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

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# Final Audit Report

Subject:

## BLUECROSS BLUESHIELD OF TENNESSEE CHATTANOOGA, TENNESSEE

Report No. 1A-10-15-09-009

Date: June 16, 2009

--CAUTION--

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**AUDIT REPORT**

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

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BlueCross BlueShield of Tennessee  
Plan Codes 390, 392, and 892  
Chattanooga, Tennessee

REPORT NO. 1A-10-15-09-009

DATE: June 16, 2009

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

Michael R. Esser  
Assistant Inspector General  
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

## EXECUTIVE SUMMARY

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

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BlueCross BlueShield of Tennessee  
Plan Codes 390, 392, and 892  
Chattanooga, Tennessee

REPORT NO. 1A-10-15-09-009 DATE: June 16, 2009

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Tennessee (Plan) in Chattanooga, Tennessee questions \$317,180 in health benefit charges, \$133,596 in administrative expenses, and \$61,782 in cash management practices. The BlueCross BlueShield Association (Association) agreed (*A*) with \$450,776 and disagreed (*D*) with \$61,782 of the questioned costs. Lost investment income (LII) on the questioned costs amounts to \$25,010.

Our audit was conducted in accordance with Government Auditing Standards. The audit covered claim payments from 2005 through 2007, as well as miscellaneous payments and credits, administrative expenses, and statutory reserve payments from 2004 through 2007 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2004 through 2007.

Questioned items are summarized as follows:

## HEALTH BENEFIT CHARGES

### Claim Payments

- **Claim Payment Errors (A)** **\$253,121**

The Plan incorrectly paid 129 claims, resulting in overcharges to the FEHBP.

- **Omnibus Budget Reconciliation Act of 1990 Review (A)** **\$64,059**

The Plan incorrectly paid 10 claims that were priced or potentially should have been priced under the Omnibus Budget Reconciliation Act of 1990 pricing guidelines, resulting in net overcharges of \$64,059 to the FEHBP. Specifically, the Plan overpaid seven claims by \$96,744 and underpaid three claims by \$32,685.

### Miscellaneous Payments and Credits

The audit disclosed no findings pertaining to miscellaneous payments and credits. Overall, we concluded that the Plan promptly returned health benefit refunds and recoveries to the FEHBP. Also, the Plan properly charged miscellaneous payments to the FEHBP.

## ADMINISTRATIVE EXPENSES

- **Pension Costs (A)** **\$52,752**

The Plan overcharged the FEHBP for pension costs from 2004 through 2006.

- **Gain on Sale of Building (A)** **\$49,590**

The Plan did not allocate the gain on the sale of a building to the FEHBP.

- **Lobbying Expenses (A)** **\$20,313**

The Plan charged unallowable lobbying expenses to the FEHBP in 2007.

- **Post-Retirement Benefit Costs (A)** **\$10,941**

The Plan overcharged the FEHBP \$52,158 for post-retirement benefit costs in 2005, 2006, and 2007, and undercharged the FEHBP \$41,217 in 2004.

## **STATUTORY RESERVE PAYMENTS**

The audit disclosed no findings pertaining to statutory reserve payments. The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1039 and applicable laws and regulations.

## **CASH MANAGEMENT**

- **Interest Income (D)** **\$61,782**

The Plan had not returned interest income of \$61,782 to the FEHBP letter of credit account as of December 31, 2007. This interest income was earned during July, October, and November of 2007. Subsequent to receiving our audit notification letter, the Plan returned this interest income to the FEHBP on April 1, July 1, and September 4, 2008.

- **Investment of Funds (A)** **Procedural**

The Plan did not prudently invest excess FEHBP funds during the period August 2006 through December 2007.

## **LOST INVESTMENT INCOME ON AUDIT FINDINGS**

As a result of our audit findings presented in this audit report, the FEHBP is due LII of **\$25,010**, calculated through December 31, 2008.

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## **I. INTRODUCTION AND BACKGROUND**

### **INTRODUCTION**

This final audit report details the findings, conclusions, and recommendations resulting from our audit of the Federal Employees Health Benefits Program (FEHBP) pertaining to BlueCross BlueShield of Tennessee (Plan). The Plan is located in Chattanooga, Tennessee.

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 Center for Retirement and Insurance Services 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 (FEP<sup>1</sup>) 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.

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<sup>1</sup> 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-10-15-05-046, dated July 25, 2007) for contract years 2001 through 2003 have been satisfactorily resolved, except for two findings. The resolution of these audit issues is still ongoing.

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 January 30, 2009. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as Appendices 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:

#### **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.

#### **Statutory Reserve Payments**

- To determine whether the Plan calculated and charged statutory reserve payments to the FEHBP in accordance with the terms of 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 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 390, 392, and 892 for contract years 2004 through 2007. During the period, the Plan paid approximately \$1 billion in health benefit charges and \$48 million in administrative expenses (See Figure 1 and Schedule A). The Plan also paid approximately \$24 million in statutory reserve payments (See Schedule A).

Specifically, we reviewed approximately \$13 million in claim payments made from 2005 through 2007 for proper adjudication. In addition, we reviewed miscellaneous payments and credits, such as refunds and subrogation recoveries, administrative expenses, statutory reserve payments, and cash management for 2004 through 2007.

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. 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.

