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

Final Audit Report

Subject:

AUDIT OF
BLUECROSS BLUESHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA

Report No. 1A-10-33-12-020

Date: December 27, 2012

AUDIT REPORT

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

BlueCross BlueShield of North Carolina
Plan Codes 310/810
Durham, North Carolina

REPORT NO. 1A-10-33-12-020 DATE: December 27, 2012

Michael R. Esser
Assistant Inspector General
for Audits

--CAUTION--

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
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Plan Codes 310/810
Durham, North Carolina

REPORT NO. 1A-10-33-12-020 DATE: December 27, 2012

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of North Carolina (Plan), in Durham, North Carolina, questions $344,052 in health benefit charges and lost investment income (LII), $38,757 in administrative expenses, and $3,000 in statutory reserve payments. The BlueCross BlueShield Association (Association) agreed (***A***) with $80,344 and disagreed (***D***) with $305,465 of the questioned charges and LII. Additional LII on the questioned charges amounts to $1,679, calculated from January 1, 2009 through May 4, 2012.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits from 2006 through August 31, 2011, as well as administrative expenses and statutory reserve payments from 2006 through 2010 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds from 2006 through August 31, 2011.

The audit results are summarized as follows:

MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

- **Health Benefit Refunds** **$328,476**

  The Plan was not diligent in its efforts to recover claim overpayments made to two members. Consequently, $305,465 in overpayments have been outstanding for more than two years and are potentially at risk of being uncollectible. Also, while reviewing health benefit refunds, we identified a partial batch of refunds, totaling $20,000, that the Plan had not returned to the FEHBP. As a result of this finding, the Plan returned $23,011 to the FEHBP, consisting of $20,000 for the questioned health benefit refunds and $3,011 for LII on these refunds. However, the FEHBP is still due $305,465 for claim overpayments that have not been recovered from two members. The Association agreed with $23,011 ***(A)*** and disagreed with $305,465 ***(D)*** of this questioned amount.

- **Fraud Recoveries *(A)*** **$10,370**

  The Plan had not returned two fraud recoveries, totaling $9,891, to the FEHBP as of August 31, 2011. As a result of this finding, the Plan returned $10,370 to the FEHBP, consisting of $9,891 for the questioned fraud recoveries and $479 for LII on these recoveries.

- **Special Plan Invoices *(A)*** **$5,206**

  In one instance, the Plan did not properly calculate LII on a special plan invoice (SPI) with a credit adjustment. In another instance, the Plan did not timely deposit an SPI with a credit adjustment into the Federal Employee Program (FEP) investment account. Since the Plan returned these SPI credit amounts to the FEHBP during the audit scope, we did not question these amounts as a monetary finding. However, as a result of this finding, the Plan returned LII of $5,206 to the FEHBP, calculated on these SPI credit amounts.

ADMINISTRATIVE EXPENSES

- **Limits on Executive Compensation *(A)*** **$41,478**

  The Plan overcharged the FEHBP $41,478 for executive compensation in 2010.

- **BlueCross BlueShield Association Dues *(A)*** **($2,721)**

  The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and OPM regarding dues chargeability. As a result, the FEHBP was undercharged $2,721 for Association dues in 2007.

STATUTORY RESERVE PAYMENTS

- **Statutory Reserve Overcharge *(A)*** **$3,000**

The Plan overcharged the FEHBP $3,000 for the 2008 mandatory statutory reserve payment. Specifically, the Plan calculated a 2008 mandatory statutory reserve payment of $1,734,676, but inadvertently withdrew $1,737,676 from the letter of credit account (LOCA) on December 21, 2009. The Plan subsequently identified this error and returned the overcharge of $3,000 to the LOCA on May 28, 2010. However, since these funds were not deposited into the FEP investment account, the Plan did not complete the process of returning these funds to the FEHBP.

CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the audit findings pertaining to cash management noted in the "Miscellaneous Health Benefit Payments and Credits" and "Statutory Reserve Payments" sections.

LOST INVESTMENT INCOME ON AUDIT FINDINGS

As a result of our audit findings presented in this audit report, the FEHBP is due LII of **$1,679**, calculated from January 1, 2009 through May 4, 2012.

CONTENTS

I. INTRODUCTION AND BACKGROUND

INTRODUCTION

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

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 64 local BlueCross and BlueShield plans participating in the FEHBP.

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

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.

[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.

All findings from our previous audit of miscellaneous health benefit payments and credits, administrative expenses, and cash management for this Plan (Report No. 1A-10-33-06-037, dated August 28, 2007), covering contract years 2002 through 2004, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated May 31, 2012. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.

- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned 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.

Statutory Reserve Payments

- To determine whether the Plan charged statutory reserve payments to the FEHBP in accordance with the contract and applicable laws and 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 limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 310 and 810 for contract years 2006 through 2010. During this period, the Plan paid approximately $2.3 billion in health benefit charges and $131 million in administrative expenses (See Figure 1 and Schedule A). The Plan also paid approximately $6.3 million in statutory reserve payments (See Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and fraud recoveries) and cash management activities for 2006 through August 31, 2011. We also reviewed administrative expenses and statutory reserve payments for 2006 through 2010.

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

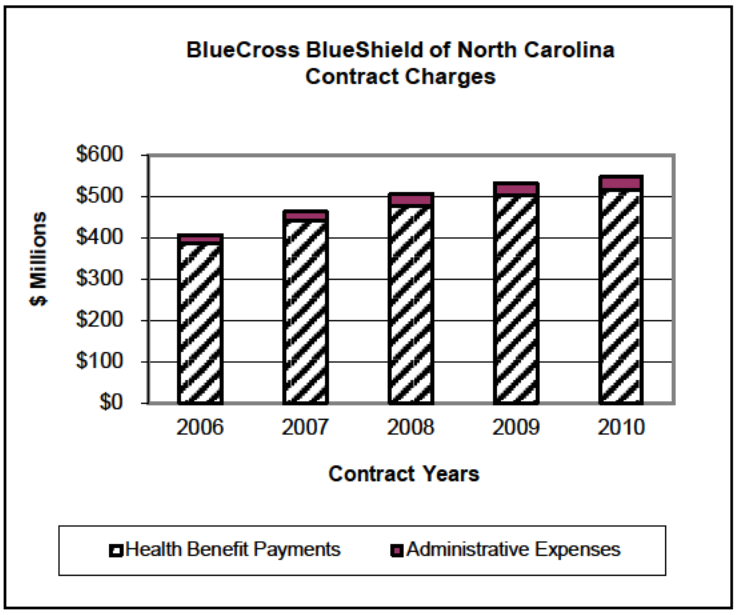

Figure 1 - Contract Charges

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 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 offices in Durham, North Carolina on various dates from February 6, 2012 through March 30, 2012. Audit fieldwork was also performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 70 high dollar health benefit refunds, totaling $1,313,966 (no universe totals were provided by the Plan) for the period January 1, 2006 through April 30, 2009; 127 high dollar health benefit refunds, totaling $11,229,493 (from a universe of 82,215 refunds, totaling $52,891,737) for the period May 1, 2009 through August 31, 2011; 54 high dollar provider audit recoveries, totaling $2,225,081 (from a universe of 5,946 recoveries, totaling $9,618,903); 50 high dollar subrogation recoveries, totaling $1,194,230 (from a universe of 69,434 recoveries, totaling $8,185,018); 25 special plan invoices (SPI), totaling $868,494 in net FEP credits (from a universe of 735 SPI's, totaling $3,503,843 in net FEP payments); and 9 fraud recoveries, totaling $68,492 (from a universe of 47 recoveries, totaling $88,702), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.[2] The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2006 through 2010. 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, Association dues, non-recurring projects, subcontracts, gains and losses, lobbying, return on investment, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We reviewed the statutory reserve payments charged to the FEHBP for contract years 2006 through 2010. We also reviewed the Plan's cash management practices from 2006 through August 31, 2011 to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

[2] For the period January 1, 2006 through April 30, 2009, the sample of health benefit refunds consisted of 10 refunds with amounts greater than $5,000 from each of the following months: March 2006, August 2006, March 2007, August 2007, March 2008, August 2008, and March 2009. For the period May 1, 2009 through August 31, 2011, the sample of health benefit refunds included all refunds of $40,000 or more. For provider audit recoveries, the sample included all recoveries of $25,000 or more. For subrogation recoveries, the sample included all recoveries of $10,000 or more. For the SPI sample, we selected all SPI's with credit or payment totals of $125,000 or more to the FEHBP. The sample of fraud recoveries included all FEP recoveries of $4,000 or more as well as one fraud settlement recovery that was allocated to the FEP.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds $328,476

The Plan was not diligent in its efforts to recover claim overpayments made to two members. Consequently, $305,465 in overpayments have been outstanding for more than two years and are potentially at risk of being uncollectible. Also, while reviewing health benefit refunds, we identified a partial batch of refunds, totaling $20,000, that the Plan had not returned to the FEHBP. As a result of this finding, the Plan returned $23,011 to the FEHBP, consisting of $20,000 for the questioned health benefit refunds and $3,011 for LII on these refunds. However, the FEHBP is still due $305,465 for claim overpayments that have not been recovered from two members.

