



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

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# Final Audit Report

Subject:

## AUDIT OF CASH MANAGEMENT ACTIVITIES FOR A SAMPLE OF BLUECROSS AND BLUESHIELD PLANS

Report No. 1A-99-00-13-018

Date: January 17, 2014

--CAUTION--

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## AUDIT REPORT

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

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Cash Management Activities for a  
Sample of BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-13-018

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Assistant Inspector General  
for Audits

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## EXECUTIVE SUMMARY

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

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Cash Management Activities for a  
Sample of BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-13-018      DATE: January 17, 2014

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at a sample of 21 BlueCross and BlueShield (BCBS) plans questions \$1,547,417 in cash management activities and lost investment income (LII). The BlueCross BlueShield Association (Association) and/or BCBS plans agreed (**A**) with \$527,718, disagreed (**D**) with \$84,062, is reviewing (**R**) \$929,405 and did not respond (**NR**) to \$6,232 of the questioned amounts.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered cash management activities related to FEHBP funds from January 1, 2011 through September 30, 2012 for a sample of 21 BCBS Plans. Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, dedicated Federal Employee Program (FEP) investment account balances, and interest income transactions to determine if these BCBS plans handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

The questioned cash management activities are summarized as follows:

- **Excess Funds in the Federal Employee Program Investment Accounts**      **\$1,331,300**

Our audit determined that four BCBS plans held excess FEHBP funds, totaling \$1,331,300, in dedicated FEP investment accounts as of September 30, 2012. These excess FEHBP funds consisted of \$929,405 by Excellus BCBS; \$390,871 by Highmark BCBS of West Virginia; \$7,467 by BCBS of Hawaii; and \$3,557 by BCBS of Vermont.

The Association agreed with the questioned excess funds of \$401,895 (**A**) for Highmark BCBS of West Virginia, BCBS of Hawaii, and BCBS of Vermont. However, the Association is continuing to review the questioned excess funds of \$929,405 (**R**) for Excellus BCBS. During our audit, we verified that Highmark BCBS of West Virginia and BCBS of Vermont subsequently returned \$390,871 and \$1,516 of the questioned excess funds, respectively, to the FEHBP.

- **Working Capital Deposits** **\$143,898**

Based on our review of the BCBS plans' working capital (WC) deposits, we determined that four BCBS plans (Arkansas, Idaho, Kansas, and Mississippi) did not maintain the correct WC amounts in the FEP investment accounts, resulting in these plans holding excess FEHBP funds of \$139,740. Specifically, we found that these BCBS plans either held WC balances with excess amounts or held WC funds outside of the FEP investment accounts. As a result of this finding, the BCBS plans of Arkansas, Mississippi and Kansas returned \$137,666 to the FEHBP, consisting of \$133,508 for WC funds and \$4,158 for applicable LII. However, the Association did not address the questioned WC funds of \$6,232 for BCBS of Idaho.

The Association agreed with \$53,604 (**A**), disagreed with \$84,062 (**D**), and did not respond to \$6,232 (**NR**) of these questioned amounts. Although the Association disagreed with \$84,062 of the questioned WC funds, BCBS of Arkansas actually returned these funds to the FEHBP.

- **Treasury Offsets (A)** **\$72,219**

During our review of LOCA drawdowns, we determined that BCBS of Rhode Island had not returned \$71,644 to the FEHBP for offsets taken from the LOCA by the United States Treasury (Treasury) on December 28, 2011 and September 27, 2012. As a result of this finding, BCBS of Rhode Island returned \$72,219 to the FEHBP, consisting of \$71,644 for Treasury offsets against the LOCA and \$575 for applicable LII.

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# **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 a sample of 21 BlueCross and BlueShield (BCBS) plans.

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 BCBS 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 BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. There are approximately 64 local BCBS 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 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 plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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

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

This is our first focused audit of cash management activities for these 21 BCBS plans. The results of this audit were discussed with the Association and BCBS plan officials throughout the audit and at an exit conference on April 22, 2013. 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 BCBS plans on various dates through October 17, 2013 was considered in preparing our final report.

