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

Final Audit Report

Audit of
BlueCross BlueShield of Western New York
Buffalo, New York

Report Number 1A-10-12-18-016
March 1, 2019

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Western New York

Report No. 1A-10-12-18-016 **March 1, 2019**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Western New York (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 2014 through September 30, 2017, and administrative expense charges from 2014 through 2016, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from July 1, 2016, through September 30, 2017.

Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $896,931 in health benefit refunds and recoveries, administrative expense charges, 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 – We questioned $83,160 for health benefit refund and special plan invoice amounts that had not been returned to the FEHBP and $3,644 for LII on Federal Employee Program funds that were returned untimely to the FEHBP. The questioned special plan invoice amounts included fraud and abuse recoveries and medical drug rebates.

- Administrative Expenses – We questioned $803,720 in administrative expense charges and applicable LII, consisting of $287,158 for unallowable and/or unallocable cost center expenses, $164,308 for non-chargeable administrative expenses, $162,959 for quality improvement cost overcharges, $113,287 for Affordable Care Act cost overcharges, $29,061 for unreasonable cost center allocations, and $46,947 for applicable LII on these questioned charges.

- Cash Management – We questioned $6,144 for excess funds that the Plan withdrew from the FEHBP letter of credit account and $263 for applicable LII.

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**
Plan	**BlueCross BlueShield of Western New York**
SPI	**Special Plan Invoice**

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I. BACKGROUND

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

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 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.

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.

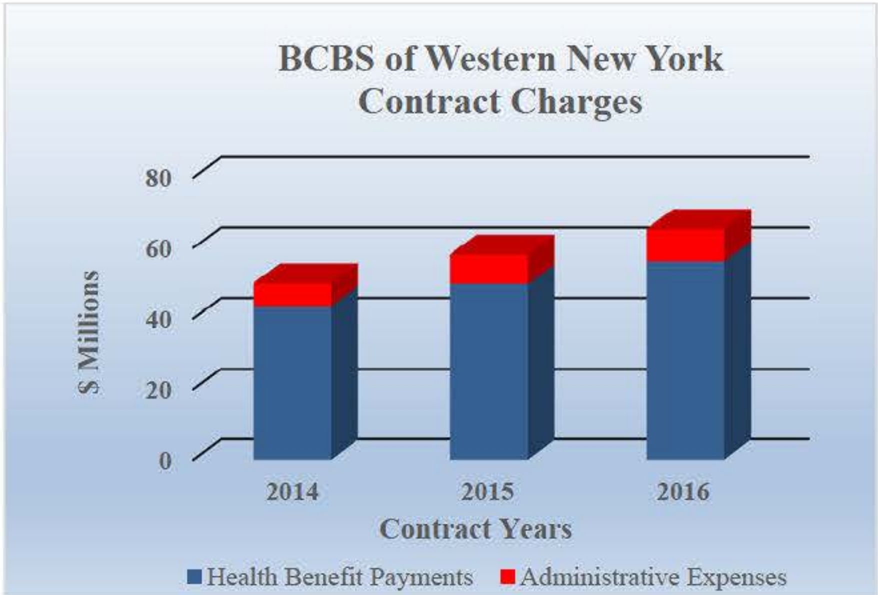
Cash Management

- 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 301, 800, and 801 for contract years 2014 through 2016. During this period, the Plan paid approximately $149 million in FEHBP health benefit payments and charged the FEHBP $24 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 2014 through September 30, 2017, administrative expense charges from 2014 through 2016, and the Plan's cash management activities and practices from July 1, 2016, through September 30, 2017.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan 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 Buffalo, New York on various dates from May 1, 2018, through June 29, 2018. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. through August 27, 2018. Throughout the audit process, the Plan did a good 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 2014 through September 30, 2017, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 22 FEP health benefit refund cash receipts, totaling $396,570 (from a universe of 916 FEP refund cash receipt amounts, totaling $635,134, for the audit scope). Our high dollar sample included the 22 highest refund cash receipt amounts from the audit scope.

- A high dollar sample of 25 FEP health benefit refunds returned via auto recoupments, totaling $9,444,304 (from a universe of 16,111 FEP refunds returned via auto recoupments, totaling $13,336,956, 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 8 FEP provider audit recoveries, totaling $96,442 (from a universe of 420 FEP provider audit recoveries, totaling $256,396, for the audit scope). For this sample, we selected the two highest dollar provider audit recoveries from each year in the audit scope.

