



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

Final Audit Report

Subject:

**BLUECROSS BLUESHIELD OF FLORIDA
JACKSONVILLE, FLORIDA**

Report No. 1A-10-41-10-012

Date: May 12, 2011

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
BlueCross BlueShield Association
Plan Code 10

BlueCross BlueShield of Florida
Plan Codes 90/590
Jacksonville, Florida

REPORT NO. 1A-10-41-10-012 DATE: 5/12/2011

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
BlueCross BlueShield Association
Plan Code 10

BlueCross BlueShield of Florida
Plan Codes 90/590
Jacksonville, Florida

REPORT NO. 1A-10-41-10-012

DATE: 5/12/2011

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Florida (Plan), in Jacksonville, Florida, questions \$19,101,493 in health benefit overcharges, \$399,391 in administrative expense undercharges, and \$2,718,548 in excess working capital funds. The BlueCross BlueShield Association (Association) agreed (**A**) with \$18,702,102 and disagreed (**D**) with \$2,718,548 of the questioned charges. Lost investment income (LII) on the questioned charges amounts to \$4,633.

Our audit was conducted in accordance with Government Auditing Standards. The audit covered claim payments from 2006 through September 30, 2009, miscellaneous payments and credits from 2006 through July 31, 2009, and administrative expenses from 2006 through 2008 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds from 2006 through July 31, 2009. Due to concerns with the Plan's processing of health benefit refunds, we also expanded our review of refunds through December 31, 2009.

Questioned items are summarized as follows:

HEALTH BENEFIT CHARGES

Claim Payments

- **Inpatient Facility Claims - Duplicate or Overlapping Dates of Service (A)** **\$645,358**

The Plan incorrectly paid 73 inpatient facility claims, resulting in net overcharges of \$645,358 to the FEHBP. Specifically, the Plan overpaid 67 claims by \$672,025 and underpaid 6 claims by \$26,667.

- **System Review (A)** **\$37,485**

The Plan incorrectly paid 2,749 claims, resulting in net overcharges of \$37,485 to the FEHBP. Specifically, the Plan overpaid 1,557 claims by \$134,431 and underpaid 1,192 claims by \$96,946.

Miscellaneous Payments and Credits

- **Health Benefit Refunds (A)** **\$17,928,896**

Based on our samples of health benefit refunds, we determined that the Plan had not returned 18 refunds, totaling \$1,430,936, to the FEHBP as of July 31, 2009. Subsequent to this date and after receiving our audit notification letter on August 3, 2009, the Plan returned these questioned refunds to the FEHBP, more than 60 days after receipt. Most of these refunds were returned to the FEHBP in 2010 and/or more than one year after receipt. The Plan also returned LII of \$66,879 to the FEHBP since these questioned refunds were deposited untimely into the Federal Employee Program (FEP) investment account.

In addition, the Plan deposited \$15,880,130 into the FEP investment account on December 4, 2009 for unprocessed refunds as of November 30, 2009. This deposit represented an estimate of funds due the FEHBP for unprocessed refunds as of November 30, 2009. Subsequent to this date, the Plan identified a total of \$16,060,947 in unprocessed refunds with receipt dates from October 2007 through November 2009. The Plan returned these refunds to the FEHBP more than 60 days after receipt through various letter of credit account (LOCA) adjustments from December 2009 through October 2010. The Plan also returned LII of \$370,134 to the FEHBP calculated on these refunds that were deposited untimely into the FEP investment account.

- **Subrogation Recoveries (A)** **\$267,723**

The Plan had not returned 22 subrogation recoveries, totaling \$249,233, to the FEHBP as of July 31, 2009. Subsequent to this date, the Plan returned these questioned subrogation recoveries to the FEHBP, more than 60 days after receipt. Most of these recoveries were returned to the FEHBP in 2010 and/or more than one year after receipt. As a result of this finding, the Plan also returned LII of \$18,490 to the FEHBP calculated on the subrogation recoveries that were deposited untimely into the FEP investment account.

• **Hospital Bill Audit Recoveries (A)** **\$119,366**

The Plan had not returned seven hospital bill audit recoveries, totaling \$109,143, to the FEHBP as of July 31, 2009. Subsequent to this date, the Plan returned these questioned recoveries to the FEHBP, more than 60 days after receipt. In addition, the Plan deposited 19 hospital bill audit recoveries untimely into the FEP investment account. As a result of this finding, the Plan also returned LII of \$10,223 to the FEHBP.

• **Fraud Recoveries (A)** **\$73,558**

The Plan had not deposited into the FEP investment account and/or returned to the LOCA 13 fraud recoveries, totaling \$61,389, as of July 31, 2009. Also, the Plan deposited 40 fraud recoveries untimely into the FEP investment account. As a result of this finding, the Plan returned \$73,558 to the FEHBP, consisting of \$61,389 for fraud recoveries and \$12,169 for LII on recoveries deposited untimely or not deposited into the FEP investment account.

• **██████████ Drug Rebates (A)** **\$29,107**

In one instance, the Plan had not returned quarterly drug rebates of \$16,659 from the manufacturer of ██████████ to the FEHBP. Also, the Plan deposited 10 quarterly ██████████ drug rebates untimely into the FEP investment account. As a result of this finding, the Plan returned \$29,107 to the FEHBP, consisting of \$16,659 for drug rebates and \$12,448 for LII on rebates deposited untimely or not deposited into the FEP investment account.

ADMINISTRATIVE EXPENSES

• **Unallowable and/or Unallocable Expenses (A)** **\$41,186**

The Plan charged unallowable and/or unallocable expenses of \$41,186 to the FEHBP from 2006 through 2008.

• **Prior Period Adjustments (A)** **\$5,572**

The Plan had not credited the FEHBP \$4,816 for two prior period adjustments reported on the 2006 Annual Accounting Statement. As a result of this finding, the Plan returned \$5,572 to the FEHBP, consisting of \$4,816 for the questioned prior period adjustments and \$756 for LII on these adjustments.

• **Pension Costs (A)** **(\$446,149)**

The Plan incorrectly calculated pension costs from 2006 through 2008, resulting in net undercharges of \$446,149 to the FEHBP.

CASH MANAGEMENT

- **Excess Working Capital (D)** **\$2,718,548**

The Plan did not correctly calculate the working capital deposit. At the end of the audit scope (as of July 31, 2009), the Plan held a working capital deposit of \$2,718,548 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments.

- **Interest Income (A)** **Procedural**

The Plan did not credit the FEHBP in a timely manner for interest income earned on funds deposited into the FEP investment account. This is a procedural finding.

LOST INVESTMENT INCOME ON AUDIT FINDINGS

As a result of the audit findings presented in this audit report, the FEHBP is due LII of **\$4,633**, calculated through June 30, 2010.

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INTRODUCTION

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

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

BACKGROUND

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 BlueCross and BlueShield plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BlueCross and BlueShield plans throughout the United States to process the health benefit claims of its federal subscribers. The Plan is one of approximately 63 local BlueCross and BlueShield plans participating in the FEHBP.

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

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BlueCross BlueShield, located in Washington, D.C. These activities include acting as fiscal intermediary between the Association and member plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Plan management. Also, 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-10-41-06-054, dated October 12, 2007) for contract years 2003 through 2005 have been satisfactorily resolved, except for the state tax finding that is in the process of being 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; and were presented in detail in a draft report, dated August 13, 2010. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as the Appendices to this report. Also, additional documentation provided by the Association and Plan on various dates through March 10, 2011 was considered in preparing our final 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:

Health Benefit Charges

- To determine whether the Plan complied with contract provisions relative to benefit payments.
- 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 promptly 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 applicable laws and regulations concerning cash management in the FEHBP.

SCOPE

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 90 and 590 for contract years 2006 through 2008. During the period, the Plan paid approximately \$3.2 billion in health benefit charges and \$181 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed approximately \$13.5 million in claim payments made from 2006 through September 30, 2009 for proper adjudication. In addition, we reviewed miscellaneous payments and credits, such as refunds and subrogation recoveries, and cash management activities for 2006 through July 31, 2009, as well as administrative expenses for 2006 through 2008. Due to concerns with the Plan’s processing of health benefit refunds, we also expanded our review of refunds through December 31, 2009.

In planning and conducting our audit, we obtained an understanding of the Plan’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan’s internal control structure and its operation, except for the processing of health benefit refunds (see the audit finding for “Health Benefit Refunds” (A2.a) on pages 11 through 17).

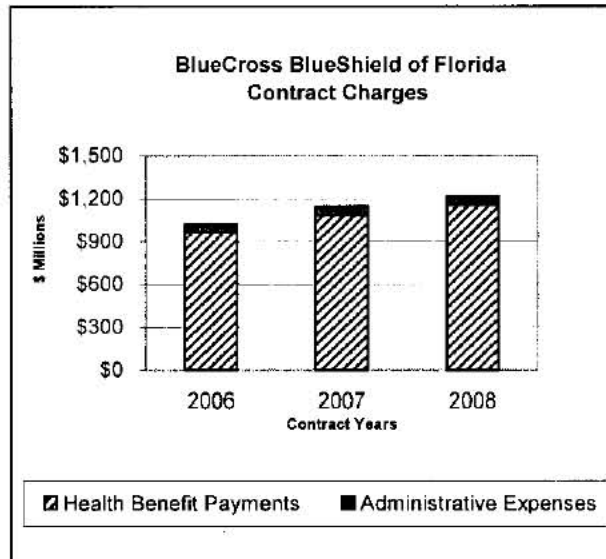


Figure 1 – Contract Charges

However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director’s Office, the FEP Operations Center, and the Plan. 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 testing, 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 Jacksonville, Florida from February 8 through March 5, 2010 and April 5 through April 23, 2010. Audit fieldwork was also performed at our offices in Washington, D.C. and Jacksonville, Florida.