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

### **OBJECTIVE**

The objective of this audit was to determine whether BCBS plans 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit covered cash management activities and practices from January 1, 2011 through September 30, 2012 for a sample of 21 BCBS plans.<sup>2</sup> Our sample included all BCBS plans with FEHBP health benefit payments of \$250 million or less in contract year 2011 (except for Capital BlueCross and several other BCBS plans that are part of multi-plan organizations, such as WellPoint, Inc. and Regence BCBS). Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, dedicated FEP investment account balances, and interest income transactions to determine if these 21 BCBS plans handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

We did not consider each BCBS plan's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions and not tests of controls. Therefore, we do not express an opinion on each BCBS plan's system of internal controls taken as a whole.

We conducted tests to determine whether the BCBS plans had complied with the contract and the laws and regulations governing the FEHBP as they relate to cash management of FEHBP funds. The results of our tests indicate that, with respect to the items tested, the BCBS plans did not fully comply with the provisions of the contract relative to cash management of FEHBP funds. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the BCBS plans had not complied, in all material respects, with those provisions.

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<sup>2</sup> Our sample consisted of the following BCBS plans: BCBS of Arkansas, Highmark BCBS of Delaware, BCBS of Hawaii, BCBS of Idaho, Wellmark BCBS (Iowa/South Dakota), BCBS of Kansas, BCBS of Louisiana, BCBS of Mississippi, BCBS of Kansas City, BCBS of Montana, BCBS of Nebraska, BCBS of Western New York, Excellus BCBS (New York), BCBS of North Dakota, Independence BlueCross (Pennsylvania), BlueCross of Northeastern Pennsylvania, Triple-S Salud, Inc. of Puerto Rico, BCBS of Rhode Island, BCBS of Vermont, Highmark BCBS of West Virginia, and BCBS of Wyoming.



In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director's Office and the BCBS plans. 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 objective.

The audit was performed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania from January 22 through April 19, 2013.

## **METHODOLOGY**

To test each of the 21 BCBS plans' compliance with contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 14 or more high dollar LOCA drawdowns from each plan for the purpose of determining if the drawdowns were appropriate and adequately supported. In total for these 21 BCBS plans, we selected and reviewed 400 LOCA drawdowns, totaling approximately \$145 million (out of approximately \$4.2 billion), from the period January 1, 2011 through September 30, 2012.<sup>3</sup> We also reviewed each BCBS plan's working capital calculations, adjustments, and/or balances during the period January 1, 2012 through September 30, 2012. Additionally, we reviewed a detailed itemization of exactly what funds were in each BCBS plan's dedicated FEP investment account as of September 30, 2012, as well as the interest income earned in each plan's dedicated FEP investment account and/or returned to the FEHBP during the period January 1, 2011 through September 30, 2012.

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<sup>3</sup> The 400 LOCA drawdowns consisted of 34 drawdowns, totaling \$19,071,244 (out of \$249,887,155), for BCBS of Arkansas; 14 drawdowns, totaling \$5,300,618 (out of \$126,416,200), for Highmark BCBS of Delaware; 14 drawdowns, totaling \$712,585 (out of \$24,524,138), for BCBS of Hawaii; 14 drawdowns, totaling \$5,231,665 (out of \$174,795,446), for BCBS of Idaho; 14 drawdowns, totaling \$10,864,370 (out of \$398,961,916) for Wellmark BCBS (Iowa/South Dakota); 14 drawdowns, totaling \$5,156,411 (out of \$222,099,710), for BCBS of Kansas; 14 drawdowns, totaling \$817,979 (out of \$427,737,751), for BCBS of Louisiana; 20 drawdowns, totaling \$9,127,615 (out of \$335,265,495), for BCBS of Mississippi; 35 drawdowns, totaling \$21,106,656 (out of \$291,774,284), for BCBS of Kansas City; 23 drawdowns, totaling \$10,082,146 (out of \$182,835,418), for BCBS of Montana; 14 drawdowns, totaling \$11,233,285 (out of \$282,418,130), for BCBS of Nebraska; 14 drawdowns, totaling \$1,839,043 (out of \$57,356,609), for BCBS of Western New York; 41 drawdowns, totaling \$4,037,655 (out of \$133,205,958), for Excellus BCBS; 14 drawdowns, totaling \$2,682,325 (out of \$114,168,538), for BCBS of North Dakota; 15 drawdowns, totaling \$14,193,735 (out of \$408,467,253), for Independence BlueCross; 14 drawdowns, totaling \$3,671,280 (out of \$89,547,844), for BlueCross of Northeastern Pennsylvania; 14 drawdowns, totaling \$449,396 (out of \$2,816,332), for Triple-S Salud, Inc. of Puerto Rico; 15 drawdowns, totaling \$2,686,970 (out of \$118,980,132), for BCBS of Rhode Island; 14 drawdowns, totaling \$1,615,077 (out of \$83,427,540), for BCBS of Vermont; 14 drawdowns, totaling \$8,686,976 (out of \$362,380,291), for Highmark BCBS of West Virginia; and 35 drawdowns, totaling \$6,914,475 (out of \$108,553,252), for BCBS of Wyoming.

