



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

Final Audit Report

Audit of
BlueCross BlueShield of Alabama
Birmingham, Alabama

Report Number 1A-10-09-18-050

July 11, 2019

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Alabama

Report No. 1A-10-09-18-050

July 11, 2019

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Alabama (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, subrogation recoveries and medical drug rebates, from 2013 through March 31, 2018, and administrative expense charges from 2013 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 2013 through March 31, 2018, and the Plan's Fraud and Abuse Program activities from January 1, 2018, through June 30, 2018.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$4,684,247 in medical drug rebates, administrative expense charges, 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 – We questioned \$224,411 for medical drug rebates that had not been returned to the FEHBP and \$33,747 for LII on health benefit refunds and recoveries, hospital settlements, and medical drug rebates that were returned untimely to the FEHBP.
- Administrative Expenses – We questioned \$4,426,089 in administrative expense charges and LII, consisting of \$3,044,436 for executive compensation overcharges, \$722,715 for unallowable and/or unallocable cost center and natural account expenses, \$300,157 for non-recurring cost overcharges, \$65,661 for unallowable merger and acquisition costs, \$17,145 for Affordable Care Act fee overcharges, and \$275,975 for applicable LII on these questioned charges.
- Cash Management – The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.
- Fraud and Abuse Program – The Plan is in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross and/or BlueShield
CC	Cost Center
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
FSTS	FEP Special Investigations Unit Tracking System
LII	Lost Investment Income
NA	Natural Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
PACER	Plan Administrative Cost Evaluation and Report
PCORI	Patient-Centered Outcomes Research Institute
Plan	BlueCross BlueShield of Alabama
SIU	Special Investigations Unit
System	Health Management Clinical Work Management System

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	9
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u>	9
1. Medical Drug Rebates.....	9
2. Hospital Settlements	11
3. Subrogation Recoveries	13
4. Unsolicited Health Benefit Refunds	14
B. <u>ADMINISTRATIVE EXPENSES</u>	16
1. Limits on Executive Compensation	16
2. Cost Center and Natural Account Expenses	18
3. Non-Recurring Costs	20
4. Merger and Acquisition Costs	22
5. Affordable Care Act Fees	24
C. <u>CASH MANAGEMENT</u>	26
D. <u>FRAUD AND ABUSE PROGRAM</u>	26
IV. SCHEDULE A – QUESTIONED CHARGES	
APPENDIX: BlueCross BlueShield Association Draft Report Response, dated May 6, 2019	
REPORT FRAUD, WASTE, AND MISMANAGEMENT	

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 Alabama (Plan). The Plan is located in Birmingham, Alabama.

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

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

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

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

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

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

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

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

All findings from our previous audit of the Plan (Report No. 1A-10-09-11-018, dated November 21, 2011), covering 2005 through September 30, 2010, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on February 14, 2019; and were presented in detail in a draft report, dated March 21, 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.

Fraud and Abuse Program

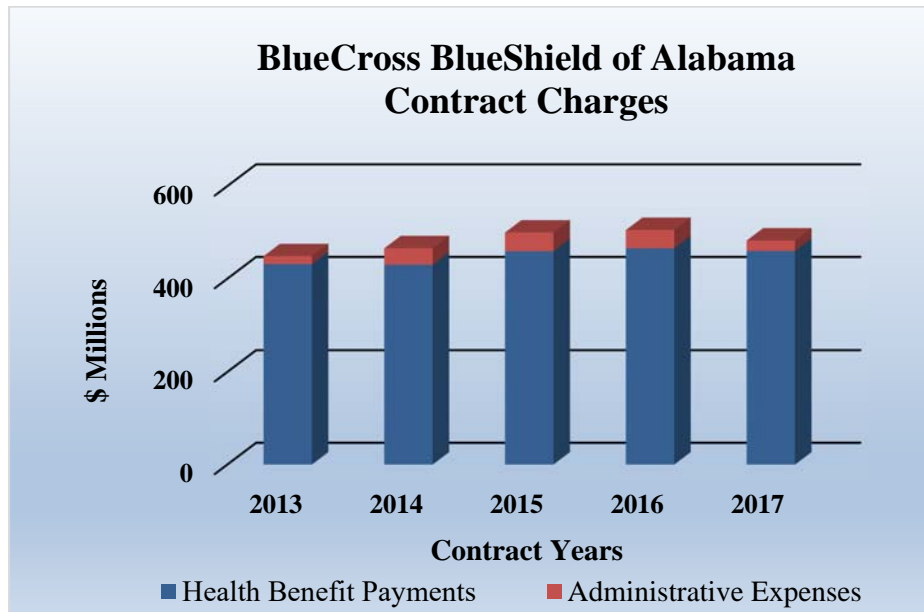
- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and Carrier Letter 2017-13.

