



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

Final Audit Report

**AUDIT OF
HORIZON BLUECROSS BLUESHIELD OF NEW JERSEY
NEWARK, NEW JERSEY**

**Report Number 1A-10-49-14-057
June 18, 2015**

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EXECUTIVE SUMMARY

Audit of Horizon BlueCross BlueShield of New Jersey

Report No. 1A-10-49-14-057

June 18, 2015

Why did we conduct the audit?

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

What did we audit?

We audited the FEHBP operations at Horizon BlueCross BlueShield of New Jersey. Specifically, our audit covered miscellaneous health benefit payments and credits from 2009 through February 28, 2014, as well as administrative expenses from 2009 through 2013. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2009 through February 28, 2014 and the Plan's Fraud and Abuse (F&A) Program from 2013 through June 30, 2014.



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*Assistant Inspector General
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What did we find?

We questioned \$375,650 in health benefit charges, administrative expenses, cash management activities, and lost investment income (LII). We also identified a procedural finding regarding the Plan's F&A Program. The BlueCross BlueShield Association and Plan agreed with \$305,732 and disagreed with \$69,918 of the questioned amounts, and agreed with the procedural finding regarding the Plan's F&A Program.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$62,661 for health benefit refunds, medical drug rebates, and fraud recoveries that had not been returned to the FEHBP as of February 28, 2014, and \$12,949 for LII on health benefit refunds and recoveries, medical drug rebates, and fraud recoveries that were returned untimely to the FEHBP.
- Administrative Expenses – We questioned \$2,800 for unallocable expenses charged to the FEHBP and \$49 for applicable LII on these questioned charges, as well as \$57,468 for LII on excess administrative expense reimbursements that were returned untimely to the FEHBP.
- Cash Management – We determined that the Plan held an excess working capital deposit of \$181,401 and excess FEHBP funds of \$58,322 in the Federal Employee Program (FEP) investment account as of February 28, 2014. We also determined that the Plan held excess corporate funds of \$3,946,389 in the FEP investment account, which belong to the Plan and should be transferred to the Plan's corporate account.
- Fraud and Abuse Program – The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2011-13.

ABBREVIATIONS

Association	BlueCross BlueShield Association
BC	BlueCross
BCBS	BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield
BCBSA	BlueCross BlueShield Association
BS	BlueShield
CL	Carrier Letter
CFR	Code of Federal Regulations
Contract	Contract CS 1039
FAR	Federal Acquisition Regulations
FEHB	Federal Employees Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employees Program
FEPDO	Federal Employees Program Director's Office
F&A	Fraud and Abuse
FIMS	Fraud Information Management System
FWA	Fraud, Waste, and Abuse
Guidelines	Letter of Credit System Guidelines
HIO	Healthcare and Insurance Office
LOCA	Letter of Credit Account
LII	Lost Investment Income
OIG	Office of the Inspector General
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
Plan	Horizon BlueCross BlueShield of New Jersey
SIU	Special Investigations Unit
SPI	Special Plan Invoice
WC	Working Capital

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I. BACKGROUND

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

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

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

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

The Association has established a Federal Employee Program (FEP¹) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS 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 BCBS plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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

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

All findings from our prior audit of the Plan (Report No. 1A-10-49-09-025, dated February 12, 2010), covering the period 2003 through October 31, 2008, were satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on December 8, 2014; and were presented in detail in a draft report, dated December 12, 2014, and a draft report addendum, dated January 23, 2015. The Association's comments offered in response to the draft report and addendum 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 May 11, 2015 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 timely to the FEHBP.

Administrative Expenses

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

Cash Management

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

Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases were in compliance with the terms of Contract CS 1039 and the applicable FEHBP Carrier Letters.

SCOPE

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 280 and 780 for contract years 2009 through 2013. During this period, the Plan processed approximately \$2.1 billion in FEHBP health benefit payments and charged the FEHBP \$106 million in administrative expenses (See Figure 1).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and medical drug rebates) and cash management activities from 2009 through February 28, 2014, as well as administrative expenses from 2009 through 2013. We also reviewed the Plan's Fraud and Abuse (F&A) Program from 2013 through June 30, 2014.

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

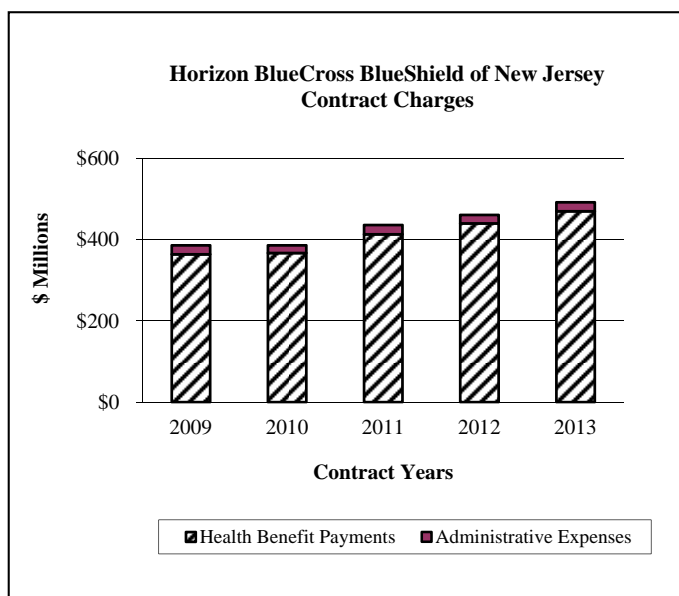


Figure 1 - Contract Charges

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director's Office and the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the

computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Newark, New Jersey on various dates from July 28, 2014 through September 25, 2014. Audit fieldwork was also performed at our office in Jacksonville, Florida. Throughout the audit process, we encountered several instances where the Association/FEP Director's Office and/or Plan responded untimely, or initially provided incomplete responses, to various requests for supporting documentation. As a result, completion of our audit work and issuance of our draft and final reports were delayed.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. For the period 2009 through February 28, 2014, we also judgmentally selected and reviewed 53 high dollar health benefit refunds, totaling \$1,343,519 (from a universe of 23,692 refunds, totaling \$6,307,742); 33 high dollar provider offsets, totaling \$1,308,804 (from a universe of 104,387 offsets, totaling \$25,234,060); 34 high dollar subrogation recoveries, totaling \$2,029,458 (from a universe of 2,341 recoveries, totaling \$5,972,388); 32 high dollar provider audit recoveries, totaling \$737,759 (from a universe of 333 recoveries, totaling \$1,121,397); 28 high dollar hospital credit balance audit recoveries, totaling \$527,912 (from a universe of 953 recoveries, totaling \$1,206,970); 31 high dollar FEP fraud recovery allocation amounts, totaling \$1,246,714 (from a universe of 519 FEP allocation amounts, totaling \$1,625,495); 6 monthly FEP amounts of other health benefit recoveries, totaling \$204,985 (from a universe of 44 monthly FEP amounts, totaling \$480,894); 26 FEP medical drug rebate amounts, totaling \$168,342 (from a universe of 53 FEP rebate amounts, totaling \$195,552); and 6 special plan invoices (SPI), totaling \$267,626 in net FEP payments (from a universe of 810 SPI's, totaling \$3,610,725 in net payments), to determine if refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.² The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