METHODOLOGY

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

To test the Plan's compliance with the FEHBP health benefit provisions, we selected and reviewed samples of 309 claims.² We used the FEHBP contract, the Service Benefit Plan brochure, the Plan's provider agreements, and the Association's FEP administrative manual to determine the allowability of benefit payments. The results of these samples were not projected to the universe of claims.

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous payments and credits. We also judgmentally selected and reviewed 202 high dollar health benefit refunds, totaling \$13,072,761 (from a universe of 221,253 refunds, totaling \$87,984,793); 54 high dollar subrogation cases, totaling \$2,720,491 in recoveries (from a universe of 3,048 cases, totaling \$11,506,725 in recoveries); 46 high dollar hospital bill audit recoveries, totaling \$1,045,565 (from a universe of 5,774 recoveries, totaling \$4,260,021); 20 high dollar special plan invoices, totaling \$1,671,915 in net credits (from a universe of 434 special plan invoices, totaling \$6,430,637 in net payments); all quarterly drug rebate allocations, totaling \$338,382; and all fraud recoveries, totaling \$122,286, to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.³ The results of these samples were not projected to the universe of miscellaneous payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2006 through 2008. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, subcontracts, non-recurring projects, gains and losses, mergers and acquisitions, return on investment, inter-company profits, Association dues, state income taxes, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBPBAR to determine the allowability, allocability, and reasonableness of charges.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

² See the audit findings for "Inpatient Facility Claims - Duplicate or Overlapping Dates of Service" (A1.a) and "System Review" (A1.b) on pages 6 through 10 for specific details of our sample selection methodologies.

³ See the audit findings for "Health Benefit Refunds" (A2.a), "Subrogation Recoveries" (A2.b), "Hospital Bill Audit Recoveries" (A2.c), "Fraud Recoveries" (A2.d), and "██████████ Drug Rebates" (A2.e) on pages 11 through 22 for specific details of our sample selection methodologies.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. HEALTH BENEFIT CHARGES

1. Claim Payments

a. Inpatient Facility Claims – Duplicate or Overlapping Dates of Service \$645,358

The Plan incorrectly paid 73 inpatient facility claims, resulting in net overcharges of \$645,358 to the FEHBP. Specifically, the Plan overpaid 67 claims by \$672,025 and underpaid 6 claims by \$26,667.

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.” Part II, section 2.3(g) states, “If the Carrier or OPM determines that a Member’s claim has been paid in error for any reason . . . the Carrier shall make a prompt and diligent effort to recover the erroneous payment”

Contract CS 1039, Part II, section 2.6 states, “(a) The Carrier shall coordinate the payment of benefits under this contract with the payment of benefits under Medicare, other group health benefits coverage’s, and the payment of medical and hospital costs under no-fault or other automobile insurance that pays benefits without regard to fault. (b) The Carrier shall not pay benefits under this contract until it has determined whether it is the primary carrier”

We performed a computer search for potential duplicate payments on inpatient facility claims paid during the period January 1, 2006 through September 30, 2009. We identified 183 groups of claims with duplicate or overlapping dates of service. These 183 groups included 371 claims with a total amount paid of \$2,857,656. Based on our review, we determined that 73 of these claims were paid incorrectly, resulting in net overcharges of \$645,358 to the FEHBP. Specifically, 67 claims were overpaid by \$672,025 and 6 claims were underpaid by \$26,667.

The claim payment errors resulted from the following:

- The Plan incorrectly paid 23 claims due to overlapping dates of service, resulting in overcharges of \$513,006 to the FEHBP.
- The Plan did not properly coordinate three claims with Medicare, resulting in overcharges of \$38,175 to the FEHBP (non-duplicate errors).
- The Plan paid 11 duplicate claims, resulting in overcharges of \$25,947 to the FEHBP.

- The Plan paid 13 claims after the providers were already reimbursed by Medicare, resulting in overcharges of \$20,801 to the FEHBP (non-duplicate errors). In eight instances, the claims were not deferred on the claim system. In five instances, the claims were deferred on the claims system but overridden by the processors.
- The Plan incorrectly paid six claims due to billing errors, resulting in overcharges of \$13,728 to the FEHBP.
- The Plan paid seven claims using the incorrect allowances or provider rates, resulting in net overcharges of \$11,572 to the FEHBP (non-duplicate errors). Specifically, the Plan overpaid four claims by \$15,385 and underpaid three claims by \$3,813.
- The Plan incorrectly calculated the Diagnostic Related Group (DRG) amounts for four split-claims, resulting in net overcharges of \$6,257 to the FEHBP (non-duplicate errors). Specifically, the Plan overpaid two claims by \$28,721 and underpaid two claims by \$22,464.
- In one instance, the Plan inadvertently paid a claim for the incorrect subscriber, resulting in an overcharge of \$4,919 to the FEHBP (non-duplicate error).
- The Plan did not properly coordinate two claims with other party liability insurance, resulting in overcharges of \$3,844 to the FEHBP (non-duplicate errors).
- The Plan reimbursed both the provider and subscriber for a claim, resulting in a duplicate charge of \$3,751 to the FEHBP.
- In one instance, the Plan paid a claim for an ineligible patient, resulting in an overcharge of \$3,748 to the FEHBP (non-duplicate error).
- In one instance, the Plan incorrectly applied the admission penalty percentage to a claim, resulting in an undercharge of \$390 to the FEHBP (non-duplicate error).

Association's Response:

The Association states, "The Plan agrees that questioned claims cost of \$645,358 may have been paid in error; however, the OIG auditors sited the entire amount of the claims as overpayments when there are FEP liabilities to pay for those days that were not overlapping days. The exact amount of the overpayments cannot be determined until the providers submit corrected billings. The Plan has initiated recoveries where applicable." The Association also states that these payments were good faith erroneous benefit payments and fall within the context of CS 1039, Part II, section 2.3(g). Any payments the Plan is unable to recover are allowable charges to the FEHBP. As good faith erroneous payments, the Plan continues to initiate recovery efforts for the confirmed overpayments. Because these are good faith

erroneous payments, lost investment income does not apply to the claim payment errors identified in this finding.

Regarding corrective actions, the Association states, "Currently, FEP Express has an edit that is designed to defer inpatient claims with overlapping dates of services when the services are performed by the same provider. A request to enhance this edit to defer inpatient claims when the dates of service overlap and the services were provided by different providers has been submitted. Due to the large number of 2011 benefit changes, this edit modification will not be implemented until 2011. In addition, the FEP Director's Office has expanded its System-wide Claims Review Process to now include inpatient admissions with overlapping dates of services. This listing was implemented into the review process as of the 2nd Quarter 2010."

OIG Comments:

During our audit fieldwork, we verified that the Plan recovered and returned \$254,338 of these questioned overcharges to the FEHBP.

Recommendation 1

Since we verified that the Plan returned \$254,338 of the questioned claim overcharges to the FEHBP, no further action is required for these overpayments.

Recommendation 2

We recommend that the contracting officer disallow \$417,687 (\$672,025 overcharges minus \$254,338 amount previously returned) for the remaining claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

Recommendation 3

We recommend that the contracting officer allow the Plan to charge the FEHBP \$26,667 if additional payments are made to the providers to correct the underpayments. However, before making any additional payment(s) to a provider, the contracting officer should require the Plan to first recover any questioned overpayment(s) for that provider.

b. System Review \$37,485

The Plan incorrectly paid 2,749 claims, resulting in net overcharges of \$37,485 to the FEHBP. Specifically, the Plan overpaid 1,557 claims by \$134,431 and underpaid 1,192 claims by \$96,946.

As previously cited from CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. If errors are identified, the Plan is required to make a prompt and diligent effort to recover the overpayments.

For health benefit claims incurred and reimbursed during the period January 1, 2008 through September 30, 2009 (excluding Omnibus Budget Reconciliation Act of 1990, Omnibus Budget Reconciliation Act of 1993, and case management claims), we identified 15,121,614 claim lines, totaling \$1,684,788,309 in payments, where the FEHBP paid as the primary insurer. From this universe, we selected and reviewed a judgmental sample of 126 claims (representing 1,765 claim lines), totaling \$10,672,630 in payments, to determine if the Plan adjudicated these claims properly.⁴

Our review identified 14 claim payment errors, resulting in net overcharges of \$96,525 to the FEHBP. Specifically, the Plan overpaid 11 claims by \$98,072 and underpaid 3 claims by \$1,547. The claim payment errors resulted from the following:

- The Plan incorrectly applied the non-participating provider allowances for three claims, resulting in overcharges of \$64,322 to the FEHBP.
- The Plan paid three claims incorrectly due to processors incorrectly overriding these claims, resulting in net overcharges of \$20,251 to the FEHBP. Specifically, the Plan overpaid two claims by \$20,367 and underpaid one claim by \$116.
- In one instance, the Plan incorrectly paid a claim that was previously covered under a negotiated rate, resulting in an overcharge of \$8,791 to the FEHBP.
- The Plan incorrectly paid four claims due to an accumulator system error, resulting in overcharges of \$3,029 to the FEHBP (see below for expanded review of this error).
- In one instance, the Plan did not pay the claim according to the provider contract, which required the claim to be paid at the lower of billed charges or contract rate. The Plan paid this claim in excess of billed charges, resulting in an overcharge of \$1,563 to the FEHBP.
- In one instance, the Plan inadvertently applied the admission co-pay when processing the claim, resulting in an undercharge of \$500 to the FEHBP.
- In one instance, the Plan did not apply the non-participating provider allowance when processing the claim, resulting in an undercharge of \$931 to the FEHBP.

