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

# Final Audit Report

## AUDIT OF HORIZON BLUECROSS BLUESHIELD OF NEW JERSEY NEWARK, NEW JERSEY

Report Number 1A-10-49-19-036
September 8, 2020

# EXECUTIVE SUMMARY

*Audit of Horizon BlueCross BlueShield of New Jersey*

**Report No. 1A-10-49-19-036** **September 8, 2020**

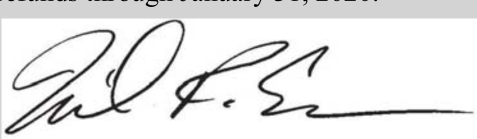
**Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that Horizon BlueCross BlueShield of New Jersey (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 2015 through March 31, 2019, and administrative expense charges from contract years 2014 through 2018. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2015 through March 31, 2019, and the Plan's Fraud and Abuse Program activities from 2018 through March 31, 2019.

During our fieldwork phase, we identified that the Plan had not returned tax impact refunds to the FEHBP that were applicable to Federal income taxes related to the 2014 through 2016 Affordable Care Act (ACA) health insurance provider fees. Therefore, we expanded the scope for these tax impact refunds through January 31, 2020.



**Michael R. Esser**
***Assistant Inspector General for Audits***

**What did we find?**

We questioned $5,456,848 in health benefit refunds and recoveries, medical drug rebates, administrative expense charges, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with all of the questioned amounts, and the Plan subsequently returned these amounts to the FEHBP.

Throughout the audit process, we encountered numerous instances where the Plan responded untimely, and/or initially provided incomplete responses, to various requests for explanations and supporting documentation. As a result, completion of our audit and issuance of our draft report were delayed.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned $306,088 for health benefit refunds and recoveries and medical drug rebates that had not been returned to the FEHBP as of March 31, 2019, and $7,135 for LII on health benefit refunds and recoveries, rebates, and hospital settlements that were returned untimely to the FEHBP.
- Administrative Expenses – We questioned $3,439,671 for tax impact refunds applicable to Federal income taxes related to the ACA health insurance provider fees, $794,753 for administrative expense overcharges, and $123,440 for applicable LII.
- Cash Management – The Plan did not properly manage and/or account for all FEHBP funds from 2015 through March 31, 2019. The significant exceptions for cash management include:
  - The Plan held unsupported excess funds of $54,199 in the Federal Employee Program (FEP) investment account as of March 31, 2019.
  - The Plan held excess corporate funds of $10.1 million in the FEP investment account as of March 31, 2019, which the Plan subsequently transferred to the Plan's corporate account.
  - In November 2019, while reconciling the FEP investment account as of March 31, 2019, the Plan self-disclosed that cash receipts of $642,548 from the audit scope were identified in the Plan's corporate account that had not been returned to the FEHBP.
- Fraud and Abuse Program – The Plan is in compliance with the communication and reporting requirements for fraud and abuse cases.

# ABBREVIATIONS

| | |
|---|---|
| ACA | Affordable Care Act |
| AMT | Alternative Minimum Tax |
| Association | BlueCross BlueShield Association |
| BCBS | BlueCross and/or BlueShield |
| BCBSA | BlueCross BlueShield Association |
| 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 |
| HIF | Health Insurance Provider Fee(s) |
| LII | Lost Investment Income |
| LOCA | Letter of Credit Account |
| Memorandum | FEP Memorandum Number 18-540FYI |
| NASCO | National Account Service Company |
| OIG | Office of the Inspector General |
| OPM | U.S. Office of Personnel Management |
| PCORI | Patient-Centered Outcomes Research Institute |
| Plan | Horizon BlueCross BlueShield of New Jersey |
| PPA | Prior Period Adjustment |
| SIU | Special Investigations Unit |
| SPI | Special Plan Invoice |
| Treasury | United States Treasury |
| UPS | Universal Payment System |

# TABLE OF CONTENTS

# I. BACKGROUND

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

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 or BCBSA), 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 reimbursement of local plan payments of FEHBP claims (using computerized system edits),

[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.

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-10-49-14-057, dated June 18, 2015), for contract years 2009 through 2013, 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 13, 2020; and/or were presented in detail in a draft report, dated March 31, 2020. The Association's comments offered in response to this 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.

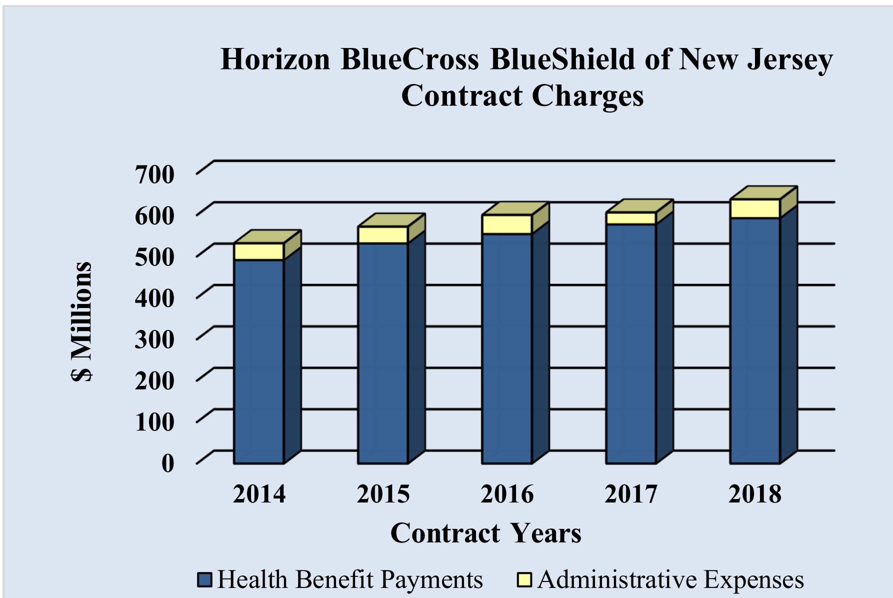
Fraud and Abuse Program

- 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 280 and 780 for contract years 2014 through 2018. During this period, the Plan paid approximately $2.7 billion in FEHBP health benefit payments and charged the FEHBP $206 million in administrative expenses (see chart below).




Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash receipt and auto recoupment refunds, provider audit recoveries, subrogation recoveries, medical drug rebates, and special plan invoices) from 2015 through March 31, 2019, and administrative expense charges from 2014 through 2018. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2015 through March 31, 2019, and the Plan's Fraud and Abuse Program activities from 2018 through March 31, 2019.

During our fieldwork phase, we identified that the Plan had not returned tax impact refunds to the FEHBP that were applicable to Federal income taxes related to the 2014 through 2016 Affordable Care Act health insurance provider fees. Therefore, we expanded the scope for these tax impact refunds through January 31, 2020.

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

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and Federal 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 Newark, New Jersey on various dates from September 10, 2019, through November 15, 2019. Audit fieldwork was also performed at our offices in Jacksonville, Florida and Washington, D.C. through February 13, 2020.

Throughout the audit process, we encountered numerous instances where the Plan responded untimely, and/or initially provided incomplete responses, to various requests for explanations and supporting documentation. As a result, completion of our audit fieldwork and issuance of our draft and final reports were delayed.

## 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. Prior to May 2017, the Plan used the National Account Service Company (NASCO) System to track health benefit refunds and recoveries. In May 2017, the Plan started using the Universal Payment

System (UPS) to track health benefit refunds and recoveries. For 2015 through March 31, 2019, we judgmentally selected and reviewed the following FEP items from these systems:

*Health Benefit Refunds – NASCO System*

- A high dollar sample of 30 FEP health benefit refunds returned via auto recoupments, totaling $2,834,910 (from a universe of 42,497 FEP refunds returned via auto recoupments, totaling $30,097,303, for the audit scope). Our high dollar sample included the 30 highest auto recoupment amounts from the audit scope.

- A high dollar sample of 30 FEP health benefit refund cash receipts, totaling $575,008 (from a universe of 10,159 FEP refund cash receipt amounts, totaling $2,448,635, for the audit scope). Our high dollar sample included the 30 highest refund cash receipt amounts from the audit scope.

*Health Benefit Refunds – UPS*

- A high dollar sample of 30 FEP health benefit refunds returned via auto recoupments, totaling $5,117,446 (from a universe of 41,452 FEP refunds returned via auto recoupments, totaling $29,966,848, for the audit scope). Our high dollar sample included the 30 highest auto recoupment amounts from the audit scope.

- A high dollar sample of 20 FEP health benefit refund cash receipts, totaling $254,410 (from a universe of 7,868 FEP refund cash receipt amounts, totaling $1,830,548, for the audit scope). Our high dollar sample included the 20 highest refund cash receipt amounts from the audit scope.

*Other Health Benefit Payments, Credits, and Recoveries*

- A high dollar sample of 50 FEP provider audit recoveries, totaling $2,701,888 (from a universe of 2,108 FEP provider audit recoveries, totaling $6,930,377, for the audit scope). For this sample, we selected the 10 highest dollar provider audit recoveries from each year in the audit scope.

- A high dollar sample of 25 FEP subrogation recoveries, totaling $1,517,951 (from a universe of 5,091 FEP subrogation recoveries, totaling $5,464,089, for the audit scope). For this sample, we selected all subrogation recoveries of $33,000 or more from the audit scope. Our sample included 13 subrogation recoveries, totaling $752,068, from the NASCO System and 12 subrogation recoveries, totaling $765,883, from the UPS.