- A high dollar sample of 20 special plan invoices, totaling $25,291 in net FEP credits (from a universe of 56 special plan invoices, totaling $20,541 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 invoice amounts. Specifically, we judgmentally selected 17 special plan invoices with credit amounts of $2,000 or more, as well as 3 special plan invoices with payment amounts of $50,000 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 2014 through 2016. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement; employee health benefits; out-of-system adjustments; prior period adjustments; non-recurring projects; lobbying; executive compensation limits; and Patient Protection and Affordable Care Act fees.[2] We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

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[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 $22,188,898 to the FEHBP from 335 cost centers that contained 161 natural accounts. From this universe, we selected a judgmental sample of 69 cost centers to review, which totaled $16,943,590 in expenses allocated to the FEHBP. We also selected a judgmental sample of 53 natural accounts to review, which totaled $11,359,280 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.[3] As part of our testing, we selected and reviewed a judgmental sample of 15 letter of credit account drawdowns, totaling $20,471,881 (from a universe of 71 letter of credit account drawdowns, totaling $74,086,388, for the period July 1, 2016, through September 30, 2017), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported. Our sample included the highest dollar drawdown amount from each month in the audit scope. The sample results were not projected to the universe of letter of credit account drawdowns, since we did not use statistical sampling. When reviewing the Plan's letter of credit account drawdowns, we also verified that there were no United States Treasury offsets to review during the audit scope.

[3] During the scope of our audit, the Plan did not have a working capital deposit. (Note: Based on OPM's "Letter of Credit System Guidelines" (dated May 2009), a working capital deposit is recommended but not required.) Therefore, the Plan did not have a dedicated FEP investment account.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds $45,910

Our audit determined that the Plan had not returned a health benefit refund, totaling $43,767, to the FEHBP as of September 30, 2017. The Plan subsequently returned this questioned refund amount to the FEHBP in August 2018. As a result, we are questioning $45,910 for this audit finding, consisting of $43,767 for the questioned health benefit refund and $2,143 for applicable lost investment income (LII).

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."

Health Benefit Refunds – Auto Recoupments

For 2014 through September 30, 2017, there were 16,111 FEP health benefit refunds, totaling $13,336,956, that were returned to the FEHBP via auto recoupments. From this universe, we selected and reviewed a judgmental sample of 25 high dollar auto recoupments, totaling $9,444,304, for the purpose of determining if the Plan reduced future FEP claim payments for these refunds. Our sample included the 25 highest dollar auto recoupment amounts for the audit scope.

Our audit identified an unreturned health benefit refund, totaling $43,767, which the Plan then returned, along with LII of $2,143, to the FEHBP.

Based on our review, we determined that the Plan had not returned a health benefit refund, totaling $43,767, to the FEHBP. Specifically, the Plan initially set up an FEP auto recoupment (i.e., an accounts receivable) amount of $43,767 to offset against future FEP claim payments. After setting up the auto recoupment, the Plan received a refund check in the amount of $43,767 to satisfy the receivable due from the provider. However, the Plan inadvertently had not returned these recovered funds to the FEHBP. Because of this finding, the Plan subsequently returned $45,910 to the FEHBP, consisting of $43,767 for the questioned health benefit refund and $2,143 for applicable LII. We reviewed and accepted the Plan's LII calculation.

Health Benefit Refunds – Cash Receipts

For 2014 through September 30, 2017, there were 916 FEP health benefit refund cash receipt amounts totaling $635,134. From this universe, we selected and reviewed a judgmental sample of 22 high dollar refund cash receipt amounts, totaling $396,570, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our sample included the 22 highest dollar refund cash receipt amounts for the audit scope. Based on our review, we determined that the Plan timely returned these 22 refunds 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 $45,910 to the FEHBP on multiple dates in August 2018 and September 2018, consisting of $43,767 for the questioned health benefit refund and $2,143 for applicable LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return $43,767 to the FEHBP for the questioned health benefit refund. However, since we verified that the Plan subsequently returned $43,767 to the FEHBP for the questioned refund, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $2,143 to the FEHBP for LII on the questioned health benefit refund. However, since we verified that the Plan subsequently returned $2,143 to the FEHBP for the questioned LII, no further action is required for this LII amount

2. Special Plan Invoices $40,894

Our audit determined that the Plan had not returned 13 special plan invoice (SPI) amounts, totaling $39,393, to the FEHBP as of September 30, 2017. The Plan subsequently returned these SPI amounts to the FEHBP in January 2018 and March 2018, from 115 days to more than 3 years late, and after receiving our audit notification letter. Additionally, the Plan untimely returned two SPI amounts, totaling $16,234, to the FEHBP during the audit scope and prior to receiving our audit notification. However, since the Plan returned these two SPI amounts to the FEHBP during the audit scope, we did not question these SPI principal amounts as a monetary finding. As a result, we are questioning $40,894 for this audit finding, consisting of $39,393 for the questioned SPI amounts and $1,501 for LII on the SPI amounts 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 . . . prior to audit notification."

The Plan returned SPI's of $39,393 to the FEHBP from 115 days to over 3 years late, and after receiving our audit notification letter.