Contract CS 1039, Part II, Section 2.3(g) states, "If the Carrier 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 to the member from the member or, if to the provider, from the provider."

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."

The Plan provided listings of FEP health benefit refunds for the period January 1, 2006 through April 30, 2009. However, based on the format of these listings, we could not determine the refund universe totals for this period. From these listings, we selected and reviewed a judgmental sample of 70 health benefit refunds (cash receipts only), totaling $1,313,966, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. Our sample consisted of 10 high dollar refunds with amounts greater than $5,000 from each of the following months: March 2006, August 2006, March 2007, August 2007, March 2008, August 2008, and March 2009.

For the period May 1, 2009 through August 31, 2011, there were 82,215 FEP health benefit refunds, totaling $52,891,737 (cash receipts and provider/member offsets). From this

universe, we selected and reviewed a judgmental sample of 127 health benefit refunds, totaling $11,229,493, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. Our sample included all health benefit refunds of $40,000 or more.

Based on our review of these samples, we determined that the Plan did not recover $305,465 ($200,185 for 545 claim payment errors reimbursed to member "A" and $105,280 for 4 claim payment errors reimbursed to member "B") from voucher deductions that were set-up to recover these funds from these two members. Specifically, the Plan notified these two members on January 7, 2010 and April 28, 2010, respectively, that claim payments, totaling $338,999 ($207,624 for 565 claim payment errors reimbursed to member "A" and $131,375 for 5 claim payment errors reimbursed to member "B"), were made in error. The Plan requested that members "A" and "B" refund the Plan for these claim payment errors. When these members did not return the funds, the Plan established voucher deductions to offset future payments to these members until all amounts were recovered. As of March 31, 2012, approximately two years later, the Plan had only recovered $33,534 ($7,439 for 20 claim payment errors reimbursed to member "A" and $26,095 for 1 claim payment error reimbursed to member "B") from these members. Except for the initial letters that were sent to these members and the voucher deductions that were established, the Plan had not made any other attempts to recover these outstanding funds, such as sending additional follow-up letters to the members or referring these cases to a collection attorney or agency. As a result of the Plan not being diligent in its efforts to recover these claim overpayments, the FEHBP is at high risk of losing $305,465 since these funds may not be recovered.

In addition to the exceptions noted above, we identified an error with the return of one batch of health benefit refunds. Specifically, the Plan returned $98,968 to the FEHBP for a batch of health benefit refunds instead of the total amount of $118,968. Consequently, the Plan had not returned $20,000 in health benefit refunds to the FEHBP. As a result of this finding, the Plan returned $23,011 to the FEHBP, consisting of $20,000 for the questioned health benefit refunds and $3,011 for LII on these refunds.

In total, we are questioning $328,476, consisting of $305,465 for claim overpayments not recovered from two members, $20,000 for a partial batch of health benefit refunds, and $3,011 for LII on these refunds.

Association's Response:

The Association agrees with $23,011 of this finding and states that the Plan returned the questioned health benefit refunds of $20,000 and applicable LII of $3,011 to the FEHBP on May 4, 2012.

However, the Association states that "the Plan continues to disagree with the remaining $305,465 for member claims not collected. For these claims, when the overpayment was discovered the Plan issued a letter and began the offset process on the FEP claim system and collected over $33,500 . . . As each offset was completed, the member was sent an explanation of benefit describing the offset and the balance due the Program (which

served as notification of the outstanding amount due the Program). The subscriber never directly submitted any refunds to cover the balance of the overpayment. The subscriber subsequently stopped submitting claims, and as a result, no further recoveries were made. This resulted in the outstanding balance of $305,465.

Since this finding occurred, the Plan has taken the following actions to increase the possibility of recovering overpayments for member claims set up as an offset against future claims:

- The Plan revised Standard Operating Procedure to include sending 4 letters to members, with the first letter being a voucher deduct letter as well as the explanation of benefits that details the liability due the Program.

- The Plan issued second, third and fourth request letters for the two members identified in this finding.

- The Plan conducted training on June 6, 2012 to reinforce the sending of letters.

- The Plan developed a process to ensure any adjustments made to the weekly draw are adequately documented to provide an audit trail and to ensure all refunds are returned to the program."