- A judgmental sample of 28 FEP medical drug rebate amounts, totaling $642,427 (from a universe of 62 FEP medical drug rebate amounts, totaling $778,535, for the audit scope). For this sample, we selected the four highest dollar medical drug rebate amounts from each year in the audit scope. We also selected eight additional medical drug rebate amounts based on our nomenclature review of the universe.

- A judgmental sample of 23 FEP fraud recoveries, totaling $255,848 (from a universe of 373 FEP fraud recoveries, totaling $460,772, for the audit scope). For this sample, we selected the 10 highest dollar fraud recoveries from the audit scope. We also selected 13 additional fraud recoveries from this universe based on our nomenclature review.

- A judgmental sample of 7 FEP hospital settlement amounts, totaling $682,434 in net FEP payments (from a universe of 15 FEP hospital settlement amounts, totaling $1,305,283 in net FEP payments, for the audit scope). For this sample, we judgmentally selected hospital settlements with payment and/or credit amounts of $5,000 or more from the audit scope.

- A high dollar sample of 24 special plan invoices (SPI), totaling $4,351,223 in net FEP payments (from a universe of 712 SPI's, totaling $17,301,310 in net FEP payments, for the audit scope). We judgmentally selected these SPI's based on our nomenclature review of high dollar invoice amounts. Specifically, for each year from 2015 through 2018, we selected four SPI's with the highest dollar payment amounts and the SPI with the highest dollar credit amount (excluding SPI's for medical drug rebates and fraud recoveries). For January 1, 2019, through March 31, 2019, we selected four SPI's with the highest dollar credit amounts. 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, medical drug rebates, and miscellaneous credits 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 <u>administrative expenses</u> charged to the FEHBP for contract years 2014 through 2018. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement benefits; out-of-system adjustments; non-recurring projects; Association dues; lobbying; and Patient Protection and Affordable Care Act fees.[2] We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account drawdowns, working capital calculations, adjustments and/or balances, United States Treasury (Treasury) offsets, and interest income transactions from 2015 through March 31, 2019, as well as the Plan's dedicated FEP investment account activity during the scope and the balance as of March 31, 2019. As part of our testing, we selected and reviewed a judgmental sample of 55 letter of credit account drawdowns, totaling $524,668,579 (from a universe of 781 letter of credit account drawdowns, totaling $2,391,633,399, for the period 2015 through March 31, 2019), 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. We also selected four additional drawdown amounts based on our nomenclature review of the Plan's monthly cash management schedules. The sample results were not projected to the universe of letter of credit account drawdowns, since we did not use statistical sampling.

We also interviewed the Plan's Special Investigations Unit regarding the compliance 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.

[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 $128,017,543 (before adjustments) to the FEHBP from 172 cost centers that contained 148 natural accounts. From this universe, we selected a judgmental sample of 50 cost centers to review, which totaled $88,268,138 in expenses allocated to the FEHBP. We also selected a judgmental sample of 42 natural accounts to review, which totaled $48,743,500 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Subrogation Recoveries $174,307

Our audit determined that the Plan had not returned two subrogation recoveries, totaling $174,307, to the FEHBP as of March 31, 2019. The Plan subsequently returned these subrogation recoveries to the FEHBP on October 4, 2019, approximately nine months late, after receiving our audit notification letter, and/or as a result of our audit. Since these questioned subrogation recoveries were timely deposited into the FEP investment account, lost investment income (LII) was not applicable.

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."

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

**The Plan returned subrogation recoveries of $174,307 to the FEHBP nine months late, after our audit notification, and/or as a result of our audit.**

From 2015 through March 31, 2019, there were 5,091 FEP subrogation recoveries totaling $5,464,089. From this universe, we selected and reviewed a judgmental sample of 25 subrogation recoveries, totaling $1,517,951, to determine if the Plan timely returned these recoveries to the FEHBP. Our sample included all subrogation recoveries of $33,000 or more from the audit scope.

Based on our review, we determined that the Plan timely deposited these 25 subrogation recoveries into the FEP investment account during the audit scope. However, the Plan had not returned two of these subrogation recoveries, totaling $174,307, to the FEHBP letter of credit account (LOCA) as of March 31, 2019. We noted that the Plan subsequently returned these two questioned subrogation recoveries to the LOCA on October 4, 2019, approximately nine months late, after receiving our audit notification letter (dated April 1, 2019), and/or as a result of our audit. Since these questioned subrogation recoveries were timely deposited into the FEP investment account, these exceptions are not subject to LII.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendation.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $174,307 to the FEHBP on October 4, 2019, for the questioned subrogation recoveries.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return $174,307 to the FEHBP for the questioned subrogation recoveries. However, since we verified that the Plan subsequently returned $174,307 to the FEHBP for these questioned subrogation recoveries, no further action is required for this amount.

**2. Health Benefit Refunds – Cash Receipts** **$128,743**

Our audit determined that the Plan had not returned four health benefit refunds, totaling $125,020, to the FEHBP as of March 31, 2019. The Plan subsequently returned these questioned health benefit refunds to the FEHBP in November 2019 and December 2019, from 222 to 295 days late, after receiving our audit notification letter, and/or because of our audit. Additionally, the Plan untimely returned 18 health benefit refunds, totaling $292,208, to the FEHBP during the audit scope. As a result, we are questioning $128,743 for this audit finding, consisting of $125,020 for the questioned health benefit refunds and $3,723 for LII on the health benefit refunds 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 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 . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

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

**The Plan returned health benefit refunds of $125,020 to the FEHBP from 222 to 295 days late, after our audit notification, and/or as a result of our audit.**

During the audit scope, the Plan used two accounts receivable inventory systems to track health benefit refunds and recoveries. Prior to May 2017, the Plan used the NASCO System to track health benefit refunds and recoveries. In May 2017, the Plan started using the UPS to track health benefit refunds and recoveries. From the NASCO System, we selected and reviewed a judgmental sample of 30 FEP cash receipt refunds, totaling $575,008 (from a universe of 10,159 FEP cash receipt refunds, totaling $2,448,635, for the audit scope). Our sample included the 30 highest dollar refunds for the audit scope from the NASCO System. From the UPS, we selected and reviewed a judgmental sample of 20 FEP cash receipt refunds, totaling $254,410 (from a universe of 7,868 FEP cash receipt refunds, totaling $1,830,548, for the audit scope). Our sample included the 20 highest dollar refunds for the audit scope from the UPS.

For these samples, we determined if the Plan timely returned the health benefit refunds to the FEHBP. We noted the following exceptions for the refunds in our samples:

- The Plan had not returned four health benefit refunds, totaling $125,020, to the FEHBP as of March 31, 2019. The Plan subsequently returned these refunds to the FEHBP on November 21, 2019, and December 5, 2019. We noted that these refunds were returned to the FEHBP from 222 to 295 days late, after receiving our audit notification letter (dated April 1, 2019), and/or because of our audit. Therefore, we are questioning these refunds as monetary findings as well as $2,975 for LII on these refunds returned untimely to the FEHBP (as calculated by the OIG).

- The Plan returned 18 health benefit refunds, totaling $292,208, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan returned these refunds to the FEHBP from 2 to 142 days late. As a result, we are questioning $748 for LII on these refunds returned untimely to the FEHBP (as calculated by the OIG).

In total, the Plan returned $128,743 to the FEHBP for this audit finding, consisting of $125,020 for the questioned health benefit refunds and $3,723 ($2,975 plus $748) for LII on the health benefit refunds returned untimely to the FEHBP.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendations.***

***Regarding the procedural recommendation, the Plan will finalize and implement all process revisions by July 31, 2020. The Association states, "BCBSA will review the Plan's revised process and provide documentation to support that the Plan has implemented the revised processes to ensure that health benefit refunds and recoveries are timely returned to the FEHBP and that the processes are working as intended."***

**OIG Comment:**

As part of our review, we verified that the Plan returned $125,020 to the FEHBP on November 21, 2019, and December 5, 2019, for the questioned health benefit refunds. We also verified that the Plan returned $3,723 to the FEHBP on February 14, 2020, for the questioned LII.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return $125,020 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned $125,020 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

**Recommendation 3**

We recommend that the contracting officer require the Plan to return $3,723 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,723 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 4**

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 health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account and returned to the LOCA via drawdown adjustment).

**3. Medical Drug Rebates $4,595**

Our audit determined that the Plan had not returned three medical drug rebate amounts, totaling $3,922, to the FEHBP as of March 31, 2019. The Plan subsequently returned these questioned medical drug rebates to the FEHBP in September 2019 and March 2020, from 128 to 307 days late, after receiving our audit notification letter, and/or because of our audit. Additionally, the Plan untimely returned eight medical drug rebate amounts, totaling $201,898, to the FEHBP during the audit scope. As a result, we are questioning $4,595 for this audit finding, consisting of $3,922 for the questioned medical drug rebates and $673 for 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."

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 letter of credit account within 60 days after receipt by the Carrier. As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor 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 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.

During 2015 through March 31, 2019, the Plan received 62 FEP medical drug rebate amounts, totaling $778,535, from various drug manufacturers. From this universe, we selected and reviewed a judgmental sample of 28 medical drug rebate amounts, totaling $642,427, to determine if the Plan timely returned these funds to the FEHBP. Our sample included the four highest dollar medical drug rebate amounts from each year in the audit scope. We also selected eight additional medical drug rebate amounts based on our nomenclature review of the universe. Based on our review, we identified the following exceptions:

- The Plan had not returned three medical drug rebate amounts, totaling $3,922, to the FEHBP as of March 31, 2019. The Plan subsequently returned these medical drug rebates to the FEHBP on September 30, 2019, and March 5, 2020; from 128 to 307 days late, after receiving our audit notification letter (dated April 1, 2019), and/or because of our audit. Therefore, we are questioning these three exceptions as monetary findings as well as $117 for LII on these medical drug rebates returned untimely to the FEHBP (as calculated by the OIG).