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 pertaining to Plan codes 010 and 510 for contract years 2013 through 2017. During this period, the Plan paid approximately \$2 billion in FEHBP health benefit payments and charged the FEHBP \$156 million in administrative expenses (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash and auto recoupment refunds, subrogation recoveries, medical drug rebates, and special plan invoices) and the Plan’s cash management activities and practices from 2013 through March 31, 2018, as well as administrative expense charges from 2013 through 2017. We also reviewed the Plan’s Fraud and Abuse Program activities from January 1, 2018, through June 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 any significant matters involving the Plan’s internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

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

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

The audit was performed at the Plan’s office in Birmingham, Alabama on various dates from October 16, 2018, through December 14, 2018. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. through February 14, 2019. Throughout the audit process, the Plan did an excellent job providing complete and timely responses to our numerous requests for supporting documentation. We greatly appreciated the Plan’s cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan’s policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. For 2013 through March 31, 2018, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 150 FEP health benefit refund cash receipts, totaling \$13,381,625 (from a universe of 32,812 FEP refund cash receipt amounts, totaling \$22,291,474, for the audit scope). The Plan’s FEP universe of refund cash receipts included 8,263 solicited refund amounts, totaling \$4,063,328, and 24,549 unsolicited refund amounts,

totaling \$18,228,146. From this universe, our high dollar sample included the 10 highest solicited refund cash receipt amounts and the 15 highest unsolicited refund cash receipt amounts from each year of the audit scope.

- A high dollar sample of 60 FEP health benefit refunds returned via auto recoupments, totaling \$11,353,335 (from a universe of 403,418 FEP refunds returned via auto recoupments, totaling \$135,891,690, for the audit scope). The Plan's FEP universe of auto recoupment refunds included 183,222 solicited amounts, totaling \$54,766,306, and 220,196 front-end amounts, totaling \$81,125,384.² From this universe, our high dollar sample included the 20 highest solicited auto recoupment amounts and the 40 highest front-end auto recoupment amounts from the audit scope.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 20 FEP fraud recoveries, totaling \$2,300,523 (from a universe of 192 FEP fraud recoveries, totaling \$2,586,583, for the audit scope). For this sample, we selected the 20 highest dollar fraud recoveries from the audit scope.
- All 16 FEP medical drug rebate amounts, totaling \$1,204,782, for the audit scope.
- A judgmental sample of 23 FEP subrogation recoveries, totaling \$1,175,942 (from a universe of 17,668 FEP subrogation recoveries, totaling \$7,362,774, for the audit scope). For this sample, we selected the 20 highest dollar subrogation recoveries from the audit scope and 3 subrogation recoveries that were outstanding for more than 200 days after receipt by the Plan.
- A judgmental sample of 24 FEP audit recoveries, totaling \$445,785 (from a universe of 1,490 FEP audit recoveries, totaling \$1,527,735, for the audit scope). For this sample, we selected the 10 highest internal provider audit recoveries, the 10 highest credit balance audit recoveries, and all 4 hospital audit recoveries from the audit scope.

² For solicited auto recoupments, the Plan returns the funds to the FEHBP by adjusting letter of credit account drawdowns, prior to recovering the funds from the providers through the auto recoupment process. For front-end auto recoupments, the Plan primarily returns the funds to the FEHBP by reducing future FEP claim payments to providers through the auto recoupment process.

- A high dollar sample of six corporate hospital settlement amounts, totaling \$1,577,015 in net payments (from a universe of 649 hospital settlement amounts, totaling \$91,015,394 in net credits, for the audit scope). For this sample, we judgmentally selected the three highest payment amounts and the three highest credit amounts from the audit scope to determine if the Plan properly calculated, charged and/or credited FEP's shares of these corporate settlement amounts to the FEHBP.
- A high dollar sample of 24 special plan invoices, totaling \$123,828 in net FEP payments (from a universe of 712 special plan invoices, totaling \$2,203,296 in net FEP credits, for the audit scope). From the audit scope, we judgmentally selected these special plan invoices based on our nomenclature review of high dollar amounts. Specifically, we judgmentally selected 12 special plan invoices with credit amounts of \$63,000 or more, as well as 12 special plan invoices with payment amounts of \$140,000 or more. 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 2013 through 2017. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement; employee health benefits; non-recurring projects; lobbying; mergers and acquisitions, executive compensation limits; and Patient Protection and Affordable Care Act fees.³ We used the FEHBP contract, the FAR, the FEHBPBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

³ 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 \$157,143,334 (before adjustments) to the FEHBP from 580 cost centers that contained 95 natural accounts. From this universe, we selected a judgmental sample of 65 cost centers to review, which totaled \$53,803,447 in expenses allocated to the FEHBP. We also selected a judgmental sample of 32 natural accounts to review, which totaled \$55,859,257 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 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 2013 through March 31, 2018, as well as the Plan's dedicated FEP investment account activity during the scope and the balance as of March 31, 2018.