⁴ We selected our sample from an OIG-generated "Place of Service Report" (SAS application) that stratified the claims by place of service (POS), such as provider's office, and payment category, such as \$50 to \$99.99. We judgmentally determined the number of sample items to select from each POS stratum based on the stratum's total claim dollars paid.

After researching the accumulator system error, the Plan informed us that a total of 2,739 claims were affected by this error (including the 4 reported on the prior page), resulting in net undercharges of \$56,011 to the FEHBP. Specifically, the FEP claims system had an accumulator error pertaining to catastrophic maximums, visit limitations, and deductibles. As a result, the Plan overpaid 1,550 claims by \$39,388 and underpaid 1,189 claims by \$95,399. The Plan stated that a system fix was implemented with the 2009 year-end changes (effective January 2, 2010). The Plan also stated that the claim payment errors incurred in 2007 and 2008 will be reviewed after the 2009 claims have been reviewed.

Association's Response:

The association states, "The Plan agrees with the entire amount of this finding. These claim payments were caused by processor manual errors and a processing exception noted in FEPEXpress claims system prior to the start of the audit. These payment exceptions caused both over and underpayments. All underpayments have been issued to the providers and/or members. Recoveries have been initiated on the overpayments." The Association also states that these payments were good faith erroneous benefit payments and fall within the context of CS 1039, Part II, section 2.3(g). Any payments the Plan is unable to recover are allowable charges to the FEHBP. As good faith erroneous payments, the Plan continues to initiate recovery efforts for the confirmed overpayments. Because these are good faith erroneous payments, lost investment income does not apply to the claim payment errors identified in this finding.

Regarding corrective actions, the Association states, "The Plan has taken the following actions to minimize these types of errors in the future:

- Conducted refresher training in those areas impacted by the manual payment errors . . .
- re-enforced the requirements for manual pricing of claims to include the proper usage of the non-par relief provision in the FEP Contract.

The Catastrophic Indicator issue with FEP Express that caused both over and underpayments was corrected during the first quarter 2010. Periodic monitoring of the system has not identified any other exceptions with this indicator since the correction was implemented."

Recommendation 4

We recommend that the contracting officer disallow \$134,431 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

Recommendation 5

We recommend that the contracting officer allow the Plan to charge the FEHBP \$96,946 if additional payments are made to the providers and/or members to correct the underpayment errors. However, before making any additional payment(s) to a provider, the contracting officer should require the Plan to first recover any questioned overpayment(s) for that provider.

Recommendation 6

We recommend that the contracting officer verify that the FEP Operations Center corrected the accumulator error in the FEP claims system pertaining to catastrophic maximums, visit limitations, and deductibles.

2. Miscellaneous Payments and Credits

a. Health Benefit Refunds

\$17,928,896

Based on our samples of health benefit refunds, we determined that the Plan had not returned 18 refunds, totaling \$1,430,936, to the FEHBP as of July 31, 2009. Subsequent to this date and after receiving our audit notification letter on August 3, 2009, the Plan returned these questioned refunds to the FEHBP, more than 60 days after receipt. Most of these refunds were returned to the FEHBP in 2010 and/or more than one year after receipt. The Plan also returned LII of \$66,879 to the FEHBP since these questioned refunds were deposited untimely into the FEP investment account.

In addition, the Plan deposited \$15,880,130 into the FEP investment account on December 4, 2009 for unprocessed refunds as of November 30, 2009. This deposit represented an estimate of funds due the FEHBP for unprocessed refunds as of November 30, 2009. Subsequent to this date, the Plan identified a total of \$16,060,947 (including the \$15,880,130 mentioned above) in unprocessed refunds with receipt dates from October 2007 through November 2009. The Plan returned these refunds to the FEHBP more than 60 days after receipt through various letter of credit account (LOCA) adjustments from December 2009 through October 2010. The Plan also returned LII of \$370,134 to the FEHBP calculated on these refunds that were deposited untimely into the FEP investment account.

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

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

Also, based on an agreement between OPM and the Association, dated March 26, 1999, BlueCross and BlueShield plans have 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

For the period January 1, 2006 through July 31, 2009, the Plan provided a universe of 163,283 FEP health benefit refunds totaling \$46,550,563.⁵ From this universe, we selected and reviewed a judgmental sample of 162 refunds, totaling \$10,183,417, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. Our sample included all refunds of \$20,000 or more for 2006 and 2007, \$35,000 or more for 2008, and \$40,000 or more for 2009.

In December 2010, the Plan provided us a revised universe of FEP health benefit refunds for 2006 and 2007. From this revised universe, we selected and reviewed a judgmental sample of 40 refunds, totaling \$2,889,344, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. Our additional sample consisted of the 20 highest dollar refunds from each of these years that were not included in the “original” universe.

In total, our sample selections included 202 refunds, totaling \$13,072,761 (from a universe of 221,253 refunds, totaling \$87,984,793). The following summarizes the exceptions noted:

- In 18 instances, the Plan deposited refunds of \$1,430,936 into the FEP investment account in an untimely manner (i.e., from 7 to 1,203 days late). We verified that the Plan returned these refunds to the LOCA after July 31, 2009 (i.e., from August 19, 2009 to April 5, 2010). Most of these refunds were returned to the LOCA in 2010 and/or more than one year after receipt. Since the Plan returned these refunds to the LOCA more than 60 days after receipt and after receiving our audit notification letter and standard audit request (dated August 3, 2009), we are continuing to question this amount as a monetary finding. As a result of this finding, the Plan calculated and returned LII of \$66,879 to the FEHBP since these questioned refunds

⁵ When the Plan provided us the refund files during pre-audit, the universe included \$4.6 million for 2006, \$9.4 million for 2007, \$16.8 million for 2008, and \$15.7 million for January 2009 through July 2009. We informed the Plan that the refund files for 2006 and 2007 were probably incomplete since the refund dollars were much higher in 2008 and 2009. After completing our on-site fieldwork, the Plan informed us on July 22, 2010 that the refund files previously provided for 2006 and 2007 were incomplete. According to the Plan, the refund totals were actually \$24 million for 2006 and \$31.4 million for 2007.

were deposited untimely into the FEP investment account. We reviewed and accepted the Plan's LII calculation and verified the return of the LII to the LOCA. Therefore, we are questioning \$1,497,815 as part of this finding, consisting of \$1,430,936 for refunds and \$66,879 for LII on refunds deposited untimely into the FEP investment account. (These 18 exceptions were identified in our initial sample.)

- In 84 instances, the Plan deposited refunds of \$5,060,737 into the FEP investment account in an untimely manner (i.e., from 5 to 350 days late). When depositing these refunds into the FEP investment account, the Plan also calculated and deposited LII of \$55,824. We verified that the Plan returned the refunds and LII to the LOCA before receiving our audit notification letter and standard audit request. Therefore, we did not question the refund principal amounts and the applicable LII as a monetary finding. (These 84 exceptions were identified in our initial sample.)
- In eight instances, the Plan deposited refunds of \$611,739 into the FEP investment account in an untimely manner (i.e., from 6 to 84 days late). However, when depositing these funds into the FEP investment account, the Plan did not calculate and deposit the applicable LII. We verified that the Plan returned these refunds to the LOCA before receiving our audit notification letter and standard audit request. Therefore, we did not question the refund principal amounts as a monetary finding. Also, we did not question the applicable LII on these eight refunds since our LII calculation resulted in an immaterial amount due the FEHBP. (These eight exceptions were identified in our additional sample.)

In addition, we reviewed the Plan's FEP refund aging schedule as of October 31, 2009. The Plan's schedule included 13,833 refunds, totaling \$7,520,626, that were received by the Plan on or before October 31, 2009, but not deposited into the FEP investment account nor returned to the LOCA as of October 31, 2009. From this schedule, we identified 10,130 refunds, totaling \$6,431,848, where the Plan had not deposited the funds into the FEP investment account within 30 days after receipt (i.e., from 31 to 740 days after receipt as of October 31, 2009). These refunds had receipt dates from October 22, 2007 through September 30, 2009. Of these, 8,155 refunds, totaling \$5,644,358, had not been deposited into the FEP investment account within 30 days after receipt and returned to the LOCA within 60 days after receipt. These refunds had receipt dates from October 22, 2007 through August 31, 2009. (We noted that the questioned refunds from our samples were not included in the Plan's FEP refund aging schedule as of October 31, 2009).

Due to concerns with the Plan's processing of refunds, we also obtained and reviewed the Plan's FEP refund aging schedule as of December 31, 2009. The Plan's schedule included 16,988 refunds, totaling \$9,127,453, that were received by the Plan on or before December 31, 2009, but not deposited into the FEP investment and/or returned to the LOCA as of December 31, 2009. From this schedule, we also identified

14,432 refunds, totaling \$7,819,464, where the Plan had not deposited the funds into the FEP investment account within 30 days after receipt (i.e., from 31 to 801 days after receipt as of December 31, 2009) and/or returned the funds to the LOCA. These refunds had receipt dates from October 22, 2007 through November 30, 2009. Of these, 12,157 refunds, totaling \$6,641,350, had not been deposited into the FEP investment account within 30 days after receipt and returned to the LOCA within 60 days after receipt.⁶ These refunds had receipt dates from October 22, 2007 through October 31, 2009. (We noted that the questioned refunds from our samples were not included in the Plan's FEP refund aging schedule as of December 31, 2009.)