² The sample of health benefit refunds included all refunds of \$10,000 or more. The sample of provider offsets included all offsets of \$25,000 or more. For the sample of subrogation recoveries, we selected all recoveries of \$30,000 or more. For the sample of provider audit recoveries, we selected all recoveries of \$10,000 or more. For the sample of hospital credit balance audit recoveries, we selected all recoveries of \$7,500 or more. For the sample of fraud recoveries, we selected all FEP fraud recovery allocation amounts of \$10,000 or more. For the sample of other health benefit recoveries, we selected the month with the highest recovery total amount from each year in the audit scope. For the sample of medical drug rebate amounts, we selected all FEP rebate amounts of \$2,000 or more. For the SPI sample, we selected the SPI with the highest miscellaneous payment or credit amount from each year in the audit scope.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2009 through 2013. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, inter-company profits, non-recurring projects, quality improvement, and administrative cost settlements. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed the Plan's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, and interest income transactions from 2009 through February 28, 2014, as well as the Plan's dedicated FEP investment account balance as of February 28, 2014.

We also interviewed the Plan's Special Investigations Unit regarding the effectiveness of the F&A Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and the applicable FEHBP Carrier Letters.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds and Recoveries \$47,795

Our audit determined that the Plan had not returned health benefit refunds, totaling \$35,858, to the FEHBP as of February 28, 2014. The Plan returned these questioned refunds to the FEHBP on June 4, 2014, more than 60 days after receipt and after receiving our audit notification letter. Additionally, the Plan returned a subrogation recovery, totaling \$47,935, and other health benefit recoveries, totaling \$480,894, untimely to the FEHBP during the audit scope. As a result, we are questioning \$47,795 for this audit finding, consisting of \$35,858 for health benefit refunds and \$11,937 for LII on health benefit refunds and recoveries returned untimely to the FEHBP.

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 . . . 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.

Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a) states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

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.”

The following summarizes our reviews for health benefit refunds and recoveries:

Health Benefit Refunds

For the period 2009 through February 28, 2014, there were 23,692 FEP health benefit refunds totaling \$6,307,742. From this universe, we selected and reviewed a judgmental sample of 53 health benefit refunds, totaling \$1,343,519, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our sample included all health benefit refunds of \$10,000 or more.

Based on our review, we determined that the Plan deposited 18 health benefit refunds, totaling \$389,994, untimely into the FEP investment account (on average, 228 days after receipt). However, the Plan deposited two of these refunds, totaling \$35,858, into the FEP investment account after our audit notification date. Since the Plan returned these two refunds to the FEHBP on June 4, 2014, more than 60 days after receipt and after receiving our audit notification letter (dated March 3, 2014), we are questioning this amount as a monetary finding. As a result, we are questioning \$39,395, consisting of \$35,858 for health benefit refunds returned after our audit notification date and \$3,537 for LII on refunds returned untimely to the FEHBP.

Subrogation Recoveries

For the period 2009 through February 28, 2014, there were 2,341 FEP subrogation recoveries totaling \$5,972,388. From this universe, we selected and reviewed a judgmental sample of 34 subrogation recoveries, totaling \$2,029,458, for the purpose of determining if the Plan timely returned these recoveries to the FEHBP. Our sample included all subrogation recoveries of \$30,000 or more.

Based on our review of this sample, we determined that the Plan deposited a subrogation recovery, totaling \$47,935, into the FEP investment account 384 days late. As a result, we calculated LII of \$2,001 on this subrogation recovery since the funds were returned untimely to the FEHBP during the audit scope.

Other Health Benefit Recoveries

For the period 2009 through February 28, 2014, there were 44 months with other health benefit recoveries, totaling \$480,894, for the FEHBP. These other FEP recoveries were refunds that were recovered by a collection agency and wire transferred to the Plan. From this universe, we selected and reviewed a judgmental sample of six monthly total amounts of other recoveries, totaling \$204,985, for the purpose of determining if the Plan

timely returned these recoveries to the FEHBP. Our sample included the month with the highest recovery total amount from each year in the audit scope.

We determined that all of the other recoveries in our sample were deposited untimely into the FEP investment account. Due to this high error rate, we expanded our testing to include the entire universe of other FEP recoveries. Based on our review, we concluded that all of the other recoveries in the universe were deposited and returned untimely to the FEHBP during the audit scope. As a result, the Plan calculated LII of \$6,399 on these recoveries. We reviewed and accepted the Plan's LII calculation.

Summary of Questioned Amounts

Questioned refunds of \$35,858 were returned to the FEHBP in an untimely manner.

In total, we are questioning \$35,858 for health benefit refunds returned to the FEHBP more than 60 days after receipt and after our audit notification date. We are also questioning \$11,937 (\$3,537 plus \$2,001 plus \$6,399) for applicable LII on the health benefit refunds, subrogation recoveries, and other recoveries that were returned untimely to the FEHBP.

Association's Response:

In the draft report response, the Association only disagreed with the questioned LII of \$11,937. The Association states, "The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no LII is due to the Program."

In an email (dated March 5, 2015), the Association agreed with the questioned health benefit refunds of \$35,858.

OIG Comments:

We verified that interest earned on the Plan's corporate funds held in the dedicated FEP investment account was also returned to FEHBP. Therefore, we offset the contested LII of \$11,937 against the interest earned and already returned to the FEHBP relating to the Plan's corporate funds.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$35,858 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan returned \$35,858 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$11,937 to the FEHBP for LII calculated on health benefit refunds and recoveries that were returned untimely to the FEHBP. However, since we were able to offset the questioned LII of \$11,937 against interest earned on the Plan's corporate funds that were held in the dedicated FEP investment account, no further action is required for this LII amount.