We also interviewed the Plan's Special Investigations Unit regarding the effectiveness of the Fraud and Abuse Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2017-13.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Medical Drug Rebates

\$244,739

Our audit determined that the Plan had not returned two medical drug rebate amounts, totaling \$224,411, to the FEHBP as of March 31, 2018. The Plan subsequently returned these medical drug rebates to the FEHBP on July 2, 2018, more than a year late and after receiving our audit notification letter. Additionally, the Plan untimely returned two medical drug rebate amounts, totaling \$400,333, to the FEHBP during the audit scope. As a result, we are questioning \$244,739 for this audit finding, consisting of \$224,411 for the questioned medical drug rebates and \$20,328 for lost investment income (LII) on the medical drug rebates returned untimely to the FEHBP.

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

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

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

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

The Plan participates in medical drug rebate programs with various drug manufacturers. The drug rebates are determined based on medical claims for the applicable drugs, which are primarily administered in a physician's office. The Plan receives medical drug rebates multiple times a year (usually on a quarterly basis) and credits these rebates to the participating groups, including the FEP.

The Plan returned medical drug rebates of \$224,411 to the FEHBP more than a year late and after receiving our audit notification letter.

For the period 2013 through March 31, 2018, the Plan received 16 FEP medical drug rebate amounts, totaling \$1,204,782, from various drug manufacturers. We selected and reviewed all of these medical drug rebate amounts to determine if the Plan timely returned these funds to the

FEHBP. Based on our review, we noted the following exceptions:

- The Plan had not returned two medical drug rebate amounts, totaling \$224,411, to the FEHBP as of March 31, 2018. In response to our Standard Information Request (during our pre-audit phase), the Plan also self-disclosed this exception. The Plan subsequently returned these medical drug rebates to the FEHBP on July 2, 2018, more than a year late and after receiving our audit notification letter (dated April 2, 2018). Therefore, we are questioning this amount as a monetary finding as well as \$7,722 for LII on these medical drug rebates returned untimely to the FEHBP (as calculated by the OIG).
- The Plan returned two medical drug rebate amounts, totaling \$400,333, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan returned these medical drug rebate amounts to the FEHBP from 122 to 1,330 days late. As a result, we are questioning \$12,606 for LII on these medical drug rebates returned untimely to the FEHBP (as calculated by the OIG).

In total, the Plan returned \$244,739 to the FEHBP for these medical drug rebate exceptions, consisting of \$224,411 for the questioned medical drug rebates and \$20,328 (\$7,722 plus \$12,606) for applicable LII on the medical drug rebates returned untimely to the FEHBP.

Association/Plan Response:

The Plan agrees with the finding and monetary recommendations. The Association agrees with the procedural recommendation and states, "The Plan submitted new policies and procedures to ensure that all health benefit refunds and recoveries,

including medical drug rebates, are properly reported. We will work with the Plan to provide evidence to the Contracting Officer that the Plan has implemented the necessary corrective actions in our response to the final report.”

OIG Comment:

We verified that the Plan returned \$244,739 to the FEHBP, consisting of \$224,411 for the questioned medical drug rebates and \$20,328 for applicable LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$224,411 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned \$224,411 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$20,328 to the FEHBP for the questioned LII on the medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$20,328 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 3

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that all health benefit refunds and recoveries, including medical drug rebates, are timely returned to the FEHBP. (Note: This procedural recommendation is also applicable to audit findings A2, A3, and A4 pertaining to hospital settlements, subrogation recoveries and unsolicited health benefit refunds, respectively, on pages 11 through 15 of this report.)

2. Hospital Settlements

\$9,691

During the audit scope, the Plan untimely returned 106 special plan invoices with hospital settlement credit amounts, totaling \$8,028,840, to the FEHBP. As a result of our audit, the Plan subsequently returned \$9,691 to the FEHBP for LII on these hospital settlements returned untimely to the FEHBP.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

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

The Plan untimely returned hospital settlements of \$8,028,840 to the FEHBP during the audit scope.

For the period 2013 through March 31, 2018, we identified 649 corporate hospital settlement amounts, totaling \$91,015,394 in net credits. From this universe, we selected and reviewed a judgmental sample of six hospital settlement amounts, totaling \$1,577,015 in net payments, for determining whether the Plan properly calculated, charged and/or credited FEP’s shares of these corporate settlements to the FEHBP. We selected the three highest payment amounts and the three highest credit amounts from the audit scope. When the Plan determines the FEP payment or credit amount, the Plan then makes the applicable adjustment to the FEHBP through the special plan invoice process.

Based on our review, we determined that the Plan properly calculated FEP’s applicable shares of these corporate settlement amounts. However, we noted that the Plan untimely returned the FEP credit amounts to the FEHBP. In response to our Standard Information Request (during our pre-audit phase), the Plan self-disclosed that 106 special plan invoices with FEP hospital settlement credit amounts, totaling \$8,028,840, were untimely returned to the FEHBP during the audit scope. Our sample of corporate hospital settlements included seven of these special plan invoices.