During our audit fieldwork, the Plan informed us that approximately \$15,880,130 in health benefit refunds had not been returned to the FEHBP as of November 30, 2009. Based on a Plan memorandum (dated December 1, 2009), authorizing the transfer of \$15,880,130 from the Plan's master account to the FEP investment account, "The \$15 million amount is a function of credits (cash receipts) that have been processed through the Legacy and Diamond claims system, but have not yet been completely processed through the People Soft account receivable system. The current trigger for moving cash from the BCBSF Master Account to the FEP Investment Account is a production People Soft accounts receivable report called the FEP Claims Resolved Report. These transactions are not processing through the People Soft system on a timely basis. By moving the \$15 millions to the investment account, the Plan will stop payment of Investment Income to the government, and recognize that these funds are to be returned to the Federal Employee Program. As credits are processed to resolution in the People Soft A/R, the Plan will net the credits against these funds in the Investment account" This deposit represented an estimate of funds due the FEHBP for unprocessed refunds as of November 30, 2009. We verified that the Plan deposited \$15,880,130 into the FEP investment account on December 4, 2009.

We reviewed the Plan's reconciliation process for identifying and compiling the FEP refunds that had not been returned to the FEHBP as of November 30, 2009. As part of our review, we verified on a test basis that the FEP refunds with receipt dates of November 30th and prior on the Plan's aging schedule as of December 31, 2009 were accounted for in the Plan's reconciliation process. In total, the Plan identified \$16,060,947 in unprocessed refunds as of November 30, 2009 with receipt dates from October 2007 through November 2009. We verified that the Plan returned these refunds, totaling \$16,060,947, to the FEHBP through various LOCA adjustments from December 17, 2009 through October 29, 2010. However, since the Plan returned these refunds to the LOCA more than 60 days after receipt and after receiving our audit notification letter and standard audit request (dated August 3, 2009), we are questioning this amount (\$16,060,947) as a monetary finding.⁷ Also, the Plan

⁶ Of these refund receipts, \$1,930,631 were outstanding for more than 365 days; \$3,387,224 were outstanding from 121 to 365 days; \$611,074 were outstanding from 91 to 120 days; and \$712,421 were outstanding from 61 to 90 days.

⁷ Additionally, the Plan deposited the funds for these refunds into the FEP investment account after the due date of our standard audit request (i.e., November 13, 2009), and returned substantially all of these refunds (i.e., \$14,608,699) to the LOCA after the start date of our on-site audit (i.e., February 8, 2010).

returned LII of \$370,134 to the FEHBP calculated on these questioned refunds that were deposited untimely into the FEP investment account. We reviewed and accepted the Plan's LII calculation and verified the return of the LII to the FEHBP.

In total, we are questioning \$17,928,896, consisting of \$17,491,883 (\$1,430,936 plus \$16,060,947) for health benefit refunds and \$437,013 (\$66,879 plus \$370,134) for LII on the questioned refunds that were deposited untimely into the FEP investment account.

Association's Response:

The Association states, "The FEP Director's Office Control and Performance Review audit in March of 2009 highlighted accounts receivable system inefficiencies. These inefficiencies, which led to larger accounts receivable amounts, were anticipated to be corrected with the implementation of the Plan's Standard Adjustment Process (SAP). However, the SAP implementation was delayed due to the complexity of the system change.

The Plan committed to correct the slow return of funds to the LOCA as part of the FEPDO audit resolution and ultimately moved \$15,880,196 to the FEP investment account. The Plan agrees that \$1,430,936 in refunds, representing multiple claims, were not returned to the . . . (LOCA) by July 31, 2009. The Plan agrees that an estimated \$15,880,130, representing multiple claims, were not returned to the LOCA within 60 days of receipt; however, the Plan deposited the \$15,880,130 to the FEP investment account on December 4, 2009, based on a good-faith estimate of receivable at the time, in advance of reconciling the refunds for transfer to the LOCA. . . . In addition, the Plan re-calculated the lost investment income amount on the \$1,430,936 to be \$66,879. The Plan provided documentation, to support the return of the lost investment income to the FEHBP. The Plan has calculated the lost investment income on the applicable portion of the \$15,880,130. The Plan provided documentation to support the return of the lost investment income to the FEHBP.

The Plan also stated that the system and process changes that contributed significantly to delays in reconciling refunds for return to the LOCA have been corrected with the Plan's new standard adjustment process (SAP), implemented March 2010.

The Plan . . . has taken (or will take) the following corrective actions regarding this finding:

- Internal Audit is in the process of conducting a review of the implementation of the Standard Adjustment Process to determine if the process is functioning as intended or if additional action needs to be taken.

- The Plan advanced \$4.6 million on October 29, 2010 to ensure funds in an open cash status for FEP were returned to the FEP program on a timely basis; since that time, the Plan's reconciliations against those funds have resulted in adjustments reducing the amount of the advance to the LOCA to \$2.6 million.
- The Plan established a formal workgroup to address open cash matters. That group has since identified several different scenarios causing cash to remain open and is in the process of determining root causes. When root causes are identified, the group will recommend system and/or process fixes to be implemented to mitigate the identified issues.
- An informal pre-SAP reconciliation workgroup is also working on correcting pre-SAP issues with the PeopleSoft Accounts Receivable system and reporting to facilitate the update of detail records; this is a joint project with FEP Accounting, FEP Operations and ORAR staff.

The Plan expects to have these actions completed by 3rd quarter 2011. The FEP Director's Office will conduct a Control Performance Review at the Plan during 3rd quarter 2011 and will validate completion of the Plan's actions at that time."

OIG Comments:

After reviewing the Association's response and additional documentation provided by the Plan, we revised the questioned amount from the draft report to \$17,928,896. Based on the Association's response and the additional documentation provided by the Plan, we determined that the Association and/or Plan agree with our revised questioned amount. We verified that the Plan returned the questioned amount of \$17,928,896 to the FEHBP, consisting of \$17,491,883 (\$1,430,936 plus \$16,060,947) for health benefit refunds and \$437,013 (\$66,879 plus \$370,134) for LII.

As part of our review, we also verified that the Plan made an adjustment (advance) of \$4.6 million to the LOCA on October 29, 2010. This adjustment amount represented FEP cash receipts (aging refunds) of \$4,583,623 as of September 30, 2010, which the Plan had not yet processed through the accounts receivable system. Of these refund receipts, \$978,956 were outstanding for more than 365 days; \$2,050,952 were outstanding from 121 to 365 days; \$225,573 were outstanding from 91 to 120 days; \$161,308 were outstanding from 61 to 90 days; \$266,448 were outstanding from 31 to 60 days; and \$900,386 were outstanding from 0 to 30 days as of September 30th. (Note: Of this amount, approximately \$1.5 million represented refunds with receipt dates in November 2009 and prior, which are included in our questioned amount of \$16,060,947.)

Recommendation 7

Since we verified that the Plan returned \$17,491,883 to the FEHBP for the questioned health benefit refunds, no further action is required for this questioned amount.

Recommendation 8

Since we verified that the Plan returned \$437,013 to the FEHBP for LII on the questioned health benefit refunds, no further action is required for this LII amount.

Recommendation 9

We recommend that the contracting officer have the Association ensure that the Plan's corrective actions are completed and verify that the Plan's procedures are effective for ensuring that FEP health benefit refunds and recoveries are returned to the FEHBP in a timely manner.

b. Subrogation Recoveries

\$267,723

The Plan had not returned 22 subrogation recoveries, totaling \$249,233, to the FEHBP as of July 31, 2009. Subsequent to this date, the Plan returned these questioned subrogation recoveries to the FEHBP, more than 60 days after receipt. Most of these recoveries were returned to the FEHBP in 2010 and/or more than one year after receipt. As a result of this finding, the Plan also returned LII of \$18,490 to the FEHBP calculated on the subrogation recoveries that were deposited untimely into the FEP investment account.

As previously stated under audit finding A2.a, the Plan is required to promptly return subrogation recoveries to the FEHBP with applicable LII.

For the period January 1, 2006 through July 31, 2009, there were 3,048 subrogation cases totaling \$11,506,725 in recoveries. From this universe, we selected and reviewed a judgmental sample of 54 cases (representing 113 recovery entries), totaling \$2,720,491 in recoveries, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all subrogation cases with cumulative recoveries of \$25,000 or more.

The following summarizes the exceptions noted for the 113 recovery entries in our sample:

- In 72 instances, the Plan deposited subrogation recoveries of \$1,000,656 into the FEP investment account in an untimely manner (i.e., from 2 to 692 days late). We verified that the Plan returned these recoveries to the LOCA. However, the Plan returned 22 of these recoveries, totaling \$249,233, to the LOCA more than 60 days after receipt and after receiving our audit notification letter and standard audit request (dated August 3, 2009). Therefore, we are continuing to question this amount of \$249,233 as a monetary finding.

- As a result of our finding, the Plan also calculated and returned LII of \$18,490 to the FEHBP. We reviewed and accepted the Plan's LII calculation and verified the return of the LII to the LOCA.

In total, we are questioning \$267,723, consisting of \$249,233 for 22 subrogation recoveries and \$18,490 for LII on recoveries deposited untimely into the FEP investment account.

Association's Response:

The Association agrees with this finding. The Association states, "the timeliness issue of returning subrogation recoveries had been corrected with the implementation of the SAP project. The FEP Director's Office's Control and Performance Review highlighted Accounts Receivable system inefficiencies that were expected to be corrected with the implementation of the SAP project"

OIG Comments:

Based on our review of the Association's response and additional documentation provided by the Plan, we revised the questioned amount from the draft report to \$267,723. As part of our review, we verified that the Plan returned this questioned amount of \$267,723 to the FEHBP, consisting of \$249,233 for subrogation recoveries and \$18,490 for LII.