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

#### **A. CASH MANAGEMENT ACTIVITIES**

##### **1. Excess Funds in the Federal Employee Program Investment Accounts      \$1,331,300**

Our audit determined that four BCBS plans held excess FEHBP funds, totaling \$1,331,300, in dedicated FEP investment accounts as of September 30, 2012. These excess FEHBP funds consisted of \$929,405 by Excellus BCBS; \$390,871 by Highmark BCBS of West Virginia; \$7,467 by BCBS of Hawaii; and \$3,557 by BCBS of Vermont. During our audit, we verified that Highmark BCBS of West Virginia and BCBS of Vermont subsequently returned \$390,871 and \$1,516 of the questioned excess funds, respectively, to the FEHBP.

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

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.”

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 identified . . . and corrected (i.e., overcharges returned to the FEHBP) prior to audit notification.”

The BCBS plan’s FEP investment account generally includes FEP working capital funds, 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.

In our audit information request (AIR), we requested each of the 21 BCBS plans in our sample to provide a detailed itemization of the funds in the plan’s dedicated FEP investment account as of September 30, 2012, including an aging of these funds.<sup>4</sup> Based on our review of these FEP investment account itemizations, we determined that four of these BCBS plans (Excellus BCBS, Highmark BCBS of West Virginia, BCBS of Hawaii,

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<sup>4</sup> Each BCBS plan in our sample provided a detailed itemization of the FEP investment account balance as of September 30, 2012 (except for Triple-S Salud, Inc. of Puerto Rico and BCBS of Western New York, which did not maintain dedicated FEP investment accounts as of September 30, 2012).

and BCBS of Vermont) were holding a total of \$1,331,300 in excess FEHBP funds as of September 30, 2012. Most of these excess funds had been held in these BCBS plans' FEP investment accounts for more than a year (as of September 30, 2012).

The following is a summary of the questioned excess funds that were held by these four BCBS plans as of September 30, 2012.

<b>BCBS Plans</b>	<b>Excess FEHBP Funds</b>
Excellus BCBS	\$929,405
Highmark BCBS of West Virginia	390,871
BCBS of Hawaii	7,467
BCBS of Vermont	3,557
<b>TOTAL</b>	<b>\$1,331,300</b>

As part of our audit, we verified that Highmark BCBS of West Virginia returned \$390,871 of the excess funds to the LOCA on March 12, 2013. We also verified that BCBS of Vermont returned \$1,516 of the excess funds to the LOCA on November 7, 2012. In total, we verified that \$392,387 of the questioned excess funds have been returned to the FEHBP. However, since these excess funds were returned to the FEHBP after the Association and BCBS plans received our audit notification and AIR (dated October 1, 2012), we are continuing to question these excess funds as a monetary finding.

**Association's Response:**

The Association agrees with the questioned excess funds of \$401,495 for Highmark BCBS of West Virginia, BCBS of Hawaii, and BCBS of Vermont. However, the Association is continuing to research what the appropriate resolution should be for the questioned excess funds of \$929,405 for Excellus BCBS.<sup>5</sup>

Regarding the questioned excess funds for Excellus BCBS, the Association states, "After exhaustive research, the Plan determined that there is a \$929,405 difference between the working capital balance and the investment account balance as of September 30, 2012. The Plan determined that the difference occurred prior to 2004; however, documentation from that time frame is no longer available, so the Plan is unable to determine whether this variance is a result of excess corporate funds in the FEP account or funds due the Program. The Plan is determining within the contract language what the appropriate resolution for this unsupported imbalance, which dates back 10 years, should be."