- The Plan returned eight medical drug rebate amounts, totaling $201,898, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan returned these medical drug rebate amounts to the FEHBP from 4 to 105 days late. As a result, we are questioning $556 for LII on these medical drug rebates returned untimely to the FEHBP (as calculated by the OIG).

In total, the Plan returned $4,595 for these medical drug rebate exceptions, consisting of $3,922 for the questioned medical drug rebates and $673 ($117 plus $556) for applicable LII on the medical drug rebates returned untimely to the FEHBP.

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

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned medical drug rebates of $3,922 to the FEHBP in September 2019 and March 2020. We also verified that the Plan returned the questioned LII of $673 to the FEHBP in January 2020.

**Recommendation 5**

We recommend that the contracting officer require the Plan to return $3,922 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned $3,922 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return $673 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 $673 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**4. Fraud Recoveries** **$3,530**

Our audit determined that the Plan had not returned 12 fraud recoveries, totaling $2,839, to the FEHBP as of March 31, 2019. The Plan subsequently returned these fraud recoveries to the FEHBP on various dates in November 2019 through March 2020, from 263 to 364 days late, after receiving our audit notification letter, and/or because of our audit. Additionally, the Plan untimely returned eight fraud recoveries, totaling $213,402 to the FEHBP during the audit scope. As a result, we are questioning $3,530 for this audit finding, consisting of $2,839 for the questioned fraud recoveries and $691 for LII on the fraud recoveries 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 letter of credit account within 60 days after receipt by the Carrier. As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor 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."

For 2015 through March 31, 2019, there were 373 fraud recoveries, totaling $460,772, for the FEP. From this universe, we selected and reviewed a judgmental sample of 23 fraud recoveries, totaling $255,848, for the purpose of determining if the Plan timely returned these recoveries to the FEHBP. Our sample included the 10 highest dollar fraud recoveries from the audit scope. We also selected 13 additional fraud recoveries from this universe based on our nomenclature review.

Based on our review, we identified the following exceptions:

- The Plan had not returned 12 fraud recoveries, totaling $2,839, to the FEHBP as of March 31, 2019. The Plan subsequently returned these fraud recoveries, totaling $2,839, to the FEHBP on various dates in November 2019, December 2019 and March 2020, from 263 to 364 days late, after receiving our audit notification letter (dated April 1, 2019), and/or because of our audit. As a result, we are questioning these 12 fraud recoveries as monetary findings as well as $61 for LII on these fraud recoveries returned untimely to the FEHBP (as calculated by the OIG).

- The Plan returned eight fraud recoveries, totaling $213,402, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these fraud recoveries into the FEP investment account from 2 to 112 days late. As a result, we are questioning $630 for LII on these fraud recoveries returned untimely to the FEHBP.

In total, the Plan returned $3,530 for these fraud recovery exceptions, consisting of $2,839 for the questioned fraud recoveries subsequently returned to the FEHBP and $691 ($61 plus $630) for applicable LII on the fraud recoveries returned untimely to the FEHBP.

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

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned fraud recoveries of $2,839 to the FEHBP on various dates in November 2019, December 2019, and March 2020. We also verified that the Plan returned the questioned LII of $691 to the FEHBP in February 2020.

**Recommendation 7**

We recommend that the contracting officer require the Plan to return $2,839 to the FEHBP for the questioned fraud recoveries. However, since we verified that the Plan subsequently returned $2,839 to the FEHBP for the questioned fraud recoveries, no further action is required for this amount.

**Recommendation 8**

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

**5. Hospital Settlements $2,048**

During the audit scope, the Plan untimely returned two hospital settlement amounts, totaling $312,054, to the FEHBP. As a result of this finding, the Plan subsequently returned $2,048 to the FEHBP for LII on these hospital settlements.

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 letter of credit account within 60 days after receipt by the Carrier. As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

For 2015 through March 31, 2019, there were 15 hospital settlement amounts totaling $1,305,283 in net FEP payments. From this universe, we selected and reviewed a judgmental sample of seven FEP hospital settlement amounts, totaling $682,434 in net FEP payments, to determine if the Plan properly calculated, charged, and/or credited these settlements to the FEHBP. Our sample included hospital settlements with FEP payment and/or credit amounts of $5,000 or more from the audit scope.

Based on our review, we determined that FEP's allocable amounts for these hospital settlements were properly calculated, but the Plan returned two recovery amounts, totaling $312,054, untimely to the FEHBP (i.e., from 63 to 132 days late) during the audit scope. Therefore, we calculated LII of $2,048 on these FEP hospital settlement amounts since the funds were returned untimely to the FEHBP.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendation.***

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned LII of $2,048 to the FEHBP on April 22, 2020.

**Recommendation 9**

We recommend that the contracting officer require the Plan to return $2,048 to the FEHBP for the questioned LII on the hospital settlements that were returned untimely to the FEHBP during the audit scope. However, since we verified that the Plan subsequently returned $2,048 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## B. ADMINISTRATIVE EXPENSES

### 1. Tax Impact Refunds $3,501,538

During our fieldwork phase, we determined that the Plan had not returned the 2015 and 2016 tax impact refunds to the FEHBP that were applicable to the Federal income taxes related to the Affordable Health Care (ACA) health insurance provider fees (HIF). Because of our audit, the Plan subsequently returned these HIF tax impact refunds, totaling $3,439,671, to the FEHBP on January 31, 2020, approximately nine months after receipt. As a result, we are questioning $3,501,538 for this audit finding, consisting of $3,439,671 for the questioned 2015 and 2016 HIF tax impact refunds and $61,867 for applicable LII on these tax impact refunds 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." As

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

Contract CS 1039, Section 4.14 (a) states, "a charge for an incremental amount of Federal income tax liability incurred as the result of compliance with the Health Insurance Providers Fee . . . provision of the Affordable Care Act section 9010 . . . by a local plan that participates in the administration of the Service Benefit Plan . . . for which the Blue Cross and Blue Shield Association serves on behalf of the Local Plans as the Carrier, . . . is an allowable cost to the Carrier under this contract . . . ."

From 2014 through 2016, Section 9010 of the ACA imposed an annual fee on health insurers for funding the health insurance exchange subsidies. This yearly fee was based on each health insurer's share of net premiums written. The Internal Revenue Service calculated 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 ACA required all health insurance providers to collectively contribute $8 billion in health insurance provider fees for 2014, $11.3 billion for 2015, and $11.3 billion for 2016. The Plan's share of these ACA health insurance provider fees totaled $129.6 million for 2014, $173.2 million for 2015, and $175.9 million for 2016. For these ACA fees, the Plan allocated and charged $37.1 million to the FEHBP for 2014 through 2016. The Plan also calculated and charged $9.3 million to the FEHBP for Federal income taxes related to these 2014 through 2016 ACA health insurance provider fees.

Although Federal income taxes are considered unallowable charges under the FAR, OPM approved an exception that allowed the Carriers to charge the FEHBP for the Federal income tax impact related to these ACA health insurance provider fees. However, the Tax Cuts and Jobs Act of 2017 (Public Law 115-97, dated December 22, 2017) subsequently repealed the corporate Alternative Minimum Tax (AMT) as of 2018, requiring AMT credit carryovers for the HIF tax impact to be refunded to corporate entities over a four-year period (i.e., 50 percent in 2019, 25 percent in 2020, 12 ½ percent in 2021, and 12 ½ percent in 2022).

FEP Memorandum Number 18-584FYI, titled Tax Reform FEP Impact, dated April 16, 2018, states, "AMT credit carryovers will be refunded to corporate entities . . . For Plans that currently carry AMT tax credits . . . this will create an obligation to return a portion of the refund to the [FEP] for the ACA Health Insurer Fee . . . federal income tax impact the Plans charged . . . in 2015 and 2016 pursuant to the FAR deviation. Further, these Plans are also required to return the additional Service Charge provided to fund the tax impact of the HIF in 2014. This will allow the FEP Director's Office to disperse additional funding to Plans that did not receive full funding for the 2014 HIF income tax impact. . . . Once the funds are received by the Plan from the government[,] FEP's portion is due to FEP within 30 days. . . . In each year, once the AMT credit refunds are received by the Plan, the Plan must submit a Prior Period Adjustment (PPA) for the 2015 and 2016 amount[s]. A PPA is not required for the 2014 portion since the taxes were funded from Service Charge. Once the PPAs are processed, Plans will send FEP's portion of the rebated funds via electronic funds transfer to the Association. This will include the portions for 2014, 2015 and 2016. The Association will return the funds to the FEP Contingency Reserve for 2015 and 2016. The Service Charge funds returned for 2014 will be used to provide additional funding for the other Plans that did not receive full funding for the 2014 HIF income tax impact. . . . amounts remaining after all Plans have been fully reimbursed for the tax impact of the 2014 HIF will be returned by the Association to the FEP Contingency Reserve."

**As a result of our audit, the Plan returned tax impact refunds of $3.4 million to the FEHBP in January 2020.**

While reviewing the ACA costs (i.e., health insurance provider, Patient-Centered Outcomes Research Institute, and transitional reinsurance fees; and Federal income taxes related to the health insurance provider fees) during our fieldwork phase, we noted that the Plan received 50 percent of the AMT refunds for the 2014, 2015 and 2016 HIF tax impact amounts on April 29, 2019, but had not wire transferred these refunds to the Association's FEP account and/or returned these refunds to the FEHBP.[3] When we followed-up with the Plan regarding these HIF tax impact refunds, the Plan stated that these refunds had not been wire transferred to the Association and/or returned to the FEHBP due to an inadvertent oversight by the Plan.