Recommendation 10

Since we verified that the Plan returned \$249,233 to the FEHBP for the questioned subrogation recoveries, no further action is required for this questioned amount.

Recommendation 11

Since we verified that the Plan returned \$18,490 to the FEHBP for LII on subrogation recoveries deposited untimely into the FEP investment account, no further action is required for this LII amount.

c. Hospital Bill Audit Recoveries \$119,366

The Plan had not returned seven hospital bill audit recoveries, totaling \$109,143, to the FEHBP as of July 31, 2009. Subsequent to this date, the Plan returned these questioned recoveries to the FEHBP, more than 60 days after receipt. In addition, the Plan deposited 19 hospital bill audit recoveries untimely into the FEP investment account. As a result of this finding, the Plan also returned LII of \$10,223 to the FEHBP.

As previously stated under audit finding A2.a, the Plan is required to promptly return hospital bill audit recoveries to the FEHBP with applicable LII.

For the period January 1, 2006 through July 31, 2009, there were 5,774 hospital bill audit recoveries totaling \$4,260,021. From this universe, we selected and reviewed a judgmental sample of 46 hospital bill audit recoveries, totaling \$1,045,565, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all hospital bill audit recoveries of \$18,000 or more for 2006 and 2007 and \$12,000 or more for 2008 and 2009.

The following summarizes the exceptions noted:

- The Plan deposited seven hospital bill audit recoveries, totaling \$109,143, into the FEP investment account in an untimely manner (i.e., from 3 to 310 days late). We verified that the Plan returned these recoveries to the LOCA. However, since the Plan returned these recoveries to the LOCA more than 60 days after receipt and after receiving our audit notification letter and standard audit request (dated August 3, 2009), we are continuing to question this amount as a monetary finding. Also, we calculated LII of \$4,382 on these recoveries since the funds were deposited untimely into the FEP investment account. As a result of this finding, the Plan returned this LII amount to the FEHBP.
- During the audit scope, the Plan deposited 19 hospital bill audit recoveries, totaling \$348,212, into the FEP investment account in an untimely manner (i.e., from 204 to 467 days late). Since we verified that the Plan returned these recoveries to the LOCA before receiving our audit notification letter and standard audit request, we did not question these recovery principal amounts as a monetary finding. However, we calculated LII of \$5,841 on these recoveries since the funds were deposited untimely into the FEP investment account. As a result of this finding, the Plan returned this LII amount to the FEHBP.

In total, we are questioning \$119,366, consisting of \$109,143 for hospital bill audit recoveries and \$10,223 (\$4,382 plus \$5,841) for LII on recoveries deposited untimely into the FEP investment account.

Association's Response:

The Association agrees with this finding.

OIG Comments:

We verified that the Plan returned the questioned amount of \$119,366 to the FEHBP, consisting of \$109,143 for hospital bill audit recoveries and \$10,223 for LII.

Recommendation 12

Since we verified that the Plan returned \$109,143 to the FEHBP for the questioned hospital bill audit recoveries, no further action is required for this questioned amount.

Recommendation 13

Since we verified that the Plan returned \$10,223 to the FEHBP for LII on hospital bill audit recoveries deposited untimely into the FEP investment account, no further action is required for this LII amount.

d. Fraud Recoveries \$73,558

The Plan had not deposited into the FEP investment account and/or returned to the LOCA 13 fraud recoveries, totaling \$61,389, as of July 31, 2009. Also, the Plan deposited 40 fraud recoveries untimely into the FEP investment account. As a result of this finding, the Plan returned \$73,558 to the FEHBP, consisting of \$61,389 for fraud recoveries and \$12,169 for LII on recoveries deposited untimely or not deposited into the FEP investment account.

As previously stated under audit finding A2.a, the Plan is required to promptly return fraud recoveries to the FEHBP with applicable LII.

Contract CS 1039, Part III, Section 3.8 states, “the Carrier will retain and make available all records applicable to a contract term that supports the annual statement of operations and the rate submission for that contract term”

The Plan could not provide a complete universe of fraud recoveries for the period January 1, 2006 through July 31, 2009. As a result, we used the BCBS Association’s Fraud Information Management System (FIMS) report as a basis for our sample selection. The FIMS report included 108 possible fraud cases that were reported by the Plan to the Association during this period. However, only 20 of these fraud cases resulted in actual recoveries during the audit scope. We selected these 20 fraud cases, which included 53 recovery entries totaling \$122,286, for the purpose of determining if the Plan promptly returned the recoveries to the FEHBP. Most of these fraud cases included multiple recoveries that were received on various dates.

The following summarizes the exceptions noted for the 53 recovery entries:

- In 13 instances, the Plan had not deposited into the FEP investment account and/or returned to the LOCA fraud recoveries totaling \$61,389. As a result of this finding, the Plan returned these questioned fraud recoveries to the FEHBP.

Association's Response:

The Plan agrees with this finding.

OIG Comments:

Based on our review of the Association's response and additional documentation provided by the Plan, we revised the questioned amount from the draft report to \$73,558. As part of our review, we verified that the Plan returned this questioned amount of \$73,558 to the FEHBP, consisting of \$61,389 for fraud recoveries and \$12,169 for LII.

Recommendation 14

Since we verified that the Plan returned \$61,389 to the FEHBP for the questioned fraud recoveries, no further action is required for this questioned amount.

Recommendation 15

Since we verified that the Plan returned \$12,169 to the FEHBP for LII on fraud recoveries deposited untimely or not deposited into the FEP investment, no further action is required for this LII amount.

e. **██████████ Drug Rebates** **\$29,107**

In one instance, the Plan had not returned quarterly drug rebates of \$16,659 from the manufacturer of ██████████ to the FEHBP. Also, the Plan deposited 10 quarterly ██████████ drug rebates untimely into the FEP investment account. As a result of this finding, the Plan returned \$29,107 to the FEHBP, consisting of \$16,659 for drug rebates and \$12,448 for LII on rebates deposited untimely or not deposited into the FEP investment account.

As previously stated under audit finding A2.a, the Plan is required to promptly return drug rebates to the FEHBP with applicable LII.

The Plan participates in a drug rebate program with the manufacturer of the [REDACTED] drug. Rebates are received quarterly by the Plan and credited to the participating groups. For the period January 1, 2006 through July 31, 2009, there were 11 quarterly drug rebates totaling \$2,496,820. The Plan allocated \$338,382 of these quarterly drug rebates to FEP. We selected and reviewed all of these rebates for the purpose of determining if the Plan properly allocated and promptly returned these rebates to the FEHBP.

The following summarizes the exceptions noted:

- In one instance, the Plan had not returned a quarterly drug rebate of \$16,659 to the LOCA. This rebate was received by the Plan in February 2009. Since this rebate had not been deposited into the FEP investment account, we also calculated LII of \$770 on these funds. As a result of this finding, the Plan returned this questioned drug rebate and LII amount to the FEHBP.
- In 10 instances, the Plan returned quarterly drug rebates of \$321,722 to the LOCA, but deposited these funds untimely into the FEP investment account (i.e., from 16 to 535 days late). Therefore, we calculated LII of \$11,678 on these funds. As a result of this finding, the Plan returned this LII amount to the FEHBP.

In total, we are questioning \$29,107, consisting of \$16,659 for drug rebates and \$12,448 (\$770 plus \$11,678) for LII on drug rebates deposited untimely or not deposited into the FEP investment account.

Association's Response:

The Plan agrees with this finding. The Association states that the Plan will create and implement a corrective action plan to mitigate inefficiencies that have caused the delays in returning funds to the LOCA.

OIG Comments:

Based on our review of the Association's response and additional documentation provided by the Plan, we revised the questioned amount from the draft report to \$29,107. As part of our review, we verified that the Plan returned this questioned amount of \$29,107 to the FEHBP, consisting of \$16,659 for drug rebates and \$12,448 in LII.

Recommendation 16

Since we verified that the Plan returned \$16,659 to the FEHBP for the questioned drug rebate, no further action is required for this questioned amount.

Recommendation 17

Since we verified that the Plan returned \$12,448 to the FEHBP for LII on drug rebates deposited untimely or not deposited into the FEP investment, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Expenses **\$41,186**

The Plan charged unallowable and/or unallocable expenses of \$41,186 to the FEHBP from 2006 through 2008.

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

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

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

For the period 2006 through 2008, the Plan allocated administrative expenses of \$222,134,205 to the FEHBP from 70 natural accounts and 529 cost centers. From this universe, we selected a judgmental sample of 22 natural accounts to review, which totaled \$73,709,735 in expenses allocated to the FEHBP. We also selected a judgmental sample of 46 cost centers to review, which totaled \$67,440,926 in expenses allocated to the FEHBP. We selected the natural accounts and cost centers based on high dollar amounts, our nomenclature review, and significant dollar amount fluctuations from year to year. From these cost centers and natural accounts, we also selected and reviewed a judgmental sample of 70 general ledger expense transactions. We reviewed the expenses from these natural accounts and cost centers for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan charged the following expenses to the FEHBP that were expressly unallowable and/or did not benefit the FEHBP:

- The Plan charged \$39,724 to the FEHBP for unallocable legal expenses.
- The Plan charged \$1,462 to the FEHBP for alcohol expenses incurred during annual conferences for professional development of hospital bill auditors and Special Investigation Unit personnel from 2006 through 2008. In regards to alcoholic beverages charged to the FEHBP, 48 CFR 31.205-51 states, “Costs of alcoholic beverages are unallowable.”