2. Medical Drug Rebates \$23,080

Our audit determined that the Plan had not returned medical drug rebates, totaling \$22,513, to the FEHBP as of February 28, 2014. The Plan subsequently returned these questioned medical drug rebates to the FEHBP, more than 60 days after receipt and after receiving our audit notification letter. Additionally, the Plan untimely returned medical drug rebates of \$35,487 to the FEHBP during the audit scope. As a result, we are questioning \$23,080 for this audit finding, consisting of \$22,513 for medical drug rebates and \$567 for LII on medical drug rebates returned untimely to the FEHBP.

As previously cited from Contract CS 1039, Part II, Section 2.3 (i), all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification."

The Plan participates in medical drug rebate programs with various drug manufacturers. Drug rebates are determined based on medical claims for the applicable drugs, which are administered in physicians' offices. These drug rebates are received multiple times a year (usually on a quarterly basis) by the Plan and credited to the participating groups, including the FEP. From January 1, 2009 through February 28, 2014, the Plan received 53 medical drug rebate amounts, totaling \$8,922,218, for all participating groups. The Plan allocated \$195,552 of these medical drug rebate amounts to the FEP. Of these, we selected and reviewed a judgmental sample of 26 FEP medical drug rebate amounts, totaling \$168,342, and specifically determined if the Plan properly allocated and timely returned these drug rebate amounts to the FEHBP. Our sample included all FEP medical drug rebate amounts of \$2,000 or more.

The following summarizes the exceptions noted:

- The Plan returned four medical drug rebate amounts, totaling \$22,513, and applicable LII, totaling \$316, to the FEHBP on various dates in August, September, and November 2014. These return dates were more than 60 days after receipt (i.e., from 106 to 1,731 days late) and after receiving our audit notification letter (dated March 3, 2014). Therefore, we are questioning \$22,829 as a monetary finding, consisting of \$22,513 for medical drug rebate amounts returned after our audit notification date and \$316 for LII on these rebate amounts returned untimely to the FEHBP.
- The Plan untimely deposited eight medical drug rebate amounts, totaling \$35,487, into the FEP investment (i.e., from 2 to 198 days late) during the audit scope. Therefore, we are questioning \$251 for LII calculated on these medical drug rebate amounts that were returned untimely to the FEHBP.

In total, we are questioning \$22,513 for medical drug rebates returned to the FEHBP more than 60 days after receipt and after our audit notification date. We are also questioning \$567 (\$316 plus \$251) for applicable LII on medical drug rebates returned untimely to the FEHBP.

Association's Response:

In the draft report response, the Association only disagreed with \$251 of the questioned LII amount. The Association states, "The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no LII is due to the Program."

In an email (dated March 5, 2015), the Association agreed with the questioned medical drug rebates of \$22,513. The Association also agreed with \$316 of the questioned LII.

OIG Comments:

We verified that interest earned on the Plan's corporate funds held in the dedicated FEP investment account was also returned to FEHBP. Therefore, we offset the contested LII of \$251 against the interest earned and already returned to the FEHBP relating to the Plan's corporate funds.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$22,513 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan returned the \$22,513 to the FEHBP for the questioned medical drug rebates, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$567 to the FEHBP for LII calculated on medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan returned LII of \$316 to the FEHBP in September 2014, and we were able to offset the remaining questioned LII of \$251 against interest earned on the Plan's corporate funds that were held in the dedicated FEP investment account, no further action is required for this LII amount.

3. Fraud Recoveries \$4,735

The Plan had not returned fraud recoveries of \$4,290 to the FEHBP as of February 28, 2014. The Plan subsequently returned \$4,106 of these questioned fraud recoveries to the FEHBP in August 2014, more than 60 days after receipt and after receiving our audit notification letter. Also, the Plan untimely returned fraud recoveries of \$639,560 to the FEHBP during the audit scope. As a result, we are questioning \$4,735 for this audit finding, consisting of \$4,290 for fraud recoveries and \$445 for LII on fraud recoveries returned untimely to the FEHBP.

As previously cited from Contract CS 1039, Part II, Section 2.3 (i), all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

For the period 2009 through February 28, 2014, there were 519 fraud recoveries, totaling \$18,932,888, for all Plan lines of business. The Plan allocated \$1,625,495 of these fraud recoveries to the FEP. We selected and reviewed a judgmental sample of 31 FEP fraud recovery amounts, totaling \$1,246,714, for the purpose of determining if the Plan properly allocated and timely returned these fraud recoveries to the FEHBP. Our sample included all FEP fraud recovery amounts of \$10,000 or more.

The following are the exceptions noted:

- The Plan returned seven fraud recovery amounts, totaling \$4,106, to the FEHBP in August 2014, more than 60 days after receipt (i.e., from 594 to 1,845 days late) and after receiving our audit notification letter (dated March 3, 2014). Therefore, we are questioning this amount as a monetary finding. We verified that the Plan returned these seven fraud recovery amounts and applicable LII of \$232 to the FEHBP in August and September 2014, respectively. We reviewed and accepted the Plan’s LII calculation. As a result, we are questioning \$4,338 for these exceptions, consisting of \$4,106 for fraud recoveries and \$232 for applicable LII.
- The Plan untimely deposited seven fraud recoveries, totaling \$639,560, into the FEP investment account (i.e., from 2 to 65 days late) during the audit scope. We calculated LII of \$213 on these fraud recoveries since the funds were returned untimely to the FEHBP.
- In one instance, the Plan had not returned an FEP fraud recovery amount of \$184 to the FEHBP.

In total, we are questioning \$4,735, consisting of \$4,290 (\$4,106 plus \$184) for eight fraud recoveries not returned or returned untimely (after our audit notification date) to the FEHBP and \$445 (\$232 plus \$213) for LII on fraud recoveries returned untimely to the FEHBP.

Association's Response:

In the draft report response, the Association only disagreed with \$213 of the questioned LII amount. The Association states, "The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no LII is due to the Program."

Regarding the fraud recovery of \$184 not returned to the FEHBP, the Association states, "The Plan will submit a Special Plan Invoice (SPI) and adjust the LOCA upon approval of the SPI. The Plan expects to complete the procedures by March 31, 2015."

In an email (dated March 5, 2015), the Association agreed with the questioned fraud recoveries of \$4,106 that were returned to the FEHBP in August 2014. The Association also agreed with \$232 of the questioned LII.

OIG Comments:

For the uncontested LII, we verified that the Plan wire transferred \$232 to the Association's FEP joint operating account on September 8, 2014. The Association then wire transferred this LII amount to OPM on September 30, 2014.