As a result, the Plan calculated and returned LII of \$9,691 to the FEHBP in August 2018 and December 2018 for this finding. The Plan’s LII calculation included the 106 special plan invoices with FEP hospital settlements that were returned untimely to the FEHBP. We reviewed and accepted the Plan’s LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned a total of \$9,691 to the FEHBP in August 2018 and December 2018 for the questioned LII.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$9,691 to the FEHBP for the questioned LII on the hospital settlements that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$9,691 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Subrogation Recoveries **\$1,988**

Our audit determined that the Plan untimely returned 14 subrogation recoveries, totaling \$618,856, to the FEHBP during the audit scope. As a result of this finding, the Plan subsequently returned \$1,988 to the FEHBP for LII calculated on these subrogation recoveries that were returned untimely to the FEHBP.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

The Plan untimely returned subrogation recoveries of \$618,856 to the FEHBP during the audit scope.

From 2013 through March 31, 2018, there were 17,668 FEP subrogation recoveries totaling \$7,362,774. From this universe, we selected and reviewed a judgmental sample of 23 subrogation recoveries, totaling \$1,175,942, to determine if the Plan timely returned these recoveries to the FEHBP. Our sample included the 20 highest dollar subrogation recoveries from the audit scope. We also judgmentally selected three subrogation recoveries that were outstanding for more than 200 days after the Plan received these subrogation recovery checks.

Based on our review, we determined that the Plan untimely returned 14 subrogation recoveries, totaling \$618,856, to the FEHBP during the audit scope (i.e., from 4 to 284 days late). For these exceptions, we also noted that the Plan had not calculated and returned applicable LII to the FEHBP. Therefore, we calculated LII of \$1,988 on these 14 subrogation recoveries because the funds were returned untimely to the FEHBP.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$1,988 to the FEHBP in February 2019 for the questioned LII.

Recommendation 5

We recommend that the contracting officer require the Plan to return \$1,988 to the FEHBP for the questioned LII on the subrogation recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,988 to the FEHBP for the questioned LII, no further action is required for this LII amount.

4. Unsolicited Health Benefit Refunds **\$1,740**

Our audit determined that the Plan untimely returned 28 unsolicited health benefit refunds, totaling \$713,248, to the FEHBP during the audit scope. As a result of this finding, the Plan subsequently returned \$1,740 to the FEHBP for LII calculated on these unsolicited health benefit refunds that were returned untimely to the FEHBP.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

The Plan untimely returned unsolicited health benefit refunds of \$713,248 to the FEHBP during the audit scope.

From 2013 through March 31, 2018, there were 24,549 FEP unsolicited health benefit refunds totaling \$18,228,146. From this universe, we selected and reviewed a judgmental sample of 90 unsolicited health benefit refunds, totaling \$11,109,575, to determine if the Plan timely returned these refunds to the FEHBP. Our sample included the 15 highest dollar unsolicited refunds from each year of the audit scope.

Based on our review, we determined that the Plan untimely returned 28 unsolicited health benefit refunds, totaling \$713,248, to the FEHBP during the audit scope (i.e., from 3 to 154 days late). For these exceptions, we also noted that the Plan had not calculated and returned applicable LII to the FEHBP. Therefore, we calculated LII of \$1,740 on these 28 unsolicited health benefit refunds since the funds were returned untimely to the FEHBP.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$1,740 to the FEHBP in February 2019 for the questioned LII.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$1,740 to the FEHBP for the questioned LII on the unsolicited health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,740 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Limits on Executive Compensation

\$3,227,250

Our audit determined that the Plan overcharged the FEHBP for executive compensation costs from 2013 through 2017. As a result of this finding, the Plan returned \$3,227,250 to the FEHBP, consisting of \$3,044,436 for executive compensation costs overcharged to the FEHBP and \$182,814 for applicable LII on these 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. Beginning in 1999, this limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or not the home office or segment reports directly to the Plan's headquarters. As of June 24, 2014, this limit is applicable to all contractor employees whose compensation met the benchmark limit. The benchmark compensation amounts were \$980,796 in 2013, \$1,144,888 in 2014, \$487,000 in 2015, \$500,000 in 2016, and \$512,000 in 2017.

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."

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 \$3,044,436 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 2013 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 overcharges of \$3,044,436 to the FEHBP. Specifically, the Plan overcharged the FEHBP \$52,490 in 2013, \$270,294 in 2014, \$802,336 in 2015, \$902,254 in 2016, and \$1,017,062 in 2017 for executive compensation costs.

This oversight occurred because the Plan used an incorrect methodology when determining what out-of-system adjustments to make for executive compensation limits. Specifically, the Plan inadvertently compared the allocated FEP compensation amounts to the benchmark amounts for determining whether to make FEP adjustments. By using

this methodology, the Plan only identified one instance during the audit scope where an employee's compensation amount exceeded the benchmark amount. In contrast, the Plan should have compared the pre-allocated total compensation amounts to the benchmark amounts, as required by 48 CFR 31.205-6(p), when determining whether to make FEP adjustments for applicable employees. Using the correct methodology, we determined that the Plan should have made multiple FEP credit adjustments during the audit scope.

