



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

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# Final Audit Report

**Subject:**

## **AUDIT OF WELLPOINT, INC. MASON, OHIO**

**Report No. 1A-10-39-10-011**

**Date: May 13, 2011**

**--CAUTION--**

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## AUDIT REPORT

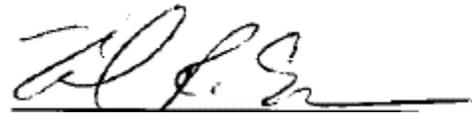
Federal Employees Health Benefits Program  
Service Benefit Plan      Contract CS 1039  
BlueCross BlueShield Association  
Plan Code 10

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WellPoint, Inc.  
Plan Codes 041, 050/550, 060/560, 100, 130/630, 160/660, 180/680,  
241/741, 265/765, 270/770, 303/803/808, 332/339, 423/923, 450/950  
Mason, Ohio

REPORT NO. 1A-10-39-10-011

DATE: 5/13/2011



Michael R. Esser  
Assistant Inspector General  
for Audits

## EXECUTIVE SUMMARY

Federal Employees Health Benefits Program  
Service Benefit Plan      Contract CS 1039  
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Plan Codes 041, 050/550, 060/560, 100, 130/630, 160/660, 180/680,  
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Mason, Ohio

REPORT NO. 1A-10-39-10-011      DATE: 5/13/2011

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at WellPoint, Inc. (Plan), which specifically included 14 BlueCross and/or BlueShield (BCBS) plans in California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio, Virginia, and Wisconsin, questions \$2,646,568 in health benefit charges and \$2,033,586 in administrative expenses. The BlueCross BlueShield Association (Association) and/or Plan agreed (**A**) with \$3,917,672 and disagreed (**D**) with \$762,482 of the questioned charges. Lost investment income (LII) on the questioned charges amounts to \$160,547.

Our audit was conducted in accordance with Government Auditing Standards. The audit covered administrative expenses from 2006 through 2008, as well as miscellaneous health benefit payments and credits from January 1, 2006 through June 30, 2009 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2006 through June 30, 2009. Due to overcharges identified during our review of costs incurred under sale and leaseback arrangements, we expanded our audit scope to also include sale and leaseback charges in 2004 and 2005.

Questioned items are summarized as follows:

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

- **Health Benefit Refunds (A)** **\$1,348,189**

The Plan did not support the return of, or timely return, \$564,868 in health benefit refunds and \$98,808 in LII to the FEHBP. In addition, the Plan made a \$684,513 banking error caused by a duplicate wire transfer. After receiving our audit notification letter on March 27, 2009, the Plan returned \$1,227,194 of the questioned amount to the FEHBP, consisting of \$1,219,816 for health benefit refunds and the banking error and \$7,378 for LII on refunds deposited untimely into the Federal Employee Program (FEP) investment account. As a result, the FEHBP is still due \$29,565 for one questioned refund and \$91,430 for LII.

- **Health Benefit Refunds Aging Schedules (A)** **\$546,219**

The Plan did not adjust the letter of credit account (LOCA) on a timely basis for health benefit refunds. As of June 30, 2009 (end of audit scope), there were 1,003 refunds, totaling \$546,219, that had not been returned to the LOCA within 60 days of receipt according to the Plan's aging schedules.

- **Provider Audit Recoveries (A)** **\$364,459**

The Plan did not make or support timely offsets for 12 provider audit recoveries totaling \$364,459.

- **Fraud Recoveries** **\$310,615**

The Plan did not support the return of, or return timely, \$302,450 in fraud recoveries and \$8,165 in LII to the FEHBP. Subsequent to March 27, 2009, the Plan returned \$40,239 of the questioned amount to the FEHBP, consisting of \$37,240 for fraud recoveries and \$2,999 for LII on recoveries deposited untimely into the FEP investment account. As a result, the FEHBP is still due \$265,210 for the remaining questioned recoveries and \$5,166 for LII. The Association agreed with \$224,790 (A) and disagreed with \$85,825 (D) of the questioned amount.