For the period 2014 through September 30, 2017, there were 56 SPI's, totaling $20,541 in net FEP credits. From this universe, we selected and reviewed a judgmental sample of 20 SPI's, totaling $25,291 in net FEP credits, for the purpose of determining if the Plan properly calculated, charged and/or credited these SPI amounts to the FEHBP. We judgmentally selected these 20 special plan invoices based on our nomenclature review of high dollar invoice amounts. Specifically, for SPI pay codes related to miscellaneous health benefit payments and credits, we judgmentally selected SPI's with FEP credit amounts of $2,000 or more and SPI's with FEP payment amounts of $50,000 or more.

Based on our review, we noted the following exceptions:

- The Plan had not returned five SPI amounts, totaling $18,405, to the FEHBP as of September 30, 2017. These SPI's were for FEP fraud and abuse recoveries. The Plan subsequently returned these SPI amounts to the FEHBP from 348 days to over 3 years late, after receiving our audit notification letter, and/or as a result of our audit. Therefore, we are questioning this amount as a monetary finding as well as $965 for applicable LII (as calculated by the OIG).

  During our review of the SPI universe, we also identified additional SPI credit amounts that potentially had not been returned to the FEHBP. Specifically, we determined that the Plan had not returned eight additional SPI credit amounts, totaling $20,988, to the FEHBP as of September 30, 2017. These SPI's were for FEP fraud and abuse recoveries and medical drug rebates. The Plan subsequently returned these SPI amounts to the FEHBP from 115 days to over 3 years late, after receiving our audit notification letter and/or because of our audit. Therefore, we are also questioning this amount as a monetary finding as well as $281 for applicable LII (as calculated by the OIG).

- During the audit scope and prior to audit notification, the Plan untimely returned two SPI amounts, totaling $16,234, to the FEHBP for medical drug rebates. Specifically, we noted that the Plan returned these medical drug rebates to the FEHBP from 55 to 283 days late. However, since the Plan returned these two SPI amounts to the FEHBP during the audit scope, we did not question these SPI principal amounts as a monetary finding. As a result, we are only questioning $255 for applicable LII calculated on these two SPI amounts returned untimely to the FEHBP.

In total, the Plan returned $40,894 to the FEHBP for these SPI exceptions, consisting of $39,393 ($18,405 plus 20,988) for the questioned SPI amounts and $1,501 ($965 plus $281 plus $255) for applicable LII on the SPI amounts returned untimely to the FEHBP.

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

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $40,894 to the FEHBP on various dates from January 2018 through August 2018, consisting of $39,393 for the questioned SPI amounts and $1,501 for applicable LII.

Recommendation 3

We recommend that the contracting officer require the Plan to return $39,393 to the FEHBP for the questioned SPI amounts. However, since we verified that the Plan subsequently returned $39,393 to the FEHBP for these questioned SPI amounts, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return $1,501 to the FEHBP for the questioned LII on the SPI amounts that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $1,501 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Cost Centers $306,282

The Plan charged unallowable and/or unallocable cost center expenses to the FEHBP from 2014 through 2016. As a result of this finding, the Plan returned $306,282 to the FEHBP, consisting of $287,158 for the questioned cost center expenses and $19,124 for applicable LII.

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

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

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

For contract years 2014 through 2016, the Plan allocated administrative expenses of $22,188,898 (before adjustments) to the FEHBP from 335 cost centers. From this universe, we selected a judgmental sample of 69 cost centers to review, which totaled $16,943,590 in expenses allocated to the FEHBP. We selected these cost centers based on high dollar amounts, a trend analysis, and our nomenclature review. We reviewed the expenses from these cost centers for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from six cost centers 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 expenses that were inappropriately charged to the FEHBP from 2014 through 2016.

Cost Center Number	Cost Center Name	Amount Questioned
1230	Branding and Advertising	$173,663
1208	Corporate Relations	104,746
1206	VP Corporate Relations	5,741
1212	Public Relations - Western New York	1,605
5211	Sponsorships – Albany	1,017
1211	Sponsorships – Buffalo	386
Total		**$287,158**

Concerning the questioned expenses charged to the FEHBP, 48 CFR 31-205-1 (public relations and advertising costs) 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 charges are not in compliance with the Federal regulations.

In total, the Plan returned $306,282 to the FEHBP for this audit finding, consisting of $287,158 for unallowable and/or unallocable cost center expenses that were charged to the FEHBP and $19,124 for applicable LII on these questioned charges. We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan partially agrees with this finding.

OIG Comment:

Subsequent to the draft report response, the Plan agreed (in total) with this finding. As part of our review, we verified that the Plan returned $306,282 to the FEHBP on various dates from November 2018 through February 2019, consisting of $287,158 for the questioned unallowable and/or unallocable cost center expenses and $19,124 for applicable LII.

Recommendation 5

We recommend that the contracting officer disallow $287,158 for the questioned unallowable and/or unallocable cost center expenses charged to the FEHBP from 2014 through 2016. However, since we verified that the Plan subsequently returned $287,158 to the FEHBP for these questioned cost center expenses, no further action is required for this amount.

