



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

---

---

# Final Audit Report

Subject:

## AUDIT OF INDEPENDENCE BLUECROSS PHILADELPHIA, PENNSYLVANIA

Report No. 1A-10-55-11-019

Date: December 1, 2011

--CAUTION--

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain propriety information that was redacted from the publicly distributed copy.



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

---

Independence BlueCross  
Plan Code 362  
Philadelphia, Pennsylvania

REPORT NO. 1A-10-55-11-019

DATE: December 1, 2011

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

Michael R. Esser  
Assistant Inspector General  
for Audits



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

## EXECUTIVE SUMMARY

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

---

Independence BlueCross  
Plan Code 362  
Philadelphia, Pennsylvania

REPORT NO. 1A-10-55-11-019      DATE: December 1, 2011

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Independence BlueCross (Plan), in Philadelphia, Pennsylvania, questions \$166,337 in health benefit charges and lost investment income (LII). The BlueCross BlueShield Association agreed (A) with the questioned charges and LII. Additional LII on the questioned charges amounts to \$1,304, calculated from January 1, 2011 through August 15, 2011.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits from January 1, 2005 through September 30, 2010 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2005 through September 30, 2010.

The audit results are summarized as follows:

## **MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

- **Health Benefit Refunds (A)** **\$93,587**

The Plan had not returned 12 health benefit refunds, totaling \$75,822, to the FEHBP as of September 30, 2010. As a result of this finding, the Plan returned \$93,587 to the FEHBP, consisting of \$75,822 for the questioned health benefit refunds and \$17,765 for LII on these refunds.

- **Subrogation Recoveries (A)** **\$65,950**

During the audit scope, the Plan returned three subrogation recoveries and the associated batch recoveries to the FEHBP in an untimely manner. As a result, the FEHBP was due LII of \$65,950 since these recoveries were deposited untimely into the Federal Employee Program investment account, more than 30 days after receipt. After receiving our audit information request on January 21, 2011, the Plan returned this LII amount of \$65,950 to the FEHBP.

- **Unidentified Refunds (A)** **\$4,205**

The Plan had not returned two health benefit refunds, totaling \$4,074, to the FEHBP as of September 30, 2010. These refunds were initially classified by the Plan as unidentified refunds. As a result of this finding, the Plan returned \$4,205 to the FEHBP, consisting of \$4,074 for the questioned health benefit refunds and \$131 for LII on these refunds.

- **Hospital Settlements (A)** **\$2,595**

The Plan returned two hospital settlement recoveries, totaling \$154,456, untimely to the FEHBP. Since the Plan returned these hospital settlement recoveries to the FEHBP during the audit scope, we did not question this amount as a monetary finding. However, as a result of this finding, the Plan returned LII of \$2,595 to the FEHBP calculated on these hospital settlement recoveries.

## **CASH MANAGEMENT**

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

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

As a result of our audit findings presented in this audit report, the FEHBP is due LII of **\$1,304**, calculated from January 1, 2011 through August 15, 2011.

# CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	6
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u> .....	6
1. Health Benefit Refunds .....	6
2. Subrogation Recoveries .....	7
3. Unidentified Refunds .....	8
4. Hospital Settlements .....	10
B. <u>CASH MANAGEMENT</u> .....	11
C. <u>LOST INVESTMENT INCOME ON AUDIT FINDINGS</u> .....	11
IV. MAJOR CONTRIBUTORS TO THIS REPORT .....	13
V. SCHEDULES	
A. HEALTH BENEFIT CHARGES AND AMOUNTS QUESTIONED	
B. LOST INVESTMENT INCOME CALCULATION	
APPENDIX (BlueCross BlueShield Association response, dated July 29, 2011, to the draft audit report)	

# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

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

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

## **BACKGROUND**

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

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

The Association has established a Federal Employee Program (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.