- **Subrogation Recoveries** **\$69,041**

The Plan did not support the return of, or timely return, \$56,687 in subrogation recoveries and \$12,354 in LII to the FEHBP. Subsequent to March 27, 2009, the Plan returned \$63,968 of the questioned amount to the FEHBP, consisting of \$56,687 for subrogation recoveries and \$7,281 for LII on recoveries deposited untimely into the FEP investment account. As a result, the FEHBP is still due \$5,073 for LII. The Association agreed with \$48,174 (A) and disagreed with \$20,867 (D) of the questioned amount.

- **Unidentified Refunds (A)** **\$8,045**

The Plan had not returned four unidentified refunds of \$7,697 to the FEHBP as of January 6, 2010. Subsequent to this date, the Plan returned these unidentified refunds to the FEHBP. However, the FEHBP is still due LII of \$348 on these refunds.

### **ADMINISTRATIVE EXPENSES**

- **Sale and Leaseback (A)** **\$699,717**

The Plan did not properly charge costs incurred under sale and leaseback arrangements, resulting in net overcharges of \$699,717 to the FEHBP. Specifically, this amount includes \$727,134 for rental cost overcharges, \$99,936 for undercharges due to losses from the sale of buildings, and \$72,519 for LII.

- **2006 Allocation Error and Cost Center Adjustments (D)** **\$655,790**

Due to an allocation weighting error, the Plan did not correctly allocate certain BCBS plans' administrative expenses to FEP in 2006. Although we are not questioning the overcharges to the FEHBP for this allocation error, as they were returned to the FEHBP in July and October of 2009, we are questioning procedurally how the Plan handled the communication of this issue to the Association and the Office of Personnel Management (OPM).

However, as a monetary finding, we are questioning overcharges of \$590,891 (net) and LII of \$64,899, since the Plan made additional adjustments to charge or remove allowable/unallowable cost centers. The adjustments for these cost centers were not directly related to the allocation weighting error and should have been made by the Plan long before receiving our audit notification letter on March 27, 2009. Since the Plan did not identify and make these adjustments until after receiving our audit notification letter, we consider this issue to be a monetary finding.

- **Unallowable and/or Unallocable Expenses (A)** **\$468,993**

The Plan charged the FEHBP for eight unallowable and/or unallocable cost centers and did not credit the FEHBP for two natural accounts with credit balances, resulting in overcharges of \$468,993 to the FEHBP.

- **Post-Retirement Benefit Costs (A)** **\$177,756**

The Plan overcharged the FEHBP \$177,756 for post-retirement benefit costs in 2006 and 2008.

- **Employee Benefits Review (A)** **\$60,100**

The Plan overcharged the FEHBP \$60,100 for employee benefit expenses in 2008 due to a clerical error within the Plan’s long term disability calculation.

- **BlueCross BlueShield Association Dues (A)** **\$4,336**

The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and OPM regarding dues chargeability. As a result, the FEHBP was overcharged \$4,336 for Association dues in 2007.

- **Out-of-System Adjustments (A)** **\$3,315**

The Plan did not correctly calculate a 2006 out-of-system adjustment, resulting in an overcharge of \$3,315 to the FEHBP.

- **Limits on Executive Compensation (A)** **(\$36,421)**

The Plan undercharged the FEHBP \$36,421 (net) for executive compensation. Specifically, the Plan undercharged the FEHBP \$39,980 in 2007 and overcharged the FEHBP \$3,559 in 2008.

### **CASH MANAGEMENT**

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

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

As a result of our audit findings presented in this audit report, the FEHBP is due LII of **\$160,547**, calculated through December 31, 2010.

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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 WellPoint, Inc. (Plan), which specifically included 14 BlueCross and/or BlueShield plans in California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio, Virginia, and Wisconsin. The Plan's headquarters are located in Indianapolis, Indiana; however, most of the audit support, cost accounting, and general/financial accounting functions are located in Mason, Ohio.