In total, the Plan charged the FEHBP \$41,186 for these unallowable and/or unallocable expenses from 2006 through 2008.

Association’s Response:

The Association agrees with this finding. The Association states that the Plan submitted prior period adjustments on June 21, 2010 for these questioned charges.

Recommendation 18

We recommend that the contracting officer disallow \$41,186 for unallowable and/or unallocable charges from 2006 through 2008, and verify that these funds were returned to the FEHBP.

2. Prior Period Adjustments

\$5,572

The Plan had not credited the FEHBP \$4,816 for two prior period adjustments reported on the 2006 Annual Accounting Statement. As a result of this finding, the Plan returned \$5,572 to the FEHBP, consisting of \$4,816 for the questioned prior period adjustments and \$756 for LII on these adjustments.

48 CFR 31.201-5 states, “The applicable portion of any . . . 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.”

During the audit scope, there were five prior period adjustments totaling \$892,678 in net credits. These adjustments were reported on the 2006 and 2007 Annual Accounting Statements. We selected and reviewed all of these prior period adjustments for the purpose of determining if the credit adjustments were properly returned to the FEHBP and if the additional cost adjustments were properly charged to the FEHBP. We identified two prior period credit adjustments, totaling \$4,816 that had been originally filed with the FEP Director’s Office in December 2006, but had not been processed and returned to the FEHBP.

As a result of this finding, the Plan returned these questioned prior period adjustments of \$4,816 to the FEHBP plus applicable LII of \$756. We reviewed and accepted the Plan's LII calculation for this finding.

Association's Response:

The Association agrees with this finding. The Association states that the Plan returned the funds for the prior period adjustments to the FEHBP on February 12, 2010. The Plan also returned LII of \$756 to the FEHBP on March 18, 2010.

OIG Comments:

We verified that the questioned prior period adjustments of \$4,816 and LII of \$756 were returned to the FEHBP.

Recommendation 19

Since we verified that the Plan returned \$4,816 to the FEHBP for the prior period adjustments, no further action is required for this questioned amount.

Recommendation 20

Since we verified that the Plan returned \$756 to the FEHBP for LII on the questioned prior period adjustments, no further action is required for this LII amount.

3. Pension Costs (\$446,149)

The Plan incorrectly calculated pension costs from 2006 through 2008, resulting in net undercharges of \$446,149 to the FEHBP.

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

48 CFR 31.205-6(j)(2) states, "The cost of all defined-benefit pension plans shall be measured, allocated, and accounted for in compliance with the provisions of 48 CFR 9904.412, Cost accounting standard for composition and measurement of pension cost, and 48 CFR 9904.413, Adjustment and allocation of pension cost. The costs of all defined-contribution pension plans shall be measured, allocated, and accounted for in accordance with the provisions of 48 CFR 9904.412 and 48 CFR 9904.413. Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(2)(i) and in paragraphs (j)(3) through (8) of this subsection."

48 CFR 31.205-6(j)(3)(i)(A) states that "pension costs assigned to the current accounting period, but not funded during it, shall not be allowable in subsequent years (except that a payment made to a fund by the time set for filing the Federal income tax return or any

extension thereof is considered to have been made during such taxable year)." Also, 48 CFR 31.205-6(j)(3)(ii) states, "Any amount funded in excess of the pension cost assigned to a cost accounting period is not allowable and shall be accounted for as set forth at 48 CFR 9904.412-50(a)(4), and shall be allowable in the future period to which it is assigned, to the extent it is allocable, reasonable, and not otherwise unallowable."

The Plan has a defined benefit pension plan where an employer commits to paying employees a specific benefit for life beginning at their retirement. The amount of the benefit is known in advance and is usually based on factors such as age, earnings, and years of service. There is a maximum retirement benefit permitted under a defined benefit plan. Defined benefit plans do not have contribution limits.

Our review of pension costs disclosed that for 2006 and 2007 the Plan did not consistently apply the same allocation percentage used for pension costs to the pension administration costs. As a result, we determined that FEP's pension costs were overstated by \$8,791 for 2006 and \$1,585 for 2007.

For 2008, the Plan did not calculate pension costs based on the lesser of the funded or CAS determined amount. The Plan's initial calculation was based on a FAS determined one-time settlement cost of \$24,460,732. However, the Plan should have used the lower of the funded or CAS determined amount. Although there was no funding in 2008, the Plan then elected to apply all of the excess funding from prior years in the amount of \$33,081,697 to the calculation. Therefore, we compared the revised funded amount of \$33,081,697 to the CAS determined amount of \$47,768,674. This allowed the Plan to allocate a share of the additional amount of \$8,620,965 (\$33,081,697 minus \$24,460,732) to FEP. As a result, based on our calculation, we determined that FEP's pension costs were understated by \$456,525 for 2008.

In total, FEP's pension costs were overstated by \$10,376 for 2006 and 2007 and understated by \$456,525 for 2008, resulting in a net undercharge of \$446,149 to the FEHBP for pension costs from 2006 through 2008.

Association's Response:

The Association agrees with this finding. The Association states that the Plan submitted prior period adjustments for this finding, totaling a net credit of \$446,149, on September 13, 2010.

Recommendation 21

We recommend that the contracting officer disallow pension cost overcharges of \$10,376 for 2006 and 2007.

Recommendation 22

We recommend that the contracting officer allow the Plan to charge the FEHBP an additional \$456,525 for pension costs for 2008.

C. CASH MANAGEMENT

1. Excess Working Capital

\$2,718,548

The Plan did not correctly calculate the working capital (WC) deposit. At the end of the audit scope (as of July 31, 2009), the Plan held a WC deposit of \$2,718,548 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments.

OPM's "Letter of Credit System Guidelines" (LOCS Guidelines), dated May 2009, states: "Carriers should maintain a working capital balance equivalent to an average of 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 FEHBP at least on a monthly basis. The working capital is not required but strongly recommended." Also, based on the LOCS Guidelines, the Carrier's WC calculation must exclude electronic fund transfers.

In addition, based on the regulations governing the financing of Federal programs by the letter of credit method as established in 31 CFR 205 (Treasury Department Circular No.10750), electronic fund transfers should not be included in the WC calculation. These instructions are established under the provisions of Treasury Department Circular No. 1083 (Regulations Governing the Utilization of the U.S. TFCS), 5 CFR Part 890, and 48 CFR Chapter 16.

The Plan reviewed and/or adjusted the WC deposit amount on several occasions during the period January 2006 through July 2009. During this period, the Plan's last WC adjustment was made on July 30, 2009 to increase its WC balance to \$8,188,437. When reviewing the Plan's WC calculation, we determined that the Plan inappropriately included electronic fund transfers in the calculation.

To determine if the Plan maintained an adequate WC deposit, we recalculated what the Plan's WC balance should have been and determined that, as of July 31, 2009, the Plan should have only maintained a WC balance of \$5,469,889. Our calculation excluded the electronic fund transfers. Therefore, at the end of the audit scope, the Plan held a WC balance with an excess amount of \$2,718,548 (\$8,188,437 minus \$5,469,889) over the amount actually needed to meet the Plan's daily cash needs for FEHBP claim payments.

Association's Response:

The Association disagrees with this finding. The Association states that “the excess working capital relates entirely to a one day advance that was approved by the FEP Director’s office to prevent overdraft charges to the FEP for inadequate funding and to reduce the costs associated with estimates related to EFTs to be drawn. Approval for the one day advance was provided in writing from the FEP Director’s Office prior to the issuance of the new Carrier Letter rule.

The Plan did increase the EFT amount in October 2009 by \$107,756.50, but, based on new information about the Carrier Letter, has submitted a Special Plan Invoice on September 13, 2010 to reverse this transaction.

In addition, the Plan and the FEP Director’s Office will work with the Contracting Officer to approve an exception until the Plan can develop and implement a solution that will not incur more costs to the Program, either in overdraft fees or additional project costs, to provide a more timely report regarding Electronic Funds Transfers processed to be used in the daily LOCA drawdown.”

OIG Comments:

The regulations clearly state that EFT’s should not be included in the WC calculation. Based on our auditing experience, most, if not all, of the other BCBS plans make some EFT payments to providers, but exclude these payments from their WC calculations. We have also noted that other BCBS plans have procedures to adequately account for EFT’s in the LOCA drawdown process. The Plan should develop and implement procedures to better account for EFT’s in the LOCA drawdown process. As a suggestion, the Plan and FEP Director’s Office should consider soliciting other BCBS plans to benchmark “best practices” to account for EFT’s in the LOCA drawdown process.

We will continue to question \$2,718,548 since this was the excess amount held by the Plan as of July 31, 2009. We determined this excess amount (\$8,188,437 minus \$5,469,889) by subtracting our WC calculated amount, which is based on the LOCS Guidelines and excluded EFT’s, from the Plan’s WC amount as of July 31, 2009, which included EFT’s in the calculation.

Recommendation 23

We recommend that the contracting officer direct the Plan to credit the FEHBP \$2,718,548 for the excess WC funds.

Recommendation 24

We recommend that the contracting officer instruct the Plan to calculate the WC amount in accordance with the LOCS Guidelines. Also, the Plan should develop and implement procedures to better account for EFT's in the LOCA drawdown process.

2. Interest Income

Procedural

The Plan did not credit the FEHBP in a timely manner for interest income earned on funds deposited into the FEP investment account. This is a procedural finding.

48 CFR 1652.215-71(a) states, "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. . . ." 48 CFR 1652.215-71(b) states, "All investment income earned on FEHB funds shall be credited to the Special Reserve on behalf of the FEHBP."

