



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

Final Audit Report

**Audit of Independence BlueCross
Philadelphia, Pennsylvania**

Report Number 1A-10-55-18-010

January 17, 2019

EXECUTIVE SUMMARY

Audit of Independence BlueCross

Report No. 1A-10-55-18-010

January 17, 2019

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that Independence BlueCross (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. The objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

What did we audit?

Our audit covered miscellaneous health benefit payments and credits, such as refunds and provider audit recoveries, from 2014 through September 30, 2017, and administrative expense charges from 2014 through 2016, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from July 1, 2016, through September 30, 2017.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$451,584 in health benefit charges, administrative expenses, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with all of the questioned amounts.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$212,570 where the Plan had not recovered and/or returned funds to the FEHBP for claim overpayments. We verified that the Plan has subsequently recovered and returned these claim overpayments to the FEHBP.
- Administrative Expenses – We questioned \$238,409 in administrative expenses and applicable LII, consisting of \$224,556 for non-chargeable cost center and natural account expenses and \$13,853 for LII on these questioned expenses. We verified that the Plan has subsequently returned these questioned amounts to the FEHBP.
- Cash Management – We determined that the Plan had not returned \$605 to the FEHBP when closing out the dedicated Federal Employee Program investment account. We verified that the Plan has subsequently returned this questioned amount to the FEHBP.

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross and/or BlueShield
CC	Cost Center
CFR	Code of Federal Regulations
FAR	Federal Acquisition Regulations
FEHB	Federal Employees Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
LII	Lost Investment Income
NA	Natural Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	Independence BlueCross

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I. BACKGROUND

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

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

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

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

The Association has established a Federal Employee Program (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 BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BCBS, located in Owings Mills, Maryland and Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the

¹ Throughout this report, when we refer to "FEP", we are referring to the Service Benefit Plan lines of business at the Plan. When we refer to the "FEHBP", we are referring to the program that provides health benefits to federal employees.

reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

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

All findings from our previous audit of the Plan (Report No. 1A-10-55-11-019, dated December 1, 2011), covering 2005 through September 30, 2010, have been satisfactorily resolved. We also included this Plan in each of the following recent focused audits that covered a sample of BCBS plans:

- Final Report No. 1A-99-00-17-001 (dated March 14, 2018) for cash management activities and practices related to FEHBP funds from 2015 through June 30, 2016;
- Final Report No. 1A-99-00-16-010 (dated January 31, 2017) for aging FEP health benefit refunds as of June 30, 2015, as well as fraud recoveries and medical drug rebates from 2012 through June 30, 2015; and
- Final Report No. 1A-99-00-14-068 (dated November 16, 2015) for pension and post-retirement benefit costs from 2011 through 2013.

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

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on August 14, 2018; and were presented in detail in a draft report, dated August 31, 2018. 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 timely to the FEHBP.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

Cash Management

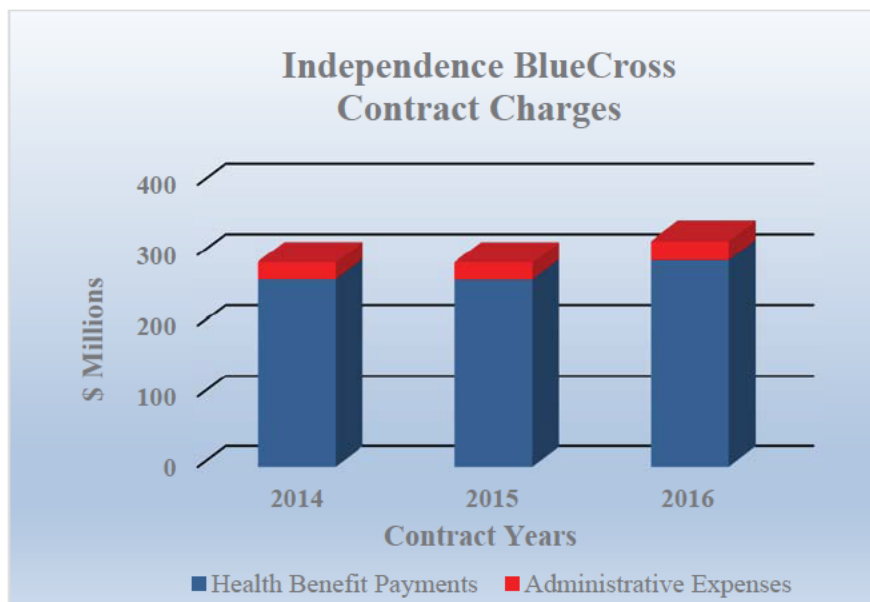
- To determine whether the Plan handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