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

## **BACKGROUND**

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

The BlueCross BlueShield Association (Association), on behalf of participating BlueCross and BlueShield (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. The Plan includes 14 of the 63 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 BlueCross and BlueShield plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BlueCross BlueShield, located in Washington, D.C. These activities include acting as fiscal intermediary between the Association and member plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan

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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.

payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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.

The following were the most recent audit reports issued for the WellPoint, Inc. plans:

- Report No. 1A-10-63-08-044, WellPoint Southeast, dated March 3, 2009
- Report No. 1A-10-01-07-058, Empire BCBS, dated June 25, 2008
- Report No. 1A-10-18-06-052, Anthem Midwest BCBS, dated February 20, 2008
- Report No. 1A-10-05-07-045, WellPoint BCBS of Georgia, dated November 20, 2007
- Report No. 1A-10-05-06-008, WellPoint BCBS of Georgia, dated November 16, 2007
- Report No. 1A-10-30-05-069, WellPoint BCBS of Colorado, dated April 25, 2007
- Report No. 1A-10-47-05-009, BCBS United of Wisconsin, dated June 5, 2006
- Report No. 1A-10-52-05-021, BC of California, dated February 22, 2006
- Report No. 1A-10-61-04-009, Anthem BCBS of Nevada, dated August 2, 2004
- Report No. 1A-10-76-03-015, BCBS of Missouri, dated April 7, 2003

All findings from our previous audits of the WellPoint, Inc. BCBS plans, covering various contract years from 1999 through 2007, 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; and were presented in detail in a draft report, dated November 8, 2010. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report. Also, additional documentation provided by the Association and Plan on various dates through March 3, 2011 was considered in preparing our final report.

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

### **OBJECTIVES**

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

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

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

#### **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.

### **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 041 (California), 050/550 (Colorado), 060/560 (Connecticut), 100 (Georgia), 130/630 (Indiana), 160/660 (Kentucky), 180/680 (Maine), 332/339 (Ohio), 241/741 (Missouri), 265/765 (Nevada), 270/770 (New Hampshire), 303/803/808 (Empire BCBS), 423/923 (Virginia), and 450/950 (Wisconsin) for contract years 2006 through 2008. During this period, the Plan paid approximately \$10.8 billion in health benefit charges and \$489 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits, such as refunds and subrogation recoveries, and cash management activities from 2006 through June 30, 2009, as well as administrative expenses from 2006 through 2008. Due to overcharges identified during our review of costs incurred under sale and leaseback arrangements, we expanded our audit scope to also include sale and leaseback charges in 2004 and 2005.

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

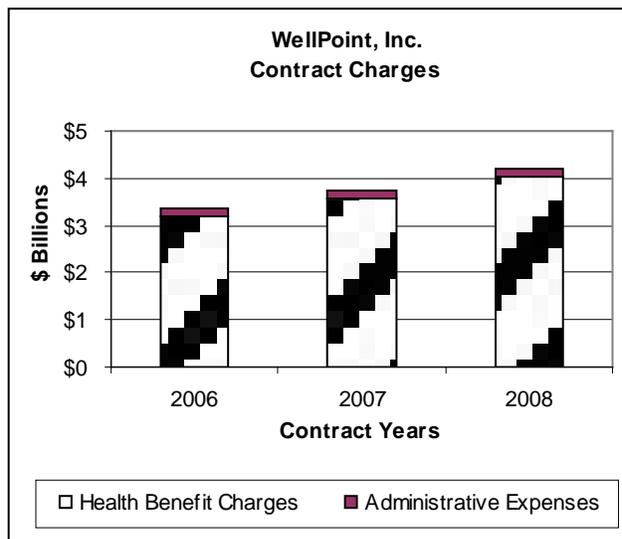


Figure 1 – Contract Charges

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director’s Office 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 Mason, Ohio on various dates from November 9, 2009 through July 2, 2010. Audit fieldwork was also performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