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<sup>5</sup> In the Association's initial draft report response (dated July 31, 2013), the Association stated that Excellus BCBS agreed to return the questioned excess funds to the FEHBP by August 2013.

### **OIG Comments:**

After reviewing the Association's response and additional documentation provided by the Association and/or BCBS plans, we revised the questioned amount from our draft report to \$1,331,300. For our revised questioned amount, we determined that the Association agreed with the questioned excess funds of \$401,895 for Highmark BCBS of West Virginia, BCBS of Hawaii, and BCBS of Vermont. However, the Association is continuing to review the questioned excess funds of \$929,405 for Excellus BCBS.

The Association and/or Excellus BCBS did not provide a logical reason why Excellus BCBS would actually maintain \$929,405 in corporate funds in the dedicated FEP investment account for 10 years or more. Excellus BCBS is responsible to account for all funds in the FEP investment account. The FEP investment account normally consists of the following funds: an approved working capital balance, approved LOCA drawdowns, and FEP health benefit refunds and recoveries. If there are excess funds in this account, the most likely reasons would be that Excellus BCBS deposited FEP health benefit refunds and recoveries into the FEP investment account but did not return these funds to the LOCA; inadvertently withdrew excess funds from the LOCA; and/or withdrew funds from the LOCA to cover claim payments but then inadvertently did not transfer these funds from the FEP investment account into a corporate account. Without documentation supporting otherwise, we have to conclude that these excess funds in the plan's dedicated FEP investment account are actually FEHBP funds, and therefore, owed to the FEHBP.

### **Recommendation 1**

For the uncontested amounts, we recommend the contracting officer verify that these questioned excess funds of \$401,895 were returned to the FEHBP (i.e., \$390,871 by Highmark BCBS of West Virginia; \$7,467 by BCBS of Hawaii; and \$3,557 by BCBS of Vermont). (Note: Of these uncontested amounts, we have already verified that Highmark BCBS of West Virginia and BCBS of Vermont returned \$390,871 and \$1,516, respectively, to the FEHBP.)

### **Recommendation 2**

We recommend that the contracting officer instruct Excellus BCBS to immediately return the questioned excess funds of \$929,405 to the FEHBP (unless the plan can provide evidence or supporting documentation that these funds are not FEHBP funds).

### **Recommendation 3**

We recommend that the contracting office require the Association to provide evidence or supporting documentation ensuring that all BCBS plans are performing FEP investment account reconciliations at least on a quarterly basis. We also recommend that the contracting office require the Association to provide evidence or supporting documentation ensuring that the BCBS plans are not maintaining and/or commingling the plans' corporate funds in the FEP investment accounts.

## 2. Working Capital Deposits

**\$143,898**

Based on our review of the BCBS plans' working capital (WC) deposits, we determined that four BCBS plans (Arkansas, Idaho, Kansas, and Mississippi) did not maintain the correct WC amounts in the FEP investment accounts, resulting in these plans holding excess FEHBP funds of \$139,740. Specifically, we found that these BCBS plans either held WC balances with excess amounts or held WC funds outside of the FEP investment accounts. As a result of this finding, the BCBS plans of Arkansas, Mississippi, and Kansas returned \$137,666 to the FEHBP, consisting of \$133,508 for WC funds and \$4,158 for applicable LII. However, the Association did not address the questioned WC funds of \$6,232 for BCBS of Idaho.

"Letter of Credit System 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."

For the period January 1, 2012 through September 30, 2012, we reviewed the WC calculations, adjustments and/or balances for a sample of 21 BCBS plans. Based on our review of these BCBS plans' WC balances and supporting documentation, we determined that the following four BCBS plans did not maintain the correct WC balances in the FEP investment accounts as of September 30, 2012.