Based on our review, we noted the following exceptions for the HIF tax impact refunds:

- For 2014, the Plan allocated $2,383,301 to the FEP for Federal income taxes related to the ACA health insurance provider fees. The Association reimbursed the Plan $2,000,640 for these taxes from an additional service charge amount approved by OPM to fund the 2014 HIF tax impact. Because of the corporate AMT refund for 2014 (received on April 29, 2019), the Plan is required to return 50 percent (or $1,000,320) of the 2014 HIF tax impact of $2,000,640 to the Association within 30 days after receipt. As result of our audit, the Plan subsequently wire transferred the 2014 HIF tax impact refund, totaling $1,000,320, to the Association's FEP account on

[3] Although the scope for administrative expenses initially only included 2014 through 2018, we expanded the scope for the HIF tax impact refunds through January 31, 2020, since we identified during our fieldwork phase that the Plan had not returned these tax refunds to the FEHBP.

January 10, 2020 (8 ½ months after receipt). Since the 2014 HIF tax impact refund is only required to be wired to the Association by the Plan and not currently required to be returned to the FEHBP on an individual plan basis, we are not questioning the principal amount of this tax impact refund as a monetary exception.[4]

- For 2015 and 2016, the Plan allocated and charged $6,879,341 to the FEHBP for Federal income taxes related to the ACA health insurance provider fees. Because of the corporate AMT refunds for 2015 and 2016 (received on April 29, 2019), the Plan is required to return 50 percent (or $1,706,519) of the 2015 HIF tax impact of $3,413,037 and 50 percent (or $1,733,152) of the 2016 HIF tax impact of $3,466,304 to the FEHBP. As result of our audit, the Plan subsequently wire transferred these HIF tax impact refunds, totaling $3,439,671 ($1,706,519 plus $1,733,152), to the Association's FEP account on January 10, 2020 (8 ½ months after receipt instead of within 30 days after receipt); and then the Association wire transferred these refunds to OPM on January 31, 2020, approximately nine months after receipt by the Plan. Since the Plan returned these 2015 and 2016 HIF tax refunds to the FEHBP as a result of our audit, we are questioning these tax impact refunds as monetary exceptions.

In total, the Plan returned $3,501,538 to the FEHBP for this audit finding, consisting of $3,439,671 for the 2015 and 2016 HIF tax impact refunds and $61,867 for applicable LII on these tax impact refunds returned untimely to the FEHBP (as calculated by the OIG).

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

***The Plan agrees with the finding and applicable recommendations.***

**<u>OIG Comment:</u>**

As part of our review, we verified that the Plan returned the questioned 2015 and 2016 tax impact refunds of $3,439,671 to the FEHBP on January 31, 2020. We also verified that the Plan returned the questioned LII of $61,867 to the FEHBP on February 25, 2020. Additionally, we verified that the Plan wire transferred the 2014 HIF tax impact refund, totaling $1,000,320, to the Association's FEP account on January 10, 2020.

According to the Association (via an email on March 18, 2020), the required additional funding to reimburse the applicable BCBS plans that were not totally reimbursed for the

[4] According to the Association, after all BCBS plans have been fully reimbursed for the Federal income taxes applicable to the 2014 HIF, the Association will then return the remaining 2014 HIF tax impact refunds from the BCBS plans to the FEHBP.

2014 HIF income tax impact equals $20,299,398. As of March 18, 2020, BCBS plans (including Horizon BCBS of New Jersey) have wire transferred a total of $20,263,090 to the Association's FEP account for the 2014 HIF tax impact refunds. After the total required amount is received, the Association will disburse these funds to the applicable BCBS plans that were not fully reimbursed for the 2014 HIF income tax impact. The Association will then return all remaining 2014 HIF tax impact refunds to the FEHBP via wire transfer(s) to OPM.

**Recommendation 10**

We recommend that the contracting officer require the Plan to return $3,439,671 to the FEHBP for the questioned 2015 and 2016 tax impact refunds. However, since we verified that the Plan subsequently returned $3,439,671 to the FEHBP for these questioned tax impact refunds, no further action is required for this amount.

**Recommendation 11**

We recommend that the contracting officer require the Plan to return $61,867 to the FEHBP for the questioned LII on the 2015 and 2016 tax impact refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $61,867 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 12**

We recommend that the contracting officer require the Association to provide evidence or applicable documentation supporting that the Plan and Association have implemented the necessary corrective actions to ensure that all remaining amounts of the 2014, 2015, and 2016 HIF tax impact refunds are timely transferred to the Association's FEP account (i.e., within 30 days after receipt in 2020, 2021, and 2022) and timely returned to the FEHBP.

***Association Response:***

***"BCBSA will issue a Plan notification via a Request for Action . . . each year to remind Plans with Alternative Minimum Tax . . . credit carryovers that once the funds are received . . . FEP's portion is due to FEP within 30 days. Further, BCBSA staff will directly follow-up with Plans that have not returned credits in any given year at the beginning of the 3rd Quarter each year to ensure the funds are returned timely."***

**Recommendation 13**

We recommend that the contracting officer require the Association to provide evidence or applicable documentation supporting that the Association has reconciled and accounted for all 2014 HIF tax impact refunds that were received by the applicable BCBS plans in 2019. After the Association has fully reimbursed all BCBS plans for the 2014 HIF income tax impact, the contracting officer should verify that the Association has returned all remaining 2014 HIF tax impact refunds to the FEHBP.

***Association Response:***

***"BCBSA has reconciled and accounted for all 2014 HIF tax impact refunds that were received by the BCBS Plans in 2019 and returned the remaining refunds to the FEHBP."***

**2. Incorrect Cost Center Allocations** **$496,107**

The Plan did not properly allocate expenses from 19 cost centers charged to the FEHBP in 2018. Specifically, we determined that the Plan used incorrect allocation percentages for these cost centers, resulting in overcharges of $480,406 to the FEHBP. As a result, we are questioning $496,107 for this audit finding, consisting of $480,406 for the cost center overcharges and $15,701 for applicable LII on these overcharges.

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 Contractor should include simple interest from the date due.

For 2018, the Plan used several allocation methods (e.g., claims paid, premium equivalents, full-time employees, service overhead, and membership) to allocate 154 cost centers to the FEHBP. From each of the five highest dollar FEP allocation methods, we judgmentally selected the cost center with the highest FEP charges to determine if the expenses were properly and/or reasonably allocated to the FEP and the allocation methods were supported with adequate documentation.

Based on our review, we identified an allocation method exception in 2018. Specifically, using an allocation method of premium equivalents, the Plan used an incorrect percentage to allocate expenses to the FEP from cost center 9989 (Physician Data Management). Since the Plan allocated expenses to the FEP from multiple cost centers using this allocation method, we requested the Plan to perform an analysis to determine if the expenses from those applicable costs centers were properly allocated to the FEP. As a result, the Plan identified 18 additional cost centers in the Healthcare Management Division where incorrect percentages were inadvertently used to allocate expenses to the FEP. We noted that the Plan revised the allocation method for these cost centers in 2018, changing the method from member month equivalents to premium equivalents. According to the Plan, the final cost submission did not reflect the updated allocation methodology assigned to these applicable cost centers, resulting in overcharges to the FEHBP. Specifically, the Plan allocated 17 cost centers to the FEP using an incorrect percentage of 4.67 percent (instead of 3.54 percent). The Plan also allocated two cost centers to the FEP using an incorrect percentage of 6.94 percent (instead of 5.30 percent). Based on this analysis, the Plan overcharged the FEHBP $480,406 for the expenses allocated to the FEP from these 19 cost centers. We reviewed and accepted the Plan's analysis and calculations for these cost center overcharges in 2018.

The following schedule is a summary of these questioned cost center expenses that were overcharged to the FEHBP due to the Plan using incorrect allocation percentages.

| Cost Center Number | Cost Center Name | Amount Charged | Revised Amount Calculated | Amount Questioned |
|---|---|---|---|---|
| 9989 | Physician Data Management | $251,485 | $190,826 | $60,659 |
| 9449 | Quality Management | 224,101 | 170,047 | 54,054 |
| 9290 | Healthcare Marketplace Innovation | 225,817 | 172,340 | 53,477 |
| 9291 | Implementation and Analytics | 218,452 | 166,719 | 51,733 |
| 9630 | Provider Claim Audits | 164,363 | 124,718 | 39,645 |
| 9676 | Hospital Contracting | 157,743 | 119,695 | 38,048 |
| 9143 | Network Operations | 148,951 | 113,024 | 35,927 |
| 9504 | Pricing | 119,600 | 90,752 | 28,848 |
| 9418 | Clinical Innovation Medical Home | 106,588 | 80,878 | 25,710 |
| 9514 | Clinical Network Management | 84,135 | 63,841 | 20,294 |
| 9466 | Physician Contracting | 60,169 | 45,656 | 14,513 |
| 9212 | Chief Medical Officer | 59,409 | 45,079 | 14,330 |
| 9493 | Ancillary Medical Management | 48,486 | 36,791 | 11,695 |
| 8852 | Medical Coding and Editing | 46,668 | 35,412 | 11,256 |
| 9495 | Ancillary Contracting | 32,388 | 24,576 | 7,812 |
| 9140 | Network Hospital Relations | 27,577 | 20,925 | 6,652 |
| 9448 | Clinical and Quality Performance | 23,266 | 17,654 | 5,612 |
| 9417 | Clinical Innovation | 581 | 441 | 140 |
| 9447 | World Class Quality | 4 | 3 | 1 |
| **Total** | | **$1,999,783** | **$1,519,377** | **$480,406** |

In total, the Plan returned $496,107 to the FEHBP for this audit finding, consisting of $480,406 for the questioned cost center overcharges and $15,701 for applicable LII on these overcharges (as calculated by the OIG).