Regarding the contested LII amount, we verified that interest earned on the Plan's corporate funds held in the dedicated FEP investment account was also returned to FEHBP. Therefore, we offset the contested LII of \$213 against the interest earned and already returned to the FEHBP relating to the Plan's corporate funds.

Recommendation 5

We recommend that the contracting officer require the Plan to return \$4,290 to the FEHBP for the eight questioned fraud recoveries. Since we verified that the Plan returned \$4,106 to the FEHBP for seven of the eight questioned fraud recoveries, no further action is required for these seven questioned recoveries. However, the contracting officer should verify that the Plan also returned \$184 to the FEHBP for the remaining questioned fraud recovery.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$445 to the FEHBP for LII calculated on fraud recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan returned LII of \$232 to the FEHBP in September 2014, and we were able to offset the remaining questioned LII of \$213 against interest earned on the Plan's corporate funds that were held in the dedicated FEP investment account, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Administrative Cost Settlements **\$57,468**

The Plan untimely returned excess administrative expense reimbursements of \$2,171,075 that were charged to the FEHBP for contract years 2009 through 2011. As a result, the FEHBP is due \$57,468 for LII on these excess reimbursements that were returned untimely to the FEHBP during the audit scope.

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."

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

Contract CS 1039 provides for reimbursement of administrative expenses incurred by the Carrier to administer the Service Benefit Plan. Based upon an agreement between the Association and the BCBS plans, each plan receives a monthly expense allowance based on the most recently approved budget for the administrative expenses. Each BCBS plan is subject to two possible interim settlements during the year. The first interim settlement occurs shortly after the BCBS plan submits the fourth quarter FEP cost submission report to the Association. The second interim settlement occurs shortly after the BCBS plan submits a final FEP cost submission report and certification to the Association. When the actual costs for the year are reported and settled by the Association, a final settlement payment (or refund) is made. If the final settlement amount is less than the budgeted monthly expense allowance payments received by the BCBS plan, then the settlement results in a refund due to the FEHBP.

Based on our review of the budget settlements, we determined that the Plan untimely returned excess monthly expense allowance reimbursements, totaling \$2,171,075, to the FEHBP for contract years 2009 through 2011. For these contract years, the FEP Director's Office created SPI's for these interim settlement amounts. However, when the

Plan received these SPI's, the Plan untimely returned these excess monthly expense allowance reimbursements to the FEHBP. Specifically, in each instance after receiving the SPI, the Plan correctly adjusted a LOCA drawdown for the interim settlement amount, but then inadvertently also transferred the settlement amount from the FEP investment account to the Plan's corporate account, resulting in these excess funds not actually being returned to the FEHBP. After identifying the errors, the Plan returned these excess reimbursements to the FEHBP (i.e., from 277 to 643 days after the errors occurred).

The following is a summary of the excess administrative expense reimbursements for contract years 2009 through 2011 that were received by the Plan and returned untimely to the FEHBP during the audit scope.

Administrative Expenses	2009	2010	2011	Total
Budgeted (Reimbursed)	\$23,065,008	\$20,404,063	\$21,117,500	\$64,586,571
Actual/Settled	\$22,194,148	\$19,590,188	\$20,631,160	\$62,415,496
Excess Reimbursements	\$870,860	\$813,875	\$486,340	\$2,171,075

- For 2009, the actual/settled administrative expenses were less than the budgeted amount by \$870,860. We determined that these excess administrative expense reimbursements were returned 277 days late to the FEHBP. Therefore, we calculated LII of \$20,784 on these excess reimbursements that were returned untimely to the FEHBP.
- For 2010, the actual/settled administrative expenses were less than the budgeted amount by \$813,875. We determined that these excess administrative expense reimbursements were returned to the FEHBP from 580 to 643 days late. Therefore, we calculated LII of \$29,929 on these excess reimbursements that were returned untimely to the FEHBP.
- For 2011, the actual/settled administrative expenses were less than the budgeted amount by \$486,340. We determined that these excess administrative expense reimbursements were returned 278 days late to the FEHBP. Therefore, we calculated LII of \$6,755 on these excess reimbursements that were returned untimely to the FEHBP.

The FEHBP is due \$57,468 for LII calculated on excess administrative expense reimbursements.

In total, we are questioning \$57,468 (\$20,784 plus \$29,929 plus \$6,755) for LII on excess administrative expense reimbursements of \$2,171,075 that were returned untimely to the FEHBP during the audit scope.

Association’s Response:

The Association states, “The Plan agrees with the finding that excess administrative expense reimbursements were not timely returned to the Program. As a result of this audit finding, the Plan will revise its cash management processes to ensure that any excess administrative funds from the settlement process will be returned to FEP once they are identified by the FEP Director’s Office in the form of an SPI . . .

The Plan disagrees with the recommendation to the Contracting Officer to require the Plan to return \$57,468 to the Program for LII. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.”

OIG Comments:

We verified that interest earned on the Plan’s corporate funds held in the dedicated FEP investment account was also returned to FEHBP. Therefore, we offset the contested LII of \$57,468 against the interest earned and already returned to the FEHBP relating to the Plan’s corporate funds.

Recommendation 7

We recommend that the contracting officer require the Plan to return \$57,468 to the FEHBP for LII on excess administrative expense reimbursements returned untimely. However, since we were able to offset the questioned LII of \$57,468 against interest earned on the Plan’s corporate funds that were held in the dedicated FEP investment accounts, no further action is required for this LII amount.

2. Unallocable Expenses

\$2,849

In 2013, the Plan charged unallocable expenses of \$2,800 to the FEHBP. As a result, we are questioning \$2,849 for this audit finding, consisting of \$2,800 for unallocable expenses charged to the FEHBP and \$49 for applicable LII on these charges.

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

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

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

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

For the period 2009 through 2013, the Plan allocated administrative expenses of \$100,974,188 to the FEHBP from 137 cost centers. From this universe, we selected a judgmental sample of 42 cost centers to review, which totaled \$62,440,998 in expenses allocated to the FEHBP. We selected these cost centers based on high dollar amounts, our nomenclature review, and trend analysis. Additionally, because the Plan rolls up the general ledger expense transactions into the cost centers, we also selected a judgmental sample of 35 general ledger expense transactions from 2013 to review (from a universe of 5,623 general ledger transactions). We selected these general ledger expense transactions based on high dollar amounts and a nomenclature review. We reviewed the general ledger transactions and cost center expenses in our samples for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan inappropriately charged the FEHBP \$2,800 from account “66620” (Managed Care Services) in 2013. These expenses were related to an assessment for Medicare Advantage members, which did not benefit the FEHBP. Therefore, these expenses should not have been allocated and charged to the FEHBP. The Plan agreed and calculated LII of \$49 on these questioned charges. In total, the FEHBP is due \$2,849, consisting of \$2,800 for the questioned unallocable charges and \$49 for applicable LII.