---

<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-10-55-04-010, dated December 15, 2004) for contract years 2000 through 2002 have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated June 3, 2011. 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. Also, additional documentation provided by the Association and Plan on various dates through October 4, 2011 was considered in preparing our final report.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

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

#### **Miscellaneous Health Benefit Payments and Credits**

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

#### **Cash Management**

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

### **SCOPE**

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan code 362 for contract years 2005 through 2009. During this period, the Plan paid approximately \$484.6 million in health benefit charges (See Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits, such as refunds and subrogation recoveries, and cash management activities from January 1, 2005 through September 30, 2010.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its 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.

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, as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

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

Audit fieldwork was performed at our Cranberry Township, Pennsylvania office on various dates from February 3 through June 3, 2011.

## **METHODOLOGY**

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 36 high dollar FEP health benefit refunds, totaling \$295,808 (from a universe of 105 FEP refunds, totaling \$306,112); 100 high dollar corporate-wide refunds, totaling \$17,001,052 (no universe totals were obtained for these refunds); 17 high dollar subrogation recoveries, totaling \$528,518 (from a universe of 246 recoveries, totaling \$833,013); 25 high dollar special plan invoices, totaling \$3,685,218 in net payments (from a universe of 137 special plan invoices, totaling \$14,993,836 in net payments); 24 high dollar provider audit recoveries, totaling \$1,227,722 (from a universe of 1,274 recoveries, totaling \$2,736,831); 50 high dollar unidentified refunds, totaling \$4,632,184 (from a universe of 7,023 unidentified refunds, totaling \$8,376,596); and 5 high dollar hospital settlements, totaling \$343,544 in net FEP payments (from a universe of 12 settlements, totaling \$348,785 in net FEP payments), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.<sup>2</sup> The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

---

<sup>2</sup> See the audit findings for "Health Benefit Refunds" (A1), "Subrogation Recoveries" (A2), "Unidentified Refunds" (A3), and "Hospital Settlements" (A4) on pages 6 through 11 for specific details of our sample selection methodologies.

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.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

##### **1. Health Benefit Refunds** **\$93,587**

The Plan had not returned 12 health benefit refunds, totaling \$75,822, to the FEHBP as of September 30, 2010. As a result of this finding, the Plan returned \$93,587 to the FEHBP, consisting of \$75,822 for the questioned health benefit refunds and \$17,765 for LII on these refunds.

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

Contract CS 1039, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.” Also, based on an agreement between OPM and the Association, dated March 26, 1999, BlueCross and BlueShield plans have 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

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

For the period January 1, 2005 through September 30, 2010, we identified 105 FEP health benefit refunds totaling \$306,112. From this universe, we selected and reviewed a judgmental sample of 36 refunds, totaling \$295,808, for the purpose of determining if the Plan promptly returned these refunds to the FEHBP. Our sample included all refunds of \$400 or more. In addition, we selected and reviewed a judgmental sample of 100 high dollar corporate-wide health benefit refunds from 2005 through 2008, totaling \$17,001,052, to determine whether these refunds were FEP related, and if so, whether the FEP refunds were promptly returned to the FEHBP.

Based on our review, we determined that the Plan had not returned 12 health benefit refunds, totaling \$75,822, to the FEHBP as of September 30, 2010. We noted that the Plan received these 12 refunds in 2005, 2008, and 2009. However, these refunds were not deposited into the FEP investment account nor returned to the FEHBP letter of credit account (LOCA). As a result of this finding, the Plan returned these questioned refunds to the FEHBP on September 15, 2011 (i.e., from 702 to 2,367 days after receipt). Since

these refunds had not been deposited into the FEP investment account, we also calculated LII of \$17,765 on these refunds through December 31, 2010. The Plan also returned this LII amount to the FEHBP. (Note: We calculated additional LII, accruing after December 31, 2010 on these questioned refunds, in Schedule B of this report.)

In total, we are questioning \$93,587, consisting of \$75,822 for health benefit refunds and \$17,765 for LII calculated on these refunds.