## **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. We also judgmentally selected and reviewed 950 high dollar health benefit refunds, totaling \$49,317,332 (from a universe of 314,803 refunds, totaling \$165,084,861); 240 high dollar subrogation recoveries, totaling \$11,169,818 (from a universe of 19,312 recoveries, totaling \$52,612,643); 170 high dollar special plan invoices, totaling \$30,558,652 in net payments (from a universe of 2,715 special plan invoices, totaling \$84,310,828 in net payments); 157 high dollar fraud recoveries, totaling \$2,706,957 (from a universe of 295 recoveries, totaling \$2,754,776); 80 high dollar provider audit recoveries, totaling \$2,461,562 (from a universe of 28,562 recoveries, totaling \$10,425,635); 50 high dollar subrogation cases that were closed but had no recoveries, totaling \$7,752,084 (from a universe of 3,838 cases, totaling \$20,443,779); 50 high dollar aging health benefit refunds, totaling \$3,272,549 (from a universe of 28,661 refunds, totaling \$19,595,842); 25 high dollar unidentified refunds, totaling \$8,943 (from a universe of 1,097 totaling \$19,142 in net credits); 9 high dollar provider settlements, totaling \$1,343,910 in net payments (from a universe of 28 settlements, totaling \$1,352,245 in net payments); 8 high dollar provider advances, totaling \$3,769,085 in net advance increases (from a universe of 23 provider advances, totaling \$6,519,110 in net advance increases); and 7 Remicade rebates, totaling \$1,877,275 (from a universe of 14 rebates, totaling \$3,390,300) to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.<sup>2</sup> The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2006 through 2008. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee benefits, executive compensation, non-recurring projects, return on investment, inter-company profits, lobbying, mergers and acquisitions, Association dues, sale and leaseback arrangements, foreign-based subcontracts, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

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<sup>2</sup> See the audit findings for "Health Benefit Refunds" (A1), "Aging Health Benefit Refunds" (A2), "Provider Audit Recoveries" (A3), "Fraud Recoveries" (A4), "Subrogation Recoveries" (A5), and "Unidentified Refunds" (A6) on pages 6 through 19 for specific details of our sample selection methodologies.

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

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

##### **1. Health Benefit Refunds**

**\$1,348,189**

The Plan did not support the return of, or timely return, \$564,868 in health benefit refunds and \$98,808 in lost investment income (LII) to the FEHBP. In addition, the Plan made a \$684,513 banking error caused by a duplicate wire transfer. After receiving our audit notification letter on March 27, 2009, the Plan returned \$1,227,194 of the questioned amount to the FEHBP, consisting of \$1,219,816 for health benefit refunds and the banking error and \$7,378 for LII on refunds deposited untimely into the FEP investment account. As a result, the FEHBP is still due \$29,565 for one questioned refund and \$91,430 for LII.

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

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

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

Contract CS 1039, Part III, section 3.8 states, “the Carrier will retain and make available all records applicable to a contract term . . . .”

For the period January 1, 2006 through June 30, 2009, we identified 314,803 FEP health benefit refunds, totaling \$165,084,861, for the 14 WellPoint, Inc. plans. From this universe, we selected and reviewed a judgmental sample of 950 refunds, totaling \$49,317,332, to determine whether the Plan timely returned these funds to the FEHBP. For each of the individual plans, if the annual refunds were greater than \$5 million, we selected the 30 highest dollar refunds to review for that year; if less than \$5 million and greater than \$1 million, we selected the 20 highest dollar refunds to review for that year; and, if less than \$1 million, we selected the 10 highest dollar refunds to review for that year.

Based on our review, we noted the following exceptions:

#### Health Benefit Refunds Returned Untimely After Audit Notification

In eight instances, the Plan deposited refunds untimely into the FEP investment account and/or returned the refunds untimely to the letter of credit account (LOCA) after receiving our audit notification letter and standard information request (dated March 27, 2009). Specifically, the Plan deposited five of these eight refunds into the FEP investment account from 461 to 1,166 days late. Also, the Plan returned LII on these five refunds. Although these eight refunds and applicable LII were subsequently returned to the FEHBP, we are considering this as a monetary finding since the Plan returned these refunds to the FEP investment account and/or LOCA from 271 to 391 days after receiving our audit notification letter and standard information request. We verified that these refunds of \$343,080 and LII of \$4,523 were returned to the FEHBP. However, the FEHBP is still due an additional \$24,138 in LII for funds deposited untimely into the FEP investment account.