Association’s Response:

The Association agrees with the questioned charges of \$2,800. The Association states, “The Plan submitted a Prior Period Adjustment on October 16, 2014 and will return the funds to the Program by March 31, 2015.” However, the Association disagrees with the OIG questioning LII and states, “Due to excess funds in the FEP Investment Account as of February 28, 2014, LII would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.”

OIG Comments:

We verified that interest earned on the Plan’s corporate funds held in the dedicated FEP investment accounts was also returned to FEHBP. Therefore, we offset the contested LII of \$49 against the interest earned and already returned to the FEHBP relating to the Plan’s corporate funds.

Recommendation 8

We recommend the contracting officer require the Plan to return \$2,800 to the FEHBP for the unallocable expenses charged to the FEHBP.

Recommendation 9

We recommend that the contracting officer require the Plan to return \$49 to the FEHBP for LII on the unallocable expenses charged to the FEHBP. However, since we were able to offset the questioned LII of \$49 against interest earned on the Plan’s corporate funds that were held in the dedicated FEP investment accounts, no further action is required for this LII amount.

C. CASH MANAGEMENT

1. Excess Working Capital Deposit **\$181,401**

The Plan inadvertently withdrew \$181,401 twice from the LOCA in 2004 for a working capital (WC) adjustment. Therefore, as of February 28, 2014 (end of our audit scope), the Plan held a WC deposit of \$181,401 over the amount needed to meet the Plan’s daily cash needs for FEHBP claim payments. As a result of our audit, the Plan returned \$181,401 to the FEHBP for the questioned excess WC deposit.

OPM’s “Letter of Credit System Guidelines” (Guidelines), dated May 2009, states: “Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHBP at least on a monthly basis. The working capital is not required but strongly recommended.” Also, based on the Guidelines, the Carrier’s WC calculation must exclude electronic fund transfers.

The WC deposit is an amount withdrawn from the LOCA to temporarily fund FEHBP health benefit payment checks presented for payment until OPM processes the Plan’s corresponding LOCA drawdown request. The WC deposit is necessary because OPM’s LOCA reimbursement does not arrive at the Plan’s bank until one day after the Plan’s drawdown request. Any portion of the WC deposit that exceeds the amount required to fund each day’s FEHBP health benefit payment checks must be retained in the Plan’s dedicated FEP investment account or generate a bank earnings credit in a dedicated FEP checking account.

As a result of our audit, the Plan returned \$181,401 to the FEHBP on November 7, 2014 for the questioned excess WC deposit.

The Plan reviewed and/or adjusted the WC deposit on several occasions during the period January 2009 through February 2014. To determine if the Plan maintained an adequate WC deposit, we recalculated what the Plan’s WC deposit should have been and determined that, as of February 28, 2014, the Plan should have only maintained a WC deposit of \$5,171,909. The Plan’s WC balance in the FEP investment account totaled \$5,353,310.

Therefore, the Plan held a WC deposit with an excess amount of \$181,401 (\$5,353,310 minus \$5,171,909) over the amount actually needed to meet the Plan’s daily cash needs for FEHBP claim payments. During our review, we also found that the Plan inadvertently withdrew \$181,401 twice from the LOCA in 2004 for a WC adjustment, which actually resulted in this excess WC amount for the past 10 years.

Association’s Response:

The Association states that the Plan agrees with this finding.

OIG Comments:

We verified that the Plan returned the questioned excess WC funds to the FEHBP on November 7, 2014.

Recommendation 10

We recommend that the contracting officer require the Plan to return \$181,401 to the FEHBP for the excess WC deposit. However, since we verified that the Plan returned the excess WC funds of \$181,401 to the FEHBP, no further action is required for this questioned amount.

2. Excess Funds in the Federal Employee Program Investment Account \$58,322

Our audit determined that the Plan held excess FEHBP funds, totaling \$58,322, in the dedicated FEP investment account as of February 28, 2014. We also determined that the Plan held excess corporate funds of \$3,946,389 in the FEP investment account, which belong to the Plan and should be transferred to the Plan's corporate account.

48 CFR 1632.771 (c) states, "FEHBP funds shall be maintained separately from other cash and investments of the carrier or underwriter."

Contract CS 1039, Part III, section 3.5 (a) states, "The Carrier and/or its underwriter shall keep all FEHBP funds for this contract (cash and investments) physically separate from funds obtained from other sources."

As previously cited from Contract CS 1039, Part II, Section 2.3 (i), all health benefit refunds and recoveries must be deposited into the investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

The Plan's FEP investment account generally includes FEP working capital funds, approved LOCA drawdowns, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. Based on Contract CS 1039, all funds deposited into the FEP investment account, such as health benefit refunds, interest income and excess working capital, should be returned to the FEHBP by adjusting the LOCA within 60 days after receipt by the BCBS plan. Also, approved reimbursements from the LOCA that are deposited into the FEP investment account should be timely transferred from the FEP investment account to the Plan's corporate account.

The Plan held excess funds of \$4 million in the dedicated FEP investment account as of February 28, 2014.

In our Standard Information Request, we requested the Plan to provide a detailed itemization of the funds in the Plan's dedicated FEP investment account as of February 28, 2014, including an aging of these funds. Based on our review of the Plan's FEP investment account itemization and supporting documentation, we determined that the Plan held a total of \$4,004,711 in excess funds (excluding the excess WC deposit) in the dedicated FEP investment account as of February 28, 2014. Most of these excess funds were corporate funds, belonging to the Plan, which were held in the dedicated FEP investment account for several years (as of February 28, 2014).

We noted the following issues regarding the excess funds in the Plan's dedicated FEP investment account as of February 28, 2014:

- The Plan held excess corporate funds, totaling \$3,946,389, in the dedicated FEP investment account.
 - During our fieldwork phase, we verified that \$476,033 of these excess corporate funds actually belong to the Plan and were inadvertently not transferred into the Plan's corporate account.
 - During our pre-audit, fieldwork and post-audit phases, the Plan provided us analysis worksheets, explanations, and limited documentation for the remaining excess corporate funds of \$3,470,356. Based on the Plan's analysis worksheets and explanations, these remaining excess funds were Disposition Code "51" (Code "51") transactions and off-system check reimbursements.