Based on the LOCS Guidelines, interest earned on FEHBP funds must be credited to the FEHBP at least on a monthly basis by adjusting the LOCA, and used by the Carrier to pay only FEHBP expenses.

For the period January 1, 2006 through July 31, 2009, the Plan earned interest income of \$977,509 on the funds in the FEP investment account. However, we noted several instances where the Plan did not credit the interest earned to the FEHBP in a timely manner. For example, the Plan earned interest income of \$36,842 on funds in the FEP investment account during November 2007, but did not credit this interest income amount to the LOCA until October 2008 (approximately 10 ½ months later).

Association's Response:

The Association agrees with this finding. The Plan will work with the FEP Director's Office to improve the timely approval of special plan invoices submitted for the movement of the investment income to the LOCA.

Recommendation 25

We recommend that the contracting officer have the Association verify that the Plan has implemented procedures to ensure interest income earned on FEHBP funds is credited to the LOCA in a timely manner.

D. LOST INVESTMENT INCOME ON AUDIT FINDINGS

\$4,633

As a result of the audit findings presented in this report, the FEHBP is due LII of \$4,633 from January 1, 2007 through June 30, 2010.

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our computations show that the FEHBP is due LII of \$4,633 from January 1, 2007 through June 30, 2010 on questioned costs for contract years 2006 through 2008 (see Schedule C).

Association's Response:

The draft audit report did not include an audit finding for LII. Therefore, the Association did not address this item in its reply.

OIG Comments:

According to the Association's draft report response, the Plan submitted prior period adjustments to the Association on June 21st and September 13th of 2010 for the “Unallowable and/or Unallocable Expenses” (B1) and “Pension Costs” (B3) audit findings, respectively. These audit findings are subject to our LII calculation in Schedule C. Since the Plan submitted prior period adjustments on June 21st and September 13th for these audit findings, we only calculated LII through June 30, 2010.

The Plan also calculated LII on the audit finding for “Prior Period Adjustments” (B2) and returned this LII amount to the FEHBP. Therefore, this audit finding is not subject to our LII calculation in Schedule C.

Recommendation 26

We recommend that the contracting officer direct the Plan to credit \$4,633 (plus interest accruing after June 30, 2010) to the Special Reserve for LII on audit findings.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Auditor

██████████ Chief (██████████)

██████████, Senior Team Leader

V. SCHEDULES

BLUECROSS BLUESHIELD OF FLORIDA
JACKSONVILLE, FLORIDA

CONTRACT CHARGES

CONTRACT CHARGES	2006	2007	2008	TOTAL
A. HEALTH BENEFIT CHARGES				
PLAN CODE 90	\$462,177,205	\$533,130,414	\$583,202,582	\$1,578,510,201
MISCELLANEOUS PAYMENTS AND CREDITS	2,499,306	1,407,218	4,072,832	7,979,356
PLAN CODE 590	500,342,054	550,144,957	565,791,981	1,616,278,992
MISCELLANEOUS PAYMENTS AND CREDITS	0	0	0	0
TOTAL	\$965,018,565	\$1,084,682,589	\$1,153,067,395	\$3,202,768,549
B. ADMINISTRATIVE EXPENSES				
PLAN CODE 90	\$58,151,786	\$61,596,632	\$61,730,415	\$181,478,833
PRIOR PERIOD ADJUSTMENTS	(4,816)	(887,862)	0	(892,678)
TOTAL	\$58,146,970	\$60,708,770	\$61,730,415	\$180,586,155
TOTAL CONTRACT CHARGES	\$1,023,165,535	\$1,145,391,359	\$1,214,797,810	\$3,383,354,704

BLUCROS BLUESHIELD OF FLORIDA
JACKSONVILLE, FLORIDA

QUESTIONED CHARGES

AUDIT FINDINGS	2006	2007	2008	2009	2010	TOTAL
A. HEALTH BENEFIT CHARGES						
1. Claim Payments						
a. Inpatient Facility Claims - Duplicate or Overlapping Dates of Service	\$60,316	\$231,660	\$80,570	\$272,812	\$0	\$645,358
b. System review	0	(686)	19,491	18,680	0	37,485
Total Claim Payments	\$60,316	\$230,974	\$100,061	\$291,492	\$0	\$682,843
2. Miscellaneous Payments and Credits*						
a. Health Benefit Refunds	\$57,096	\$436	\$806,291	\$17,065,073	\$0	\$17,928,896
b. Subrogation Recoveries	0	123	140,707	126,893	0	267,723
c. Hospital Bill Audit Recoveries	318	761	21,546	96,741	0	119,366
d. Fraud Recoveries	57,129	15,322	41	1,066	0	73,558
e. ██████████ Drug Rebates	0	7,174	4,138	17,795	0	29,107
Total Miscellaneous Payments and Credits	\$114,543	\$23,816	\$972,723	\$17,307,568	\$0	\$18,418,650
TOTAL HEALTH BENEFIT CHARGES	\$174,859	\$254,790	\$1,072,784	\$17,599,060	\$0	\$19,101,493
B. ADMINISTRATIVE EXPENSES						
1. Unallowable and/or Unallocable Expenses**	\$521	\$752	\$39,913	\$0	\$0	\$41,186
2. Prior Period Adjustments***	4,816	0		0	756	5,572
3. Pension Costs**	8,791	1,585	(456,525)	0	0	(446,149)
TOTAL ADMINISTRATIVE EXPENSES	\$14,128	\$2,337	(\$416,612)	\$0	\$756	(\$399,391)
C. CASH MANAGEMENT						
1. Excess Working Capital	\$0	\$0	\$0	\$2,718,548	\$0	\$2,718,548
2. Interest Income (Procedural)	0	0	0	0	0	0
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$2,718,548	\$0	\$2,718,548
D. LOST INVESTMENT INCOME ON AUDIT FINDINGS	\$0	\$512	\$576	\$2,707	\$838	\$4,633
TOTAL QUESTIONED CHARGES	\$188,987	\$257,639	\$656,748	\$20,320,315	\$1,594	\$21,425,283

* The audit findings for miscellaneous payments and credits include lost investment income (LII). No additional LII is applicable for these audit findings.

** Only the administrative expense overcharges by year are subject to LII for this audit finding.

*** This audit finding includes LII of \$756. No additional LII is applicable for this audit finding.

BLUECROSS BLUESHIELD OF FLORIDA
 JACKSONVILLE, FLORIDA

LOST INVESTMENT INCOME CALCULATION

LOST INVESTMENT INCOME	2006	2007	2008	2009	2010	TOTAL
A. QUESTIONED CHARGES (Subject to Lost Investment Income)						
ADMINISTRATIVE EXPENSES	\$9,312	\$2,337	\$39,913	\$0	\$0	\$51,562
B. LOST INVESTMENT INCOME CALCULATION						
a. Prior Years Total Questioned (Principal)	\$0	\$9,312	\$2,337	\$39,913	\$0	
b. Cumulative Total	<u>0</u>	<u>0</u>	<u>9,312</u>	<u>11,649</u>	<u>51,562</u>	
c. Total	\$0	\$9,312	\$11,649	\$51,562	\$51,562	
d. Treasury Rate: January 1 - June 30	5.125%	5.250%	4.750%	5.625%	3.250%	
e. Interest (d * c)	\$0	\$244	\$277	\$1,450	\$838	\$2,809
f. Treasury Rate: July 1 - December 31	5.750%	5.750%	5.125%	4.875%		
g. Interest (f * c)	\$0	\$268	\$299	\$1,257		\$1,824
Total Interest By Year (e + g)	\$0	\$512	\$576	\$2,707	\$838	\$4,633

November 12, 2010

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 20415-1100



**BlueCross BlueShield
 Association**

An Association of Independent
 Blue Cross and Blue Shield Plans

Federal Employee Program
 1310 G Street, N.W.
 Washington, D.C. 20005
 202.942.1000
 Fax 202.942.1125

**Reference: OPM DRAFT AUDIT REPORT RESPONSE
 BlueCross BlueShield of Florida
 Audit Report Number 1A-10-41-10-012
 (Dated August 13, 2010 and Received August 13, 2010)**

Dear [REDACTED]:

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

A. HEALTH BENEFIT CHARGES

1) Claim Payment Errors

a) Inpatient Facility Claims-Duplicate Dates of Service \$645,358

The Plan agrees that questioned claims cost of \$645,358 may have been paid in error; however, the OIG auditors sited the entire amount of the claims as overpayments when there are FEP liabilities to pay for those days that were not overlapping days. The exact amount of the overpayments cannot be determined until the providers submit corrected billings. The Plan has initiated recoveries where applicable.

Currently, FEPEXpress has an edit that is designed to defer inpatient claims with overlapping dates of services when the services are performed by the same provider. A request to enhance this edit to defer inpatient claims when the dates of service overlap and the services were provided by different providers has been submitted. Due to the large number of 2011 benefit changes, this edit modification will not be implemented until 2011. In addition, the FEP Director's Office has expanded its System-wide Claims Review Process to now include

inpatient admissions with overlapping dates of services. This listing was implemented into the review process as of the 2nd Quarter 2010.

Accordingly, to the extent that errors did occur, the payments are good faith erroneous benefits payments and fall within the context of CS 1039, Section 2.3(g). Any benefit payments the Plan is unable to recover are allowable charges to the Program. In addition, as good faith payments, the Plan continues to initiate recovery in a timely manner for confirmed overpayments. Because these are good faith erroneous payments, they are not subject to lost investment income.

b) Deleted by the Office of the Inspector General – Not Relevant to the Final Report

Deleted by the Office of the Inspector General – Not Relevant to the Final Report

c) System Review

\$37,485

The Plan agrees with the entire amount of this finding. These claim payments were caused by processor manual errors and a processing exception noted in FEPEXpress claims system prior to the start of the audit. These payment exceptions caused both over and underpayments. All underpayments have been issued to the providers and/or members. Recoveries have been initiated on the overpayments.

