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

Final Audit Report

Audit of
BlueCross BlueShield of Michigan
Detroit, Michigan

Report Number 1A-10-32-20-027

February 12, 2021

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Michigan

Report No. 1A-10-32-20-027 **February 12, 2021**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Michigan (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 administrative expense charges for contract years 2014 through 2018, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2017 through 2019, and the Plan's Fraud and Abuse Program activities for contract year 2019.

Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $2,648,338 in administrative expense overcharges, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with <u>all</u> of the questioned amounts. As part of our review, we verified that the Plan subsequently returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- <u>Administrative Expenses</u> – We questioned $2,600,700 in administrative expense charges and LII, consisting of $2,513,339 for a Federal income tax overcharge related to the Affordable Care Act health insurance provider fees, $21,365 for unallowable lobbying costs, $9,075 for an overcharge related to net losses on fixed assets, and $56,921 for applicable LII on these questioned charges.

- <u>Cash Management</u> – We determined that the Plan held a working capital deposit of $47,638 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments. Since the Plan held these excess working capital funds in the dedicated Federal Employee Program investment account, LII is not applicable on these excess funds.

- <u>Fraud and Abuse Program</u> – The Plan is in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

ABBREVIATIONS

ACA	**Affordable Care Act**
Association	**BlueCross BlueShield Association**
BCBS	**BlueCross and/or BlueShield**
BCBSM	**BlueCross BlueShield of Michigan**
CFR	**Code of Federal Regulations**
FAR	**Federal Acquisition Regulations**
FEHB	**Federal Employees Health Benefits**
FEHBAR	**Federal Employees Health Benefits Acquisition Regulations**
FEHBP	**Federal Employees Health Benefits Program**
FEP	**Federal Employee Program**
FSTS	**FEP Special Investigations Unit Tracking System**
LII	**Lost Investment Income**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**BlueCross BlueShield of Michigan**
SIU	**Special Investigations Unit**

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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 BlueCross BlueShield of Michigan (Plan). The Plan is located in Detroit, Michigan.

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

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

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

The Association has established a Federal Employee Program (FEP[1]) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in 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

[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.

claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

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

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

- Final Report No. 1A-99-00-18-045 (dated August 7, 2019) for pension, post-retirement benefit costs, and Affordable Care Act costs for contract years 2014 through 2017;

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

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

All findings related to the Plan in these recent focused audits have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on September 17, 2020; and were presented in detail in a draft report, dated September 30, 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:

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.

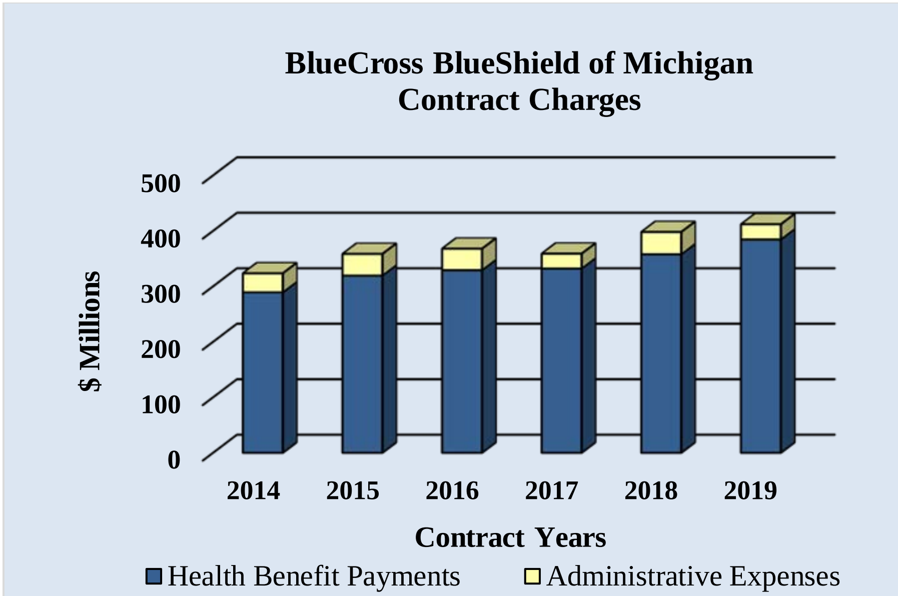
Fraud and Abuse Program

- 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 210 and 710 for contract years 2014 through 2019. During this period, the Plan paid approximately $2 billion in FEHBP health benefit payments and charged the FEHBP $206 million in administrative expenses (see chart below).