OIG Comments:

The contested amount represents 549 claims incorrectly paid to two members. According to the initial refund letter mailed to each of these members, the refund request reasons were as follows: "NON COVERED TRANSPORT CUMBERLAND COUNTY EMS" and "PAYMENT WAS MADE TO SUBSCRIBER IN ERROR NORTH CAROLINA DIALYSIS." The Plan did not make a prompt and diligent effort to recover these claim overpayments. Contract CS 1039, Part II, Section 2.3(g) clearly defines what is meant by a prompt and diligent effort. Initially, the Plan sent one letter to each member and then established offsets. The contract states that after the first notice, follow-up notices should be sent to the member at 30, 60, and 90-day intervals. If the debt remains unpaid and undisputed, the Plan may offset future benefits payable to the member, and if this does not work, refer cases when cost effective to do so to a collection attorney/agency if the debt is not recovered. The Plan did not follow all of the required steps for recovering these overpayments, as outlined in the contract. Therefore, we are continuing to question the amounts that have not been recovered and returned to the FEHBP. ***The FEHBP should not be expected to cover these claim overpayments because the Plan was not diligent in its recovery efforts.*** However, we do acknowledge that the Plan has subsequently taken additional corrective actions to address the questioned overpayments, as well as improved its procedures to ensure the recovery of overpayments for member claims that are set up as offsets against future claims.

The Association provided documentation supporting that the Plan wire transferred $20,000 for the questioned health benefit refunds and $3,011 for LII to the Association's FEP joint operating account on May 4, 2012. The Association then wire transferred these funds to OPM on May 10, 2012.

Recommendation 1

Since the Plan was not diligent in its recovery efforts, we recommend that the contracting officer direct the Plan to credit the FEHBP $305,465 for the 549 claim overpayments that have not been recovered.

Recommendation 2

Since we verified that the Plan returned $20,000 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

Recommendation 3

Since we verified that the Plan returned $3,011 to the FEHBP for LII on the questioned health benefit refunds, no further action is required for this LII amount.

2. Fraud Recoveries **$10,370**

The Plan had not returned two fraud recoveries, totaling $9,891, to the FEHBP as of August 31, 2011. As a result of this finding, the Plan returned $10,370 to the FEHBP, consisting of $9,891 for the questioned fraud recoveries and $479 for LII on these recoveries.

As previously stated under audit finding A1, the Plan is required to promptly return fraud recoveries to the FEHBP with applicable LII.

For the period January 1, 2006 through August 31, 2011, there were 47 FEP fraud recoveries, totaling $88,702. From this universe, we selected and reviewed a judgmental sample of nine fraud recoveries, totaling $68,492, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. Our sample included all FEP fraud recoveries of $4,000 or more and one fraud settlement recovery that was allocated to the FEP.

Based on our review, we determined that the Plan had not returned two of the fraud recoveries in our sample, totaling $9,891, to the FEHBP. One exception occurred because a voucher deduction was not set up in the Plan's claims system to recover an overpayment amount of $5,545. The other exception occurred because the Plan did not deposit a recovery amount of $4,346 into the FEP investment account nor return the funds to the LOCA. Since these funds were not recovered and/or deposited into the FEP investment account, we also calculated LII of $479. As a result of this finding, the Plan

returned $10,370 to the FEHBP, consisting of $9,891 for the questioned fraud recoveries and $479 for applicable LII.

Association's Response:

The Association agrees with this finding. The Association states that the Plan returned the questioned fraud recoveries and applicable LII to the FEHBP on March 26, 2012 and May 4, 2012. The Association also states that the Plan has implemented corrective actions to ensure that fraud recoveries are returned timely to the FEHBP.

OIG Comments:

The Association provided documentation supporting that the Plan wire transferred $9,891 for the questioned fraud recoveries and $479 for LII to the Association's FEP joint operating account on March 26, 2012 ($5,545 in recoveries plus $416 in LII) and May 4, 2012 ($4,346 in recoveries plus $63 in LII). The Association then wire transferred these funds to OPM on April 26, 2012 and May 10, 2012, respectively.

Recommendation 4

Since we verified that the Plan returned $9,891 to the FEHBP for the questioned fraud recoveries, no further action is required for this amount.

Recommendation 5

Since we verified that the Plan returned $479 to the FEHBP for LII on the questioned fraud recoveries, no further action is required for this LII amount.

3. Special Plan Invoices $5,206

In one instance, the Plan did not properly calculate LII on an SPI with a credit adjustment. In another instance, the Plan did not timely deposit an SPI with a credit adjustment into the FEP investment account. Since the Plan returned these SPI credit amounts to the FEHBP during the audit scope, we did not question these principal amounts as a monetary finding. However, as a result of this finding, the Plan returned LII of $5,206 to the FEHBP, calculated on these SPI credit amounts.