Code "51" refers to funds that are due to the provider when an accounts receivable is satisfied twice, previously by a voucher deduction (an offset) and then by a provider refund check that is deposited into the FEP investment account. When this occurred, the Plan reimbursed the provider for the duplicate refund recovery with a check written from the corporate account, but inadvertently did not transfer the funds from the FEP investment account to the Plan's corporate account. For the period 2001 through February 2014, the Plan identified \$2,687,233 in Code "51" transactions, where the Plan returned duplicate FEP refund recoveries to providers but did not transfer these funds from the FEP investment account to the Plan's corporate account.

The off-system checks are paid from the Plan's corporate account for FEP approved health benefit payments that could not be processed through the Plan's "normal" claims payment process. These payments are then reimbursed to the

Plan through the LOCA drawdown process. For the period 2003 through February 28, 2014, the Plan identified LOCA drawdown reimbursements of \$783,123 for off-system checks that were deposited into the FEP investment account but inadvertently not transferred to the Plan's corporate account.

Since the Plan's documentation is limited for these Code "51" transactions and off-system check reimbursements prior to 2013, we focused our review of these items for 2013 and 2014 only, to substantiate the Plan's analysis and explanations. Specifically, we reviewed a sample of 26 Code "51" transaction amounts, totaling \$297,064, and 40 off-system check reimbursement amounts, totaling \$104,194, that were in the FEP investment account (as of February 28, 2014). Based on this review, we determined that these Code "51" transactions and off-system check reimbursements in our sample are corporate funds that belong to the Plan.

To obtain additional assurance, we also requested the Plan and Association to certify that these specific excess funds in the Plan's dedicated FEP investment account are corporate funds that belong to the Plan. The Plan provided us a certification (dated April 2, 2015) stating that these excess funds of \$3,470,356 in the FEP investment account (as February 28, 2014) are corporate funds that belong to the Plan and specifically represent Code "51" transactions (\$2,687,233) and off-system check reimbursements (\$783,123). The Managing Director of Program Assurance at the Association/FEP Director's Office also provided us a similar certification (dated May 11, 2015).

- The Plan held excess FEHBP funds, totaling of \$58,322, in the dedicated FEP investment account. These excess FEHBP funds consisted of FEP refunds (\$46,117) and Magellan rebates (\$12,205) that were deposited into the FEP investment account but not returned to the LOCA.

As a monetary finding, we are questioning the excess FEHBP funds of \$58,322 that were held in the Plan's dedicated FEP investment account (as of February 28, 2014). As a cash management "best" practice, the Plan should timely transfer all excess corporate funds (such as approved LOCA drawdown reimbursements) from the dedicated FEP investment account to the Plan's corporate account. Also, the Plan should not maintain excess corporate (non-FEHBP) or FEHBP funds in the dedicated FEP investment account.

Association's Response:

In the draft report response, the Association states, "The Plan agrees that \$67,829 in excess funds in the FEP Investment Account represents FEP Program Funds and disagrees that \$3,460,850 is due to the Program. The Plan was able to specifically identify \$3,460,850 of excess funds held in the FEP Investment Account . . . related to transactions occurring between 2001 through 2013 as FEP approved Plan drawdown transactions that were not transferred to the Plan's local bank account. The Plan provided the OIG with supporting documentation and an explanation for a sample of these excess funds . . .

These documents support \$1,024,416 in off system checks that were issued by the Plan during period 2003-2010 for FEP approved benefit payments that could not be issued thru the Plan's normal claims payment process. The documents also support \$2,436,434 in refund transactions where the Plan deposited provider cash refunds in the FEP Investment Account and the Plan also recovered the same transaction from the provider thru a claim offset transaction. The Plan returned the duplicate refund to the providers from its local bank account, but did not transfer the funds from the FEP investment Account to the Plan's local bank account to reimburse the Plan for the provider return activity (051 transaction activity). The Plan also provided sample documentation for the 051 transactions to the OIG for their review.

The sum of these transactions . . . resulted in an unexplained balance of \$67,829. The Plan agrees that these funds could belong to the Program and will adjust the Letter of Credit Account (LOCA) to return the funds to the Program by March 31, 2015."

For the recommendation requiring the Plan to implement corrective actions ensuring that only necessary funds are maintained in the FEP investment account, the Association states, "The Plan agrees with this recommendation and is in the process of developing new procedures for promptly adjusting the FEP LOCA on a timely basis. The Plan expects to complete the procedures by March 31, 2015".

In an email (dated April 6, 2015), the Association agreed with the questioned excess FEHBP funds of \$58,322 that were held in the Plan's dedicated FEP investment account as of February 28, 2014.

OIG Comments:

Based on our testing and additional documentation provided by the Plan and Association, we concluded that \$3,470,356 of the excess funds in the FEP investment account appears to be corporate funds that the Plan inadvertently had not transferred to the corporate

account. Of these excess corporate funds, \$2,687,233 represents Code “51” transactions and \$783,123 represents off-system check reimbursements. The Plan should transfer these excess corporate funds to the Plan’s corporate account.

Recommendation 11

We recommend that the contracting officer require the Plan to immediately return \$58,322 to the FEHBP for the questioned excess FEHBP funds in the dedicated FEP investment account.

Recommendation 12

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions, such as monthly or quarterly account reconciliations, to improve its internal controls over the dedicated FEP investment account. Also, the contracting officer should require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the FEP investment account, and corporate funds (such as approved LOCA drawdown reimbursements) are timely transferred to the Plan’s corporate account.