In addition, five of the eight refunds were part of three batches, totaling \$192,223 (excluding the refund amounts noted above), that were deposited untimely into the FEP investment account. Although these refunds and some LII were subsequently returned to the FEHBP, we consider these related batches as a monetary finding for the same reason as noted above. We verified that these refunds and LII of \$1,780 were returned to the FEHBP. However, the FEHBP is still due an additional \$26,948 in LII for funds deposited untimely into the FEP investment account.

#### Health Benefit Refunds Not Supported

In one instance, the Plan did not support the return of a health benefit refund, totaling \$29,565, to the FEHBP. Specifically, the Plan was unable to support the return of this amount to the LOCA. However, since the Plan deposited this refund into the FEP investment account, no LII is due to the FEHBP.

#### Health Benefit Refunds Returned Untimely Before Audit Notification

The Plan returned 50 health benefit refunds untimely to the FEHBP. In each instance, we determined that the funds were not deposited timely into the FEP investment account. Specifically, the Plan deposited these refunds from 1 to 805 days late. The Plan calculated and returned LII to the FEHBP; however, due to a variance in the Plan's calculation method, the FEHBP is due additional LII on these recoveries. Also, LII for 3 of the 50 refunds was not returned until 418 to 460 days after the date of our audit notification letter (March 27, 2009). As a result, we will question the full amount of LII for these refunds. We verified that LII of \$1,075 was returned to the FEHBP on these recoveries. However, the FEHBP is still due \$20,174 in LII for refunds not deposited timely into the FEP investment account.

In addition, 5 of the 50 refunds were part of a batch of refunds that were deposited untimely into the FEP investment account. The Plan calculated and returned LII on the batch. However, since the Plan used an incorrect deposit date when calculating the LII, the FEHBP is due an additional \$20,170 (excluding the five refunds noted above) for LII on the rest of the refunds in the batch.

### Banking Error

In addition to the above refund exceptions, we identified a banking error during our review. On February 20, 2009, the Plan made a duplicate wire transfer from the Virginia dedicated FEP investment account into the corporate account, resulting in an amount due of \$684,513 to the FEHBP. As a result of our finding, the Plan subsequently returned this amount to the FEHBP in June 2010. We calculated LII on this amount through June 30, 2010 in Schedule C of this report.

### Association's Response:

The Association agrees with this finding. The Association states that the Plan provided or will provide (by January 31, 2011) to the FEP Director's Office documentation to support the return of these funds to the FEHBP.

The Association states, "The Plan noted that 11 of the 59 items questioned were the result of Health Benefit Refunds processed on a legacy system during 2007 that is no longer utilized. The Plan has implemented the following action plan:

- Beginning August 1, 2007 the Plan enhanced their Drawdown Review Process to include self review, peer review and management review. Two of the Virginia sample refund findings were prior to the enhanced review process and would have benefited from the Plan's strengthened internal controls.
- Beginning August 1, 2008 the Plan has detailed documentation to support the daily return of recoupment on the Virginia Plan. The sample finding, which was prior to August 2008, was the result of the Plan not being able to support the return of the recoupment due to insufficient detail.
- As of September 30, 2010 all working capital balancing reconciliations were brought current. The working capital balancing is a monthly reconciliation of the FEP Investment bank account balance to the working capital advance being held by the Plan. This balancing tracks both wire transfers to and from the WellPoint Corporate Bank Account and corresponding LOCA adjustments. Enhancements to this process include establishing a monthly due date for completion and aging any differences which allows for timely resolution of outstanding issues."