Recommendation 6

We recommend that the contracting officer require the Plan to return $19,124 to the FEHBP for LII on the unallowable and/or unallocable cost center expenses. However, since we verified that the Plan subsequently returned $19,124 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Prior Period Adjustments **$173,399**

During our review of prior period adjustments, we determined that the Plan had not returned $160,097 to the FEHBP for non-chargeable 2014 administrative expenses. In addition, the Plan did not properly calculate a prior period adjustment related to 2014 reimbursed costs, resulting in an overcharge of $4,211 to the FEHBP for non-chargeable administrative expenses. As a result of this finding, the Plan returned $173,399 to the FEHBP, consisting of $164,308 for these questioned non-chargeable administrative expenses and $9,091 for applicable LII on these questioned charges.

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.

For contract years 2014 through 2016, the Plan prepared and submitted six prior period adjustments that totaled $212,500 in net credits to the FEHBP. We reviewed all of these prior period adjustments, consisting of $258,225 in credits and $45,725 in charges, to determine whether the Plan timely returned and/or properly charged these adjustment amounts to the FEHBP.

The Plan overcharged the FEHBP $164,308 for non-chargeable administrative expenses.

Based on our review of the prior period adjustments, we determined that the Plan had not returned $160,097 to the FEHBP for two prior period adjustments that were processed in 2016 for non-chargeable 2014 FEP administrative expenses. These credit adjustments were for overcharges to the FEHBP related to Affordable Care Act costs. The Plan also did not properly calculate a prior period adjustment that was processed in 2015 related to 2014 costs, resulting in an overcharge of $4,211 to the FEHBP. In total, the Plan returned $173,399 to the FEHBP for these prior period adjustment exceptions, consisting of $164,308 ($160,097 plus $4,211) for the questioned non-chargeable administrative expenses and $9,091 for applicable LII (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

In response to the draft report, the Plan agreed with $8,809 in LII calculated on $160,097 of the questioned non-chargeable administrative expenses. The Plan subsequently agreed with an additional $282 in LII calculated on the remaining $4,211 of the questioned non-chargeable administrative expenses. As part of our review, we verified that the Plan returned $173,399 to the FEHBP on various dates from August 2018 through February 2019, consisting of $164,308 for the questioned non-chargeable administrative expenses and $9,091 for applicable LII.

Recommendation 7

We recommend that the contracting officer require the Plan to return $164,308 to the FEHBP for the questioned non-chargeable administrative expenses. However, since we verified that the Plan subsequently returned $164,308 to the FEHBP for these questioned administrative expenses, no further action is required for this amount.

Recommendation 8

We recommend that the contracting officer require the Plan to return $9,091 to the FEHBP for questioned LII calculated on the non-chargeable administrative expenses. However, since we verified that the Plan subsequently returned $9,091 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Cost Settlement Adjustment for Quality Improvement Costs $172,809

Our audit determined that the Plan had not correctly made a cost settlement adjustment to credit the FEHBP for 2015 quality improvement cost overcharges. Because of this finding, the Plan returned $172,809 to the FEHBP in August 2018 and September 2018, consisting of $162,959 for the quality improvement cost overcharges and $9,850 for applicable LII on these overcharges.

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.

For contract years 2014 through 2016, the FEP Director's Office approved a monthly expense allowance for budgeted quality improvement costs, resulting in charges of $1,232,888 to the FEHBP ($241,250 in 2014, $562,893 in 2015, and $428,745 in 2016). Following each contract year, the Plan and FEP Director's Office performed a cost settlement, where the Plan made an adjustment based on the difference between the Plan's budgeted and actual settled costs. We reviewed these quality improvement cost settlements and applicable supporting documentation to determine if the Plan made the necessary adjustments to credit and/or charge the FEHBP for the cost settlement differences.

The Plan overcharged the FEHBP $162,959 for quality improvement costs.

Based on our review, we determined that the Plan correctly made the quality improvement cost settlement adjustments for 2014 and 2016. However, for contract year 2015, we determined that the Plan inadvertently charged $101,534 to the FEHBP, instead of crediting $61,425 to the FEHBP, for the quality improvement cost settlement adjustment, resulting in an overcharge of $162,959 to the FEHBP. As a result, the Plan returned $172,809 to the FEHBP for this audit finding, consisting of $162,959 for the 2015 quality improvement costs that were overcharged to the FEHBP and $9,850 for applicable LII on these overcharges (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 $172,809 to the FEHBP in August 2018 and September 2018 for this audit finding, consisting of $162,959 for the questioned overcharges and $9,850 for applicable LII.

Recommendation 9

We recommend that the contracting officer disallow $162,959 for quality improvement costs that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $162,959 to the FEHBP for these questioned quality improvement costs, no further action is required for this amount.