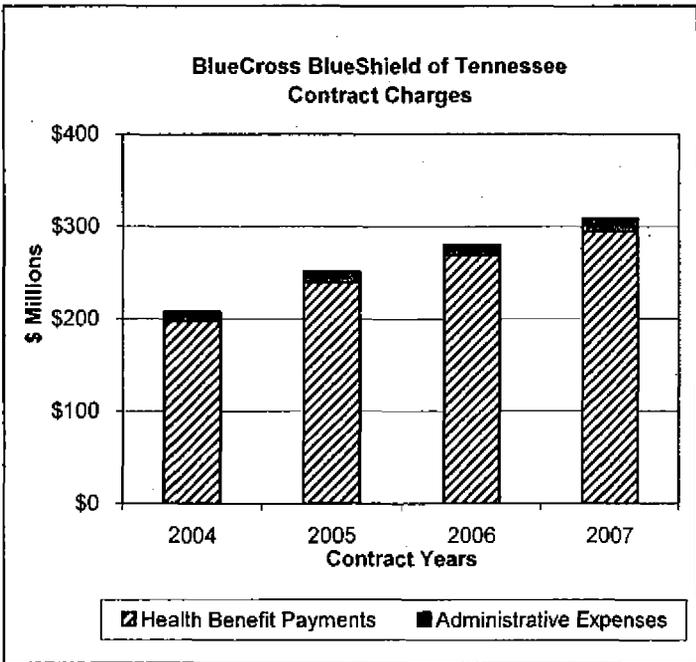


Figure 1 – Contract Charges

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, the FEP Operations Center, the Plan, and the Centers for Medicare and Medicaid Services. 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 Chattanooga, Tennessee from October 21, 2008 through December 12, 2008. 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, cost accounting and financial systems by inquiry of Plan officials.

To test the Plan's compliance with the FEHBP health benefit provisions, we selected and reviewed samples of 511 claims.<sup>2</sup> 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 73 high dollar health benefit refunds and subrogation recoveries, totaling \$2,171,342 (from a universe of 15,587 refunds and recoveries, totaling \$8,586,834); 50 high dollar hospital and provider audit recoveries, totaling \$296,104 (from a universe of 5,044 recoveries, totaling \$1,057,558); 12 high dollar Special Plan Invoices, totaling \$2,060,529 in net payments (from a universe of 222 Special Plan Invoices, totaling \$8,925,421 in net payments); and all 3 fraud recoveries, totaling \$5,171, to determine if refunds and recoveries were promptly 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 payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2004 through 2007. 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, lobbying, return on investment, Association dues, 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 reviewed the statutory reserve payments charged to the FEHBP for contract years 2004 through 2007. 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.

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<sup>2</sup> See the audit findings for "Claim Payment Errors" (A1.a) and "Omnibus Budget Reconciliation Act of 1990 Review" (A1.b) on pages 6 through 10 for specific details of our sample selection methodologies.

### III. AUDIT FINDINGS AND RECOMMENDATIONS

#### A. HEALTH BENEFIT CHARGES

##### 1. Claim Payments

##### a. Claim Payment Errors \$253,121

The Plan incorrectly paid 129 claims, resulting in overcharges of \$253,121 to the FEHBP.

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 diligent effort to recover an overpayment . . . ."

The following summarizes the claim payment errors.

##### Assistant Surgeon Overpayments

For the period 2005 through 2007, we identified 568 assistant surgeon claim groups, totaling \$253,919 in potential overpayments, that may not have been paid in accordance with the Plan's assistant surgeon pricing procedures. From this universe, we selected and reviewed a judgmental sample of 151 assistant surgeon claim groups, totaling \$179,196 in potential overpayments, to determine if the Plan paid these claims properly. Our sample included all assistant surgeon claim groups with potential overpayments of \$500 or more. Based on our review, we identified 121 claim payment errors, resulting in overcharges of \$158,538 to the FEHBP.

The claim payment errors resulted from the following:

- The Plan paid 88 claims to non-covered providers, resulting in overcharges of \$108,594 to the FEHBP. Specifically, these providers were physician assistants that were not covered for surgery.
- The Plan paid 27 claims using incorrect allowances, resulting in overcharges of \$45,159 to the FEHBP.
- The Plan incorrectly paid three assistant surgeon claims that were subject to Omnibus Budget Reconciliation Act of 1993 (OBRA 93) pricing guidelines. These errors were due to Palmetto (OBRA 93 pricing vendor) not recognizing the assistant surgeon pricing modifier and erroneously calculating the assistant surgeon fee. Consequently, the Plan overpaid these claims by \$2,521.

- The Plan inadvertently paid two claims for incidental procedures, resulting in overcharges of \$1,750 to the FEHBP.
- The Plan made one duplicate claim payment, resulting in an overcharge of \$514 to the FEHBP.

Also, the Plan identified additional claim line overpayments of \$10,265 for 19 of these questioned claims. In total, the Plan incorrectly paid 121 assistant surgeon claims out of 151 groups that we reviewed, resulting in overcharges of \$168,803 to the FEHBP.

#### Amounts Paid Greater than Covered Charges

For the period 2005 through 2007, we identified 3,432 claims where the amounts paid were greater than the covered charges by a total of \$3,508,848. From this universe, we selected and reviewed a judgmental sample of 160 claims with a total variance of \$2,024,924, and determined if the Plan paid these claims properly. Our sample included all claims where the amounts paid exceeded covered charges by \$5,000 or more. Based on our review, we determined that four claims were paid incorrectly, resulting in overcharges of \$78,282 to the FEHBP.

The claim payment errors resulted from the following:

- In one instance, the Plan paid the claim at the incorrect Diagnostic Related Group (DRG) allowance, resulting in an overcharge of \$53,100 to the FEHBP.
- The Plan paid three claims incorrectly due to processor errors, resulting in overcharges of \$25,182 to the FEHBP.

#### System Review Overpayments

For health benefit claims incurred and reimbursed during the period January 1, 2007 through December 31, 2007, we identified 2,276,115 claim lines, totaling \$222,309,770 in payments, using a standard criteria based on our experience. From this universe, we selected and reviewed a judgmental sample of 100 claims (representing 1,456 claim lines), totaling \$4,482,087 in payments, to determine if the Plan adjudicated these claims properly.<sup>3</sup> Based on our review, we identified four claim payment errors, resulting in overcharges of \$6,036 to the FEHBP. In each instance, the Plan paid the claim using the incorrect allowance.