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

***The Plan agrees with the finding and recommendations.***

**<u>OIG Comment:</u>**

As part of our review, we verified that the Plan returned $496,107 to the FEHBP in February 2020 for this audit finding, consisting of $480,406 for the questioned cost center overcharges and $15,701 for applicable LII.

**<u>Recommendation 14</u>**

We recommend that the contracting officer disallow $480,406 for the questioned cost center expenses that were overcharged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned $480,406 to the FEHBP for these questioned cost center overcharges, no further action is required for this amount.

**<u>Recommendation 15</u>**

We recommend that the contracting officer require the Plan to return $15,701 to the FEHBP for the questioned LII calculated on the cost center overcharges. However, since we verified that the Plan subsequently returned $15,701 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**3. <u>Cost Settlement Adjustments</u> <u>$336,906</u>**

Our audit determined the Plan had not correctly made cost settlement adjustments to credit the FEHBP for 2017 and 2018 quality improvement cost overcharges. During the audit scope, the Plan also untimely returned cost settlement adjustments to credit the FEHBP for 2014, 2015, and 2016 administrative expense and quality improvement cost overcharges. As a result, we are questioning $336,906 for this audit finding, consisting of $292,004 for the 2017 and 2018 quality improvement cost overcharges and $44,902 for applicable LII on the 2014 through 2018 administrative expense and/or quality improvement cost 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 Contractor should include simple interest from the date due.

**The Plan overcharged the FEHBP $292,004 for quality improvement costs.**

For contract years 2014 through 2018, the FEP Director's Office approved a monthly expense allowance for budgeted administrative expenses and quality improvement costs, resulting in charges of $200,790,096 to the FEHBP (i.e., $37,405,920 in 2014, $46,893,650 in 2015, $45,816,827 in 2016, $26,928,972 in 2017, and $43,744,727 in 2018). 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 the actual settled costs. We reviewed these 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.

Based our review, we noted the following exceptions:

- For the 2017 and 2018 contract years, the Plan had not correctly made the applicable cost settlement adjustments, totaling $292,004, to credit the FEHBP for quality improvement cost overcharges. Specifically, the Plan had not deposited the funds for these overcharges into the FEP investment account. Therefore, we are questioning this amount as a monetary finding as well as $7,429 for LII on these quality improvement cost overcharges that were not previously returned to the FEHBP (as calculated by the OIG).

- For the 2014, 2015, and 2016 contract years, the Plan deposited the applicable funds for the administrative expense and quality improvement cost settlement adjustments, totaling $2,162,552, untimely into the FEP investment account (i.e., from 206 to 308 days late) during the audit scope. Therefore, we are questioning $37,473 for LII on these administrative expense and quality improvement cost overcharges that were returned untimely to the FEHBP during the audit scope (as calculated by the OIG).

In total, the Plan subsequently returned $336,906 to the FEHBP for this audit finding, consisting of $292,004 for the 2017 and 2018 quality improvement cost overcharges and $44,902 ($7,429 plus $37,473) for applicable LII on the 2014 through 2018 administrative expense and/or quality improvement cost overcharges returned untimely to the FEHBP.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $336,906 to the FEHBP on various dates in November 2019 and January 2020, consisting of $292,004 for the questioned quality improvement cost overcharges and $44,902 for the questioned LII.

**Recommendation 16**

We recommend that the contracting officer disallow $292,004 for quality improvement costs that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $292,004 to the FEHBP for these questioned quality improvement cost overcharges, no further action is required for this amount.

**Recommendation 17**

We recommend that the contracting officer require the Plan to return $44,902 to the FEHBP for LII calculated on the administrative expense and quality improvement cost overcharges that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $44,902 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**4. BlueCross BlueShield Association Dues $12,117**

During the pre-audit phase, the Plan self-disclosed an overcharge of $11,714 to the FEHBP for Association dues in 2018. Specifically, the Plan did not exclude unallowable special assessed charges for external litigation from the Association dues that were charged to the FEHBP. As a result, we are questioning $12,117 for this audit finding, consisting of $11,714 for the Association dues overcharged to the FEHBP and $403 for applicable LII.

FEP Memorandum Number 18-540FYI (Memorandum), titled Association Regular Member Plan Dues and Other Assessments: 2013-2018, dated January 16, 2018, provides guidance to the BCBS plans with respect to charging the FEHBP for Association dues. The Memorandum also includes specific guidance related to the chargeability of the special litigation dues assessment to the FEHBP. Specifically, the Memorandum states that this assessment is not chargeable to the FEHBP.

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

48 CFR 31.205-47(f) (3) states, "Costs not covered elsewhere in this subsection are unallowable if incurred in connection with . . . Defense of antitrust suits."

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."

In response to our Standard Information Request (during our pre-audit phase), the Plan self-disclosed that the 2018 Association dues were overcharged to the FEHBP because these charges did not exclude the assessment for special litigation dues. As a result of this self-disclosed finding, the Plan returned $12,117 to the FEHBP in February 2020, consisting of $11,714 for the Association dues overcharged to the FEHBP and $403 for applicable LII on the overcharge (as calculated by the OIG). We reviewed and accepted the Plan's self-disclosed overcharge for the 2018 Association dues. We also reviewed the 2014 through 2017 Association dues that the Plan charged to the FEHBP and determined that these costs were properly charged to the FEHBP and excluded the assessment for special litigation dues.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $12,117 to the FEHBP in February 2020 for this audit finding, consisting of $11,714 for the overcharge and $403 for applicable LII.

**Recommendation 18**

We recommend that the contracting officer disallow $11,714 for the Association dues that were overcharged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned $11,714 to the FEHBP for these questioned Association dues, no further action is required for this amount.

**Recommendation 19**

We recommend that the contracting officer require the Plan to return $403 to the FEHBP for questioned LII calculated on the Association dues overcharge. However, since we verified that the Plan subsequently returned $403 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**5. Affordable Care Act Fees** **$11,196**

The Plan overcharged the FEHBP $10,629 for ACA fees from 2016 through 2018 relating to the Patient-Centered Outcomes Research Institute (PCORI). As a result, we are questioning $11,196 for this audit finding, consisting of $10,629 for PCORI fees overcharged to the FEHBP and $567 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 Contractor should include simple interest from the date due.

Section 6301 of the ACA 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 October 1, 2012, and before October 1, 2019. The yearly amount of the PCORI fee is equal to the average number of lives covered during the policy or plan year multiplied by a dollar amount (e.g., $2.26 for 2016, $2.39 for 2017, and $2.45 for 2018), as determined by the Secretary of Health and Human Services.

From 2014 through 2018, the Plan allocated and charged the FEHBP $1,452,434 for the PCORI fees. Based on our review, we determined that the Plan did not perform the correct adjustments for calendar years 2016 through 2018 to true-up the estimated PCORI fees to the actual PCORI fees. Specifically, the Plan adjusted the current year's PCORI fees using the difference between the prior year's estimated and actual fees, instead of using the difference between the current year's estimated and actual fees. This oversight by the Plan resulted in overcharges of $10,629 to the FEHBP for PCORI fees in 2016, 2017, and 2018 ($2,022, $3,560, and $5,047, respectively).

In total, the Plan subsequently returned $11,196 to the FEHBP for this audit finding, consisting of $10,629 for the questioned PCORI fees overcharged to the FEHBP and $567 for applicable LII on these overcharges (as calculated by the OIG).

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

***The Plan agrees with the finding and recommendations.***

**<u>OIG Comment:</u>**

We verified that the Plan returned $11,196 to the FEHBP in March 2020, consisting of $10,629 for the questioned PCORI fee overcharges and $567 for applicable LII.

**<u>Recommendation 20</u>**

We recommend that the contracting officer disallow $10,629 for the PCORI fees that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $10,629 to the FEHBP for these PCORI fee overcharges, no further action is required for this questioned amount.

**<u>Recommendation 21</u>**

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

## C. CASH MANAGEMENT

### 1. Federal Employee Program Investment Account Reconciliation $723,669

The Plan did not properly manage and/or account for FEHBP funds from 2015 through March 31, 2019. Our audit determined that the Plan held unsupported excess funds of $54,199 in the FEP investment account as of March 31, 2019. We also determined that the Plan held excess corporate funds of $10,141,846 in the FEP investment account as of March 31, 2019. As a result of our audit, the Plan subsequently transferred these excess corporate funds to the Plan's corporate account on November 22, 2019, and then returned the unsupported excess funds to the FEHBP on March 30, 2020. In November 2019, while reconciling the FEP investment account balance as of March 31, 2019, the Plan self-disclosed that cash receipts of $642,548 were identified in the Plan's corporate account that were received during the audit scope but had not been returned to the FEHBP. As a result of our audit, the Plan subsequently returned these cash receipts of $642,548 to the FEHBP in November 2019 and March 2020. In total, we are questioning $723,669 for this audit finding, consisting of $54,199 for the questioned unsupported excess funds in the FEP investment account, $642,548 for the questioned cash receipts in the Plan's corporate account, and $26,922 for applicable LII on the questioned cash receipts in the Plan's corporate account.