Recommendation 10

We recommend that the contracting officer require the Plan to return $9,850 to the FEHBP for LII calculated on the questioned quality improvement cost overcharges. However, since we verified that the Plan returned $9,850 to the FEHBP for the questioned LII, no further action is required for this LII amount.

4. Affordable Care Act Fees $120,854

The Plan overcharged the FEHBP $113,287 for Affordable Care Act (ACA) fees in 2014 and 2015. Specifically, the Plan overcharged the FEHBP $87,154 for transitional reinsurance fees and $26,133 for health insurance provider fees. As a result of this finding, the Plan returned $120,854 to the FEHBP, consisting of $113,287 for ACA fees overcharged to the FEHBP and $7,567 for LII on these overcharges.

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.

Transitional Reinsurance Fee

Section 1341 of the ACA provides for a transitional reinsurance program in each State from 2014 through 2016. The reinsurance program imposes an annual fee on health insurers designed to reduce the costs of high-risk enrollees and reduce premiums for enrollees in the individual market. This yearly fee is based on each health insurer's enrollment count. 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.

The Plan overcharged the FEHBP $87,154 for transitional reinsurance fees.

From 2014 through 2016, the Plan charged the FEHBP $1,773,542 for transitional reinsurance fees ($757,701 in 2014, $654,500 in 2015, and $361,341 in 2016). Based on our review of these fees, we determined that the Plan overcharged $87,154 to the FEHBP in 2014 and 2015 ($2,058 and $85,096, respectively). We identified the following exceptions:

- In 2014, the Plan charged $757,701 to the FEHBP for the transitional reinsurance fee. However, our calculation supports that the Plan should have only charged the FEHBP $755,643 for this fee, resulting in an overcharge of $2,058 ($757,701 less $755,643) to the FEHBP. We determined FEP's transitional reinsurance fee by multiplying the Plan's average FEP primary medical enrollment from January 2014 through September 2014 by the national contribution rate of $63 (as established by the Department of Health and Human Services). The variance of $2,058 is a result of the Plan using a different period than required to calculate the allowable fee.

- In 2015, the Plan charged $654,500 to the FEHBP for an estimated transitional reinsurance fee. However, we calculated that the Plan should have only charged $569,404 to the FEHBP for this fee, resulting in an overcharge of $85,096 ($654,500 less $569,404) to the FEHBP. We determined FEP's transitional fee by multiplying the Plan's average FEP primary medical enrollment from January 2015 through September 2015 by the national contribution rate of $44 (as established by the Department of Health and Human Services). The variance of $85,096 is a result of the Plan not making an adjustment to true-up the initial estimate to the actual FEP transitional reinsurance fee.

Health Insurance Provider Fee

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 (i.e., industry premiums). The Plan's share of these health insurance provider fees totaled $35,486,031 in 2014, $45,744,958 in 2015, and $39,288,824 in 2016. The Plan allocated the following health insurance provider fees to the FEP: $705,875 in 2014, $992,386 in 2015, and $1,072,496 in 2016.

The Plan overcharged the FEHBP $26,133 for health insurance provider fees.

Based on our review of these fees, we determined that the Plan overcharged the FEHBP $26,133 in 2014 and 2015 ($8,781 and $17,352, respectively). We calculated the FEP's share of these fees by multiplying the Plan's annual fees on health insurance providers (as determined by the Internal Revenue Service) by the FEP's percentage of total corporate premiums (excluding FEP Blue Dental and FEP Blue Vision Premiums). We identified the following exceptions:

- In 2014, we determined that the Plan should have only charged $697,094 to the FEHBP, resulting in an overcharge of $8,781 ($705,875 less $697,094) to the FEHBP. This error occurred because the Plan inadvertently included FEP Blue Dental and FEP Blue Vision premiums in the FEP calculation. Costs related to these products are not chargeable to the FEHBP contract.

- In 2015, we determined that the Plan did not make an adjustment for the estimate of the 2015 health insurance provider fee. The Plan inadvertently charged $992,386 to the FEHBP instead of the FEP's actual allocation amount of $975,034, resulting in an overcharge of $17,352 ($992,386 less $975,034) to the FEHBP.

In total, we are questioning $120,854 for this audit finding, consisting of $113,287 ($87,154 plus $26,133) for ACA fees overcharged to the FEHBP and $7,567 for applicable LII on these overcharges (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 $120,854 to the FEHBP in August 2018 and September 2018 for this audit finding, consisting of $113,287 for the questioned overcharges and $7,567 for applicable LII.

Recommendation 11

We recommend that the contracting officer disallow $113,287 for ACA fees that were overcharged to the FEHBP in 2014 and 2015. However, since we verified that the Plan subsequently returned $113,287 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 12

We recommend that the contracting officer require the Plan to return $7,567 to the FEHBP for LII calculated on the questioned ACA fee overcharges. However, since we verified that the Plan returned $7,567 to the FEHBP for the questioned LII, no further action is required for this LII amount.