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<sup>3</sup> 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.

### **Association's Response:**

The Association agrees with this finding. The Association states that the Plan has recovered and returned the overpayments to the FEHBP.

Regarding the "Assistant Surgeon Overpayments" finding, the Association states, "The Plan . . . reviewed the identified errors and determined that they were the result of claim processor manual intervention. Additional training has been provided to the examiners re-emphasizing the proper procedures for determining the correct payment allowances for these claims.

For the Assistant Surgeon claim errors . . . that related to the OBRA '93 pricing of claims with the 'AS' Modifier, the FEPDO implemented the following:

- Modified its contract with Palmetto to include the pricing of AS modifier claims.
- A final comprehensive listing that identifies all unadjusted OBRA '93 Assistant Surgeon claims with the AS Modifier was issued to all Plans on the January 2009 System-wide Claims Review listing so that claims can be adjusted as necessary."

For the "Amounts Paid Greater than Covered Charges" finding, the Association states, "The four errors . . . were the result of human intervention. To ensure these types of errors do not occur in the future, the Plan has reviewed its processing procedures to ensure that the training materials detail how to properly handle the pricing of these claims."

For the "System Review Overpayments" finding, the Association states, "These were the results of processor errors in manually calculating the claim payment amount. The Plan will review processing procedures and documentation to ensure that its training materials are up-to-date as well as provide refresher training to claims processors as necessary to reduce these types of payment errors in the future."

The Association also included a "Verification Statement" certifying that the questioned overcharges were recovered and returned to the FEHBP.

### **Recommendation 1**

We recommend that the contracting officer disallow \$253,121 for claim overcharges, and verify that the Plan returned all amounts recovered to the FEHBP. We also recommend that the contracting officer instruct the Association to verify that the Plan has implemented corrective action to prevent these types of claim payment errors in the future.

**b. Omnibus Budget Reconciliation Act of 1990 Review**

**\$64,059**

The Plan incorrectly paid 10 claims that were priced or potentially should have been priced under the Omnibus Budget Reconciliation Act of 1990 (OBRA 90) pricing guidelines, resulting in net overcharges of \$64,059 to the FEHBP. Specifically, the Plan overpaid seven claims by \$96,744 and underpaid three claims by \$32,685.

As previously cited from Contract 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 diligent effort to recover the overpayments.

OBRA 90 limits the benefit payments for certain inpatient hospital services provided to annuitants age 65 or older who are not covered under Medicare Part A. The FEHBP fee-for-service plans are required to limit the claim payment to the amount equivalent to the Medicare Part A payment.

Using a program developed by the Centers for Medicare and Medicaid Services (CMS) to price OBRA 90 claims, we recalculated the claim payment amounts for the claims in our samples that were subject to and/or processed as OBRA 90.

For the period 2005 through 2007, we identified 1,210 claim, totaling \$9,947,057 in payments, that were subject to OBRA 90 pricing guidelines. From this universe, we selected and reviewed a judgmental sample of 100 claims, totaling \$3,064,245 in payments, to determine if these claims were correctly priced by the FEP Operations Center and paid by the Plan. Our sample included all OBRA 90 claims with amounts paid of \$17,500 or more.

Based on our review, we determined that 10 claims were paid incorrectly, resulting in net overcharges of \$64,059 to the FEHBP. Specifically, the Plan overpaid seven claims by \$96,744 and underpaid three claims by \$32,685.

The claim payment errors resulted from the following:

- The Plan inadvertently did not price four claims under OBRA pricing, resulting in overcharges of \$61,045 to the FEHBP.
- The Plan paid one claim without a pre-certification, resulting in an overcharge of \$18,859 to the FEHBP.
- The Plan priced one claim using an incorrect allowance on a psychiatric stay, resulting in an overcharge of \$13,741 to the FEHBP.
- The FEP Operations Center priced one claim using an incorrect Medicare provider identification number, resulting in an undercharge of \$9,329 to the FEHBP.

- The FEP Operations Center priced three claims using incorrect Medicare DRG codes. Consequently, the Plan overpaid one claim by \$3,099 and underpaid two claims by \$23,356, resulting in net undercharges of \$20,257 to the FEHBP.

#### **Association's Response:**

The Association agrees with this finding. The Association states that the Plan has recovered and returned the overpayments of \$96,744 to the FEHBP, and issued additional payments of \$32,685 to the providers for the questioned underpayments.

The Association also states, "To reduce these types of pricing errors in the future, the Plan has implemented and updated its Policy & Procedure for OBRA '90 processing. Further, the FEP Director's Office includes potential claims that should have been OBRA '90 priced claims in its periodic System-Wide claims review process to facilitate early identification and recovery of OBRA '90 claim payment errors.

In order to reduce the number of claims that are not properly priced according to the OBRA '90 requirements, the FEP claims processing system has been recently enhanced with the following changes:

- The FEP Claims System will try to OBRA '90 price the claim even if the Plan indicates that this is not an approved Medicare provider.
- Updated the patient status that impacts the OBRA '90 Transfer pricing of the claims to Patient status 02 . . . ."

The Association also included a "Verification Statement" certifying that the questioned overcharges were recovered and returned to the FEHBP.

#### **Recommendation 2**

We recommend that the contracting officer disallow \$96,744 for claim overcharges and verify that the Plan returned all amounts recovered to the FEHBP.

#### **Recommendation 3**

We recommend that the contracting officer allow the Plan to charge the FEHBP \$32,685 for the claim undercharges and verify that the Plan made additional payments to the providers.

#### **Recommendation 4**

Although the Association has developed a corrective action plan to reduce OBRA 90 findings, we recommend that the contracting officer instruct the Association to ensure that the Plan is following the corrective action plan.