Specifically, we reviewed administrative expense charges for contract years 2014 through 2018 and the Plan's cash management activities and practices for contract years 2017 through 2019. We also reviewed the Plan's Fraud and Abuse Program activities for contract year 2019.

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 our offices in Cranberry Township, Pennsylvania and Washington, D.C. from June 2, 2020, through September 17, 2020. Throughout the audit process, the Plan did a great job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We really appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

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

We judgmentally reviewed administrative expenses 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; employee health benefits; out-of-system adjustments; gains and losses; executive compensation limits; 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 offsets, and interest income transactions for

[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. For contract years 2014 through 2018, the Plan allocated administrative expenses of $157,154,441 (before adjustments) to the FEHBP from 466 cost centers that contained 94 natural accounts. From this universe, we selected a judgmental sample of 85 cost centers to review, which totaled $101,345,911 in expenses allocated to the FEHBP. We also selected a judgmental sample of 45 natural accounts to review, which totaled $71,566,447 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, our nomenclature review, and our 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.

contract years 2017 through 2019, as well as the Plan's dedicated FEP investment account activity during the scope and balance as of December 31, 2019.

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.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES

1. Federal Income Taxes on Health Insurance Provider Fees $2,567,505

The Plan overcharged the FEHBP $2,513,339 for Federal income taxes related to the 2018 Affordable Care Act (ACA) health insurance provider fees. As a result of this finding, the Plan subsequently returned $2,567,505 to the FEHBP, consisting of $2,513,339 for the questioned overcharge and $54,166 for applicable lost investment income (LII) on this overcharge.

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."

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."

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 . . . is an allowable cost to the Carrier under this contract . . . ."

Section 9010 of the ACA imposes an annual fee on health insurers for funding the health insurance exchange subsidies. This yearly fee is based on each health insurer's share of net premiums written. The Internal Revenue Service calculates the health insurer fee based on a ratio of the health insurer's net premiums written to the total net premiums written by all health insurance providers. The ACA required all health insurance providers to collectively contribute $14.3 billion for 2018. The Plan allocated and charged $9,454,942 to the FEHBP for these health insurance provider fees. Based on our review, we determined that the Plan properly allocated and charged these health insurance provider fees to the FEHBP for contract year 2018.[3]

[3] As part of a recent focused audit (Report Number 1A-99-00-18-045, dated August 7, 2019), we already reviewed the Plan's ACA costs that were allocated and charged to the FEHBP for contract years 2014 through 2017. We determined that the Plan properly charged the applicable ACA costs to the FEHBP for those contract years.

The Plan overcharged the FEHBP $2,513,339 for Federal income taxes on ACA health insurance provider fees.

For contract year 2018, the Plan also calculated and charged $2,513,339 to the FEHBP for Federal income taxes related to the ACA health insurance provider fees. Based on our review, we determined that the Plan incorrectly charged this Federal income tax amount to the FEHBP. In the Plan's contract year 2018 FEP cost filing, submitted to the Association in March 2019, the Plan used an estimated corporate Federal tax rate of 21 percent to calculate taxes on the 2018 ACA health insurance provider fees, prior to allocating these taxes to the FEP. However, while obtaining documentation to support our audit, the Plan's Finance Department received updated information from the Plan's Tax Department that the corporate Federal tax rate for 2018 had actually changed to zero percent before filing the Federal income taxes, thus reducing the FEHBP tax liability to zero. When this tax percentage change occurred, the Plan did not have adequate procedures to ensure that the Tax Department notified the Finance Department of this change. As a result, the Plan overcharged the FEHBP $2,513,339 for Federal income taxes related to the 2018 ACA health insurance provider fees.

In total, the Plan returned $2,567,505 to the FEHBP for this audit finding, consisting of $2,513,339 for Federal income taxes that were overcharged to the FEHBP and $54,166 for applicable LII on this questioned overcharge (as calculated by the OIG).