5. Unreasonable Cost Center Allocation Methods $30,376

The Plan did not properly and/or reasonably allocate expenses from six cost centers charged to the FEHBP in 2016. Specifically, we determined that the Plan potentially inflated the FEP's allocation percentages for these cost centers by inappropriately rounding up the percentages without providing adequate justification for this action. Because of this finding, the Plan returned $30,376 to the FEHBP, consisting of $29,061 for the questioned cost center overcharges and $1,315 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."

For 2016, the Plan used five allocation methods (i.e., claims paid, administrative expense ratio, full-time employees, head count, and membership) to allocate 335 cost centers to the FEHBP. From each of these methods, we judgmentally selected the cost center with the highest FEP charges and/or highest allocation percentage to determine if the costs were properly and/or reasonably allocated to the FEP and the allocation methods were supported with adequate documentation.

Based on our review, we identified several instances where the Plan incorrectly allocated costs to the FEP. Specifically, we noted exceptions under the following allocation methodologies:

- Full-Time Employees – In 2016, the Plan allocated 15 percent of cost center 1409 (InterPlan Programs Executive) expenses (excluding direct costs) to the FEP, which totaled $118,632 in charges to the FEHBP. The Plan allocated these costs based on full-time employees and stated the following for this allocation method: "There are seven staff employees in this cost center and one manager supervising them. One of the seven is totally dedicated to FEP. We divided 1 by 7 (0.142857) and rounded up to 15 percent for the manager's oversight of this person . . . There are a total of 8 employees in this cost center, the calculation [percent] is based on the seven staff employees only. The manager's time must be recovered for the staff that she has oversight of their daily activities. Therefore 15 percent was the appropriate amount assigned to FEP and there is no further adjustment required."

  Based on our review of the Plan's allocation method and supporting documentation, we concluded that the Plan could not provide a logical justification for why rounding up to the next whole number is a reasonable method. We believe that the Plan should have just divided 1 by 7 (14.29 percent) and then multiplied this percentage by the total expenses in the cost center, including the costs of the manager supervising the staff employees, to determine the FEP's allocation. Using this proposed method, we determined that the Plan should have allocated only 14.29 percent of the cost center expenses to the FEP, which would have resulted in a more reasonable charge of $112,292 to the FEHBP. As a result, we are questioning $6,340 ($118,632 less $112,292) for this cost center overcharge.

- Membership – We reviewed statistical support for cost center 1230 (Branding and Advertising) to test this allocation method. Our initial review focused on May 2016, which had the highest dollars allocated to the FEP for that year. Based on our review of this cost center, we determined that the Plan allocated 4.55 percent of the expenses to the FEP in May 2016. However, the membership documentation for May 2016 only supported an allocation of 4.40 percent. In addition, we determined that the percentage using the actual membership statistic in each month of 2016 differed from the percentage allocated to the FEP for this cost center. As a result, we determined that the Plan over allocated a total of $5,192 to the FEP in 2016 for this cost center, due to the Plan's monthly system allocation percentages being different than the percentages we determined using the actual membership statistics. We did not question this difference since we already questioned all of the charges from this cost center, as part of the "Unallowable and/or Unallocable Cost Centers" audit finding (B1) on pages 12 through 14 of this report.

Since the Plan allocated expenses from several other cost centers in 2016 using this membership allocation method, we expanded our review and performed an analysis of these cost centers. Using the actual 2016 monthly membership data, we determined the FEP's actual monthly allocation percentages. We applied these allocation percentages to the monthly corporate charges (excluding direct costs) for each cost center that used the membership allocation method. We then compared our total chargeable amount of $224,439 for these cost centers to the $247,160 (excluding direct costs) charged to the FEHBP. Based on this comparison, we determined that the Plan overcharged the FEHBP $22,721 ($247,160 less $224,439) for these cost centers. The Plan could not provide a logical justification for using membership allocation percentages greater than the actual supported statistics. During the audit, the Plan stated that this difference could have been due to rounding; however, we do not believe that basic rounding would have caused such a significant difference in the charges to the FEHBP.

The following schedule is a summary of the questioned cost center expenses that were overcharged to the FEHBP for 2016 due to allocation methodology exceptions.

Cost Center Number	Cost Center Name	Amount Charged	OIG Amount Calculated	Amount Questioned
1148	Government Programs Marketing and Sales	$63,849	$56,378	$7,471
1409	InterPlan Programs Executive	118,632	112,292	6,340
5130	Albany Government Programs Marketing and Sales	47,280	41,644	5,636
1255	Online Services	91,139	86,191	4,948
1146	Employer Group Management	39,151	34,695	4,456
1239	Member Communications	5,741	5,531	210
Total				**$29,061**

In total, the Plan returned $30,376 to the FEHBP for this audit finding, consisting of $29,061 for the questioned cost center overcharges and $1,315 for applicable LII on these overcharges. 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 $30,376 to the FEHBP in September 2018 and November 2018 for this audit finding, consisting of $29,061 for the questioned cost center overcharges and $1,315 for applicable LII.