SCOPE

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan code 362 for contract years 2014 through 2016. During this period, the Plan paid

approximately \$824 million in FEHBP health benefit payments and charged the FEHBP \$73 million in administrative expenses (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash and auto recoupment refunds, subrogation and provider audit recoveries, hospital settlements, and special plan invoices) from 2014 through September 30, 2017, administrative expense charges from 2014 through 2016, and the Plan's cash management activities and practices from July 1, 2016, through September 30, 2017.

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

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings

and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan and the FEP Director's Office. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Philadelphia, Pennsylvania on various dates from April 17, 2018, through June 15, 2018. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. through August 14, 2018.

Throughout the audit process, the Plan did a good job providing complete and timely responses to our numerous requests for supporting documentation. We greatly appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. For the period 2014 through September 30, 2017, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 41 FEP health benefit refund cash receipts, totaling \$741,866, (from a universe of 721 FEP refund cash receipt amounts, totaling \$1,344,480, for the audit scope). Our high dollar sample included all refund cash receipt amounts of \$10,000 or more.
- The Plan also returned health benefit refunds to the FEHBP via the auto recoupment process, which includes offsetting FEP claim overpayments against future FEP claim payments. We tested this recovery process during our review of provider audit recoveries since the Plan recovered and returned all of these funds to the FEHBP via auto recoupments. In addition, we requested the Plan to provide us with an FEP universe of

auto recoupment write-offs during the audit scope. The Plan provided us with a universe of 163 auto recoupment write-offs, totaling \$212,570 in FEP claim overpayments. We reviewed all of these write-offs to determine if the Plan made diligent efforts to recover the funds before writing these overpayments off.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of two corporate hospital settlements, totaling \$4,781,411 in non-FEP credits (from a universe of five corporate hospital settlements, totaling \$5,373,777 in non-FEP credits, for the audit scope). For this sample, we selected the two highest dollar corporate hospital settlement amounts to determine if the Plan should have allocated these settlements to the FEP.
- A high dollar sample of 68 FEP provider audit recoveries, totaling \$2,223,552 (from a universe of 7,198 FEP provider audit recoveries, totaling \$9,025,611, for the audit scope). Our sample included the 17 highest dollar provider audit recoveries from each year in the audit scope.
- All eight special plan invoices, totaling \$1,881,384 in FEP payments, for pay codes related to miscellaneous health benefit payments and credits. Special plan invoices are used by the Plan to process items such as miscellaneous health benefit payment and credit transactions that do not include primary claim payments or checks.
- A high dollar sample of 12 FEP subrogation recoveries, totaling \$917,514 (from a universe of 45 FEP subrogation recoveries, totaling \$2,004,024, for the audit scope). For this sample, we judgmentally selected three high dollar subrogation recoveries from each year in the audit scope.
- A high dollar sample of 5 hospital settlements, totaling \$346,213 in FEP charges (from a universe of 22 hospital settlements, totaling \$534,125 in FEP charges, for the audit scope). For this sample, we judgmentally selected five high dollar hospital settlements from the audit scope.

We reviewed these samples to determine if health benefit refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits, since we did not use statistical sampling.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2014 through 2016. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement; employee health benefits; Association dues; executive compensation limits; and Patient Protection and Affordable Care Act fees.² We used the contract, the FAR, the FEHBP, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from July 1, 2016, through September 30, 2017, as well as the Plan's dedicated FEP investment account activity during the scope and balance as of June 22, 2017.³

² In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. The Plan allocated administrative expenses of \$46,243,908 (excluding expenses not charged through the cost centers, such as Affordable Care Act fees) to the FEHBP from 360 cost centers that contained 157 natural accounts. From this universe, we selected a judgmental sample of 47 cost centers to review, which totaled \$30,697,480 in expenses allocated to the FEHBP. We also selected a judgmental sample of 10 natural accounts to review, which totaled \$101,642,339 in corporate expenses that the Plan allocated portions of to the FEHBP through these cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

³ On March 22, 2017, the Plan returned the working capital deposit to the FEHBP and then closed the dedicated FEP investment account on June 22, 2017.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Auto Recoupment Write-Offs \$212,570