The Plan has taken the following actions to minimize these types of errors in the future:

- Conducted refresher training in those areas impacted by the manual payment errors such as the requirements for the following:
 - completing proper research for deferral resolution prior to submitting the override codes;
 - use of the correct procedures for manual pricing of claims; and
 - proper claim coding for the mother and baby during a maternity admission.
- In addition, Plan staff re-enforced the requirements for manual pricing of claims to include the proper usage of the non-par relief provision in the FEP Contract.

The Catastrophic Indicator issue with FEPEXpress that caused both over and underpayments was corrected during the first quarter 2010. Periodic monitoring of the system has not identified any other exceptions with this indicator since the correction was implemented.

Accordingly, to the extent that errors did occur, the payments are good faith erroneous benefits payments and fall within the context of CS 1039, Section 2.3(g). Any benefit payments the Plan is unable to recover are allowable charges to the Program. In addition, as good faith payments, the Plan continues to initiate recovery in a timely manner for confirmed overpayments. Because

Mr. [REDACTED]
November 12, 2010
Page 4 of 7

these are good faith erroneous payments, they are not subject to lost investment income.

B. MISCELLANEOUS PAYMENTS AND CREDITS

- 1. Deleted by the Office of the Inspector General – Superseded by the BlueCross BlueShield Association's Revised Response for Health Benefit Refunds (See APPENDIX B)**

2. Subrogation Recoveries \$267,599

The Plan agrees that \$267,599 in subrogation recoveries (\$249,233 in recoveries and \$18,366 in lost investment income) were not returned to the Program. The Plan stated that the timeliness issue of returning subrogation recoveries had been corrected with the implementation of the SAP project. The FEP Director's Office's Control and Performance Review highlighted Accounts Receivable system inefficiencies that were expected to be corrected with the implementation of the SAP project; however, the project was delayed. The OIG confirmed the return of \$246,675. The Plan's recalculation of lost investment income found that amount to be \$18,490. The Plan submitted documentation to support the return of the remaining \$2,558 for subrogation recoveries (Recommendation 13), as well as \$18,490 for the Lost Investment Income associated with refunds that were deposited untimely (Recommendation 14), to the FEHBP.

3. Hospital Bill Audit Recoveries \$119,366

The Plan agrees that \$119,365 in hospital bill audit recoveries (\$109,143 in recoveries and \$10,223 in lost investment income) were not returned to the Program. The OIG confirmed the return of \$109,143 in recoveries and \$5,463 in lost investment income. The Plan submitted documentation to support the return of the remaining \$4,760 in lost investment income (Recommendation 16), to the FEHBP.

4. Fraud Recoveries \$73,485

The Plan agrees that \$73,485 in fraud recoveries (\$61,389 in recoveries and \$12,096 in lost investment income) were not returned to the Program. The Plan's recalculation of lost investment income found that amount to be \$12,169. The Plan submitted documentation to support the return of \$61,389 (Recommendation 17) and \$12,169 in lost investment income (Recommendation 18), to the FEHBP.

5. [REDACTED] Drug Rebates \$29,235

The Plan agrees that \$20,235 in [REDACTED] drug rebates (\$16,659 in rebates and \$12,576 in lost investment income) were not returned to the Program. The OIG verified the return of \$16,659 in rebates received. The Plan's recalculation of lost investment income found that amount to be \$12,448. The Plan submitted documentation to support the return of \$12,448 in lost investment income (Recommendation 20), to the FEHBP. Also, the Plan will create and implement a

corrective action plan to mitigate inefficiencies that have caused the delays in the return of the funds to the LOC account.

C. ADMINISTRATIVE EXPENSES

1. Deleted by the Office of the Inspector General – Not Relevant to the Final Report

2. Unallowable and/or Unallowable Expenses 41,186

The Plan agreed with this finding; however, the Plan requested that the wording be changed to reflect that the annual conferences were for Professional Development of Hospital Bill auditors and Special Investigation Unit personnel and was not limited to leadership. The Plan submitted Prior Period Adjustments, on June 21, 2010, in the amount of \$41,186 (Recommendation 22) for the overcharge.

3. Prior Period Adjustments \$4,816

The Plan agreed with this finding and returned funds to the FEHBP on February 12, 2010. Lost Investment Income, totaling \$756 was returned on March 18, 2010 (Recommendation 23).

4. Pension Costs (\$446,149)

The Plan agreed with this finding and submitted Prior Period Adjustments, totaling a credit of \$446,149, on September 13, 2010 (Recommendation 24).

D. CASH MANAGEMENT

1. Interest Income Procedural

The Plan agreed with this finding. In addition, the Plan stated that it would work with the FEP Director's Office staff to improve the timely approval of Special Plan Invoices and Prior Period Adjustments submitted for the movement of the Investment Income to the LOCA (Recommendation 25).

2. Working Capital

\$2,718,548

The Plan disagrees with this finding. The Plan stated that the excess working capital relates entirely to a one day advance that was approved by the FEP Director's office to prevent overdraft charges to the FEP for inadequate funding and to reduce the costs associated with estimates related to EFTs to be drawn. Approval for the one day advance was provided in writing from the FEP Director's Office prior to the issuance of the new Carrier Letter rule.

The Plan did increase the EFT amount in October 2009 by \$107,756.50, but, based on new information about the Carrier Letter, has submitted a Special Plan Invoice on September 13, 2010 to reverse this transaction.

In addition, the Plan and the FEP Director's Office will work with the Contracting Officer to approve an exception until the Plan can develop and implement a solution that will not incur more costs to the Program, either in overdraft fees or additional project costs, to provide a more timely report regarding Electronic Funds Transfers processed to be used in the daily LOCA drawdown.

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.

[REDACTED]
Executive Director
Program Integrity

rcm/fr



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

Federal Employee Program
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March 18, 2011

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 20415-1100

**Reference: OPM DRAFT AUDIT REPORT
BlueCross BlueShield of Florida
Audit Report Number 1A-10-41-10-012**

Dear Mr. [REDACTED]:

Attached is the Plan's revised response to the health benefit refund finding.

B. MISCELLANEOUS PAYMENTS AND CREDITS

1) Health Benefit Refunds \$17,374,998

The amount of \$17,374,998 includes \$17,311,066 in refunds and \$63,932 in lost investment income. The FEP Director's Office Control and Performance Review audit in March of 2009 highlighted accounts receivable system inefficiencies. These inefficiencies, which led to larger accounts receivable amounts, were anticipated to be corrected with the implementation of the Plan's Standard Adjustment Process (SAP). However, the SAP implementation was delayed due to the complexity of the system change.

The Plan committed to correct the slow return of funds to the LOCA as part of the FEPDO audit resolution and ultimately moved \$15,880,196 to the FEP investment account. The Plan agrees that \$1,430,936 in refunds, representing multiple claims, were not returned to the FEP Letter of Credit Account (LOCA) by July 31, 2009. The Plan agrees that an estimated \$15,880,130, representing multiple claims, were not returned to the LOCA within 60 days of receipt; however, the Plan deposited the \$15,880,130 to the FEP investment account on December 4, 2009, based on a good-faith estimate of receivable at the time, in advance of reconciling the refunds for transfer to the LOCA. The OIG verified that \$11,449,812 in refunds had been returned to the FEHBP. The Plan provided documentation, to the FEP Director's Office that supported the return of the remaining \$5,861,254 (\$17,311,066 - \$11,449,812) to the FEHBP. In addition, the Plan re-calculated the lost investment income amount on the \$1,430,936 to be \$66,879. The Plan provided documentation, to support the return of the lost investment income to the FEHBP. The Plan has calculated the lost investment income on the applicable portion of the \$15,880,130. The Plan provided documentation, to support the return of the lost investment income to the FEHBP.

Mr. [REDACTED]
March 18, 2011
Page 2 of 2

The Plan also stated that the system and process changes that contributed significantly to delays in reconciling refunds for return to the LOCA have been corrected with the Plan's new standard adjustment process (SAP), implemented March 2010.

The Plan is has taken (or will take) the following corrective actions regarding this finding:

- Internal Audit is in the process of conducting a review of the implementation of the Standard Adjustment Process to determine if the process is functioning as intended or if additional action needs to be taken.
- The Plan advanced \$4.6 million on October 29, 2010 to ensure funds in an open cash status for FEP were returned to the FEP program on a timely basis; since that time, the Plan's reconciliations against those funds have resulted in adjustments reducing the amount of the advance to the LOCA to \$2.6 million.
- The Plan established a formal workgroup to address open cash matters. That group has since identified several different scenarios causing cash to remain open and is in the process of determining root causes. When root causes are identified, the group will recommend system and/or process fixes to be implemented to mitigate the identified issues.
- An informal pre-SAP reconciliation workgroup is also working on correcting pre-SAP issues with the PeopleSoft Accounts Receivable system and reporting to facilitate the update of detail records; this is a joint project with FEP Accounting, FEP Operations and ORAR staff.

The Plan expects to have these actions completed by 3rd quarter 2011. The FEP Director's Office will conduct a Control Performance Review at the Plan during 3rd quarter 2011 and will validate completion of the Plan's actions at that time.

We appreciate the opportunity to provide our revised response to this issue.

Sincerely,

[REDACTED]
Director, Program Assurance