In total, the Plan returned \$3,227,250 to the FEHBP for this audit finding, consisting of \$3,044,436 for the executive compensation costs that were overcharged to the FEHBP and \$182,814 for applicable LII on these overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan agrees with the finding and monetary recommendations. The Association agrees with the procedural recommendation and states, "The Plan submitted new policies and procedures to ensure executive compensation is properly reported. We will work with the Plan to provide evidence to the Contracting Officer that the Plan has implemented the necessary corrective actions in our response to the final report."

OIG Comment:

As part of our review, we verified that the Plan returned \$3,227,250 to the FEHBP on various dates from January 2019 through March 2019, consisting of \$3,044,436 for the questioned executive compensation overcharges and \$182,814 for applicable LII.

Recommendation 7

We recommend that the contracting officer disallow \$3,044,436 for executive compensation costs that were overcharged to the FEHBP from 2013 through 2017. However, since we verified that the Plan subsequently returned \$3,044,436 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$182,814 to the FEHBP for questioned LII calculated on the executive compensation overcharges. However, since we verified that the Plan subsequently returned \$182,814 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 9

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that executive compensation costs are correctly limited and/or charged to the FEHBP.

2. Cost Center and Natural Account Expenses \$777,754

The Plan charged unallowable and/or unallocable cost center and natural account expenses to the FEHBP from 2013 through 2017. As a result of this finding, the Plan returned \$777,754 to the FEHBP, consisting of \$722,715 for the questioned cost center and natural account expenses and \$55,039 for applicable LII.

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.

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."

For contract years 2013 through 2017, the Plan allocated administrative expenses of \$157,143,334 (before adjustments) to the FEHBP from 580 cost centers that contained 95 natural accounts. From this universe, we selected a judgmental sample of 65 cost centers to review, which totaled \$53,803,447 in expenses allocated to the FEHBP. We also selected a judgmental sample of 32 natural accounts to review, which totaled \$55,859,257 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. In addition, when we identified questionable charges from our sample, we expanded our review to include similar cost centers and/or natural accounts.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from 10 cost centers and 1 natural account that were expressly unallowable and/or did not benefit the FEHBP (unallocable), or only minimally benefited the FEHBP. The following schedule is a summary of these questioned cost center (CC) and natural account (NA) expenses that were inappropriately charged to the FEHBP from 2013 through 2017.

CC or NA Number	CC or NA Name	Reason for Questioning	Amount Questioned
CC 2925	Information Technology Application Development, Spending Accounts and Marketing Support	Unallowable	\$297,986
CC 0284	Finance – Individual Enrollment	Unallocable	192,009
CC 3703	Health Management – Member Management Individual	Unallocable	95,767
CC 0184	Finance – Individual Enrollment Runout	Unallocable	92,452
CC 3713	Marketing – Feedback Survey Tools	Unallowable	21,044
CC 0356	Marketing – Marketing Support Materials	Unallowable	8,182
CC 3698	Marketing – Marketing Intelligence Tuscaloosa	Unallowable	5,962
CC 3101	Marketing – Marketing Intelligence	Unallowable	3,893
CC 1505	Marketing – Marketing Communications	Unallowable	2,700
NA 6257060	Private Club Expenses/Dues	Unallowable	1,585
CC 0064	Large Group Marketing – Executive Coordinator	Unallowable	1,135
Total			\$722,715

Concerning the questioned expenses charged to the FEHBP, 48 CFR 31.205-1 (public relations and advertising costs) and 48 CFR 31.205-14 (entertainment costs) also provide specific criteria to the extent that such costs are expressly unallowable. Based on our review of the Plan’s supporting documentation, these questioned cost center and natural account charges are not in compliance with the Federal regulations.

In total, the Plan returned \$777,754 to the FEHBP for this audit finding, consisting of \$722,715 for unallowable and/or unallocable cost center and natural account expenses that were charged to the FEHBP and \$55,039 for applicable LII on these questioned charges (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$777,754 to the FEHBP in January 2019 and February 2019, consisting of \$722,715 for the questioned cost center and natural account expenses and \$55,039 for applicable LII.

Recommendation 10

We recommend that the contracting officer disallow \$722,715 for the questioned unallowable and/or unallocable cost center and natural account expenses charged to the FEHBP from 2013 through 2017. However, since we verified that the Plan subsequently returned \$722,715 to the FEHBP for these questioned cost center and natural account expenses, no further action is required for this amount.

Recommendation 11

We recommend that the contracting officer require the Plan to return \$55,039 to the FEHBP for LII on the unallowable and/or unallocable cost center and natural account expenses. However, since we verified that the Plan subsequently returned \$55,039 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Non-Recurring Costs \$331,352

The Plan did not properly allocate non-recurring costs to the FEHBP for a Health Management Clinical Work Management System (System) project in 2014, resulting in overcharges of \$300,157 to the FEHBP. Because of this finding, the Plan returned \$331,352 to the FEHBP, consisting of \$300,157 for these questioned overcharges and \$31,195 for applicable LII.