Recommendation 13

We recommend that the contracting officer disallow $29,061 for the questioned cost center expenses overcharged to the FEHBP in 2016. However, since we verified that the Plan subsequently returned $29,061 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 14

We recommend that the contracting officer require the Plan to return $1,315 to the FEHBP for the questioned LII calculated on the cost center overcharges. However, since we verified that the Plan subsequently returned $1,315 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

1. Letter of Credit Drawdown Reconciliation $6,407

Our audit determined that the Plan could not support $6,144 in funds withdrawn from the letter of credit account on December 29, 2016. As a result of this finding, the Plan subsequently returned $6,407 to the FEHBP, consisting of $6,144 for the excess letter of credit account drawdown and $263 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.

The Plan could not support $6,144 in excess funds withdrawn from the letter of credit account.

For the period July 1, 2016, through September 30, 2017, we reconciled the Plan's monthly letter of credit account drawdown schedules to OPM’s record of drawdowns (OPM's 2812 Reports). Our reconciliation identified a variance on December 29, 2016, between the amount requested by the Plan and the actual amount received by the Plan from the letter of credit account. Specifically, the Plan’s letter of credit account drawdown schedule only totaled $733,102 for this day, but OPM’s record supported a Plan reimbursement amount of $739,246. The Plan’s drawdown documentation did not support the additional funds of $6,144 that were withdrawn from the letter of credit account. Additionally, the Plan could not identify the cause of this drawdown error.

In total, the Plan returned $6,407 to the FEHBP for this audit finding, consisting of $6,144 for the excess letter of credit account drawdown and $263 for applicable LII. 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 $6,407 to the FEHBP on multiple dates in August 2018 and September 2018 for this audit finding, consisting of $6,144 for the excess letter of credit account drawdown and $263 for applicable LII.

Recommendation 15

We recommend that the contracting officer require the Plan to return $6,144 to the FEHBP for the excess letter of credit account drawdown amount. However, since we verified that the Plan subsequently returned $6,144 to the FEHBP for this excess drawdown, no further action is required for this questioned amount.

Recommendation 16

We recommend that the contracting officer require the Plan to return $263 to the FEHBP for questioned LII on the excess letter of credit account drawdown. However, since we verified that the Plan subsequently returned $263 to the FEHBP for the questioned LII, no further action is required for this LII amount.

IV. SCHEDULE A – QUESTIONED CHARGES

BLUECROSS BLUESHIELD OF WESTERN NEW YORK
BUFFALO, NEW YORK

QUESTIONED CHARGES

AUDIT FINDINGS*	2014	2015	2016	2017	2018	2019	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS							
1. Health Benefit Refunds	$0	$0	$44,046	$1,067	$797	$0	$45,910
2. Special Plan Invoices	10,666	766	3,214	26,119	129	0	40,894
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$10,666	$766	$47,260	$27,186	$926	$0	$86,804
B. ADMINISTRATIVE EXPENSES							
1. Unallowable and/or Unallocable Cost Centers	$64,029	$79,381	$148,301	$6,998	$7,564	$9	$306,282
2. Prior Period Adjustments	0	4,211	162,183	4,004	3,001	0	173,399
3. Cost Settlement Adjustment for Quality Improvement Costs	0	162,959	2,913	3,971	2,966	0	172,809
4. Affordable Care Act Fees	10,839	102,692	2,483	2,761	2,079	0	120,854
5. Unreasonable Cost Center Allocation Methods	0	0	29,061	708	607	0	30,376
TOTAL ADMINISTRATIVE EXPENSES	$74,868	$349,243	$344,941	$18,442	$16,217	$9	$803,720
C. CASH MANAGEMENT							
1. Letter of Credit Drawdown Reconciliation	$0	$0	$6,145	$150	$112	$0	$6,407
TOTAL CASH MANAGEMENT	$0	$0	$6,145	$150	$112	$0	$6,407
TOTAL QUESTIONED CHARGES	$85,534	$350,009	$398,346	$45,778	$17,255	$9	$896,931

* We included lost investment income (LII) within the audit findings. 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

November 16, 2018

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

Reference: **OPM DRAFT AUDIT REPORT**
BlueCross BlueShield of Western New York
Audit Report No. 1A-10-12-18-016
(Dated October 09, 2018 and October 09, 2018)

Dear [redacted]

This is the BlueCross BlueShield of Western New York (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. Health Benefit Refunds $45,910

Recommendation 1

We recommend that the contracting officer require the Plan to return $43,767 to the FEHBP for the questioned health benefit refund. However, since we verified that the Plan returned $43,767 to the FEHBP for the questioned refund, no further action is required for this amount.