As previously stated under audit finding A1, the Plan is required to promptly return refunds and recoveries to the FEHBP with applicable LII.

For the period January 1, 2006 through August 31, 2011, there were 735 SPI's totaling $3,503,843 in net FEP payments. From this universe, we selected and reviewed a judgmental sample of 25 SPI's, totaling $868,494 in net FEP credits, to determine whether the Plan properly calculated, charged and/or credited these SPI amounts to the FEHBP. Our sample included all SPI's with net charges or credits to the FEHBP of $125,000 or more.

We determined that the SPI's in our sample were properly charged or credited to the FEHBP. However, in one instance, we found that the Plan miscalculated the LII amount on an SPI credit adjustment, resulting in additional LII of $2,620 due to the FEHBP. In addition, we found that the funds for another SPI credit adjustment, totaling $416,987, were deposited into the FEP investment account in an untimely manner (i.e., 48 days late). As a result, we calculated LII of $2,586 on this SPI amount since the funds were deposited untimely into the FEP investment account. The Plan returned LII, totaling $5,206, to the FEHBP as a result of this finding.

Association's Response:

The Association agrees with this finding. The Association states that the Plan returned the applicable LII of $5,206 to the FEHBP on May 4, 2012. The Association also states that the Plan conducted training to review the process for calculating interest and ensure that analysts are using the interest calculator specific to the period that the interest is being calculated.

OIG Comments:

The Association provided documentation supporting that the Plan wire transferred the questioned LII amount of $5,206 to the Association's FEP joint operating account on May 4, 2012. The Association subsequently wire transferred these funds to OPM on May 10, 2012.

Recommendation 6

Since we verified that the Plan returned $5,206 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINSTRATIVE EXPENSES

1. Limits on Executive Compensation $41,478

The Plan overcharged the FEHBP $41,478 for executive compensation in 2010.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a benchmark amount established each year by the Office of Federal Procurement Policy. Beginning in 1999, this limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or not the home office or segment reports directly to the Plan's headquarters. The benchmark compensation amounts were $546,689 in 2006, $597,912 in 2007, $612,196 in 2008, $684,181 in 2009, and $693,951 in 2010.

To determine the allowability of the amounts charged to the FEHBP for executive compensation, we reviewed the Plan's allocations for 2006 through 2010 to determine if the executive compensation amounts were limited to the benchmark amounts set forth in

48 CFR 31.205-6(p). We determined that the Plan limited the executive compensation amounts from 2006 through 2009 as required by the regulation. However, the Plan did not correctly limit the 2010 executive compensation amounts, resulting in an overcharge of $41,478 to the FEHBP.

This oversight was caused by the Plan making a clerical error when calculating the out-of-system adjustment (OSA) for the 2010 executive compensation limit. The Plan calculated the executive compensation OSA's by comparing applicable compensation to the benchmark amounts with the excess differences being the unallowable amounts. These excess differences were allocated to the FEP as OSA credits. In 2010, the Plan inadvertently removed $910,571 from the executive compensation amount. This error caused the FEP OSA credit to only be $308,602 instead of $350,080. As a result of this oversight, the Plan did not remove $41,478 in unallowable executive compensation for 2010.

Association's Response:

The Association agrees with this finding and states that the Plan returned the overcharge of $41,478 to the FEHBP on April 26, 2012. The Association also states that "the Plan conducted training to ensure peer review includes a review that formulas tie out to amounts. The 2010 calculation workbook has been corrected to reflect the correct formula and adjustment amount."

OIG Comments:

The Association provided documentation supporting that the Plan wire transferred $41,478 for the questioned executive compensation overcharge to the Association's FEP joint operating account on April 26, 2012. The Association subsequently wire transferred these funds to OPM on May 1, 2012.

Recommendation 7

Since we verified that the Plan returned $41,478 to the FEHBP for the executive compensation overcharge, no further action is required for this questioned amount.

2. BlueCross BlueShield Association Dues ($2,721)

The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and OPM regarding dues chargeability. As a result, the FEHBP was undercharged $2,721 for Association dues in 2007.

FEP Memorandum #10-18PI (Memorandum), titled BCBSA Regular Member Plan Dues and Other Assessments: 2005-2010, dated March 1, 2010, provides guidance to the BCBS plans with respect to charging the FEHBP for Association dues. The Memorandum also includes the methods acceptable for computing the amount of dues that can be charged to the FEHBP.