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

The Plan agrees with the finding and recommendations.

The Association states, "The BCBSM [BlueCross BlueShield of Michigan] Plan has implemented the following corrective actions to ensure that the Tax Department timely notifies the FEP Finance team when changes occur that could affect charges to the FEHBP:

- ***BCBSM FEP Finance team worked with the Tax Department to develop a formal memorandum sign off process for tax rates. Twice a year, once in March (when the annual cost submission is submitted) and October (when the Corporate final tax return is filed).***

- ***BCBSM FEP Finance team has added additional steps to include the tax rate sign off process in desk procedures for the FEP Annual Cost Submission process."***

OIG Comment:

As part of our review, we verified that the Plan returned $2,567,505 to the FEHBP in August 2020, consisting of $2,513,339 for the questioned Federal income tax overcharge and $54,166 for applicable LII.

Recommendation 1

We recommend that the contracting officer disallow $2,513,339 for the questioned Federal income taxes that were overcharged to the FEHBP for contract year 2018. However, since we verified that the Plan subsequently returned $2,513,339 to the FEHBP for the questioned overcharge, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $54,166 to the FEHBP for the questioned LII calculated on the Federal income taxes that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $54,166 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 3

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that the Tax Department timely notifies the Finance Department when changes occur that could affect charges to the FEHBP.

2. Unallowable Lobbying Costs $23,462

The Plan charged unallowable lobbying costs of $21,365 to the FEHBP for contract years 2015 through 2018. As a result of this finding, the Plan subsequently returned $23,462 to the FEHBP, consisting of $21,365 for these unallowable lobbying costs and $2,097 for applicable LII on these questioned charges.

48 CFR 31.205-22 provides specific guidance regarding the allowability of lobbying activities. Most lobbying costs are generally 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.

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

The Plan charged the FEHBP $21,365 for unallowable lobbying costs.

In response to our Standard Information Request (during our pre-audit phase), the Plan self-disclosed that unallowable lobbying costs were charged to the FEHBP. Based on our review of supporting documentation subsequently provided by the Plan, we determined that the Plan charged unallowable lobbying costs of $21,365 to the FEHBP for contract years 2015 through 2018. Specifically, the Plan inadvertently charged the FEHBP lobbying costs of $13,163 from cost center “90130” (Federal Affairs) and $8,202 from cost center “4240” (Governmental Affairs).

In total, the Plan returned $23,462 to the FEHBP for this audit finding, consisting of $21,365 for unallowable lobbying costs that were charged to the FEHBP and $2,097 for applicable LII on these unallowable charges (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

<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 $23,462 to the FEHBP for this finding in August 2020, consisting of $21,365 for the questioned unallowable lobbying costs and $2,097 for applicable LII.

Recommendation 4

We recommend that the contracting officer disallow $21,365 for the questioned unallowable lobbying costs that were charged to the FEHBP for contract years 2015 through 2018. However, since we verified that the Plan subsequently returned $21,365 to the FEHBP for these questioned charges, no further action is required for this amount.

Recommendation 5

We recommend that the contracting officer require the Plan to return $2,097 to the FEHBP for the questioned LII calculated on the unallowable lobbying costs. However, since we verified that the Plan subsequently returned $2,097 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Gains and Losses on Fixed Assets **$9,733**

For contract year 2017, the Plan overcharged the FEHBP $9,075 for net losses on the disposal of fixed assets. As a result of this finding, the Plan subsequently returned $9,733 to the FEHBP, consisting of $9,075 for the questioned overcharge and $658 for applicable LII on this overcharge.

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.

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."

For contract years 2014 through 2018, the Plan incurred net losses of $2,756,090 for the disposal of fixed assets. The Plan allocated $114,593 of these net losses to the FEP. We reviewed these net losses to determine if these costs were properly charged to the FEHBP.

The Plan overcharged $9,075 to the FEHBP for net losses on the disposal of fixed assets.