**Association's Response:**

The Association agrees with this finding. The Association states that the Plan will wire the questioned refunds and applicable LII to the FEP Director's Office by July 30, 2011.

The Association also states, "The Plan is currently reviewing their refund procedures to determine which controls to enhance to ensure accurate processing of health benefit refunds in the future. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31, 2011."

**OIG Comments:**

The Association provided documentation supporting that the Plan wire transferred the questioned refunds and LII of \$75,822 and \$17,765, respectively, to the Association's FEP joint operating account on August 15, 2011. The Association subsequently wire transferred these funds to OPM on September 15, 2011.

**Recommendation 1**

Since we verified that the Plan returned \$75,822 to the FEHBP for the questioned health benefit refunds, no further action is required for this questioned amount.

**Recommendation 2**

Since we verified that the Plan returned \$17,765 to the FEHBP for LII on the questioned health benefit refunds, no further action is required for this LII amount.

**2. Subrogation Recoveries **\$65,950****

During the audit scope, the Plan returned three subrogation recoveries and the associated batch recoveries to the FEHBP in an untimely manner. As a result, the FEHBP was due LII of \$65,950 since these recoveries were deposited untimely into the FEP investment account, more than 30 days after receipt. After receiving our audit information request on January 21, 2011, the Plan returned this LII amount of \$65,950 to the FEHBP.

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

For the period January 1, 2005 through September 30, 2010, we identified 246 subrogation recoveries totaling \$833,013. From this universe, we selected and reviewed a judgmental sample of 17 subrogation recoveries, totaling \$528,518, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all subrogation recoveries of \$10,000 or more.

Based on our review, we determined that the Plan untimely deposited three subrogation recoveries into the FEP investment account and untimely returned these recoveries to the LOCA during the audit scope. Specifically, these recoveries were deposited into the FEP investment account from 1,039 to 1,105 days late. Although the Plan subsequently returned \$26,349 to the FEHBP for LII calculated on these recoveries, we consider this to be a monetary finding since the Plan returned the LII to the LOCA after receiving our audit information request (dated January 21, 2011).

In addition, these subrogation recoveries were included in batch recoveries that were untimely deposited into the FEP investment account. The Plan also returned \$39,601 to the FEHBP for LII calculated on these batch recoveries (excluding the three subrogation recoveries noted above). Again, we consider this to be a monetary finding for the same reason as noted above.

We tested and accepted the Plan's LII calculations. We also verified that the Plan returned a total of \$65,950 to the FEHBP for LII on the subrogation and batch recoveries that were deposited untimely into the FEP investment account.

**Association's Response:**

The Association agrees with this finding. The Association states, "The Plan is currently reviewing its subrogation procedures to determine which controls to enhance to ensure the timely return of refunds from subrogation recoveries in the future. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31, 2011."

**Recommendation 3**

Since we verified that the Plan returned \$65,950 to the FEHBP for LII on recoveries deposited untimely into the FEP investment account, no further action is required for this LII amount.

**3. Unidentified Refunds \$4,205**

The Plan had not returned two health benefit refunds, totaling \$4,074, to the FEHBP as of September 30, 2010. These refunds were initially classified by the Plan as unidentified refunds. As a result of this finding, the Plan returned \$4,205 to the FEHBP, consisting of \$4,074 for the questioned health benefit refunds and \$131 for LII on these refunds.

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

For the period January 1, 2005 through September 30, 2010, we identified 7,023 unidentified refunds totaling \$8,376,596. From this universe, we selected and reviewed a judgmental sample of 50 unidentified refunds, totaling \$4,632,184, to determine whether these refunds were FEP related, and if so, whether the Plan promptly returned the funds to the FEHBP. Our sample included all unidentified refunds of \$20,000 or more.