To determine the reasonableness of the amounts charged to the FEHBP, we reviewed each year within the audit scope and recalculated FEP's share of the Association dues in accordance with the methods outlined in the memorandum. We found that the Plan undercharged the FEHBP $2,721 in 2007 for Association dues. The error occurred because the Plan used an allowability factor of 79.80 percent, instead of the correct factor of 81.70 percent, when determining the chargeable dues base.

Association's Response:

The Association agrees with this finding and states that the Plan submitted a prior period adjustment on May 4, 2012 to correct the undercharge. The Association also states, "The Plan added a procedure to the Association Dues calculation worksheet that provides a verification of all the allowable factors reported each year by the Association."

Recommendation 8

We recommend that the contracting officer allow the Plan to charge the FEHBP $2,721 for Association dues that were undercharged to the FEHBP in 2007.

C. STATUTORY RESERVE PAYMENTS

1. Statutory Reserve Overcharge $3,000

The Plan overcharged the FEHBP $3,000 for the 2008 mandatory statutory reserve (MSR) payment.

Contract CS 1039, Part III, Section 3.2(b)(2)(iv)(A) states, "Charges for mandatory statutory reserves are not allowable unless specifically provided for in the contract. When the term 'mandatory statutory reserve' is specifically identified as an allowable contract charge without further definition or explanation, it means a requirement imposed by State law upon the Carrier to set aside a specific amount or rate of funds into a restricted reserve that is accounted for separately from all other reserves and surpluses of the Carrier and which may be used only with the specific approval of the State official designated by law to make such approvals. The amount chargeable to the contract may not exceed an allocable portion of the amount actually set aside. If the statutory reserve is no longer required for the purpose for which it was created, and these funds become available for the general use of the Carrier, the Carrier shall return to the FEHBP a pro rata share . . . in accordance with FAR 31.201-5."

For contract years 2006 through 2010, there were five MSR payments, totaling $6,269,034, that were charged to the FEHBP. From this universe, we selected and reviewed a judgmental sample of three MSR payments, totaling $4,415,477, for the purpose of determining if the Plan properly calculated and charged these payments to the FEHBP. Our sample included the three highest dollar MSR payments.

Based on our review, we determined that the Plan calculated FEP's portion of MSR payments in accordance with Contract CS 1039, the federal regulations, and North Carolina's State law. However, the Plan made an error when withdrawing funds from the LOCA to cover the 2008 MSR payment. Specifically, the Plan calculated a 2008 MSR payment of $1,734,676, but inadvertently withdrew $1,737,676 from the LOCA on December 21, 2009 to cover this payment. The Plan identified this error and subsequently returned $3,000 to the LOCA on May 28, 2010. However, these funds were not deposited into the FEP investment account. Therefore, the Plan did not complete the process of returning $3,000 to the FEHBP for the 2008 MSR overcharge.[3]

Association's Response:

The Association agrees with this finding and states that the Plan returned the overcharge of $3,000 to the FEHBP on May 4, 2012. The Association also states that the Plan has taken corrective action.

OIG Comments:

The Association provided documentation supporting that the Plan wire transferred the questioned amount of $3,000 to the Association's FEP joint operating account on May 4, 2012. The Association then wire transferred these funds to OPM on May 10, 2012.

Recommendation 9

Since we verified that the Plan returned $3,000 to the FEHBP for the 2008 MSR overcharge, no further action is required for this questioned amount.

D. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the audit findings pertaining to cash management noted in the "Miscellaneous Health Benefit Payments and Credits" and "Statutory Reserve Payments" sections.

E. LOST INVESTMENT INCOME ON AUDIT FINDINGS $1,679

As a result of the audit findings presented in this report, the FEHBP is due LII of $1,679 from January 1, 2009 through May 4, 2012.

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

[3] The process of returning funds to the FEHBP requires the Plan to deposit the funds into the FEP investment account and adjust the LOCA for that amount.

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 $1,679 from January 1, 2009 through May 4, 2012 on questioned charges for contract years 2008 through 2010 (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:

The Plan wire transferred the questioned charges into the Association's FEP joint operating account on April 26, 2012 and May 4, 2012 for the "Limits on Executive Compensation" (B1) and "Statutory Reserve Payments" (C1) audit findings, respectively. Accordingly, we calculated LII on these audit findings through the dates when the Plan wire transferred the funds into the Association's FEP joint operating account.

The remaining audit findings either already include the applicable LII or are not subject to our LII calculation in Schedule C.