- For BCBS of Arkansas, we determined that the plan should have only maintained a WC balance of \$215,938. However, the plan had a WC balance of \$300,000. Therefore, the plan held a WC balance with an excess amount of \$84,062 (\$300,000 minus \$215,938) over the amount actually needed to meet the plan's daily cash needs for FEHBP claim payments. (Note: As a result of this finding, BCBS of Arkansas returned the excess WC funds of \$84,062 to the FEHBP.)
- For BCBS of Mississippi, we determined that the plan should have only maintained a WC balance of \$125,202. However, the plan had a WC balance of \$168,825. Therefore, the plan held a WC balance with an excess amount of \$43,623 (\$168,825 minus \$125,202) over the amount actually needed to meet the plan's daily cash needs for FEHBP claim payments. (Note: As a result of this finding, BCBS of Mississippi returned the excess WC funds of \$43,623 to the FEHBP.)
- For BCBS of Kansas, we determined that the plan correctly calculated the WC amount and properly withdrew the funds from the LOCA to maintain a WC balance of \$430,085. However, the plan's WC balance in the dedicated FEP investment account only totaled \$424,262 as of September 30, 2012. Therefore, the WC deposit was underfunded by \$5,823 (\$430,085 minus \$424,262) due to the plan not maintaining all of these funds in the FEP investment account. The Plan did not provide a reason for the WC shortage. However, the plan calculated LII of \$4,158 on

these WC funds that were not maintained in the FEP investment account. We reviewed and accepted the plan's LII calculation. (Note: As a result of this finding, BCBS of Kansas deposited \$5,823 into the FEP investment account for the WC shortage and returned LII of \$4,158 to the FEHBP.)

- For BCBS of Idaho, we determined that the plan correctly calculated the WC amount and properly withdrew the funds from the LOCA to maintain a WC balance of \$400,000. However, the plan's WC balance in the dedicated FEP investment account only totaled \$393,768 as of September 30, 2012. Therefore, the WC deposit was underfunded by \$6,232 (\$400,000 minus \$393,768) due to the plan not maintaining all of these WC funds in the FEP investment account.<sup>6</sup>

In total, we are questioning \$143,898, consisting of \$139,740 (\$84,062 plus \$43,623 plus \$5,823 plus \$6,232) for BCBS plans holding excess WC funds and/or not maintaining the correct WC amounts in the FEP investment accounts and \$4,158 for applicable LII.

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

The Association agrees with the questioned excess WC funds of \$43,623 that were held by BCBS of Mississippi and the questioned WC funds of \$5,823 that were not maintained in an FEP investment account by BCBS of Kansas. The Association states that the BCBS plans of Mississippi and Kansas have returned these questioned amounts to the FEHBP. However, the Association disagrees with the questioned excess WC funds of \$84,062 that were held by BCBS of Arkansas. (Note: The Association did not address the questioned WC funds of \$5,823 for BCBS of Idaho.)

Regarding the contested amount for BCBS of Arkansas, the Association states, "The Plan disagrees its working capital balance is overstated by \$84,062. At the end of 2011, the Plan had a working capital balance of approximately \$400,000, or 2% of the Plan's Cost of Care. The additional funds were needed to ensure that FEP claims were paid during any situation that might arise and the Plan did not want to have overdrafts on a regular basis." Although BCBS of Arkansas disagrees with the finding, the Association states that the plan returned the questioned amount to the FEHBP on April 25, 2013.

### **OIG Comments:**

After reviewing the Association's response and additional documentation provided by the Association and/or BCBS plans, we revised the questioned amount from our draft report to \$143,898. For our revised questioned amount, we determined that the Association and/or BCBS plans agreed with \$53,604, consisting of \$43,623 for excess WC funds held

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<sup>6</sup> For BCBS of Idaho, the balance in the FEP investment account totaled \$1,859,309 as of September 30, 2012, including \$400,000 for the WC deposit. However, during the audit, the plan provided documentation supporting that \$1,465,541 of these funds in the FEP investment account were actually corporate funds. As a result, the plan transferred \$1,465,541 of the FEP investment account balance into the plan's corporate account, leaving a balance of \$393,768 in the FEP investment account. Therefore, the WC deposit was underfunded by \$6,232 (\$400,000 minus \$393,768) in the FEP investment account.

by BCBS of Mississippi; \$5,823 for WC funds that were not maintained in an FEP investment account by BCBS of Kansas; and \$4,158 for applicable LII on the WC funds that were not maintained in an FEP investment account by BCBS of Kansas. As part of our audit, we verified that the BCBS plans of Mississippi and Kansas returned these uncontested WC and LII amounts to the FEHBP. Additionally, although the Association disagreed with the questioned excess WC funds of \$84,062 that were held by BCBS of Arkansas, we verified that the plan subsequently returned these funds to the FEHBP.