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.

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

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

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

The Plan overcharged the FEHBP \$300,157 for non-recurring project costs.

For contract years 2013 through 2017, the Plan charged the FEHBP for 32 non-recurring cost amounts, totaling \$61,017,129. From this universe, we selected and reviewed a judgmental sample of eight non-recurring cost amounts, totaling \$2,114,546, to determine if these costs charged to the FEHBP were actual, allowable, allocable, and reasonable. We selected these non-recurring costs based on high dollar amounts and our nomenclature review. Based on our review, we determined that the Plan properly charged non-recurring costs to the FEHBP during the audit scope, except for the System project costs that were charged to the FEHBP in 2014.

The Plan charged the FEHBP \$900,629 for work performed on a System project from 2013 through 2015. The purpose of this project was to replace the Plan's prior health/ utilization management system. Our review of these non-recurring costs determined that the Plan did not properly allocate the System project costs to the FEP in 2014. Specifically, the Plan inadvertently allocated all System project costs in cost center 5011 (Project - Health Management Clinical System), totaling \$320,450, to the FEP for December 2014. Since the System project benefits multiple lines-of-business and not just the FEP, only a share of these costs should have been allocated to the FEP. Accordingly, we determined that the Plan should have used a monthly claims statistic of approximately 6.33 percent when allocating the System project costs to the FEP. Based on this monthly statistic, the Plan should have only allocated \$20,293 to the FEP for the System project in

December 2014. As a result, we are questioning \$300,157 (\$320,450 minus \$20,293) for non-recurring project costs that were overcharged to the FEHBP in 2014.

In total, the Plan returned \$331,352 to the FEHBP for this audit finding, consisting of \$300,157 for non-recurring cost overcharges and \$31,195 for applicable LII on these overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$331,352 to the FEHBP in February 2019 and March 2019, consisting of \$300,157 for the questioned overcharges and \$31,195 for applicable LII.

Recommendation 12

We recommend that the contracting officer disallow \$300,157 for the non-recurring costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan subsequently returned \$300,157 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 13

We recommend that the contracting officer require the Plan to return \$31,195 to the FEHBP for questioned LII on the non-recurring cost overcharges. However, since we verified that the Plan subsequently returned \$31,195 to the FEHBP for the questioned LII, no further action is required for this LII amount.

4. Merger and Acquisition Costs **\$70,514**

The Plan charged unallowable merger and acquisition costs to the FEHBP from 2014 through 2016. As a result of this finding, the Plan returned \$70,514 to the FEHBP, consisting of \$65,661 for unallowable merger and acquisition costs charged to the FEHBP and \$4,853 for applicable LII.

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.

48 CFR 31.205-47(f) states that costs are unallowable if incurred in connection with mergers and acquisitions or resisting mergers and acquisitions. 48 CFR 31.205-27 states what expenditures are in connection with merger and acquisition costs.

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

The Plan charged the FEHBP \$65,661 for unallowable merger and acquisition costs.

In response to our Standard Information Request (during our pre-audit phase), the Plan replied the following for merger and acquisition costs: “Although there have been acquisitions during the audit scope, these costs have not been charged to FEP

because the accounts and operations of the Corporation’s affiliates are not consolidated with the accounts and operations of the Corporation.” However, after following-up with the Plan regarding this response, we determined that the Plan charged unallowable merger and acquisition costs to the FEHBP during the audit scope. Accordingly, we requested and reviewed supporting documentation to verify the actual amounts charged to the FEHBP for these unallowable merger and acquisition costs. Based on our review, we determined that the Plan charged \$65,661 to the FEHBP for unallowable merger and acquisition costs from 2014 through 2016. We also determined that the Plan did not charge these costs to the FEHBP in 2013 and 2017.

In total, the Plan returned \$70,514 to the FEHBP for this audit finding, consisting of \$65,661 for unallowable merger and acquisition costs charged to the FEHBP from 2014 through 2016 and \$4,853 for applicable LII on these unallowable charges (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$70,514 to the FEHBP in January 2019 and February 2019, consisting of \$65,661 for the questioned merger and acquisition costs and \$4,853 for applicable LII.

Recommendation 14

We recommend that the contracting officer disallow \$65,661 for the unallowable merger and acquisition costs charged to the FEHBP from 2014 through 2016. However, since we verified that the Plan subsequently returned \$65,661 to the FEHBP for these questioned costs, no further action is required for this amount.

Recommendation 15

We recommend that the contracting officer require the Plan to return \$4,853 to the FEHBP for questioned LII on the unallowable merger and acquisition costs. However, since we verified that the Plan subsequently returned \$4,853 to the FEHBP for the questioned LII, no further action is required for this LII amount.

5. Affordable Care Act Fees

\$19,219

The Plan overcharged the FEHBP \$17,145 for Affordable Care Act fees in 2013 relating to the Patient-Centered Outcomes Research Institute (PCORI). Because of this finding, the Plan returned \$19,219 to the FEHBP, consisting of \$17,145 for PCORI fees overcharged to the FEHBP and \$2,074 for applicable LII.

