016, and $13.9 billion for 2017. For 2015 through 2017, the Plan allocated and charged approximately $2.7 million to the FEHBP for the health insurance provider fees. For 2015 through 2017, the Plan also calculated and charged $665,094 to the FEHBP for Federal income taxes related to the health insurance provider fees. Based on our review, we determined that the Plan properly allocated and charged the health insurance provider fees to the FEHBP. We also determined that the Plan reasonably calculated and charged the FEHBP for Federal income taxes related to the health insurance provider fees.

In total, we are questioning a net of $19,917 for ACA fees that were undercharged to the FEHBP from 2015 through 2017. Specifically, the Plan overcharged the FEHBP $253 for the transitional reinsurance fee in 2015 and undercharged the FEHBP $20,170 for PCORI fees from 2015 through 2017. We did not calculate LII on the questioned transitional reinsurance fee overcharge since the amount is immaterial.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $253 to the FEHBP in July 2019 for the questioned transitional reinsurance fee overcharge. We also verified that the Plan submitted a prior period adjustment to the FEP Director's Office for the questioned PCORI fee undercharges of $20,170, and charged the FEHBP for these undercharges via letter of credit account drawdown adjustment on July 16, 2019.

Recommendation 5

We recommend that the contracting officer disallow $253 for the transitional reinsurance fee that was overcharged to the FEHBP in 2015. However, since we verified that the Plan subsequently returned $253 to the FEHBP for this questioned overcharge, no further action is required for this amount.

Recommendation 6

We recommend that the contracting officer allow the Plan to charge the FEHBP $20,170 for the PCORI fees that were undercharged to the FEHBP from 2015 through 2017. However, since we verified that the Plan subsequently charged $20,170 to the FEHBP for these questioned undercharges, no further action is required for this amount.

C. CASH MANAGEMENT

1. Excess Funds in the Federal Employee Program Investment Account $2,654

Our audit determined that the Plan held excess FEHBP funds of $2,654 in the dedicated FEP investment account as of September 30, 2018. The Plan subsequently returned these excess funds to the letter of credit account on July 24, 2019, after receiving our audit notification letter.

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

Contract CS 1039, Part II, Section 2.3 (i) states, "All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier." Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a) states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected . . . prior to audit notification."

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

The Plan held excess FEHBP funds of $2,654 in the dedicated FEP investment account as of September 30, 2018.

In our Standard Information Request (dated October 1, 2018), we requested the Plan to provide an analysis of the funds (such as working capital, approved letter of credit account drawdown reimbursements, health benefit refunds and recoveries, medical drug rebates, interest income, and excess funds) that were held in the dedicated FEP investment account as of September 30, 2018. In response to our Standard Information Request (during our pre-audit phase) and subsequent follow-up requests, the Plan disclosed that excess FEHBP funds of $2,654 were inadvertently held in the FEP investment account as of September 30, 2018. Specifically, the Plan disclosed that these excess funds were for provider overpayment recoveries that were deposited into the FEP investment account but inadvertently not returned to the FEHBP letter of credit account.

We reviewed the Plan's analysis and applicable supporting documentation and agreed that the Plan held excess FEHBP funds of $2,654 in the dedicated FEP investment account as of September 30, 2018. Since these excess funds were in the FEP investment account, LII is not applicable for this audit finding.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned the questioned excess FEHBP funds of $2,654 to the letter of credit account in July 2019.

Recommendation 7

We recommend that the contracting officer require the Plan to return $2,654 to the FEHBP for the excess funds held in the FEP investment account. However, since we verified that the Plan returned $2,654 to the FEHBP for the excess funds held in the FEP investment account, no further action is required for this amount.

IV. SCHEDULE A – QUESTIONED CHARGES

BLUECROSS BLUESHIELD OF VERMONT
MONTPELIER, VERMONT

QUESTIONED CHARGES

AUDIT FINDINGS	2015	2016	2017	2018	2019	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$0	$0	$0	$0	$0	$0
B. ADMINISTRATIVE EXPENSES						
1. Unallocable Costs*	$63,715	$1,396	$1,553	$1,953	$778	$69,395
2. Limits on Executive Compensation*	4,237	4,427	(5,842)	263	102	3,187
3. Affordable Care Act Fees	(5,786)	(6,817)	(7,314)	0	0	(19,917)
TOTAL ADMINISTRATIVE EXPENSES	$62,166	($994)	($11,603)	$2,216	$880	$52,665
C. CASH MANAGEMENT						
1. Excess Funds in the Federal Employee Program Investment Account	$0	$0	$0	$2,654	$0	$2,654
TOTAL CASH MANAGEMENT	$0	$0	$0	$2,654	$0	$2,654
TOTAL QUESTIONED CHARGES	$62,166	($994)	($11,603)	$4,870	$880	$55,319

* We included lost investment income (LII) within audit findings B1 ($5,680) and B2 ($667). Therefore, no additional LII is applicable.

BlueCross BlueShield Association

Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005
202.626.4800

APPENDIX

September 16, 2019
Mr. [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**
BlueCross BlueShield of Vermont
Audit Report No. 1A-10-28-19-011
(Dated July 31, 2019)

Dear Mr. [redacted]:
This is the Blue Cross Blue Shield of Vermont (Plan) response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the Plan are committed to enhancing existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

Our comments concerning the findings in the report are as follows:

B. ADMINISTRATIVE EXPENSES

1. Unallocable Costs **$69,395**

Recommendation 1:

We recommend that the contracting officer disallow $63,715 for the questioned unallocable costs charged to the FEHBP in 2015. However, since we verified that the Plan subsequently returned $63,715 to the FEHBP for these questioned costs, no further action is required for this amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

Recommendation 2:

We recommend that the contracting officer require the Plan to return $5,680 to the FEHBP for LII on the unallocable costs. However, since we verified that the Plan subsequently returned $5,680 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

2. **Limits on Executive Compensation** **$3,187**

Recommendation 3:

We recommend that the contracting officer disallow $2,520 (net) for executive compensation costs that were overcharged to the FEHBP from 2015 through 2017. However, since we verified that the Plan subsequently returned $2,520 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

Recommendation 4:

We recommend that the contracting officer require the Plan to return $667 to the FEHBP for questioned LII calculated on the executive compensation overcharges. However, since we verified that the Plan subsequently returned $667 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

3. **Affordable Care Act Fees** **($19,917)**

Recommendation 5:

We recommend that the contracting officer disallow $253 for the transitional reinsurance fee that was overcharged to the FEHBP in 2015. However, since we verified that the Plan subsequently returned $253 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

Recommendation 6:

We recommend that the contracting officer allow the Plan to charge the FEHBP $20,170 for PCORI fees that were undercharged to the FEHBP from 2015 through 2017.

Plan Response:

The Plan will submit a prior period adjustment to collect the undercharged amount.

C. CASH MANAGEMENT

1. Excess Funds in the FEP Investment Account $2,654

Recommendation 7:

We recommend that the contracting officer require the Plan to return $2,654 to the FEHBP for the excess funds held in the FEP investment account. However, since we verified that the Plan returned $2,654 to the FEHBP for the excess funds held in the FEP investment account, no further action is required for this amount.

Plan Response:

The Plan agreed with this finding. No additional action is necessary.

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,

Kim King
Managing Director, Program Assurance

Attachments

Cc: Amber Farr, BlueCross BlueShield of Vermont
Connie Woodard, Program Assurance, BCBSA
Mitch Davis, Program Assurance, BCBSA

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