#### **Recommendation 4**

Since we verified that the excess WC funds of \$127,685 (\$84,062 by BCBS of Arkansas and \$43,623 by BCBS of Mississippi) were returned to the FEHBP, no further action is required for this questioned amount.

#### **Recommendation 5**

We recommend that the contracting officer require BCBS of Idaho to deposit \$6,232 into the FEP investment account to resolve the plan's underfunded WC deposit.

#### **Recommendation 6**

Since we verified that BCBS of Kansas deposited \$5,823 into the FEP investment account to resolve the plan's underfunded WC deposit, no further action is required for this questioned amount.

#### **Recommendation 7**

Since we verified that BCBS of Kansas returned \$4,158 to the FEHBP for LII on the underfunded WC deposit, no further action is required for this LII amount.

### **3. Treasury Offsets**

**\$ 72,219**

During our review of LOCA drawdowns, we determined that BCBS of Rhode Island had not returned \$71,644 to the FEHBP for offsets taken from the LOCA by the United States Treasury (Treasury) on December 28, 2011 and September 27, 2012. As a result of this finding, BCBS of Rhode Island returned \$72,219 to the FEHBP, consisting of \$71,644 for Treasury offsets against the LOCA and \$575 for applicable LII.

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

FAR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due. The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the

amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

The Treasury will occasionally recover non-FEHBP debts from BCBS plans by reducing LOCA drawdowns made to the plans for FEHBP claim payments. If this occurs, the BCBS plan should make the FEHBP whole by transferring funds into the FEP investment account to replenish the funds that were taken.

During our review of LOCA drawdowns for a sample of 21 BCBS plans, we identified two instances where the Treasury offset the BCBS of Rhode Island’s LOCA drawdowns by a total of \$71,644 on December 28, 2011 and September 27, 2012. We determined that BCBS of Rhode Island did not withdraw additional funds from the LOCA to cover the shortages caused by these Treasury offsets. However, we also determined that BCBS of Rhode Island did not transfer funds into the FEP investment account to cover these Treasury offsets, which left the FEP investment account short by \$71,644.

**Association’s Response:**

The Association agrees with this finding and states that BCBS of Rhode Island returned the questioned amount to the FEHBP on June 5, 2013.

**OIG Comments:**

The Association provided documentation supporting that BCBS of Rhode Island returned \$72,219 to the FEHBP, consisting of \$71,644 for the Treasury offsets against the LOCA and \$575 for applicable LII. We reviewed and accepted the plan’s LII calculation.

**Recommendation 8**

Since we verified that the Plan returned \$71,644 to the FEHBP for the Treasury offsets against the LOCA, no further action is required for this questioned amount.

**Recommendation 9**

Since we verified that the Plan returned \$575 to the FEHBP for LII on the Treasury offsets against the LOCA, no further action is required for this LII amount.



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

##### Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████████████████, Auditor

██████████, Auditor

██████████, Auditor

██████████, Auditor

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██████████, Chief (██████████)

██████████, Senior Team Leader

**V. SCHEDULE A****CASH MANAGEMENT ACTIVITIES  
SAMPLE OF BLUECROSS BLUESHIELD PLANS****QUESTIONED CHARGES**

<b>AUDIT FINDINGS</b>	<b>2011</b>	<b>2012</b>	<b>TOTAL</b>
<b>1. Excess Funds in the FEP Investment Accounts</b>			
Excellus BCBS	\$0	\$929,405	\$929,405
Highmark BCBS of West Virginia	0	390,871	390,871
BCBS of Hawaii	0	7,467	7,467
BCBS of Vermont	0	3,557	3,557
<b>Total Excess Funds in the FEP Investment Accounts</b>	<b>\$0</b>	<b>\$1,331,300</b>	<b>\$1,331,300</b>
<b>2. Working Capital Deposits</b>			
BCBS of Arkansas	\$0	\$84,062	\$84,062
BCBS of Mississippi	0	43,623	43,623
BCBS of Kansas	0	9,981	9,981
BCBS of Idaho	0	6,232	6,232
<b>Total Working Capital Deposits</b>	<b>\$0</b>	<b>\$143,898</b>	<b>\$143,898</b>
<b>3. Treasury Offsets</b>			
BCBS of Rhode Island	\$12,547	\$59,672	\$72,219
<b>Total Treasury Offsets</b>	<b>\$12,547</b>	<b>\$59,672</b>	<b>\$72,219</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$12,547</b>	<b>\$1,534,870</b>	<b>\$1,547,417</b>



**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

October 17, 2013

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

**Reference: OPM DRAFT AUDIT REPORT  
Focused Audit of Cash Management Activities  
Audit Report Number 1A-99-00-13-018**

Dear [REDACTED]:

This is the Blue Cross and Blue Shield Association's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) health benefit refunds.