Our audit determined that the Plan had not been diligent in its efforts to recover \$212,570 in FEP claim overpayments. These claim overpayments were originally set up to be auto recouped from members and/or providers but then written off after the Plan switched to a new claims system. According to Contract CS 1039, the Plan must make a prompt and diligent effort to recover erroneous benefit payments until the debt is paid in full or determined to be uncollectible. Because the Plan did not provide support that these claim overpayments were uncollectible, we can only conclude that the Plan had not made a diligent effort to recover the funds before writing these overpayments off. As a result of this finding, the Plan subsequently recovered and returned \$212,570 to the FEHBP for these claim overpayments.

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(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 to the member from the member or, if to the provider, from the provider.”

Contract CS 1039, Part II, Section 2.3(g) also states that a prompt and diligent effort to recover erroneous payments means that upon discovering that an erroneous payment exists, the Carrier shall:

- (1) Send a written notice of erroneous payment to the member or provider.
- (2) Send follow-up notices to the provider at 30, 60 and 90-day intervals, if the debt remains unpaid and undisputed.
- (3) The Carrier may offset future benefits payable to a provider on behalf of the member to satisfy a debt due under the FEHBP if the debt remains unpaid and undisputed for 120 days after the first notice.
- (4) After applying the first three steps, refer cases when cost effective to do so to a collection attorney or a collection agency if the debt is not recovered.

The Plan had not been diligent in its efforts to recover \$212,570 in FEP claim overpayments.

For the period 2014 through September 30, 2017, the Plan provided us with a universe of 163 FEP auto recoupment write-offs, totaling \$212,570 in FEP claim overpayments. Initially, we asked if documentation was available to support that the Plan made a diligent effort to recover the claim overpayments, as required by Section 2.3(g) of Contract CS 1039. The Plan informed us that these required overpayment recovery steps were not performed and the amounts were simply written off due to the age of the receivables at the time the Plan migrated to a new claims system. Therefore, it is our understanding that the Plan did not contact the members and/or providers to determine if these receivable amounts were uncollectable, nor restore the receivable amounts to the new claims system. Since the Plan did not provide documentation to support that these claim overpayments were uncollectible, we can only conclude that the Plan had not made a diligent effort to recover the funds before writing these overpayments off. Because of this finding, the Plan subsequently recovered these claim overpayments and returned \$212,570 to the FEHBP.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan recovered these claim overpayments and returned \$212,570 to the FEHBP on September 12, 2018.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$212,570 to the FEHBP for the questioned claim overpayments. However, since we verified that the Plan subsequently returned \$212,570 to the FEHBP for these overpayments, no further action is required for this questioned amount.

B. ADMINISTRATIVE EXPENSES

1. Cost Center and Natural Account Expenses

\$238,409

The Plan charged unallowable, unallocable, and/or unreasonable cost center and natural account expenses to the FEHBP from 2014 through 2016. As a result of this finding, the Plan returned \$238,409 to the FEHBP, consisting of \$224,556 for the questioned cost center and natural account expenses and \$13,853 for lost investment income (LII).

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

48 CFR 31.201-4 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.”

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in 41 U.S.C. 7109, which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan’s various lines of business, including the FEP. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested.

For the period 2014 through 2016, the Plan allocated administrative expenses of \$46,243,908 (excluding expenses not charged through the cost centers, such as Affordable Care Act fees) to the FEHBP from 360 cost centers. From this universe, we selected a judgmental sample of 47 cost centers to review, which totaled \$30,697,480 in expenses allocated to the FEHBP. We selected these cost centers based on high dollar amounts, a trend analysis, and our nomenclature review. The Plan could not provide us

with an FEP specific universe for the natural accounts contained within the cost centers but did provide us with the corporate amounts. Therefore, we selected a judgmental sample of 10 natural accounts to review, totaling \$101,642,339, from a universe of 157 natural accounts, which totaled \$963,963,367 in pre-allocated corporate expenses. We selected these natural accounts based on our nomenclature review of the account descriptions. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from one cost center (CC) and four natural accounts (NA) that were expressly unallowable and/or did not benefit the FEHBP (unallocable) or only minimally benefited the FEHBP. In addition, we identified a cost center where the Plan allocated an unreasonable amount of costs to the FEP due to using an incorrect formula in the cost allocation model.