## **2. Miscellaneous Payments and Credits**

The audit disclosed no findings pertaining to miscellaneous payments and credits. Overall, we concluded that the Plan promptly returned health benefit refunds and recoveries to the FEHBP. Also, the Plan properly charged miscellaneous payments to the FEHBP.

## **B. ADMINISTRATIVE EXPENSES**

### **1. Pension Costs**

**\$52,752**

The Plan overcharged the FEHBP \$52,752 for pension costs from 2004 through 2006.

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."

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."

For the period 2004 through 2007, the Plan allocated pension costs to FEP based on a corporate salary ratio methodology. We determined that the Plan's allocation methodology was reasonable. However, our review disclosed that the pension costs were not allocated to FEP using the correct corporate salary percentages in 2004, 2005, and 2006. As a result, we determined that FEP's pension costs were overstated by \$20,757 in 2004, \$6,620 in 2005, and \$25,375 in 2006. In total, the FEHBP was overcharged \$52,752 for pension costs from 2004 through 2006.

### **Association's Response:**

The Association agrees with this finding. The Association states that the Plan submitted prior period adjustment (PPA) forms on July 2, 2008 for the overcharges. The Plan also returned lost investment income (LII) of \$4,556 to the FEHBP during the third quarter of 2008.

The Association also included a "Verification Statement" certifying that the pension cost overcharges of \$52,752 and LII of \$4,556 were returned to the FEHBP.

## **Recommendation 5**

We recommend that the contracting officer disallow \$52,752 for pension cost overcharges from 2004 through 2006, and verify that these overcharges were returned to the FEHBP.

### **2. Gain on Sale of Building**

**\$49,590**

The Plan did not allocate the gain on the sale of a building to the FEHBP. As a result, the FEHBP is due \$49,590 of the gain.

48 CFR 31.205-16(a) states that a gain from the sale or other disposition of depreciable property will be included in the year in which the sale occurs as credits or charges to the lines of business that were charged depreciation. Also, (b) states that the gain recognized for contract costing purposes shall be limited to the difference between the acquisition cost of the asset and its undepreciated balance.

On June 30, 2004, the Plan sold a building located at 600 Jefferson Street in Memphis, Tennessee. The Plan reported the effects of this sale in its 2004 annual statement to the insurance department of the state of Tennessee. The net sales proceeds attributable to the building and improvements were \$3,090,955 and the amount realized on the sale of building and improvements was \$2,190,273 (\$3,090,955 less \$900,682 in undepreciated cost of building and improvements).

The Plan calculated a maximum allocable gain for contract costing purposes based on the difference between the acquisition cost and the undepreciated cost of building and improvements ( $\$2,755,408 - \$848,109 = \$1,907,299$ ). The Plan determined FEP's allocable share of the gain by multiplying FEP's percentage of cost center "5019" (600 Jefferson Building) by the maximum allocable gain ( $2.6 \text{ percent} * \$1,907,299 = \$49,590$ ). We reviewed and accept the Plan's calculations. Therefore, the FEHBP is due \$49,590 for its allocable share of the gain on sale of the 600 Jefferson Street building.

### **Association's Response:**

The Association agrees with this finding. The Association states that the Plan submitted a PPA form on February 2, 2009 to credit FEP for its share of the gain. FEP's share of \$49,590 from the gain and LII of \$13,982 were wire transferred to FEP on February 17, 2009.

The Association also included a "Verification Statement" certifying that FEP's share of \$49,590 from the gain and LII of \$13,982 were returned to the FEHBP.

## **Recommendation 6**

We recommend that the contracting officer verify that the Plan credited \$49,590 to the FEHBP for FEP's allocable share of the gain on sale of the 600 Jefferson Street building.

**3. Lobbying Expenses**

**\$20,313**

The Plan charged unallowable lobbying expenses of \$20,313 to the FEHBP in 2007.

48 CFR 31.205-22(c) states, "When a contractor seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs."

48 CFR 31.201-6(a) states, "A directly associated cost is any cost which is generated solely as a result of incurring another cost, and which would not have been incurred had the other cost not been incurred. When an unallowable cost is incurred, its directly associated costs are also unallowable."

For contract years 2004 through 2007, the Plan allocated administrative expenses of \$49,787,164 (before adjustments) to the FEHBP from 594 cost centers. From this universe, we selected a judgmental sample of 24 cost centers to review, which totaled \$14,930,766 in expenses allocated to the FEHBP. We selected cost centers based on high dollar amounts, our nomenclature review, and significant dollar amount fluctuations from year to year. We reviewed the expenses from these cost centers for allowability, allocability, and reasonableness.

During our review of the cost centers, we noted that cost center "5416" (Federal and State Relations) included expenses for lobbying activities. Although the Plan did not allocate this cost center to the FEHBP from 2004 through 2006, we found that the Plan inadvertently allocated \$20,313 from this cost center to the FEHBP in 2007. Based on discussions with the Plan, the cost center "5416" expenses should have been excluded for FEP. As a result, the FEHBP is due \$20,313 for unallowable lobbying expenses charged to the FEHBP in 2007.

**Associations Response:**

The Plan agrees with this finding. The Association states that the Plan submitted a PPA on January 22, 2009 to credit FEP for this overcharge. The overcharge of \$20,313 and LII of \$1,358 were wire transferred to FEP on February 17, 2009.

The Association also included a "Verification Statement" certifying that the unallowable lobbying expenses of \$20,313 and LII of \$1,358 were returned to the FEHBP.

**Recommendation 7**

We recommend that the contracting officer disallow \$20,313 for unallowable lobbying expenses charged to the FEHBP in 2007, and verify that these funds were returned to the FEHBP.

#### **4. Post-Retirement Benefit Costs**

**\$10,941**

The Plan overcharged the FEHBP \$52,158 for post-retirement benefit (PRB) costs in 2005, 2006, and 2007, and undercharged the FEHBP \$41,217 in 2004.