Based on our review, we determined that the Plan properly charged the FEHBP for net losses on the disposal of fixed assets, except in one instance. In response to our Standard Information Request (during our pre-audit phase), the Plan self-disclosed that in contract year 2017 the FEHBP was overcharged $9,075 in net losses for the disposal of fixed assets. This error occurred because the Plan used an outdated query when calculating the amount due from the FEHBP. We reviewed the Plan's self-disclosed overcharge and agreed with the Plan's revised calculation of net losses applicable to the FEP for contract year 2017.

In total, the Plan returned $9,733 to the FEHBP for this audit finding, consisting of $9,075 for the overcharge related to net losses on the disposal of fixed assets and $658 for applicable LII on this questioned overcharge (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with the finding and recommendations.

OIG Comment:

As part of our review, we verified that the Plan returned $9,733 to the FEHBP for this finding in August 2020, consisting of $9,075 for the questioned overcharge related to net losses on the disposal of fixed assets and $658 for applicable LII.

Recommendation 6

We recommend that the contracting officer disallow $9,075 for the questioned overcharge related to net losses on the disposal of fixed assets. However, since we verified that the Plan subsequently returned $9,075 to the FEHBP for the questioned overcharge, no further action is required for this amount.

Recommendation 7

We recommend that the contracting officer require the Plan to return $658 to the FEHBP for the questioned LII calculated on the overcharge for net losses on the disposal of fixed assets. However, since we verified that the Plan subsequently returned $658 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. CASH MANAGEMENT

1. Excess Working Capital Deposit $47,638

As of February 3, 2020, the Plan held a working capital deposit of $47,638 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments. As a result of this finding, the Plan returned $47,638 to the FEHBP for the questioned excess working capital deposit. Since these excess working capital funds were in the Plan's dedicated FEP investment account, LII is not applicable for this audit finding.

OPM's "Letter of Credit System Guidelines" (dated April 2018) state: "Carriers should maintain a working capital balance equivalent to an average of two (2) days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHB Program at least on a monthly basis. The working capital is not required but strongly recommended."

We noted that the Plan reviewed the working capital deposit on a regular basis (usually quarterly) during contract years 2017 through 2019 and made several adjustments to the deposit during the audit scope. As of December 31, 2019, the Plan held a working capital deposit of $248,280 in the dedicated FEP investment account. To determine if the Plan maintained an appropriate working capital deposit, we recalculated what the Plan's deposit amount should be and determined that, as of December 31, 2019, the Plan maintained an appropriate deposit amount (based on payment data from the third quarter of contract year 2019). However, while reviewing the documentation provided by the Plan, we identified an error with the Plan's working capital adjustment in the first quarter of contract year 2020, which the Plan made based on payment data from the fourth quarter of contract year 2019.

The Plan held a working capital deposit of $47,638 over the amount needed.

On February 3, 2020, the Plan increased the working capital deposit to $294,303 when the correct deposit amount should have been $246,665. This oversight occurred due to the Plan inadvertently using an incorrect amount, caused by a transposing error, when calculating the working capital deposit. Therefore, we determined that, as of February 3, 2020, the Plan held a working capital deposit with an amount of $47,638 ($294,303 minus $246,665) over the amount actually needed to meet the Plan's daily cash needs for

FEHBP claim payments. Since the Plan maintained these excess working capital funds in the dedicated FEP investment account, LII is not applicable on these excess funds.

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 excess working capital deposit of $47,638 to the FEHBP in May 2020.

Recommendation 8

We recommend that the contracting officer require the Plan to return $47,638 to the FEHBP for the questioned excess working capital deposit. However, since we verified that the Plan subsequently returned $47,638 to the FEHBP for these excess funds, no further action is required for this questioned amount.

C. 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 contract year 2019, the Plan opened 62 fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed all 62 cases and determined if the Plan timely entered these fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking System (FSTS).[4] 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. 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.