**OIG Comments:**

In total, we verified that \$1,219,816 of the questioned health benefit refunds and duplicate wire transfer and \$7,378 of the questioned LII were returned to the FEHBP. However, we were unable to verify that \$29,565 for a questioned health benefit refund and \$91,430 of the questioned LII were returned to the FEHBP.

**Recommendation 1**

Since we verified that \$1,219,816 of the questioned health benefit refunds and duplicate wire transfer were returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 2**

We recommend that the contracting officer verify that the Plan credited the FEHBP \$29,565 for a health benefit refund.

**Recommendation 3**

Since we verified that \$7,378 of the questioned LII was returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 4**

We recommend that the contracting officer verify that the Plan credited the FEHBP \$91,430 for the remaining questioned LII on health benefit refunds that were deposited untimely into the FEP investment account.

**Recommendation 5**

We recommend that the contracting officer have the Association verify that the Plan implemented procedures to ensure that health benefit refunds are returned to the FEHBP in a timely manner.

**2. Health Benefit Refunds Aging Schedules **\$546,219****

The Plan did not adjust the LOCA on a timely basis for health benefit refunds. As of June 30, 2009 (end of audit scope), there were 1,003 refunds, totaling \$546,219, that had not been returned to the LOCA within 60 days of receipt according to the Plan’s aging schedules.

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.”

We obtained the Plan's refund aging schedules as of June 30, 2009.<sup>3</sup> The aging schedules for all plans, excluding Georgia and Virginia, captured refunds that were deposited into the FEP investment account and returned to the LOCA but were pending claim adjustments. The aging schedules for the Georgia and Virginia plans captured refunds that were deposited into the FEP investment account but not returned to the LOCA. We verified the validity of these schedules and used them to identify refunds that were returned untimely to the LOCA.

The aging schedules for the Georgia and Virginia plans included 981 refunds, totaling \$491,843, that had not been returned to the LOCA within 60 days of receipt. The plans' procedure is to return all refunds to FEP once the applicable claims have been identified and adjusted. According to these plans, the claims associated with the refunds in question had not been adjusted as of June 30, 2009.

In addition, we requested the composition of the New York plan's investment account balance as of June 30, 2009 to determine whether the account included any refunds that were not returned to the LOCA. As a result, the Plan identified 22 refunds, totaling \$54,376, that had been deposited into the FEP investment account but not returned to the LOCA within 60 days of receipt.

In total, based on our review of the refunds aging schedules, we are questioning health benefit refunds of \$546,219 that were deposited into the FEP investment account but had not been returned to the LOCA within 60 days of receipt as of June 30, 2009.

**Association's Response:**

The Association agrees with this finding. The Association states that the Plan provided documentation to support the return of \$54,376 to the FEHBP for the questioned New York refunds. Specifically, the Plan returned to the FEHBP \$33,271 on July 29, 2010 and \$21,105 on August 5, 2010.

The Association also states that "the questioned Virginia and Georgia findings . . . had been returned to the LOCA through the standard refund process . . . Subsequent to the Audit Inquiry, OPM auditors selected 20 refunds . . . and requested that the Plan provide documentation to support the return to the FEHBP . . . any funds owed. The documentation was provided to the FEP Director's Office . . . ."

In addition, the Association states, "the Plan has implemented the following Action Plan:

- As of September 30, 2010 all working capital balancing reconciliations were brought current. The working capital balancing is a monthly reconciliation of the FEP Investment bank account balance to the working capital advance being held by the Plan. This balancing tracks both wire transfers to and from the WellPoint Corporate

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<sup>3</sup> This included all WellPoint, Inc. plans except for Empire BlueCross BlueShield (New York). The New York plan could not breakout the relevant aging information specific to FEP.

Bank Account and corresponding LOCA adjustments. Enhancements to this process include establishing a monthly due date for completion and aging any differences which allows for timely resolution of outstanding issues.