48 CFR 31.205-6 (o)(2) states, "To be allowable, PRB costs must be reasonable and incurred pursuant to law, employer-employee agreement, or an established policy of the contractor."

For the period 2004 through 2007, we recalculated FEP's PRB costs in accordance with the regulations. Our calculations were based on the lesser of the funded or FAS determined costs and the Plan's FEP corporate salary ratio. We determined that the Plan's allocation methodology was reasonable. However, our review disclosed that the Plan used incorrect FEP corporate salary percentages for 2004 through 2006 when calculating the allowable amount chargeable to the FEHBP. Also, the Plan incorrectly adjusted FEP's PRB for 2007. As a result, we determined that FEP's PRB costs were understated by \$41,217 in 2004, and overstated by \$52,158 (\$18,817 in 2005, \$25,974 in 2006, and \$7,367 in 2007) from 2005 through 2007. In total, the FEHBP was overcharged \$10,941 (net) for PRB costs from 2004 through 2007.

#### **Association's Response:**

The Association agrees with this finding. The Association states that the Plan submitted a PPA on July 2, 2008 to credit the FEHBP for this overcharge. The Plan also credited LII of \$2,508 to the FEHBP for this overcharge.

The Association also included a "Verification Statement" certifying that the PRB cost overcharges of \$10,941(net) and LII of \$2,508 were returned to the FEHBP.

#### **Recommendation 8**

We recommend that the contracting officer disallow \$52,158 for PRB costs overcharged to the FEHBP from 2005 through 2007, and verify that these overcharges were returned to the FEHBP.

#### **Recommendation 9**

We recommend that the contracting officer allow the Plan to charge the FEHBP \$41,217 for PRB costs undercharged to the FEHBP in 2004.

### **C. STATUTORY RESERVE PAYMENTS**

The audit disclosed no findings pertaining to statutory reserve payments. The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1039 and applicable laws and regulations.

## **D. CASH MANAGEMENT**

### **1. Interest Income**

**\$61,782**

The Plan had not returned interest income of \$61,782 to the FEHBP letter of credit account as of December 31, 2007. This interest income was earned in July, October, and November of 2007. Subsequent to receiving our audit notification letter on February 20, 2008, the Plan returned this interest income to the FEHBP.

48 CFR 1652.215-71(a) states, "The Carrier shall invest and reinvest all 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."

For the period January 2004 through December 2007, we reviewed all interest income earned on the FEP investment account and determined if these funds were returned to the FEHBP letter of credit account in a timely manner. For the months of July, October, and November of 2007, the Plan earned interest income of \$61,782 on FEHBP funds, but had not returned this interest income to the FEHBP letter of credit account as of December 31, 2007.<sup>4</sup>

#### **Association's Response:**

The Association states that the Plan disagrees with this finding.

The Association states that "staff followed FEP's guidelines for submitting the Special Plan Invoices on a quarterly basis. Although, the transactions were not processed timely, the funds were returned to the Program prior to the audit. Therefore, this is a procedural finding with no cash impact.

The FEP Director's Office has enhanced its procedures to ensure the timely processing of all Plans' transactions. In the past, the handling of Special Plan Invoices was a manual process with limited ability to monitor items that may have been delayed for some unknown reasons. This process is now automated with an aging feature to prevent this from occurring in the future."

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<sup>4</sup> As part of our review, we verified that the Plan returned this interest income of \$61,782 to the FEHBP letter of credit account on April 1<sup>st</sup>, July 1<sup>st</sup>, and September 4<sup>th</sup> of 2008 (113 to 326 days after the interest income was reported on the monthly bank statements).

### **OIG Comments:**

Although the Plan submitted the Special Plan Invoices (SPI) to the FEP Director's Office (FEPDO) in a timely manner, the FEPDO did not process the SPI's in a timely manner and the Plan did not actually return the questioned interest income to the FEHBP in a timely manner (returned approximately 4 to 11 months after earned). Since the Plan returned this interest income to the FEHBP after receiving our audit notification letter (dated February 20, 2008) and Standard Information Request, we are continuing to question \$61,782 as a monetary finding.

### **Recommendation 10**

Since we verified that the Plan returned the questioned interest income of \$61,782 to the FEHBP letter of credit account, no further action is required for these funds.

### **Recommendation 11**

We recommend that the contracting officer verify that the FEPDO improved its procedures to ensure that SPI's are processed in a timely manner.

## **2. Investment of Funds**

### **Procedural**

The Plan did not prudently invest excess FEHBP funds during the period August 2006 through December 2007.

Contract CS 1039, Part III, Section 3.4 (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. The Carrier shall seek to maximize investment income with prudent consideration to the safety and liquidity of investments."

The Plan invests excess FEHBP funds through a sweep arrangement with AmSouth Bank. The bank sweeps funds overnight from non-interest bearing checking accounts to an investment repurchase account. From January 2004 through December 2007, the Plan invested excess FEHBP funds through this sweep arrangement, except for the following balances that remained in the checking accounts: \$100,000 for the basic option account, \$150,000 for the standard option account, and \$150,000 for the high option account. The balances that remained in the checking accounts earned monthly bank earnings credit rates (ECR) that offset a portion of the bank fees. From January 2004 through July 2006, we determined that the Plan earned on average 0.55 percent more on the ECR than the investment sweep. However, from August 2006 through December 2007, we determined that the Plan earned on average 2.35 percent less on the ECR than the investment sweep.

We calculated the amount of interest income potentially lost as a result of not investing all excess FEHBP funds in an investment account. We determined a net loss of interest income of approximately \$8,000 from January 2004 through December 2007 as a result

of the Plan's cash management procedure. In our opinion, the Plan did not totally maximize investment income on behalf of the FEHBP, and therefore, should re-evaluate its investment options when investing excess FEHBP funds. This is a procedural finding.