D. FRAUD AND ABUSE PROGRAM

1. Special Investigations Unit

Procedural

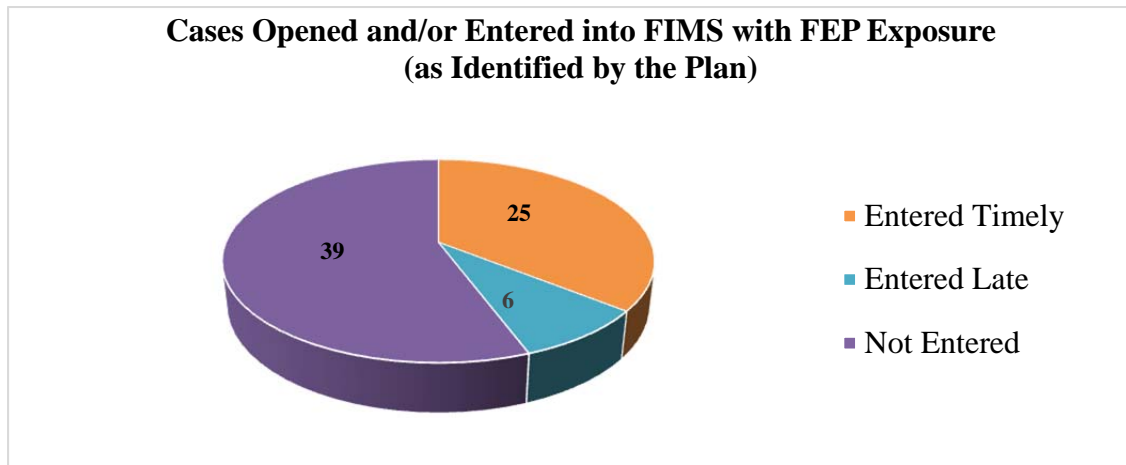
The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter (CL) 2011-13. Specifically, the Plan did not report, or did not timely report, all fraud and abuse cases to the OIG. The Plan’s non-compliance may be due in part to incomplete and/or untimely reporting of fraud and abuse cases to the Association’s FEP Director’s Office (FEPDO), as well as inadequate controls at the FEPDO to monitor and communicate the Plan’s cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole.

CL 2011-13 (Mandatory Information Sharing via Written Case Notifications to OPM’s Office of the Inspector General), dated June 17, 2011, states that all Carriers “are required to submit a written notification to the OPM OIG within 30 working days of becoming aware of a fraud, waste or abuse issue where there is a reasonable suspicion that a fraud has occurred or is occurring against the Federal Employees Health Benefits (FEHB) Program.” There is no dollar threshold for this requirement.

During the period January 1, 2013 through June 30, 2014, the Plan opened 70 fraud and abuse cases that were identified as having FEP exposure. We reviewed these 70 cases with FEP exposure to determine if the cases were reported to the OIG as required by CL 2011-13. Based on our review, we determined that notifications for only 9 of the 70 fraud and abuse cases with FEP exposure were sent to the OIG. Because all of these cases have FEP exposure, and there is no dollar threshold for reporting suspected fraud against the FEHBP, these cases should have been reported to the OIG as required by CL 2011-13.

The Plan’s non-compliance with the communication and reporting requirements in CL 2011-13 may be due, in part, to the Plan untimely communicating or not reporting potential FEP fraud and abuse cases to the FEPDO’s Special Investigations Unit (SIU). The FEPDO’s SIU sends notifications of fraud and abuse cases to the OIG on behalf of the Plan. However, the Plan must first report the fraud and abuse cases with FEP exposure to the FEPDO’s SIU, which is accomplished when the Plan enters the cases into the FEPDO’s Fraud Information Management System (FIMS).³ The Plan and the FEPDO’s internal policies and procedures require the Plan to enter a case into FIMS as soon as an investigation is opened and/or within 30 days of any relevant FEP fraud activity. However, of the 70 cases with FEP exposure during the period January 1, 2013 through June 30, 2014, we determined that only 25 cases (36 percent) were entered into FIMS timely, 6 cases (8 percent) were entered into FIMS untimely, and 39 cases (56 percent) were not entered into FIMS at all.

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases.



³ FIMS is a multi-user, web-based case-tracking database that the FEPDO’s SIU developed in-house.

The Plan and Association/FEPDO are both responsible for working together to meet the contractual requirements set forth in Contract CS 1039 and CL 2011-13. However, without timely FIMS case entries by the Plan, the FEPDO's SIU cannot meet the FEHBP's contractual communication and reporting requirements.

Ultimately, both the Plan's untimely reporting of potential FEP cases to the FEPDO's SIU and the FEPDO SIU's inadequate controls to monitor the Plan's FIMS entries and notify the applicable entities of these cases have resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2011-13. The lack of notifications and/or untimely case notifications did not allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified provider committing fraud against the FEHBP. This also does not allow the OIG's Administrative Sanctions Group to be notified timely. Consequently, this non-compliance by the Plan and FEPDO may result in additional improper payments being made by other FEHBP Carriers.

Recommendation 13

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2011-13 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste and Abuse).⁴ We also recommend that the contracting officer instruct the Association to provide the Plan with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

Association's Response:

The Association states, "BCBSA agrees with this recommendation. BCBSA will review the Plan's current Fraud Waste and Abuse Manual to ensure that the manual addresses all of the Program's Requirements. BCBSA will also work with the Plan to modify their Procedures, as necessary based on the results of the review. BCBSA expects to complete this review by June 30, 2015.

BCBSA currently provides oversight to the Plan to ensure that entries into FIMS are timely and complete, and expects to continue to do so in the future."

⁴ CL 2014-29 (dated December 19, 2014) consolidates and updates the information from CL's 2003-23, 2003-25, 2007-12, 2011-13, which are superseded by this guidance. CL 2014-29 also supplements guidance from the FEHBP contract (Section 1.9 – Plan Performance).

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Chief ██████████

██████████, Senior Team Leader

V. SCHEDULE A

HORIZON BLUECROSS BLUESHIELD OF NEW JERSEY NEWARK, NEW JERSEY							
QUESTIONED CHARGES							
AUDIT FINDINGS	2009	2010	2011	2012	2013	2014	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS							
1. Health Benefit Refunds and Recoveries*	\$3,921	\$2,450	\$1,532	\$37,558	\$2,100	\$234	\$47,795
2. Medical Drug Rebates*	685	0	2,304	2	20,089	0	23,080
3. Fraud Recoveries*	17	2,508	2	2,208	0	0	4,735
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$4,623	\$4,958	\$3,838	\$39,768	\$22,189	\$234	\$75,610
B. ADMINISTRATIVE EXPENSES							
1. Administrative Cost Settlements*	\$20,784	\$29,929	\$6,755	\$0	\$0	\$0	\$57,468
2. Unallocable Expenses*	0	0	0	0	2,849	0	2,849
TOTAL ADMINISTRATIVE EXPENSES	\$20,784	\$29,929	\$6,755	\$0	\$2,849	\$0	\$60,317
C. CASH MANAGEMENT							
1. Excess Working Capital Deposit	\$0	\$0	\$0	\$0	\$0	\$181,401	\$181,401
2. Excess Funds in the FEP Investment Account	0	0	0	0	0	58,322	58,322
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$239,723	\$239,723
D. FRAUD AND ABUSE PROGRAM							
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$25,407	\$34,887	\$10,593	\$39,768	\$25,038	\$239,957	\$375,650
* We included lost investment income (LII) within audit findings A1 (\$11,937), A2 (\$567), A3 (\$445), B1 (\$57,468), and B2 (\$49). Therefore, no additional LII is applicable for these audit findings.							