The following schedule is a summary of these questioned CC and NA expenses that were inappropriately charged to the FEHBP from 2014 through 2016.

CC or NA Number	CC or NA Name	Reason for Questioning	Amount Questioned
CC22207	Corporate Accounting Shared Services	Unreasonable	\$140,331
NA70204	Marketing Sales Bonus	Unallowable	65,070
NA74902	Sponsorship Expenses	Unallowable	6,286
NA74905	Promotion Items	Unallowable	6,245
CC66251	Director of Quality and Risk Management	Unallocable	5,988
NA74901	Advertising	Unallowable	636
Total			\$224,556

Concerning the questioned expenses charged to the FEHBP, 48 CFR 31-205-1 (public relations and advertising costs) also provides specific criteria to the extent that such costs are expressly unallowable. Based on our review of the Plan's documentation, these questioned CC and NA charges are not in compliance with the federal regulations.

In total, the Plan returned \$238,409 to the FEHBP for this audit finding, consisting of \$224,556 for unallowable, unallocable, and/or unreasonable cost center and natural account expenses that were charged to the FEHBP and \$13,853 for applicable LII on these questioned charges (as calculated by the OIG).

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$238,409 to the FEHBP on various dates from August 15, 2018, through November 21, 2018, consisting of \$224,556 for the questioned unallowable, unallocable, and/or unreasonable cost center and natural account expenses and \$13,853 for applicable LII.

Recommendation 2

We recommend that the contracting officer disallow \$224,556 for the questioned unallowable, unallocable, and/or unreasonable cost center and natural account expenses charged to the FEHBP from 2014 through 2016. However, since we verified that the Plan subsequently returned \$224,556 to the FEHBP for these questioned cost center and natural account expenses, no further action is required for this amount.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$13,853 to the FEHBP for LII on the unallowable, unallocable, and/or unreasonable cost center and natural account expenses. However, since we verified that the Plan subsequently returned \$13,853 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

1. Federal Employee Program Investment Account

\$605

Our audit determined that the Plan had not returned \$605 to the FEHBP when closing out the dedicated FEP investment account in June 2017. As a result of this finding, the Plan returned \$605 to the FEHBP for this questioned amount. We did not include LII for this audit finding since the questioned amount is not material.

Contract CS 1039, Part III, Section 3.5 (a) states, “The Carrier and/or its underwriter shall keep all FEHBP funds for this contract (cash and investments) physically separate from funds obtained from other sources. Accounting for such FEHBP funds shall not be based on allocations or other sharing mechanisms and shall agree with the Carrier's accounting records.”

The Plan’s dedicated FEP investment account generally includes working capital funds, approved letter of credit account drawdowns, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. On March 22, 2017, the Plan returned the working capital deposit of \$2,517,826 to the FEHBP and then closed the dedicated FEP investment account on June 22, 2017. Therefore, we reviewed the Plan’s dedicated FEP investment account from July 1, 2016, through June 22, 2017, to determine if the account transactions were adequately supported during this period and if all remaining FEP funds were returned to the FEHBP as of June 22, 2017.

The Plan had not returned \$605 to the FEHBP when closing out the dedicated FEP investment account on June 22, 2017.

Based on our review, we determined that the Plan had not returned all remaining FEP funds to the FEHBP. Specifically, the Plan did not return \$605 to the FEHBP for funds that remained in the FEP investment account as of June 22, 2017. The Plan transferred this amount from the FEP investment account to a corporate account, but inadvertently did not return these funds to the FEHBP letter of credit account. Because of this finding, the Plan returned these funds (\$605) to the FEHBP on May 10, 2018.

Association Response:

The Association agrees with this finding. The Association states, “The FEP investment account was closed in 2017 and there will be no activity for this account going forward.”

OIG Comment:

As part of our review, we verified that the Plan returned \$605 to the FEHBP on May 10, 2018, for this audit finding.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$605 to the FEHBP for funds not previously returned to the FEHBP, when the Plan closed out the dedicated FEP investment account. However, since we verified that the Plan returned \$605 to the FEHBP on May 10, 2018, for this audit finding, no further action is required for this amount.