Plan's 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 $2,143 to the FEHBP for LII on the questioned health benefit refund. However, since we verified that the Plan returned $2,143 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

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

2. Special Plan Invoices $40,894

Recommendation 3

We recommend that the contracting officer require the Plan to return $39,393 to the FEHBP for the questioned SPI's. However, since we verified that the Plan returned $39,393 to the FEHBP for these questioned SPI's, no further action is required for this amount.

Plan's 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 $1,501 to the FEHBP for the questioned LII on the SPI's that were returned untimely to the FEHBP. However, since we verified that the Plan returned $1,501 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agreed with LII calculation. No additional action is necessary.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Cost Centers $468,301

Recommendation 5

We recommend that the contracting officer disallow $468,301 for the questioned unallowable and/or unallocable cost center expenses charged to the FEHBP from 2014 through 2016.

Plan's Response:

The Plan partially agreed with this finding in the amount of $281,417. Additional information has been provided to the OIG auditors to support the Plan's position. The Plan is awaiting the auditor's response.

Recommendation 6

We recommend that the contracting officer require the Plan to return the appropriate amount to the FEHBP for LII calculated on the unallowable and/or unallocable cost center expenses.

Plan's Response:

If applicable, LII will be calculated and returned to the FEHPB once the final recommendation on unallowable and/or unallocable cost center expenses charged to the FEHBP is made and agreed upon.

2. Prior Period Adjustments **$173,117**

Recommendation 7

We recommend that the contracting officer require the Plan to return $164,308 to the FEHBP for non-chargeable administrative expenses. However, since we verified that the Plan returned $160,097 to the FEHBP for non-chargeable administrative expenses, the contracting officer only needs to ensure that the Plan returns $4,211 to the FEHBP for the questioned charges.

Plan's Response:

The Principal amount of $4,211 was returned to the FEHBP on September 20, 2018. The supporting documentation was sent to the OIG auditors on October 12, 2018.

Recommendation 8

We recommend that the contracting officer require the Plan to return $8,809 to the FEHBP for LII calculated on non-chargeable administrative expenses, as well as additional LII on amounts still due to the FEHBP.

Plan's Response:

Lost Investment Income of $8,809 was returned to the FEHBP on September 20, 2018. The supporting documentation was sent to the OIG auditors on October 12, 2018.

3. Cost Settlement Adjustment for Quality Improvement Costs **$172,809**

Recommendation 9

We recommend that the contracting officer disallow $162,959 for quality improvement costs that were overcharged to the FEHBP in 2015. However, since we verified that the Plan returned $162,959 to the FEHBP for these questioned quality improvement costs, no further action is required for this amount.

Plan's Response:

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

Recommendation 10

We recommend that the contracting officer require the Plan to return $9,850 to the FEHBP for LII calculated on the questioned quality improvement costs.

Plan's Response:

Lost Investment Income of $9,850 was returned to the FEHBP on September 20, 2018. The supporting documentation was sent to the OIG auditors on October 12, 2018.

4. Affordable Care Act Fees **$120,854**

Recommendation 11

We recommend that the contracting officer disallow $113,287 for ACA fees that were overcharged to the FEHBP in 2014 and 2015. However, since we verified that the Plan returned $113,287 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan's Response:

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

Recommendation 12

We recommend that the contracting officer require the Plan to return $7,567 to the FEHBP for LII calculated on the questioned ACA cost overcharges.

Plan's Response:

Lost Investment Income of $1,900 was returned to the FEHBP on September 20, 2018. Lost Investment Income of $5,666 was returned to the FEHBP on September 27, 2018. The supporting documentation was sent to the OIG auditors on October 12, 2018.

5. Unreasonable Cost Center Allocation Methods **$29,061**

Recommendation 13

We recommend that the contracting officer disallow $29,061 for the questioned cost center expenses overcharged to the FEHBP in 2016.

Plan's Response:

The Principal amount of $29,061 was returned to the FEHBP on September 20, 2018. The supporting documentation was sent to the OIG auditors on October 12, 2018.

Recommendation 14

We recommend that the contracting officer require the Plan to return the appropriate amount to the FEHBP for LII calculated on the cost center overcharges.

Plan's Response:

The Plan has calculated the LII as $1,315 and will be adjusting the LOCA by 11/30/18.

C. CASH MANAGEMENT

1. Letter of Credit Drawdown Reconciliation $6,407

Recommendation 15

We recommend that the contracting officer require the Plan to return $6,144 to the FEHBP for the excess letter of credit account drawdown. However, since we verified that the Plan returned $6,144 to the FEHBP for this excess drawdown, no further action is required for this amount.

Plan's Response:

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

Recommendation 16

We recommend that the contracting officer require the Plan to return $263 to the FEHBP for LII on the excess letter of credit account drawdown. However, since we verified that the Plan returned $263 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan's Response:

The Plan agreed with LII calculation. 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,

[redacted]

Attachments

Cc: [redacted], [redacted]

Report Fraud, Waste, and Mismanagement

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