Contract CS 1039, Part III, Section 3.5 (a) states, "The Carrier . . . shall keep all FEHBP funds for this contract (cash and investments) physically separate from funds obtained from other sources." 48 CFR 1632.771 (c) states, "FEHBP funds shall be maintained separately from other cash and investments of the carrier or underwriter."

Contract CS 1039, Part III, Section 3.8 states that "the Carrier will retain and make available all records applicable to a contract term."

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." 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 letter of credit account within 60 days after receipt by the Carrier.

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor 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."

FEP Memorandum, Number 13-96PI, titled Audit Alert – FEP Investment Account Balance, dated November 15, 2013, states that the balance in the FEP investment account that exceeds the working capital deposit and is not considered an identifiable reconciling item should be reviewed and returned to the FEHBP as necessary.

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

**The Plan held excess corporate funds of $10.1 million in the dedicated FEP investment account as of March 31, 2019.**

In our Standard Information Request (dated April 1, 2019), we requested the Plan to provide a detailed itemization of the funds in the Plan's dedicated FEP investment account as of March 31, 2019, including an aging of these funds. During our on-site fieldwork phase, we met with the Plan on numerous occasions to discuss the Plan's reconciliation of the FEP investment account as March 31, 2019, and obtain explanations and/or supporting documentation for a sample of the 485 reconciling line items in the account balance that potentially included excess FEHBP and/or corporate funds. In November 2019, after additionally researching these reconciling items, the Plan provided a revised reconciliation of the FEP investment account. We reviewed and accepted the Plan's revised reconciliation of the FEP investment account as of March 31, 2019.

Based on our review of the Plan's revised reconciliation and applicable supporting documentation, we noted the following exceptions:

- The Plan held excess corporate funds of $10,141,846 in the FEP investment account as of March 31, 2019.[5] The Plan held most of these excess corporate funds in the FEP investment account for multiple years. As a result of commingling and/or maintaining excess corporate funds in the FEP investment account, the Plan needed several attempts to reconcile the account and almost eight months to adequately itemize and/or support the funds (i.e., FEHBP versus corporate funds) in the account balance as of March 31, 2019. Because of our audit, the Plan subsequently transferred these funds to the Plan's corporate account on November 22, 2019.

- The Plan held unsupported excess funds of $54,199 in the FEP investment account as of March 31, 2019. Without documentation supporting otherwise, we concluded that these excess funds in the FEP investment account are actually FEHBP funds, and therefore, owed to the FEHBP. As a result of our audit, the Plan subsequently returned these unsupported excess funds to the FEHBP via LOCA drawdown adjustment on March 30, 2020.

- In November 2019, while attempting to reconcile the FEP investment account balance as of March 31, 2019, the Plan also self-disclosed that FEP cash receipts of $545,202 (consisting of health benefit refunds and recoveries) and unidentified cash receipts of $97,346 were identified in the Plan's corporate account that were received during the audit scope but had not been returned to the FEHBP. As a result of our audit, the Plan subsequently returned these questioned cash receipts of $642,548 ($545,202 plus $97,346) to the FEHBP on multiple dates in November 2019 and March 2020.

In total, the Plan returned $723,669 to the FEHBP for this audit finding, consisting of $54,199 for the questioned unsupported excess funds in the FEP investment account, $642,548 for the questioned cash receipts in the Plan's corporate account, and $26,922 for applicable LII calculated on the questioned cash receipts in the Plan's corporate account. We reviewed and accepted the Plan's LII calculation, since the LII difference between our calculation and the Plan's calculation is immaterial.

[5] Our prior audit of Horizon BCBS of New Jersey identified similar issues for the Plan's FEP investment account, including excess corporate funds of $3.9 million held in the account as of February 28, 2014. In the Association's 2016 Control and Performance Review Report for Horizon BCBS of New Jersey (dated April 4, 2017), similar issues were also identified for the FEP investment account, including excess corporate funds of $13.7 million held in the account as of June 30, 2016. Excess corporate funds in the FEP investment account continues to be a significant audit issue for the Horizon BCBS of New Jersey plan.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendations. For the procedural recommendations, the Plan will finalize and implement all process revisions by July 31, 2020.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $642,548 ($545,202 plus $97,346) and $54,199 to the FEHBP in November 2019 and March 2020, respectively, for the questioned cash receipts and unsupported excess funds. We also verified that the Plan returned the questioned LII of $26,922 to the FEHBP in April 2020 and May 2020.

**Recommendation 22**

We recommend that the contracting officer require the Plan to return $54,199 to the FEHBP for the questioned unsupported excess funds in the FEP investment account. However, since we verified that the Plan subsequently returned $54,199 to the FEHBP for these questioned excess funds in the FEP investment account, no further action is required for this amount.

**Recommendation 23**

We recommend that the contracting officer require the Plan to return $642,548 to the FEHBP for the questioned cash receipts held in the Plan's corporate account. However, since we verified that the Plan subsequently returned $642,548 to the FEHBP for these questioned cash receipts, no further action is required for this amount.

**Recommendation 24**

We recommend that the contracting officer require the Plan to return $26,922 to the FEHBP for LII calculated on the questioned cash receipts. However, since we verified that the Plan subsequently returned $26,922 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 25**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary corrective actions to ensure that FEP cash receipts (such as health benefit refunds and recoveries) held in the Plan's corporate account are timely returned to the FEHBP. The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

***Association Response:***

***"BCBSA will validate that the revised process has been implemented and working effectively and will provide a certification to the Contracting Officer once the Final Report is received."***

**Recommendation 26**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions, such as monthly account reconciliations, to improve the management controls over the dedicated FEP investment account. For this procedural recommendation, the contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions, and that these account reconciliations are accurate and complete. *(Note: This is a repeat procedural recommendation from the prior audit of the Plan.)*

***Association Response:***

***"BCBSA will validate that the revised process of monthly account reconciliation has been implemented, working effectively and will provide a certification to the Contracting Officer once the Final Report is received."***

**Recommendation 27**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary corrective actions to timely transfer all excess corporate funds (such as approved LOCA drawdown reimbursements) from the dedicated FEP investment account to the Plan's corporate account. The contracting officer should also require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the FEP investment account. For this procedural recommendation, the contracting officer should also require the Association to provide a certification that the Plan has implemented all necessary corrective actions. *(Note: This is a repeat procedural recommendation from the prior audit of the Plan. Excess corporate funds in the FEP investment account continues to be a significant audit issue for the Horizon BCBS of New Jersey plan.)*

***Association Response:***

***"BCBSA will review the Plan's revised process to timely transfer all excess corporate funds from the dedicated FEP investment account to the Plan's corporate account and that only necessary funds are maintained in the FEP investment account and provide documentation to support that the process is working effectively."***

**2. Treasury Offsets** **$40,721**

Our audit determined that the Plan had not returned $36,832 to the FEHBP for five offsets taken from the LOCA by the Treasury as of March 31, 2019. Additionally, we identified seven Treasury offsets that were returned untimely to the FEHBP during the audit scope. As a result, we are questioning $40,721 for this audit finding, consisting of $36,832 for the questioned Treasury offsets and $3,889 for applicable LII on the Treasury offsets returned untimely to the FEHBP.

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

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

During our review of Treasury offsets, we identified 12 instances where the Treasury offset LOCA drawdowns by a total of $187,557. We determined that the Plan had not returned five of these Treasury offsets, totaling $36,832, to the FEHBP as of March 31, 2019. We also determined that the Plan did not withdraw additional funds from the LOCA to cover the shortages caused by these 12 Treasury offsets. However, the Plan inadvertently did not transfer applicable funds into the FEP investment account to cover five of these Treasury offsets, which left the FEP investment account short by $36,832 as of March 31, 2019. Therefore, we are questioning these five exceptions as a monetary finding, consisting of $36,832 for these five Treasury offsets not returned to the FEHBP as of March 31, 2019, and $2,611 for LII on these offsets (as calculated by the OIG).

We also identified seven Treasury offsets, totaling $150,725, that were returned untimely to the FEHBP during the audit scope. For these seven Treasury offsets, we noted that the Plan transferred the applicable funds into the FEP investment account from 84 to 215 days late. Since the Plan returned these funds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, we are questioning LII of $1,278 on these seven Treasury offsets (as calculated by the OIG), because the Plan transferred the applicable funds untimely into the FEP investment account.

In total, the Plan returned $40,721 to the FEHBP for this audit finding, consisting of $36,832 for the five questioned Treasury offsets and $3,889 for applicable LII on the Treasury offsets returned untimely to the FEHBP.

***Association/Plan Response:***

***The Plan agrees with the finding and recommendations.***

***Regarding the procedural recommendation, the Plan will finalize and implement all process revisions by July 31, 2020. The Association states, "BCBSA will review the Plan's revised process and provide documentation to support that the Plan has implemented the appropriate procedures to identify and return Treasury Offsets timely to the Program."***

**OIG Comment:**

As part of our review, we verified that the Plan returned $40,721 to the FEHBP in December 2019, January 2020, and March 2020 for this audit finding, consisting of $36,832 for the five questioned Treasury offsets and $3,889 for the questioned LII.

**Recommendation 28**

We recommend that the contracting officer require the Plan to return $36,832 to the FEHBP for the questioned Treasury offsets. However, since we verified that the Plan subsequently returned $36,832 to the FEHBP for the questioned Treasury offsets, no further action is required for this amount.