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

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

Section 6301 of the Affordable Care Act imposes a fee on health insurance providers to fund the PCORI. 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 or plan years ending after September 30, 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., \$2.00 for 2013 and \$2.39 for 2017), as determined by the Secretary of Health and Human Services.

In 2013, the Plan overcharged the FEHBP \$17,145 for PCORI fees.

During a Control Performance Review, the FEP Director's Office determined that the Plan incorrectly used contract statistics instead of membership statistics when calculating the PCORI fees for 2013, resulting in an overcharge of \$17,145 to the FEHBP. The Plan then filed a prior period adjustment in 2015 to return this overcharge to the FEHBP and submitted a special plan invoice to return LII of \$269 to the FEHBP. Although the Plan returned the LII to the FEHBP, the prior period adjustment for the overcharge was not processed due to implementation issues with the Association's Plan Administrative Cost Evaluation and Report (PACER) System.⁴ Since the Plan had not returned this overcharge to the FEHBP before receiving our audit notification letter (dated April 2, 2018), we are questioning \$17,145 for the PCORI fees that were overcharged to the FEHBP in 2013.

In total, the Plan returned \$19,219 to the FEHBP for this audit finding, consisting of \$17,145 for the PCORI fees overcharged to the FEHBP and \$2,074 for applicable LII on these overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$19,219 to the FEHBP in January 2019 and February 2019, consisting of \$17,145 for the questioned PCORI fees overcharged to the FEHBP and \$2,074 for applicable LII.

⁴ The Association uses the PACER System to obtain, review and process the local BCBS plans' administrative cost budgets and reports, as well as to process the plans' prior period adjustments and monthly expense allowance payments.

Recommendation 16

We recommend that the contracting officer disallow \$17,145 for PCORI fees that were overcharged to the FEHBP in 2013. However, since we verified that the Plan subsequently returned \$17,145 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 17

We recommend that the contracting officer require the Plan to return \$2,074 to the FEHBP for questioned LII calculated on the PCORI fee overcharges. However, since we verified that the Plan returned \$2,074 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

D. FRAUD AND ABUSE PROGRAM

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

The audit disclosed no significant findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For the period January 1, 2018, through June 30, 2018, the Plan opened 51 fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed a judgmental sample of 15 cases and determined if the Plan timely entered fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking System (FSTS).⁵ For this sample, we judgmentally selected 15 cases where the Plan changed the case status from preliminary review to investigation. Based on our review, we determined that the Plan timely entered substantially all of the fraud and abuse cases in our sample into the Association's FSTS. The sample results were not projected to the universe of fraud and abuse cases with potential FEP exposure, since we did not use

⁵ FSTS is a multi-user, web-based FEP case-tracking database application and storage warehouse administered by the Association's FEP Special Investigations Unit (SIU). FSTS is used by the local BCBS plans' SIUs, the FEP Pharmacy Benefit Managers' SIUs, and the Association's FEP SIU to store, track and report potential fraud and abuse activities.

statistical sampling. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases set forth in Carrier Letter 2017-13.

IV. SCHEDULE A - QUESTIONED CHARGES

**BLUECROSS BLUESHIELD OF ALABAMA
BIRMINGHAM, ALABAMA
QUESTIONED CHARGES**

AUDIT FINDINGS*	2013	2014	2015	2016	2017	2018	2019	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. Medical Drug Rebates	\$3,709	\$303	\$373	\$1,847	\$234,623	\$3,884	\$0	\$244,739
2. Hospital Settlements	1,232	1,393	533	4,636	1,897	0	0	9,691
3. Subrogation Recoveries	0	1,158	57	75	331	367	0	1,988
4. Unsolicited Health Benefit Refunds	65	1,368	11	50	246	0	0	1,740
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$5,006	\$4,222	\$974	\$6,608	\$237,097	\$4,251	\$0	\$258,158
B. ADMINISTRATIVE EXPENSES								
1. Limits on Executive Compensation	\$52,490	\$271,376	\$809,602	\$926,914	\$1,066,469	\$93,346	\$7,053	\$3,227,250
2. Cost Center and Natural Account Expenses	11,281	197,369	302,033	109,654	133,116	22,160	2,141	777,754
3. Non-Recurring Costs	0	300,157	6,757	6,579	7,315	9,203	1,341	331,352
4. Merger and Acquisition Costs	0	5,510	42,848	18,484	1,600	2,013	59	70,514
5. Affordable Care Act Fees	17,145	354	386	376	417	526	15	19,219
TOTAL ADMINISTRATIVE EXPENSES	\$80,916	\$774,766	\$1,161,626	\$1,062,007	\$1,208,917	\$127,248	\$10,609	\$4,426,089
C. CASH MANAGEMENT								
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
D. FRAUD AND ABUSE PROGRAM								
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$85,922	\$778,988	\$1,162,600	\$1,068,615	\$1,446,014	\$131,499	\$10,609	\$4,684,247

* We included lost investment income (LII) within the audit findings. Therefore, no additional LII is applicable.