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

- 1. Excess FEHBP Funds In The FEP Investment Accounts** **\$2,689,775**

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

**Excellus BCBS** **\$844,802**

After exhaustive research, the Plan determined that there is a \$929,405 difference between the working capital balance and the investment account balance as of September 30, 2012. The Plan determined that the difference occurred prior to 2004; however, documentation from that time frame is no longer available, so the Plan is unable to determine whether this variance is a result of excess corporate

funds in the FEP account or funds due the Program. The Plan is determining within the contract language what the appropriate resolution for this unsupported imbalance, which dates back 10 years, should be.

**Highmark West VA**

**\$406,027**

The Plan contests the OIG recommendation and does not agree that \$15,156 is owed to the Program. BCBSA provided backup documentation to the OIG confirming all adjustments to the investment account have been completed as of April 2, 2013 or prior.

The Plan provided the attached schedule to BCBSA on June 1, 2013 in support of its response and it is included for your review as part of the Draft Report Response.

**Blue Cross Blue Shield of Hawaii**

**\$7,467**

The Plan has completed a review of available documentation that dates back to 2002 and was unable to reconcile the difference between the working capital and the investment account balances as of September 30, 2012. As a result, the Plan has approved the return of \$7,467 to the Program. The Plan submitted a Special Plan Invoice to return the funds to the Program.

**Blue Cross Blue Shield of Vermont**

**\$3,557**

The Plan agreed with \$1,516 of the \$3,557 questioned amount and the funds were returned to the Program on November 9, 2012. The Plan was unable to reconcile the remaining difference between the working capital and the investment account of \$2,041; however, due to the immaterial amount, the Plan agreed to return the funds to the Program. The Plan submitted a Special Plan Invoice to return the funds to the Program.

**2. Working Capital**

**\$133,508**

**Blue Cross Blue Shield of Arkansas**

**\$84,062**

The Plan disagrees its working capital balance is overstated by \$84,062. At the end of 2011, the Plan had a working capital balance of approximately \$400,000, or 2% of the Plan's Cost of Care. The additional funds were needed to ensure that FEP claims were paid during any situation that might arise and the Plan did not want to have overdrafts on a regular basis.

Although, the Plan does not agree with the OIG finding, the Plan returned the funds to the Program on April 25, 2013.

**Blue Cross Blue Shield of Mississippi**

**\$43,623**

The Plan agrees that the amount of \$43, 623 was in excess of the amount needed to meet the Plan's daily cash needs for FEP claim payments, as approved by the FEPDO. The excess was maintained to alleviate overdraft situations related to claim check clearings. As payments to providers and subscribers are made three times a month, it was not possible to determine which checks would clear on a particular day. The Plan returned the funds via an approved Special Plan Invoice (SPI) adjustment to the daily LOCA draw request on May 3, 2013.

With approval from the FEPDO Financial Policy area, the Plan revised its business processes for requesting additional working capital funds. The need for an additional amount is monitored on a quarterly basis by comparing the additional amount to the current FEP outstanding check list. If additional funds are needed, the amount is requested through the LOCA Draw and returned immediately if not needed.

**Blue Cross Blue Shield of Kansas**

**\$5,823**

The Plan agreed with the finding and completed the return of funds to the Program on June 10, 2013.

**3. Treasury Offsets**

**\$72,101**

The Blue Cross Blue Shield of Rhode Island Plan agreed with the finding and completed the returned of the funds to the Program on June 5, 2013.

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

[REDACTED]  
October 17, 2013

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

Sincerely,

[REDACTED]  
[REDACTED]  
[REDACTED] CISA  
Managing Director, Program Assurance

Attachment