[4] 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

BLUECROSS BLUESHIELD OF MICHIGAN
DETROIT, MICHIGAN

QUESTIONED CHARGES

AUDIT FINDINGS	2014	2015	2016	2017	2018	2019	2020	TOTAL
A. ADMINISTRATIVE EXPENSES								
1. Federal Income Taxes on Health Insurance Provider Fees*	$0	$0	$0	$0	$2,513,339	$31,632	$22,534	$2,567,505
2. Unallowable Lobbying Costs*	0	8,178	9,057	2,502	2,810	667	248	23,462
3. Gains and Losses on Fixed Assets*	0	0	0	9,075	278	283	97	9,733
TOTAL ADMINISTRATIVE EXPENSES	$0	$8,178	$9,057	$11,577	$2,516,427	$32,582	$22,879	$2,600,700
B. CASH MANAGEMENT								
1. Excess Working Capital Deposit	$0	$0	$0	$0	$0	$47,638	$0	$47,638
TOTAL CASH MANAGEMENT	$0	$0	$0	$0	$0	$47,638	$0	$47,638
C. FRAUD AND ABUSE PROGRAM								
TOTAL FRAUD AND ABUSE PROGRAM	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL QUESTIONED CHARGES	$0	$8,178	$9,057	$11,577	$2,516,427	$80,220	$22,879	$2,648,338

* We included lost investment income (LII) within audit findings A1 ($54,166), A2 ($2,097), and A3 ($658). Therefore, no additional LII is applicable.

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APPENDIX

November 16, 2020

Mr. John A. Hirschmann, 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**
Blue Cross Blue Shield of Michigan
Audit Report No. 1A-10-32-20-027
(Dated September 30, 2020)

Dear Mr. Hirschmann:

This is the Blue Cross Blue Shield of Michigan's (BCBSM) 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:

A. ADMINISTRATIVE EXPENSES

1. Federal Income Taxes on Health Insurance Provider Fees $2,567,505

Recommendation 1

We recommend that the contracting officer disallow $2,513,339 for the questioned Federal income taxes that were overcharged to the FEHBP for 2018. However, since we verified that the Plan subsequently returned $2,513,339 to the FEHBP for the questioned overcharge, no further action is required for this amount.

Plan Response

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

Recommendation 2

We recommend that the contracting officer require the Plan to return $54,166 to the FEHBP for the questioned LII calculated on the Federal income taxes that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $54,166 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 3

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that the Tax Department timely notifies the Finance Department when changes occur that could affect charges to the FEHBP.

Plan Response

The Plan has agreed with this recommendation. The BCBSM Plan has implemented the following corrective actions to ensure that the Tax Department timely notifies the FEP Finance team when changes occur that could affect charges to the FEHBP:

- BCBSM FEP Finance team worked with the Tax Department to develop a formal memorandum sign off process for tax rates. Twice a year, once in March (when the annual cost submission is submitted) and October (when the Corporate final tax return is filed).
- BCBSM FEP Finance team has added additional steps to include the tax rate sign off process in desk procedures for the FEP Annual Cost Submission process.

2. Unallowable Lobbying Costs $23,462

Recommendation 4

We recommend that the contracting officer disallow $21,365 for the questioned unallowable lobbying costs that were charged to the FEHBP for contract years 2015 through 2018. However, since we verified that the Plan subsequently returned $21,365 to the FEHBP for these questioned charges, no further action is required for this amount.

Plan Response

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

Recommendation 5

We recommend that the contracting officer require the Plan to return $2,097 to the FEHBP for the questioned LII calculated on the unallowable lobbying costs. However, since we verified that the Plan subsequently returned $2,097 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

3. Gains and Losses on Fixed Assets **$9,733**

Recommendation 6

We recommend that the contracting officer disallow $9,075 for the questioned overcharge related to net losses on the disposal of fixed assets. However, since we verified that the Plan subsequently returned $9,075 to the FEHBP for the questioned overcharge, no further action is required for this amount.

Plan Response

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

Recommendation 7

We recommend that the contracting officer require the Plan to return $658 to the FEHBP for the questioned LII calculated on the overcharge for net losses on the disposal of fixed assets. However, since we verified that the Plan subsequently returned $658 to the FEHBP for the questioned LII, no further action is required for this LII amount

Plan Response

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

B. CASH MANAGEMENT

1. Excess Working Capital Deposit **$47,638**

Recommendation 8

We recommend that the contracting officer require the Plan to return $47,638 to the FEHBP for the questioned excess working capital deposit. However, since we verified that the Plan returned $47,638 to the FEHBP for these excess funds, no further action is required for this questioned amount.

Plan Response

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

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

Sincerely,

[redacted]

Managing Director, FEP Program Assurance

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