**Association's Response:**

The Association agrees with this finding. The Association states, "Effective November 20, 2008, the Plan implemented procedures to ensure that the entire balances in the FEP Investment Accounts are now included in the overnight investment vehicle to maximize the FEP investment income on the dedicated FEP Investment Accounts."

**Recommendation 12**

We recommend that the contracting officer instruct the Association to verify if the Plan implemented procedures to ensure that all excess FEHBP funds are properly invested as required by Contract CS 1039.

**E. LOST INVESTMENT INCOME ON AUDIT FINDINGS** **\$25,010**

As a result of the audit findings presented in this report, the FEHBP is due LII of \$25,010 from January 1, 2005 through December 31, 2008.

48 CFR 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 \$25,010 from January 1, 2005 through December 31, 2008 on questioned costs for contract years 2004 through 2007 (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. However, when responding to the administrative expense findings, the Association states that the Plan has credited the FEHBP \$22,404 for LII on these audit findings (See Association's "Verification Statement").

**Recommendation 13**

We recommend that the contracting officer direct the Plan to credit \$25,010 (plus interest accruing after December 31, 2008) to the Special Reserve for LII on audit findings.

#### IV. MAJOR CONTRIBUTORS TO THIS REPORT

##### Experience-Rated Audits Group

[REDACTED], Lead Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Auditor

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[REDACTED] Chief [REDACTED]

[REDACTED], Senior Team Leader

## V. SCHEDULES

BLUECROSS BLUESHIELD OF TENNESSEE  
CHATTANOOGA, TENNESSEE

## CONTRACT CHARGES

CONTRACT CHARGES	2004	2005	2006	2007	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>					
Plan Codes 390/392/892	\$196,771,245	\$238,633,577	\$265,881,447	\$291,327,337	\$992,613,606
Miscellaneous Payments and Credits	570,392	430,871	2,840,834	3,618,895	7,460,992
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$197,341,637</b>	<b>\$239,064,448</b>	<b>\$268,722,281</b>	<b>\$294,946,232</b>	<b>\$1,000,074,598</b>
<b>B. ADMINISTRATIVE EXPENSES</b>					
Plan Code 390	\$10,844,058	\$11,932,757	\$11,785,747	\$14,216,854	\$48,779,416
Prior Period Adjustments	2,492	49,624	(82,275)	(370,455)	(400,614)
Budget Settlement Reductions	(158,005)	0	(200,379)	0	(358,384)
Budget Settlement Revisions	151,342	0	0	0	151,342
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$10,839,887</b>	<b>\$11,982,381</b>	<b>\$11,503,093</b>	<b>\$13,846,399</b>	<b>\$48,171,760</b>
<b>C. STATUTORY RESERVE PAYMENTS</b>	<b>\$5,036,423</b>	<b>\$5,410,892</b>	<b>\$6,558,358</b>	<b>\$7,143,612</b>	<b>\$24,149,285</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$213,217,947</b>	<b>\$256,457,721</b>	<b>\$286,783,732</b>	<b>\$315,936,243</b>	<b>\$1,072,395,643</b>

BLUECROSS BLUESHIELD OF TENNESSEE  
CHATTANOOGA, TENNESSEE

QUESTIONED CHARGES

AUDIT FINDINGS	2004	2005	2006	2007	2008	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>						
1. Claim Payments						
a. Claim Payment Errors	\$0	\$106,600	\$42,546	\$103,975	\$0	\$253,121
b. Omnibus Budget Reconciliation Act of 1990 Review	0	33,579	4,273	26,207	0	64,059
<b>Total Claim Payments</b>	<b>\$0</b>	<b>\$140,179</b>	<b>\$46,819</b>	<b>\$130,182</b>	<b>\$0</b>	<b>\$317,180</b>
2. Miscellaneous Payments and Credits	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$0</b>	<b>\$140,179</b>	<b>\$46,819</b>	<b>\$130,182</b>	<b>\$0</b>	<b>\$317,180</b>
<b>B. ADMINISTRATIVE EXPENSES*</b>						
1. Pension Costs	\$20,757	\$6,620	\$25,375	\$0	\$0	\$52,752
2. Gain on Sale of Building	49,590	0	0	0	0	49,590
3. Lobbying Expenses	0	0	0	20,313	0	20,313
4. Post-Retirement Benefit Costs	(41,217)	18,817	25,974	7,367	0	10,941
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$29,130</b>	<b>\$25,437</b>	<b>\$51,349</b>	<b>\$27,680</b>	<b>\$0</b>	<b>\$133,596</b>
<b>C. STATUTORY RESERVE PAYMENTS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>D. CASH MANAGEMENT</b>						
1. Interest Income	\$0	\$0	\$0	\$61,782	\$0	\$61,782
2. Investment of Funds (Procedural)	0	0	0	0	0	0
<b>TOTAL CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$61,782</b>	<b>\$0</b>	<b>\$61,782</b>
<b>E. LOST INVESTMENT INCOME ON AUDIT FINDINGS</b>	<b>\$0</b>	<b>\$3,078</b>	<b>\$5,208</b>	<b>\$8,092</b>	<b>\$8,631</b>	<b>\$25,010</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$29,130</b>	<b>\$168,694</b>	<b>\$103,376</b>	<b>\$227,736</b>	<b>\$8,631</b>	<b>\$537,568</b>

\* Only the administrative expense overcharges are subject to lost investment income.