Based on our review, we determined that the Plan had not returned two of these health benefit refunds, totaling \$4,074, to the FEHBP as of September 30, 2010. We noted that the Plan received these refunds in January 2009 and January 2010. However, these refunds were not deposited into the FEP investment account nor returned to the LOCA. As a result of this finding, the Plan returned these two questioned refunds to the FEHBP on September 15, 2011, approximately 1 ½ and 2 ½ years late. Since these refunds had not been deposited into the FEP investment account, we also calculated LII of \$131 on these refunds through December 31, 2010. The Plan also returned this LII amount to the FEHBP. (Note: We calculated additional LII, accruing after December 31, 2010 on these questioned refunds, in Schedule B of this report.)

In total, we are questioning \$4,205, consisting of \$4,074 for health benefit refunds and \$131 for LII calculated on these refunds.

**Association's Response:**

The Association agrees with this finding. The Association states that the Plan will return the questioned refunds and LII to the FEHBP by July 30, 2011. The Association also states, "The Plan is currently reviewing their Unidentified Refund procedures to ensure that refunds are identified timely and returned to the Program as specified in the Contract."

**OIG Comments:**

The Association provided documentation supporting that the Plan wire transferred \$5,220 to the Association's FEP joint operating account on August 15, 2011 for the questioned refunds and applicable LII. The Association subsequently wire transferred these funds to OPM on September 15, 2011. In this amount, the Plan included \$1,015 in LII for part of the draft report finding that was subsequently dropped from the final report because the Plan provided documentation supporting that the refunds were not FEP related. We notified the Association of the error.

**Recommendation 4**

Since we verified that the Plan returned \$4,074 to the FEHBP for the questioned health benefit refunds, no further action is required for this questioned amount.

## **Recommendation 5**

Since we verified that the Plan returned \$131 to the FEHBP for LII on the questioned health benefit refunds, no further action is required for this LII amount.

### **4. Hospital Settlements \$2,595**

The Plan returned two hospital settlement recoveries, totaling \$154,456, untimely to the FEHBP. Since the Plan returned these hospital settlement recoveries to the FEHBP during the audit scope, we did not question this amount as a monetary finding. However, as a result of this finding, the Plan returned LII of \$2,595 to the FEHBP calculated on these hospital settlement recoveries.

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

For the period January 1, 2005 through September 30, 2010, we identified 12 hospital settlements totaling \$348,785 in net FEP payments. From this universe, we selected and reviewed a judgmental sample of five hospital settlements totaling \$343,544 in net FEP payments, for the purpose of determining if the Plan promptly returned or properly charged FEP's allocable share for each of these settlements to the FEHBP. Our sample included the five highest dollar hospital settlement payments or recoveries.

We determined that FEP's allocable shares of the hospital settlements in our sample were returned or properly charged to the FEHBP. However, we found that two of these hospital settlements, totaling \$154,456 in credit allocations to FEP, were deposited into the FEP investment account and returned to the LOCA in an untimely manner. Specifically, these two hospital settlement recoveries were deposited into the FEP investment account 111 and 288 days late. As a result, we calculated LII of \$2,595 on these hospital settlement recoveries since the funds were deposited untimely into the FEP investment account. The Plan returned this LII amount to the FEHBP as a result of this finding.

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

The Association agrees with this finding. The Association states that the Plan will return the questioned LII to the FEHBP by July 30, 2011. The Association also states, "The Plan is currently reviewing their Hospital Settlement procedures to ensure that all refunds are timely returned and that the LII is properly calculated."

#### **OIG Comments:**

The Association provided documentation supporting that the Plan transferred the questioned LII to the Association's FEP joint operating account on August 15, 2011. The Association subsequently transferred the funds to OPM on September 15, 2011.

### **Recommendation 6**

Since we verified that the Plan returned \$2,595 to the FEHBP for LII on hospital settlement recoveries untimely deposited into the FEP investment account, no further action is required for this LII amount.