**Recommendation 29**

We recommend that the contracting officer require the Plan to return $3,889 to the FEHBP for questioned LII calculated on the Treasury offsets that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,889 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 30**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has developed and implemented the necessary corrective actions required to identify and return Treasury offsets to the FEHBP in a timely manner.

**3. Interest Income** **$21,371**

Our audit determined that the Plan had not returned interest income of $1,295 to the FEHBP as of March 31, 2019. This interest income was earned on FEHBP funds held in a dedicated FEP bank account from October 2018 through March 2019. The Plan subsequently returned this questioned interest income to the FEHBP in April 2019 and November 2019, after receiving our audit notification letter and/or because of our audit. Additionally, we identified that the Plan held FEHBP funds in a dedicated non-interest bearing FEP bank account from July 2018 through May 2019. As a result, the Plan calculated and subsequently returned lost interest income of $20,076 to the FEHBP in December 2019 and January 2020. In total, we are questioning $21,371 for this audit finding, consisting of $1,295 for interest income that the Plan had not returned to the FEHBP as of March 31, 2019, and $20,076 for lost interest income calculated on excess FEHBP funds that the Plan held in a non-interest bearing FEP bank account.

48 CFR 1652.215-71 states, "(a) The Carrier shall invest and reinvest all FEHB funds on hand that are in excess of the funds needed to promptly discharge the obligations incurred

under this contract. . . . (b) All investment income earned on FEHB funds shall be credited to the Special Reserve on behalf of the FEHBP."

OPM's "Letter of Credit System Guidelines" (dated April 2018) state that "Excess funds must be held in a separate interest-bearing account. The interest earned on these funds must be credited to the FEHB Program, by reducing the amount of a draw, at least on a monthly basis and used by the Carrier to pay only FEHB Program expenses."

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, 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."

During the audit scope (2015 through March 31, 2019), the Plan used two dedicated FEP bank accounts to pay FEP claims through the NASCO System and UPS. These bank accounts generally held approved LOCA drawdowns, health benefit refunds and recoveries from providers and subscribers, and other cash identified as due to the FEP. We reviewed the Plan's interest income transactions for these FEP bank accounts to determine if the Plan timely returned all interest income earned on these accounts to the FEHBP. However, we noted that the FEHBP funds from only one of these bank accounts (used for the NASCO System) were in an interest bearing account.

The following summarizes the exceptions noted:

- From October 2018 through March 2019, the Plan earned interest income of $1,295 on excess FEHBP funds that were held in a dedicated FEP bank account (used for the NASCO System), but had not returned this earned interest income to the FEHBP as of March 31, 2019. After receiving our audit notification letter (dated April 1, 2019) and/or because of our audit, the Plan returned $1,026 and $269 to the FEHBP in April 2019 and November 2019, respectively, for this questioned interest income.

- We determined that the Plan did not invest excess FEHBP funds that were held in a dedicated FEP bank account (used for UPS). As a result, we requested the Plan to provide a detailed analysis of all excess FEHBP funds in this account that were not invested during the audit scope. Based on the Plan's analysis, excess FEHBP funds held in this account were not invested from July 2018 through May 2019, with an average monthly balance of $11,873,644. As a result, since these funds were not in an interest bearing account, the Plan calculated lost interest income of $20,076 on the excess FEHBP funds, and subsequently returned this lost interest income to the

FEHBP in December 2019 and January 2020. We reviewed and accepted the Plan's analysis and lost interest income calculation.

In total, the Plan returned $21,371 to the FEHBP for this audit finding, consisting of $1,295 for the questioned interest income not previously returned to the FEHBP as of March 31, 2019, and $20,076 for the lost interest income calculated on excess FEHBP funds held in a non-interest bearing bank account.

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

***The Plan agrees with the finding and recommendations.***

***Regarding the procedural recommendation, the Plan will finalize and implement all process revisions by July 31, 2020. The Association states, "BCBSA will review the Plan's revised process for returning interest income; ensure excess funds are held in an interest-bearing account and provide documentation to support that the Plan has implemented the appropriate procedure and that interest income is now returned timely to the Program."***

**<u>OIG Comment:</u>**

As part of our review, we verified that the Plan returned $21,371 to the FEHBP on various dates in April 2019, November 2019, December 2019, and January 2020 for the questioned amounts in this audit finding.

**<u>Recommendation 31</u>**

We recommend that the contracting officer require the Plan to return $20,076 to the FEHBP for the questioned lost interest income calculated on excess FEHBP funds that were held in a non-interest bearing account. However, since we verified that the Plan subsequently returned $20,076 to the FEHBP for the questioned lost interest income, no further action is required for this amount.

**<u>Recommendation 32</u>**

We recommend that the contracting officer require the Plan to return $1,295 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned $1,295 to the FEHBP for the questioned interest income, no further action is required for this amount.

**Recommendation 33**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has developed and implemented the necessary corrective actions required to return interest income to the FEHBP in a timely manner. Also, all excess FEHBP funds that are held by the Plan (including the working capital deposit) should be in an interest bearing account.

## D. FRAUD AND ABUSE PROGRAM

**The Plan timely entered all of the fraud and abuse cases in our sample into the Association's FSTS.**

The audit disclosed no findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For the period 2018 through March 31, 2019, the Plan opened 155 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).[6] For this sample, we judgmentally selected nine high dollar cases without affirmative step dates (eight with an open case status and one with a closed status) and one high dollar case with an affirmative step date and open case status. Based on our nomenclature review, we also judgmentally selected five additional cases with affirmative step dates and open case status. After a preliminary review by the Plan, the affirmative step is when the Plan makes a decision on whether the allegation or complaint is a potential fraud, waste, and/or abuse issue, and therefore, reportable to the OPM's OIG. Based on our review, we determined that the Plan timely entered 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 statistical sampling. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

[6] 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.

# IV. SCHEDULE A – QUESTIONED CHARGES

HORIZON BLUECROSS BLUESHIELD OF NEW JERSEY
NEWARK, NEW JERSEY

QUESTIONED CHARGES

| AUDIT FINDINGS* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|---|---|
| **A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS** | | | | | | | |
| 1. Subrogation Recoveries | $0 | $0 | $0 | $0 | $174,307 | $0 | $174,307 |
| 2. Health Benefit Refunds - Cash Receipts | 309 | 86 | 178 | 175 | 127,995 | 0 | 128,743 |
| 3. Medical Drug Rebates | 49 | 94 | 1,293 | 159 | 2,996 | 4 | 4,595 |
| 4. Fraud Recoveries | 0 | 213 | 367 | 819 | 2,131 | 0 | 3,530 |
| 5. Hospital Settlements | 629 | 1,419 | 0 | 0 | 0 | 0 | 2,048 |
| **TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS** | $987 | $1,812 | $1,838 | $1,153 | $307,429 | $4 | $313,223 |
| **B. ADMINISTRATIVE EXPENSES** | | | | | | | |
| 1. Tax Impact Refunds | $0 | $0 | $0 | $0 | $3,495,530 | $6,008 | $3,501,538 |
| 2. Incorrect Cost Center Allocations | 0 | 0 | 0 | 480,406 | 14,862 | 839 | 496,107 |
| 3. Cost Settlement Adjustments | 3,408 | 32,086 | 3,482 | 290,540 | 7,390 | 0 | 336,906 |
| 4. BlueCross BlueShield Association Dues | 0 | 0 | 0 | 11,714 | 363 | 40 | 12,117 |
| 5. Affordable Care Act Fees | 0 | 2,022 | 3,609 | 5,216 | 330 | 19 | 11,196 |
| **TOTAL ADMINISTRATIVE EXPENSES** | $3,408 | $34,108 | $7,091 | $787,876 | $3,518,475 | $6,906 | $4,357,864 |
| **C. CASH MANAGEMENT** | | | | | | | |
| 1. Federal Employee Program Investment Account Reconciliation | $0 | $0 | $0 | $0 | $696,747 | $26,922 | $723,669 |
| 2. Treasury Offsets | 221 | 611 | 31,216 | 7,379 | 1,134 | 160 | 40,721 |
| 3. Interest Income | 0 | 0 | 0 | 11,593 | 9,778 | 0 | 21,371 |
| **TOTAL CASH MANAGEMENT** | $221 | $611 | $31,216 | $18,972 | $707,659 | $27,082 | $785,761 |
| **D. FRAUD AND ABUSE PROGRAM** | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **TOTAL FRAUD AND ABUSE PROGRAM** | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **TOTAL QUESTIONED CHARGES** | $4,616 | $36,531 | $40,145 | $808,001 | $4,533,563 | $33,992 | $5,456,848 |

* If applicable, 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

May 15, 2020

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**
**Horizon BlueCross BlueShield**
**Audit Report No. 1A-10-49-19-036**
**(Dated March 31, 2020)**

Dear Mr. [redacted]:

This is the Horizon BlueCross BlueShield response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). Our comments concerning the findings in the report are as follows:

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

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Subrogation Recoveries $174,307

**Recommendation 1**

We recommend that the contracting officer require the Plan to return $174,307 to the FEHBP for the questioned subrogation recoveries. However, since we verified that the Plan subsequently returned $174,307 to the FEHBP for these questioned subrogation recoveries, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

## 2. Health Benefit Refunds – Cash Receipts $128,743

### Recommendation 2

We recommend that the contracting officer require the Plan to return $125,020 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned $125,020 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

### Recommendation 3

We recommend that the contracting officer require the Plan to return $3,723 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,723 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

### Recommendation 4

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 health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account and returned to the LOCA).