February 27, 2015

██████████, 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

Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005
202.626.4800

**Reference: OPM DRAFT AUDIT REPORT
Horizon Blue Cross Blue Shield of New Jersey
Audit Report No. 1A-10-49-14-057
(Dated December 12, 2014)**

Dear ██████████:

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

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

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds and Recoveries \$47,795

Recommendation 2

We recommend that the contracting officer require the Plan to return \$11,937 to the FEHBP for lost investment income (LII) on health benefit refunds and recoveries returned untimely to the FEHBP.

Plan's Response:

The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.

2. Medical Drug Rebates

\$23,080

Recommendation 5

We recommend that the contracting officer require the Plan to return \$251 to the FEHBP for LII on medical drug rebates returned untimely.

Plan's Response:

The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.

3. Fraud Recoveries

\$4,735

Recommendation 8

We recommend that the contracting officer require the Plan to return \$184 to the FEHBP for a fraud recovery not returned to the FEHBP.

Plan Response:

The Plan agrees with this recommendation. The Plan will submit a Special Plan Invoice (SPI) and adjust the LOCA upon approval of the SPI. The Plan expects to complete the procedures by March 31, 2015.

Recommendation 9

We recommend that the contracting officer require the Plan to return \$213 to the FEHBP for LII on fraud recoveries returned untimely.

Plan Response:

The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII has been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.

B. ADMINISTRATIVE EXPENSES

1. Miscellaneous Income

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

2. Administrative Cost Settlement \$57,468

Recommendation 10

We recommend that the contracting officer require the Plan to return \$57,468 to the FEHBP for LII on excess administrative expense funds returned untimely.

Plan's Response:

The Plan agrees with the finding that excess administrative expense reimbursements were not timely returned to the Program. As a result of this audit finding, the Plan will revise its cash management processes to ensure that any excess administrative funds from the settlement process will be returned to FEP once they are identified by the FEP Director's Office in the form of an SPI with a Pay Code 77 adjustment.

The Plan disagrees with the recommendation to the Contracting Officer to require the Plan to return \$57,468 to the Program for LII. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.

3. Unallowable and/or Unallocable Expense \$2,849

Recommendation 11

We recommend the contracting officer require the Plan to return \$2,800 to the FEHBP for an unallowable and/or unallocable expense charged to the FEHBP.

Plan's Response:

The Plan agrees with this finding. The Plan submitted a Prior Period Adjustment on October 16, 2014 and will return the funds to the Program by March 31, 2015.

Recommendation 12

We recommend that the contracting officer require the Plan to return \$49 to the FEHBP for LII on unallowable and/or unallocable expense charged to the FEHBP.

Plan Response:

The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of February 28, 2014, LII would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. Therefore, no additional LII is due to the Program.

C. CASH MANAGEMENT

1. Excess Funds in the FEP Investment Account **\$3,528,678**

Recommendation 13

We recommend that the contracting officer instruct the Plan to immediately return the questioned excess funds of \$3,528,678 to the FEHBP (unless the Plan can provide evidence or supporting documentation that these funds are not FEHBP funds).

Plan Response

The Plan agrees that \$67,829 in excess funds in the FEP Investment Account represents FEP Program Funds and disagrees that \$3,460,850 is due to the Program. The Plan was able to specifically identify \$3,460,850 of excess funds held in the FEP Investment Account as of February 28, 2014, related to transactions occurring between 2001 through 2013 as FEP approved Plan drawdown transactions that were not transferred to the Plan's local bank account. The Plan provided the OIG with supporting documentation and an explanation for a sample of these excess funds which included the corporate and FEP bank statements for the months of April and August 2003, November 2004, June 2006, and December 2007 as requested by the OIG.

These documents support \$1,024,416 in off system checks that were issued by the Plan during period 2003-2010 for FEP approved benefit payments that could not be issued thru the Plan's normal claims payment process. The documents also support \$2,436,434 in refund transactions where the Plan deposited provider cash refunds in the FEP Investment Account and the Plan also recovered the same transaction from the provider thru a claim offset transaction. The Plan returned the duplicate refund to the providers from its local bank account, but did not transfer the funds from the FEP investment Account to the Plan's local bank account to reimburse the Plan for the provider return activity

(051 transaction activity). The Plan also provided sample documentation for the 051 transactions to the OIG for their review.

The sum of these transactions equals \$3,460,849.88 or 98 percent of the questioned amount; which resulted in an unexplained balance of \$67,829. The Plan agrees that these funds could belong to the Program and will adjust the Letter of Credit Account (LOCA) to return the funds to the Program by March 31, 2015.

Recommendation 14

We recommend that the contracting officer ensure that the Plan implements corrective actions to ensure that only the necessary funds are maintained in the FEP investment account.

Plan Response

The Plan agrees with this recommendation and is in the process of developing new procedures for promptly adjusting the FEP LOCA on a timely basis. The Plan expects to complete the procedures by March 31, 2015.

2. Excess Working Capital \$181,401

Recommendation 15

Since we verified that the Plan returned the questioned funds of \$181,401 to the FEHBP, no further action is required for this questioned amount.

Plan Response

The Plan agrees with this recommendation.

ADDENDUM TO DRAFT REPORT

D. FRAUD AND ABUSE PROGRAM Procedural

Recommendation

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2011-13 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste and Abuse). We also recommend that the contracting officer instruct the BCBSA to provide the

[REDACTED], Group Chief
February 27, 2015

Plan with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

BCBSA Response

BCBSA agrees with this recommendation. BCBSA will review the Plan's current Fraud Waste and Abuse Manual to ensure that the manual addresses all of the Program's Requirements. BCBSA will also work with the Plan to modify their Procedures, as necessary based on the results of the review. BCBSA expects to complete this review by June 30, 2015.

BCBSA currently provides oversight to the Plan to ensure that entries into FIMS are timely and complete, and expects to continue to do so in the future.

Thank you for this opportunity to respond to the recommendations included in this draft report. If you have any questions, please contact me at [REDACTED].

Sincerely,

[REDACTED]

[REDACTED]

Managing Director, Program Assurance

Attachments

cc: [REDACTED], Horizon Blue Cross Blue Shield of New Jersey

[REDACTED], FEP

[REDACTED], FEP



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Report No. 1A-10-49-14-0577