Recommendation 10

We recommend that the contracting officer direct the Plan to credit $1,679 to the Special Reserve for LII on audit findings.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[redacted], Lead Auditor

[redacted], Auditor-In-Charge

[redacted], Auditor

[redacted], Auditor

[redacted], Chief [redacted]

[redacted], Senior Team Leader

SCHEDULE A

V. SCHEDULES

BLUECROSS BLUESHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA

CONTRACT CHARGES

CONTRACT CHARGES*	2006	2007	2008	2009	2010	TOTAL
A. HEALTH BENEFIT CHARGES						
PLAN CODES 310	$386,389,714	$438,756,341	$476,651,459	$500,971,454	$514,587,699	$2,317,356,667
MISCELLANEOUS PAYMENTS AND CREDITS	(606,044)	811,643	696,103	783,045	1,468,412	3,153,159
TOTAL HEALTH BENEFIT CHARGES	$385,783,670	$439,567,984	$477,347,562	$501,754,499	$516,056,111	$2,320,509,826
B. ADMINISTRATIVE EXPENSES						
PLAN CODE 310	$21,674,159	$22,754,979	$27,566,258	$28,623,604	$31,503,760	$132,122,760
PRIOR PERIOD ADJUSTMENTS	6,684	(9,348)	135,314	(95,524)	(17,414)	19,712
BUDGET SETTLEMENT REDUCTIONS	(500,000)	(193,732)	0	0	(475,401)	(1,169,133)
TOTAL ADMINISTRATIVE EXPENSES	$21,180,843	$22,551,899	$27,701,572	$28,528,080	$31,010,945	$130,973,339
C. STATUTORY RESERVE PAYMENTS						
PLAN CODE 310	$752,329	$2,278,326	$1,500,703	$1,737,676	$0	$6,269,034
TOTAL CONTRACT CHARGES	$407,716,842	$464,398,209	$506,549,837	$532,020,255	$547,067,056	$2,457,752,199

* This audit covered miscellaneous health benefit payments and credits and cash management from January 1, 2006 through August 31, 2011, as well as administrative expenses and statutory reserve payments from 2006 through 2010.

SCHEDULE B

BLUECROSS BLUESHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA

QUESTIONED CHARGES

AUDIT FINDINGS	2006	2007	2008	2009	2010	2011	2012	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS*								
1. Health Benefit Refunds	$0	$0	$20,673	$1,050	$306,103	$513	$137	$328,476
2. Fraud Recoveries	0	0	0	5,641	178	4,551	0	10,370
3. Special Plan Invoices	2,586	0	2,620	0	0	0	0	5,206
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$2,586	$0	$23,293	$6,691	$306,281	$5,064	$137	$344,052
B. ADMINISTRATIVE EXPENSES								
1. Limits on Executive Compensation**	$0	$0	$0	$0	$41,478	$0	$0	$41,478
2. BlueCross BlueShield Association Dues	0	(2,721)	0	0	0	0	0	(2,721)
TOTAL ADMINISTRATIVE EXPENSES	$0	($2,721)	$0	$0	$41,478	$0	$0	$38,757
C. STATUTORY RESERVE PAYMENTS								
1. Statutory Reserve Overcharge**	$0	$0	$3,000	$0	$0	$0	$0	$3,000
D. CASH MANAGEMENT	$0	$0	$0	$0	$0	$0	$0	$0
E. LOST INVESTMENT INCOME ON AUDIT FINDINGS	$0	$0	$0	$157	$96	$1,140	$286	$1,679
TOTAL QUESTIONED CHARGES	$2,586	($2,721)	$26,293	$6,848	$347,855	$6,204	$423	$387,488

* We included lost investment income (LII) within audit findings A1 ($3,011), A2 ($479), and A3 ($5,206). Therefore, no additional LII is applicable for these audit findings.
** Audit finding is subject to LII calculation (See Schedule C).

SCHEDULE C

BLUECROSS BLUESHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA

LOST INVESTMENT INCOME CALCULATION

LOST INVESTMENT INCOME	2006	2007	2008	2009	2010	2011	2012**	TOTAL
A. QUESTIONED CHARGES (Subject to Lost Investment Income)								
Administrative Expenses*	$0	$0	$0	$0	$41,478	$0	$0	$41,478
Statutory Reserve Payments	0	0	3,000	0	0	0	0	3,000
TOTAL	$0	$0	$3,000	$0	$41,478	$0	$0	$44,478
B. LOST INVESTMENT INCOME CALCULATION								
a. Prior Years Total Questioned (Principal)	$0	$0	$0	$3,000	$0	$41,478	$0	
b. Cumulative Total	0	0	0	0	3,000	3,000	44,478	
c. Total	$0	$0	$0	$3,000	$3,000	$44,478	$44,478	
d. Treasury Rate: January 1 - June 30	5.125%	5.250%	4.750%	5.625%	3.250%	2.625%	2.000%	
e. Interest (d * c)	$0	$0	$0	$84	$49	$584	$286	$1,003
f. Treasury Rate: July 1 - December 31	5.750%	5.750%	5.125%	4.875%	3.125%	2.500%		
g. Interest (f * c)	$0	$0	$0	$73	$47	$556		$676
Total Interest By Year (e + g)	$0	$0	$0	$157	$96	$1,140	$286	$1,679