APPENDIX

May 6, 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
Audit of Blue Cross and Blue Shield of Alabama
Audit Report No. 1A-10-09-18-050 (Dated and received March 21, 2019)**

Dear Mr. [REDACTED]:

This is the Blue Cross and Blue Shield of Alabama (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:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. **Medical Drug Rebates** **\$244,739**

Recommendation 1

We recommend that the contracting officer require the Plan to return \$224,411 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned \$224,411 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$20,328 to the FEHBP for the questioned LII on the medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$20,328 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 3

We recommend that the contracting officer require BCBSA to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that all health benefit refunds and recoveries, including medical drug rebates, are timely returned to the FEHBP. This procedural recommendation is also applicable to audit findings A2, A3, and A4.

BCBSA Response:

BCBSA agrees with this recommendation. The Plan submitted new policies and procedures to ensure that all health benefit refunds and recoveries, including medical drug rebates, are properly reported. We will work with the Plan to provide evidence to the Contracting Officer that the Plan has implemented the necessary corrective actions in our response to the final report.

2. Hospital Settlements

\$9,691

Recommendation 4

We recommend that the contracting officer require the Plan to return \$9,691 to the FEHBP for the questioned LII on the hospital settlements that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$9,691 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

3. Subrogation Recoveries \$1,988

Recommendation 5

We recommend that the contracting officer require the Plan to return \$1,988 to the FEHBP for the questioned LII on the subrogation recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,988 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

4. Unsolicited Health Benefit Refunds \$1,740

Recommendation 6

We recommend that the contracting officer require the Plan to return \$1,740 to the FEHBP for the questioned LII on the unsolicited health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,740 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

B. ADMINISTRATIVE EXPENSES

1. Limits on Executive Compensation \$3,227,250

Recommendation 7

We recommend that the contracting officer disallow \$3,044,436 for executive compensation costs overcharged to the FEHBP from 2013 through 2017. However, since we verified that the Plan subsequently returned \$3,044,436 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$182,814 to the FEHBP for LII calculated on the questioned executive compensation overcharges. However, since we verified that the Plan subsequently returned \$182,814 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 9

We recommend that the contracting officer require BCBSA to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that executive compensation costs are correctly charged to the FEHBP.

BCBSA's Response:

The BCBSA agrees with this recommendation. The Plan submitted new policies and procedures to ensure executive compensation is properly reported. We will work with the Plan to provide evidence to the Contracting Officer that the Plan has implemented the necessary corrective actions in our response to the final report.

2. Cost Center and Natural Account Expenses

\$777,754

Recommendation 10

We recommend that the contracting officer disallow \$722,715 for the questioned unallowable and/or unallocable cost center and natural account expenses charged to the FEHBP from 2013 through 2017. However, since we verified that the Plan subsequently returned \$722,715 to the FEHBP for these questioned cost center and natural account expenses, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 11

We recommend that the contracting officer require the Plan to return \$55,039 to the FEHBP for LII on the unallowable and/or unallocable cost center and natural account expenses. However, since we verified that the Plan subsequently returned \$55,039 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

3. Non-Recurring Costs \$331,352

Recommendation 12

We recommend that the contracting officer disallow \$300,157 for the questioned non-recurring costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan subsequently returned \$300,157 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 13

We recommend that the contracting officer require the Plan to return \$31,195 to the FEHBP for LII on the unreasonable non-recurring cost overcharges. However, since we verified that the Plan subsequently returned \$31,195 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

4. Merger and Acquisition Costs \$70,514

Recommendation 14

We recommend that the contracting officer disallow \$65,661 for the unallowable merger and acquisition costs charged to the FEHBP from 2014 through 2016. However, since we verified that the Plan subsequently returned \$65,661 to the FEHBP for these questioned costs, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 15

We recommend that the contracting officer require the Plan to return \$4,853 to the FEHBP for LII on the unallowable merger and acquisition costs. However, since we verified that the Plan subsequently returned \$4,853 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

5. Affordable Care Act – Patient Centered Outcome Research Institute Fees \$19,219

Recommendation 16

We recommend that the contracting officer disallow \$17,145 for PCORI fees that were overcharged to the FEHBP in 2013. However, since we verified that the Plan subsequently returned \$17,145 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

Recommendation 17

We recommend that the contracting officer require the Plan to return \$2,074 to the FEHBP for LII calculated on the questioned PCORI fee overcharges. However, since we verified that the Plan returned \$2,074 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agrees with this recommendation and as stated, no further action is required.

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,

A handwritten signature in black ink, appearing to read "Kim King". The signature is written in a cursive style with a large, looped "K" and "K" at the end.

Kim King
Managing Director, Program Assurance



Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

By Phone: Toll Free Number: (877) 499-7295
Washington Metro Area: (202) 606-2423

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100