BLUECROSS BLUESHIELD OF TENNESSEE  
CHATTANOOGA, TENNESSEE

LOST INVESTMENT INCOME CALCULATION

	2004	2005	2006	2007	2008	TOTAL
<b>A. QUESTIONED CHARGES (Subject to Lost Investment Income)</b>						
Administrative Expenses	\$70,347	\$25,437	\$51,349	\$27,680	\$0	\$174,813
<b>B. LOST INVESTMENT INCOME CALCULATION</b>						
a. Prior Year's Total Questioned (Principal)	\$0	\$70,347	\$25,437	\$51,349	\$27,680	
b. Cumulative Total	<u>0</u>	<u>0</u>	<u>70,347</u>	<u>95,784</u>	<u>147,133</u>	
c. Total	\$0	\$70,347	\$95,784	\$147,133	\$174,813	
d. Treasury Rate: January 1 - June 30	4.000%	4.250%	5.125%	5.250%	4.750%	
e. Interest (d * c)	\$0	\$1,495	\$2,454	\$3,862	\$4,152	\$11,963
f. Treasury Rate: July 1 - December 31	4.500%	4.500%	5.750%	5.750%	5.125%	
g. Interest (f * c)	\$0	\$1,583	\$2,754	\$4,230	\$4,480	13,046
Total Interest By Year (e + g)	\$0	\$3,078	\$5,208	\$8,092	\$8,631	\$25,010

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



BlueCross BlueShield Association

An Association of Independent Blue Cross and Blue Shield Plans

March 23, 2009

[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

Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
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Reference: OPM DRAFT AUDIT REPORT  
Blue Cross Blue Shield of Tennessee  
Audit Report Number 1A-10-15-09-009  
(Dated January 30, 2009)

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) for the Tennessee BlueCross BlueShield Plan. Our comments concerning the findings in the report are as follows:

**A. HEALTH BENEFIT CHARGES**

**1. Claims Payment Errors \$253,121**

**Assistant Surgeon Review \$168,803**

The Plan does not contest this finding. Recovery activities have been initiated for these overpayments. The Plan has also reviewed the identified errors and determined that they were the result of claim processor manual invention. Additional training has been provided to the examiners re-emphasizing the proper procedures for determining the correct payment allowances for these claims.

For the Assistant Surgeon claim errors noted during the audit that related to the OBRA '93 pricing of claims with the "AS Modifier, the FEPDO implemented the following:

- Modified its contract with Palmetto to include the pricing of AS modifier claims.
- A final comprehensive listing that identifies all unadjusted OBRA '93 Assistant Surgeon claims with the AS Modifier was issued to all Plans on the January 2009 System-wide Claims Review listing so that claims can be adjusted as necessary.

As of February 26, 2009, the Plan has recovered the entire amount of the identified overpayments of \$168,803.

**Amounts Paid Greater than Covered Charges** **\$78,282**

The Plan does not contest this audit finding. Recovery efforts have been initiated on the identified overpayments. The four errors that occurred in this area were the result of human intervention. To ensure these types of errors do not occur in the future, the Plan has reviewed its processing procedures to ensure that the training materials detail how to properly handle the pricing of these claims. In addition, the FEPDO System-Wide claims review process includes Amounts Paid Greater than Covered Charges claims for Plan review and identification of potential overpayments. This review process should continue to reduce these types of claims overpayments in the future.

As of February 26, 2009, the Plan has recovered the entire amount of the confirmed overpayments of \$78,282.

**System Review** **\$6,036**

The Plan does not contest this audit finding. Recovery activities have been initiated for the four overpayments identified. These were the results of processor errors in manually calculating the claim payment amount. The Plan will review processing procedures and documentation to ensure that its training materials are up-to-date as well as provide refresher training to claims processors as necessary to reduce these types of payment errors in the future.

As of February 26, 2009, the Plan has recovered the entire amount of the identified overpayments of \$6,036.

The Plan has several methods in place to identify overpayments. These methods include, but are not limited to the System-Wide Claims Reports, COB claims reports and Duplicate claims reports provided by the FEP Director's Office along with routine claims quality assurance audits performed by the Plan's Internal Auditors. While these measures are not absolute, they provide reasonable assurances that such items will be identified. Efforts will be made to periodically examine existing procedures and add additional controls where necessary.

**2. Omnibus Budget Reconciliation Act 1990 Review \$64,059**

The Plan does not contest this finding which represents \$96,744 in overpayments on seven claims and (\$32,685) in underpayments on three claims. To reduce these types of pricing errors in the future, the Plan has implemented and updated its Policy & Procedure for OBRA '90 processing. Further, the FEP Director's Office includes potential claims that should have been OBRA '90 priced claims in its periodic System-Wide claims review process to facilitate early identification and recovery of OBRA'90 claim payment errors.

In order to reduce the number of claims that are not properly priced according to the OBRA '90 requirements, the FEP claims processing system has been recently enhanced with the following changes:

- The FEP Claims System will try to OBRA '90 price the claim even if the Plan indicates that this is not an approved Medicare provider.
- Updated the patient status that impacts the OBRA '90 Transfer pricing of the claims to Patient status 02 as stated in OPM Carrier Letter 2007-6, "OBRA '90 IPPS PRICER Program Usage".

As of February 26, 2009, the Plan has recovered the entire amount of the confirmed overpayments of \$96,744 and issued the \$32,685 in underpayments to the providers.

The Plan has several methods in place to identify overpayments. These methods include, but are not limited to the System-wide claims reports, COB claims reports and Duplicate claims reports provided by the FEP Director's Office along with routine claims quality assurance audits performed by the Plan's Internal Auditors. While these measures are not absolute, they provide reasonable assurances that such items will be identified. Efforts will be made to periodically examine existing procedures and add additional controls where necessary.

**B. ADMINISTRATIVE EXPENSES**

**1. Pension Expense \$52,752**

The Plan does not contest this audit finding. On July 2, 2008 the Plan submitted Prior Period Adjustment (PPAs) forms for the overcharges in 2004, 2005 and 2006. To prevent this error from occurring in the future, the Plan has changed procedures to use the corporate salary ratio on the pension review schedule as outlined by the OPM auditors to determine the correct pension allocation for FEP

cost reporting. Lost Investment Income in the amount of \$4,556 was also returned to the Program during third quarter 2008.