### **B. CASH MANAGEMENT**

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

### **C. LOST INVESTMENT INCOME ON AUDIT FINDINGS** **\$1,304**

As a result of the audit findings presented in this report, the FEHBP is due LII of \$1,304 from January 1, 2011 through August 15, 2011.

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

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our computations show that the FEHBP is due LII of \$1,304 from January 1, 2011 through August 15, 2011 (see Schedule B).

#### **Association’s Response:**

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

#### **OIG Comments:**

The audit findings for “Health Benefit Refunds” (A1) and “Unidentified Refunds” (A3) already include LII through December 31, 2010. However, these audit findings are subject to our LII calculation in Schedule B through August 15, 2011, which is the date when the Plan wire transferred the questioned principal amounts for these findings into the Association’s FEP joint operating account.

The audit findings for “Subrogation Recoveries” (A2) and “Hospital Settlements” (A4) are not subject to our LII calculation in Schedule B.

**Recommendation 7**

We recommend that the contracting officer direct the Plan to credit \$1,304 to the Special Reserve for LII on audit findings.

#### **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

---

██████████, Chief (██████████)

██████████, Senior Team Leader

V. SCHEDULES

INDEPENDENCE BLUECROSS  
PHILADELPHIA, PENNSYLVANIA

HEALTH BENEFIT CHARGES AND AMOUNTS QUESTIONED

HEALTH BENEFIT CHARGES*	2005	2006	2007	2008	2009			TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>								
PLAN CODE 362	\$66,210,890	\$81,306,691	\$89,084,485	\$110,138,490	\$128,123,891			\$474,864,447
MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	196,895	213,381	2,384,330	3,099,139	3,878,157			9,771,902
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$66,407,785</b>	<b>\$81,520,072</b>	<b>\$91,468,815</b>	<b>\$113,237,629</b>	<b>\$132,002,048</b>			<b>\$484,636,349</b>
<b>AMOUNTS QUESTIONED**</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>TOTAL</b>
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>								
1. Health Benefit Refunds	\$64,977	\$3,424	\$3,463	\$5,616	\$13,704	\$2,403	\$0	\$93,587
2. Subrogation Recoveries	0	5,379	10,327	7,764	42,480	0	0	65,950
3. Unidentified Refunds	0	0	0	0	373	3,832	0	4,205
4. Hospital Settlements	0	0	0	492	2,103	0	0	2,595
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$64,977</b>	<b>\$8,803</b>	<b>\$13,790</b>	<b>\$13,872</b>	<b>\$58,660</b>	<b>\$6,235</b>	<b>\$0</b>	<b>\$166,337</b>
<b>B. CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>C. LOST INVESTMENT INCOME ON AUDIT FINDINGS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,304</b>	<b>\$1,304</b>
<b>TOTAL AMOUNTS QUESTIONED</b>	<b>\$64,977</b>	<b>\$8,803</b>	<b>\$13,790</b>	<b>\$13,872</b>	<b>\$58,660</b>	<b>\$6,235</b>	<b>\$1,304</b>	<b>\$167,641</b>

\* This audit only covered miscellaneous health benefit payments and credits and cash management activities from January 1, 2005 through September 30, 2010.

\*\* We included partial lost investment income (LII) within audit findings A1 and A3. We also calculated additional LII in Schedule B for audit findings A1 and A3. Audit findings A2 and A4 include only LII.