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will review the Plan's revised process and provide documentation to support that the Plan has implemented the revised processes to ensure that health benefit refunds and recoveries are timely returned to the FEHBP and that the processes are working as intended.

3. **Medical Drug Rebates** **$4,595**

**Recommendation 5**

We recommend that the contracting officer require the Plan to return $3,922 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned $3,922 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return $673 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 $673 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

4. **Fraud Recoveries** **$3,530**

**Recommendation 7**

We recommend that the contracting officer require the Plan to return $2,839 to the FEHBP for the questioned fraud recoveries. However, since we verified that the Plan subsequently returned $2,839 to the FEHBP for the questioned fraud recoveries, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 8**

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

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

5. **Hospital Settlements** **$2,048**

**Recommendation 9**

We recommend that the contracting officer require the Plan to return $2,048 to the FEHBP for the questioned LII on the hospital settlements that were returned untimely to the FEHBP during the audit scope.

**Plan Response**

The Plan agreed with this finding and has returned $2,048 to the FEHBP. No additional action is necessary.

## B. ADMINISTRATIVE EXPENSES

1. **Tax Impact Refunds** **$3,501,538**

**Recommendation 10**

We recommend that the contracting officer require the Plan to return $3,439,671 to the FEHBP for the questioned 2015 and 2016 tax impact refunds. However, since we verified that the Plan returned subsequently $3,439,671 to the FEHBP for these questioned tax impact refunds, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 11**

We recommend that the contracting officer require the Plan to return $61,867 to the FEHBP for the questioned LII on the 2015 and 2016 tax impact refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $61,867 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 12**

We recommend that the contracting officer require the Association to provide evidence or applicable documentation supporting that the Plan and Association have implemented the necessary corrective actions to ensure that all remaining amounts of 2014, 2015, and 2016 HIF tax impact refunds are timely transferred to the Association's FEP account (i.e., within 30 days after receipt in 2020, 2021, and 2022) and then returned to the FEHBP.

**Plan Response**

As a result of the Cares Act that was approved in March 2020, Horizon will receive the balance of the AMT credits that it is entitled to in 2020. Once the Plan has received its refund in 2020 it will return the remaining portion of the HIF tax impact.

**BCBSA Response**

BCBSA will issue a Plan notification via a Request for Action (RFA) each year to remind Plans with Alternative Minimum Tax (AMT) credit carryovers that once the funds are received by the Plan from the government, FEP's portion is due to FEP within 30 days. Further, BCBSA staff will directly follow-up with Plans that haven't returned credits in any given year at the beginning of the 3rd Quarter each year to ensure the funds are returned timely.

**Recommendation 13**

We recommend that the contracting officer require the Association to provide evidence or applicable documentation supporting that the Association has reconciled and accounted for all 2014 HIF tax impact refunds that were received by the BCBS plans in 2019. After all BCBS plans have been fully reimbursed for the 2014 HIF income tax impact, the Association should return all remaining 2014 HIF tax impact refunds to the FEHBP.

**BCBSA Response**

BCBSA has reconciled and accounted for all 2014 HIF tax impact refunds that were received by the BCBS Plans in 2019 and returned the remaining refunds to the FEHBP. See attached reconciliation and supporting documentation.

### 2. Incorrect Cost Center Allocations $496,107

#### Recommendation 14

We recommend that the contracting officer disallow $480,406 for the questioned cost center expenses that were overcharged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned $480,406 to the FEHBP for these questioned cost center overcharges, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

#### Recommendation 15

We recommend that the contracting officer require the Plan to return $15,701 to the FEHBP for the questioned LII calculated on the cost center overcharges. However, since we verified that the Plan subsequently returned $15,701 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

### 3. Cost Settlement Adjustments $336,906

#### Recommendation 16

We recommend that the contracting officer disallow $292,004 for quality improvement costs that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $292,004 to the FEHBP for these questioned quality improvement cost overcharges, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

#### Recommendation 17

We recommend that the contracting officer require the Plan to return $44,902 to the FEHBP for LII calculated on the administrative expense and quality improvement cost overcharges that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $44,902 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**4. <u>BlueCross BlueShield Association Dues</u>** **<u>$12,117</u>**

**<u>Recommendation 18</u>**

We recommend that the contracting officer disallow $11,714 for the Association dues that were overcharged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned $11,714 to the FEHBP for these questioned Association dues, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**<u>Recommendation 19</u>**

We recommend that the contracting officer require the Plan to return $403 to the FEHBP for questioned LII calculated on the Association dues overcharge. However, since we verified that the Plan subsequently returned $403 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**5. <u>Affordable Care Act Fees</u>** **<u>$11,196</u>**

**<u>Recommendation 20</u>**

We recommend that the contracting officer disallow $10,629 for the PCORI fees that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $10,629 to the FEHBP for these PCORI fee overcharges, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 21**

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

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

## C. CASH MANAGEMENT

### 1. Federal Employee Program Investment Account Reconciliation $696,747

**Recommendation 22**

We recommend that the contracting officer require the Plan to return $54,199 to the FEHBP for the questioned unsupported excess funds in the FEP investment account (unless the Plan can provide evidence or documentation to support that these funds are not FEHBP funds). However, if the Plan has already returned these questioned excess funds to the FEHBP, no further action is required for this amount (except for providing applicable documentation to support the return of these excess funds to the LOCA).

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 23**

We recommend that the contracting officer require the Plan to return $642,548 to the FEHBP for the questioned cash receipts held in the Plan's corporate account. However, since we verified that the Plan returned $642,548 to the FEHBP for these questioned cash receipts, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 24**

We recommend that the contracting officer require the Plan to calculate and return applicable LII to the FEHBP (before the draft report response due date) for the questioned cash receipts. When responding to the draft report, the Association should provide the Plan's LII calculation for the questioned cash receipts and applicable documentation to support that the Plan returned the LII to the FEHBP.

**Plan Response**

The Plan has calculated the amount of lost investment to be $26,922 and returned this amount to FEHBP. The Plan's LII calculation was shared with BCBSA.

**BCBSA Response**

See attached LII Calculation and supporting documentation that the Plan returned the LII to the FEHBP.

**Recommendation 25 (Procedural)**

We recommend that the contracting officer verify the Plan has implemented the necessary corrective actions to ensure that FEP cash receipts (such as health benefit refunds and recoveries) held in the Plan's corporate account are timely returned to the FEHBP. At a minimum, the contracting officer should require the Association and Plan to each provide a certification that the Plan has implemented these corrective actions.

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will validate that the revised process has been implemented and working effectively and will provide a certification to the Contracting Officer once the Final Report is received.

**<u>Recommendation 26</u>**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions, such as <u>monthly account reconciliations</u>, to improve the management controls over the dedicated FEP investment account. The contracting officer should also require the Plan and the Association to each provide a certification that the plan has implemented these corrective actions and that these account reconciliations are accurate and complete. *(Note: This is a repeat procedural recommendation from the prior audit of the Plan.)*

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will validate that the revised process of monthly account reconciliation has been implemented, working effectively and will provide a certification to the Contracting Officer once the Final Report is received.

**<u>Recommendation 27 (Procedural)</u>**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary corrective actions to timely transfer all excess corporate funds (such as approved LOCA drawdown reimbursements) from the dedicated FEP investment account to the Plan's corporate account. Also, the contracting officer should require the Plan and Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the FEP investment account. *(Note: This is a repeat procedural recommendation from the prior audit of the Plan. Excess corporate funds in the FEP investment account <u>continues to be a significant audit issue</u> for the Horizon BCBS of New Jersey plan.)*

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will review the Plan's revised process  to timely transfer all excess corporate funds from the dedicated FEP investment account to the Plan's corporate account and that only necessary funds are maintained in the FEP investment account and provide documentation to support that the process is working effectively.

## 2. Treasury Offsets $40,721

**Recommendation 28**

We recommend that the contracting officer require the Plan to return $36,832 to the FEHBP for the questioned Treasury offsets. However, since we verified that the Plan subsequently returned $36,832 to the FEHBP for the questioned Treasury offsets, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 29**

We recommend that the contracting officer require the Plan to return $3,889 to the FEHBP for questioned LII calculated on the Treasury offset returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,889 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 30**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has developed and implemented the necessary corrective actions required to identify and return Treasury Offsets to the FEHBP on time.

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will review the Plan's revised process and provide documentation to support that the Plan has implemented the appropriate procedures to identify and return Treasury Offsets timely to the Program.

3. **Interest Income** **$21,371**

**Recommendation 31**

We recommend that the contracting officer require the Plan to return $20,076 to the FEHBP for the questioned lost interest income calculated on excess FEHBP funds that were held in a non-interest bearing account. However, since we verified that the Plan subsequently returned $20,076 to the FEHBP for the questioned lost interest income, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 32**

We recommend that the contracting officer require the Plan to return $1,295 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned $1,295 to the FEHBP for the questioned interest income, no further action is required for this amount.

**Plan Response**

The Plan agreed with this finding and as stated, no additional action is necessary.

**Recommendation 33**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has developed and implemented the necessary corrective actions required to return interest income to the FEHBP on time. Also, all excess FEHBP funds that are held by the Plan (including the working capital deposit) should be in an interest-bearing account.

**Plan Response**

The Plan will have all process revisions finalized and implemented by July 31, 2020.

**BCBSA Response**

BCBSA will review the Plan's revised process for returning interest income; ensure excess funds are held in an interest-bearing account and provide documentation to support that the Plan has implemented the appropriate procedure and that interest income is now returned timely to the Program. 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]

Managing Director, Program Assurance

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