**2. Gain on Sale of Building \$49,590**

We do not contest this finding. The Plan has revised its internal procedures to ensure the FEP will receive its equitable share of any gains on the sale of all applicable assets in the future.

On February 2, 2009, the Plan submitted a Prior Period Adjustment form to credit FEP for its share of the gains from the sale of the building in 2004. In addition, FEP's portion of the gain from the sale of the building plus Lost Investment Income in the amount of \$13,982 was wired to FEP on February 17, 2009.

On March 3, 2009, FEP Director's Office staff conducted additional training on how and when to allocate FEP's portion of gains resulting from the sale of buildings in which FEP was charged depreciation expenses. Plan staff updated their procedures to ensure that they will be in compliance with the Federal Regulations on gains acquired from the sale of all applicable assets in the future.

**3. Lobbying Expenses \$20,313**

The Plan does not contest this finding. This error occurred as the result of a change in the Plan's overall allocation process. The cost center that contained Lobbying Expenses was inadvertently changed to allocate to FEP. The Plan has strengthened its procedures to require the FEP Cost Accounting staff review any changes in new accounts that allocate to FEP prior to making changes to the Cost Accounting System.

A Prior Period Adjustment to credit FEP for this overcharge was submitted to FEP on January 22, 2009. The overcharge and Lost Investment Income in the amount of \$1,358 was included in the February 17 wire sent to FEP.

**4. Post-Retirement Benefit Costs \$10,941**

The Plan does not contest this finding. This overpayment was the result of changes recommended for the post retirement benefit expense review schedule during the 2005 FEP OPM audit. Procedures have been implemented to use the corporate salary ratio to determine the correct post retirement benefit expense charged to FEP.

A Prior Period Adjustment form was submitted on July 2, 2008 to credit the Program for this overcharge. Lost investment income was accessed and \$2,508 was credited to the Program for this overcharge.

## Cash Management

**1. Interest Income \$61,782**

The Plan disagrees with this finding as staff followed FEP's guidelines for submitting the Special Plan Invoices on a quarterly basis. Although, the transactions were not processed timely, the funds were returned to the Program prior to the audit. Therefore, this is a procedural finding with no cash impact.

The FEP Director's Office has enhanced its procedures to ensure the timely processing of all Plans' transactions. In the past, the handling of Special Plan Invoices was a manual process with limited ability to monitor items that may have been delayed for some unknown reasons. This process is now automated with an aging feature to prevent this from occurring in the future.

As noted in this report, the Plan has returned all questioned amounts to the Program. Attached is a Verification Statement in the amount of \$473,180. When you prepare the Final Report, please recognize the complete recovery of all questioned amounts in the report.

We appreciate the opportunity to provide our response to each of the findings and request that our comments be included in their entirety as part of the Final Audit Report.

[REDACTED]  
Executive Director  
Program Integrity

[REDACTED]  
cc: [REDACTED]

**Blue Cross and Blue Shield Association  
Federal Employee Program  
Audit Report Number 1A-10-15-09-009  
Chattanooga, Tennessee  
(Dated January 30, 2009)**

We have performed sufficient tests and procedures to reasonably verify that credits related to the audit finding and amount stated below has been returned to the FEHBP as recommended in **OPM Audit Report Number 1A-10-15-09-009**. We saw nothing in our tests and procedures and are aware of no other information that would indicate that the stated amount has not been returned to the FEHB Program.

**Health Benefit Charges**

Assistant Surgeon Review	\$168,803
Amount Paid Greater Than Covered Charges	\$78,282
System Review	\$6,036
OBRA '90	<u>\$64,059</u>
<b>Subtotal</b>	<b>\$317,180</b>

**Administrative Expense Charges**

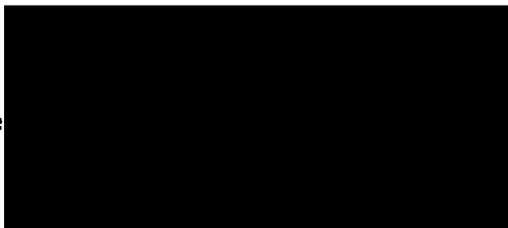
Pension Costs	\$52,752
Gain on Sale of Building	\$49,590
Lobbying Expense	\$20,313
Post-Retirement Benefit Costs	<u>\$10,941</u>
<b>Subtotal</b>	<b>\$133,596</b>

**Lost Investment Income**

Pension Costs	\$4,556
Gain on Sale of Building	\$13,982
Lobbying Expense	\$1,358
Post-Retirement Benefit Costs	<u>\$2,508</u>
<b>Subtotal</b>	<b>\$22,404</b>

**Total Returned** **\$473,180**

Signature \_\_\_\_\_



3/13/09  
Date



BlueCross BlueShield  
Association

An Association of Independent  
Blue Cross and Blue Shield Plans

April 21, 2009

[Redacted] Group Chief  
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Reference: **OPM DRAFT AUDIT REPORT  
Blue Cross Blue Shield of Tennessee  
Audit Report Number 1A-10-15-09-009  
(Dated January 30, 2009)**

Dear [Redacted]

In our initial response, we did not address the finding C.2 entitled, Investment Income. The purpose of this letter is to provide our position on this issue.

**C. Cash Management**

**2. Investment Income**

**Procedural**

The Plan agrees with this finding as all excess FEHBP funds in the dedicated FEP Investment Accounts during the period of August 2006 through December 2007 was not always invested via the sweep arrangement with AmSouth Bank. Effective November 20, 2008, the Plan implemented procedures to ensure that the entire balances in the FEP Investment Accounts are now included in the overnight investment vehicle to maximize the FEP investment income on the dedicated FEP Investment Accounts.

We appreciate the opportunity to provide our response to each of the findings and request that our comments be included in their entirety as part of the Final Audit Report.

Sincerely,

[Redacted Signature]

Director, Program Assurance

[Redacted]

cc:

[Redacted]