IV. SCHEDULE A - QUESTIONED CHARGES

INDEPENDENCE BLUECROSS PHILADELPHIA, PENNSYLVANIA

QUESTIONED CHARGES

AUDIT FINDINGS	2014	2015	2016	2017	2018	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS						
1. Auto Recoupment Write-Offs	\$9,492	\$115,232	\$62,916	\$24,930	\$0	\$212,570
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$9,492	\$115,232	\$62,916	\$24,930	\$0	\$212,570
B. ADMINISTRATIVE EXPENSES						
1. Cost Center and Natural Account Expenses*	\$24,144	\$147,723	\$57,047	\$5,549	\$3,946	\$238,409
TOTAL ADMINISTRATIVE EXPENSES	\$24,144	\$147,723	\$57,047	\$5,549	\$3,946	\$238,409
C. CASH MANAGEMENT						
1. Federal Employee Program Investment Account	\$0	\$0	\$0	\$605	\$0	\$605
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$605	\$0	\$605
TOTAL QUESTIONED CHARGES	\$33,636	\$262,955	\$119,963	\$31,084	\$3,946	\$451,584

* We included lost investment income (LII) within audit finding B1 (\$13,853). Therefore, no additional LII is applicable.

APPENDIX

October 30, 2018

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

**Reference: OPM DRAFT AUDIT REPORT
Independence Blue Cross
Audit Report No. 1A-10-55-18-010
(Dated August 31, 2018 and Received August 31, 2018)**

Dear ██████████:

This is the Independence Blue Cross (Plan) response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the Plan are committed to enhancing existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

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

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds **\$212,570**

Recommendation 1

We recommend that the contracting officer require the Plan to return \$212,570 to the FEHBP for the claim overpayments that were written off by the Plan without adequate support and/or justification whether recovered or not, as a diligent effort to recover was not made.

Plan's Response:

The Plan agrees with the audit finding regarding the health benefit refund write-offs. On September 12, 2018, the plan returned \$212,570 to the FEHBP via a decrease to the LOCA drawdown. Reference **Attachment A**, a Special Plan Invoice that was filed and **Attachment B** that shows the LOCA adjustment.

B. ADMINISTRATIVE EXPENSES

1. Cost Center and Natural Account Expenses **\$224,556**

Recommendation 2

We recommend that the contracting officer disallow \$224,556 for the questioned unallowable, unallocable, and/or unreasonable cost center and natural account expenses charged to the FEHBP from 2014 through 2016.

Plan's Response:

The Plan agreed with this audit finding for the questioned unallowable, unallocable, and/or unreasonable cost center and natural account expenses charged to the FEP. On August 15, 2018, the Plan returned \$224,556 to the FEHBP. Documentation to support the transfer of these funds to the Program is included as **Attachment C**.

Recommendation 3

We recommend that the contracting officer require the Plan to return applicable LII to the FEHBP on the questioned cost center and natural account expenses.

Plan's Response:

The Plan agrees that Lost Investment Income (LII) should apply to the Administrative Services finding. On October 2, 2018, the Plan returned the applicable LII to the FEHBP. Documentation to support the transfer of these funds to the Program is included as **Attachment D**.

C. CASH MANAGEMENT

1. Federal Employee Program Investment Account **\$605**

Recommendation 4

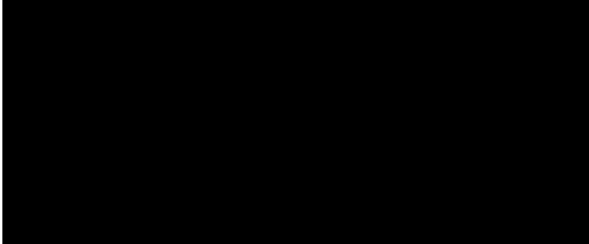
We recommend that the contracting officer require the Plan to return \$605 to the FEHBP for funds not previously returned to the FEHBP when closing out the FEP investment account. However, since we verified that the Plan returned \$605 to the FEHBP in May 2018 for this audit finding, no further action is required for this amount.

Plan's Response:


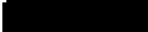
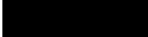
The Plan agrees with the finding and acknowledged that the \$605 from June 2017 was not returned due to an oversight associated with the closing of the investment account. On May 9, 2018, the Plan returned \$605 to the FEHBP. The FEP investment account was closed in 2017 and there will be no activity for this account going forward.

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,

A large black rectangular redaction box covering the signature and name of the representative.A black rectangular redaction box covering contact information, likely a phone number and email address.

Attachments

Cc: , Independence Blue Cross
ard, FEPDO
, FEPDO



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