* Only the administrative expense overcharges on Schedule B are subject to lost investment income.

** We calculated lost investment income through April 26, 2012 for administrative expenses and May 4, 2012 for statutory reserve payments, which are the dates when the Plan wire transferred the questioned amounts into the Association's FEP joint operating account.

BlueCross BlueShield Association

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July 30, 2012

[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 RESPONSE**
Blue Cross Blue Shield of North Carolina
Audit Report Number 1A-10-33-12-020
(Dated May 31, 2012 and Received May 31, 2012)

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 Blue Shield of California. Our comments concerning the findings in the report are as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds $328,476

The Plan is in agreement with $23,011 of this finding and returned the funds to the Program on May 4, 2012. However, the Plan continues to disagree with the remaining $305,465 for member claims not collected. For these claims, when the overpayment was discovered the Plan issued a letter and began the offset process on the FEP claim system and collected over $33,500 as stated in your May 31, 2012 letter. As each offset was completed, the member was sent an explanation of benefit describing the offset and the balance due the Program (which served as notification of the outstanding amount due the Program). The subscriber never directly submitted any refunds to cover the balance of the overpayment. The subscriber subsequently stopped submitting claims, and as a result, no further recoveries were made. This resulted in the outstanding balance of $305,465.

Since this finding occurred, the Plan has taken the following actions to increase the possibility of recovering overpayments for member claims set up as an offset agains t future claims:

- The Plan revised Standard Operating Procedure to include sending 4 letters to members, with the first letter being a voucher deduct letter as well as the explanation of benefits that details the liability due the Program.
- The Plan issued second, third and fourth request letters for the two members identified in this finding
- The Plan conducted training on June 6, 2012 to reinforce the sending of letters.
- The Plan developed a process to ensure any adjustments made to the weekly draw are adequately documented to provide an audit trail and to ensure all refunds are returned to the program.

2. Fraud Recoveries **$10,370**

The Plan agreed to this finding and returned the funds to the Program on March 26, 2012 and May 4, 2012. .

In order to ensure that fraud recoveries are returned to the Protram timely, the Plan has taken the following actions:

- Special Investigations Unit (SIU) Management and FEP Operations Management met to discuss correct processes and procedures for submitting refund or voucher deduct requests. SIU will begin using an Intake form to submit a request to the FEP Operations area for processing.
- FEP trained the SIU staff on the Intake form process Marcy 26, 2012. Going forward, the SIU will utilize the intake form.. SIU will also implement a validation process to ensure correct disposition of funds.
- Both areas have developed a job aide/SOP for their respective areas.

3. Special Plan Invoices **$5,206**

The Plan has agreed to this finding and returned the funds to the Program on May 4, 2012.

In addition, the Plan conducted training on June 7, 2012 to review the process for calculating interest to ensure analyst are using the interest calculator specific to the period that the interest is being calculated

B. ADMINSTRATIVE EXPENSES

1. Limits on Executive Compensation **$41,478**

The Plan agreed to this finding and returned these funds to the Program on April 26, 2012.

In addition, the Plan conducted training to ensure peer review includes a review that formulas tie out to amounts. The 2010 calculation workbook has been corrected to reflect the correct formula and adjustment amount.

2. Blue Cross Blue Shield Association Dues **$(2,721)**

The Plan agreed to this finding and has completed the following:

- The Plan filed a PPA May 4, 2012 to correct the undercharge.
- The Plan added a procedure to the Association Dues calculation worksheet that provides a verification of all the allowable factors reported each year by the Association.

C. STATUTORY RESERVE PAYMENTS **$3,000**

The Plan agreed to this finding and returned the funds to the Program on May 4, 2012 In addition; the Plan has taken the following action:

- Conducted training on June 7, 2012.
- Developed a process to ensure the draw request indicates to transfer the funds to the general fund account.

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

Sincerely,

[redacted]

[redacted]
Director, Program Assurance

[redacted]