INDEPENDENCE BLUECROSS  
PHILADELPHIA, PENNSYLVANIA

LOST INVESTMENT INCOME CALCULATION

LOST INVESTMENT INCOME	2005	2006	2007	2008	2009	2010	2011	TOTAL
<b>A. QUESTIONED CHARGES (Subject to Lost Investment Income)</b>								
Miscellaneous Health Benefit Payments and Credits*	\$0	\$0	\$0	\$0	\$0	\$0	\$79,896	\$79,896
<b>B. LOST INVESTMENT INCOME CALCULATION</b>								
a. Total Questioned (Principal)	\$0	\$0	\$0	\$0	\$0	\$0	\$79,896	
b. Cumulative Total	<u>0</u>							
c. Total	\$0	\$0	\$0	\$0	\$0	\$0	\$79,896	
d. Treasury Rate: January 1 - June 30	4.250%	5.125%	5.250%	4.750%	5.625%	3.250%	2.625%	
e. Interest (d * c)	\$0	\$0	\$0	\$0	\$0	\$0	\$1,049	\$1,049
f. Treasury Rate: July 1 - December 31	4.500%	5.750%	5.750%	5.125%	4.875%	3.125%	2.500%	
g. Interest (f * c)	\$0	\$0	\$0	\$0	\$0	\$0	\$255	\$255
Total Interest By Year (e + g)	\$0	\$0	\$0	\$0	\$0	\$0	\$1,304	\$1,304

\* Only the principal amounts of the audit findings for miscellaneous health benefit payments and credits in Schedule A are subject to LII. Specifically, the principal amounts for "Health Benefit Refunds" (A1) and "Unidentified Refunds" (A3) audit findings already include LII through December 31, 2010. However, these audit findings are also subject to our LII calculation in Schedule B through August 15, 2011, which is the date when Independence BlueCross wire transferred the questioned principal amounts for these findings into the Association's FEP joint operating account.

July 29, 2011

██████████ 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



**BlueCross BlueShield  
 Association**

An Association of Independent  
 Blue Cross and Blue Shield Plans

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

**Reference: OPM DRAFT AUDIT REPORT  
 Independence Blue Cross  
 Audit Report Number 1A-10-55-11-019  
 (Dated June 3, 2011 and Received June 3, 2011)**

Dear ██████████

This is the Independence Blue Cross response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP).

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

**A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

**1. Health Benefit Refunds \$93,587**

The Plan agrees that 12 refunds totaling \$93,587 were not returned to the FEHBP. Specifically, refunds totaling \$75,822 and Lost Investment Income (LII) totaling \$17,765 are due the FEHBP. The funds, including applicable LII, will be submitted to the FEPDO Director's office by July 30, 2011.

The Plan is currently reviewing their refund procedures to determine which controls to enhance to ensure accurate processing of health benefit refunds in the future. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31, 2011.

**2. Subrogation Recoveries \$65,950**

The Plan agrees that a total amount of \$65,950 in subrogation recoveries and LII was due to the FEHBP. This was documented in the Plan's work papers prior to the onsite audit. In addition, the process to return the funds to the FEHBP was also initiated prior to the onsite audit. The Plan submitted documentation to support the return of the funds to the auditors. The Plan is currently reviewing its subrogation procedures to determine which controls to enhance to ensure the timely return of refunds from subrogation recoveries in the future. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31, 2011.

July 29, 2011

Page 2 of 2

**3. Unidentified Refunds**

**\$40,864**

The Plan agrees that \$5,220 in Unidentified Refunds and LII is due to the FEHBP. These funds will be submitted by July 30, 2011. However, the Plan disagrees with an Unidentified Refund amount of \$35,644. The Plan is providing supporting documentation to show this amount is not related to the Program. Reference Attachment A.

The Plan is currently reviewing their Unidentified Refund procedures to ensure that refunds are identified timely and returned to the Program as specified in the Contract. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31,2011.

**4. Hospital Settlements**

**\$2,595**

The Plan agrees with the finding that lost investment income of \$2,595 was not properly applied to two hospital settlements that were not deposited timely. The funds will be returned by July 30, 2011.

The Plan is currently reviewing their Hospital Settlement procedures to ensure that all refunds are timely returned and that the LII is properly calculated. The Plan expects to complete their review by September 30, 2011 and implement any necessary changes no later than December 31,2011.

**C. CASH MANAGEMENT**

The Plan accepted the overall conclusion that it had handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the findings pertaining to cash management noted in the "Miscellaneous Payments and Credits" section

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.

Executive Director  
FEP Program Integrity

rcm/md