- For the audit scope, Georgia and Virginia refunds were returned to the FEHBP upon claim adjustment. Beginning January 1, 2011 Georgia refunds will be returned on a cash received basis and will be incorporated into the Plan's weekly refund process. Virginia cash receipts were moved to the Claim Overpayment Recovery System beginning July 1, 2010 and are now returned daily to the FEHBP. In addition to these changes, in November 2010, the FEP Director's Office began overseeing all Plans to ensure appropriate monitoring of aging refunds."

**OIG Comments:**

We reviewed a sample of 20 refunds from the Georgia and Virginia plans' aging reports, and determined that these refunds were returned to the LOCA. In addition, we found that the sampled Virginia refunds (10) were returned timely and should not be questioned; therefore, we removed these refunds from the above finding. We also reviewed a sample of 10 refunds from the New York plan, and determined that these refunds were returned to the LOCA. In total for the Georgia and New York plans, we verified that 20 refunds, totaling \$241,075, were returned to the LOCA.

**Recommendation 6**

Since we verified that \$241,075 of the questioned aging refunds were returned to the LOCA, no further action is required for this questioned amount.

**Recommendation 7**

We recommend that the contracting officer verify that the Plan credited the FEHBP \$305,144 for the remaining questioned aging refunds related to the Georgia, Virginia, and New York plans. (Note: We verified that 20 of the questioned refunds, representing 44 percent of the total questioned refund dollars, were returned to the LOCA. The contracting officer may consider this percentage of verification as an adequate basis to accept that the remaining questioned refunds were returned to the LOCA. However, at a minimum, the Association should provide a certification that these refunds were returned to the FEHBP.)

### 3. **Provider Audit Recoveries**

**\$364,459**

The Plan did not make or support timely offsets for 12 provider audit recoveries totaling \$364,459.

As previously stated under audit finding A1, the Plan is required to promptly return provider audit recoveries to the FEHBP with applicable LII. Also, the carrier must retain and make available all records applicable to a contract term.

For the period 2006 through June 30, 2009, there were 28,562 provider audit recoveries, totaling \$10,425,635, for the 14 WellPoint, Inc. plans. From this universe, we judgmentally selected and reviewed a sample of 80 provider audit recoveries, totaling \$2,461,562, for the purpose of determining whether the Plan returned these recoveries to the FEHBP in a timely manner. Our sample included the 10 highest dollar recoveries from each of the 8 audit types.

The following summarizes the exceptions noted:

- For nine provider audit recoveries, the Plan did not provide documentation to support that provider offsets were made to future FEP claim payments in order to recoup overpayments of \$262,789.
- For three provider audit recoveries, the Plan did not make provider offsets to return \$101,670 to the FEHBP. After receiving our audit information request (dated March 5, 2010), the Plan made these provider offsets, which returned the funds to the FEHBP.

We did not assess LII on these exceptions since the Plan did not hold the FEHBP funds.

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

The Association agrees with this finding. The Association states, "Documentation to support the return of funds totaling \$101,670 was provided to the OIG auditors during the audit. The Plan is still in the process of seeking documentation . . . that will support that offsets were made in the amount of \$262,789. Documentation will be provided to the FEP Director's Office by January 31, 2011.

To enhance the timeliness of provider offset recoveries, the Plan included a review of provider offset activity as part of its 2011 Compliance Audit plan. The objective of the compliance plan is to ensure controls are in place by developing written standards and procedures centering around the following areas: High Level Management Oversight; Due Care When Delegating Authority; Effective Communication; Auditing/Monitoring/Reporting; Enforcement and Discipline; Response and Prevention; Adhoc Reporting out of the Recovery System to Reduce audit findings and exposure. Further, we will be working with the BCBSA FEP Director's Office to monitor this activity on a periodic basis to ensure that provider offsets are returned to the Program timely in the future."

**OIG Comments:**

The Association did not provide documentation to support that the Plan made provider offsets to recover overpayments of \$262,789.

**Recommendation 8**

Since we verified that the Plan returned \$101,670 of the questioned provider audit recoveries to the FEHBP through provider offsets, no further action is required for this questioned amount.

**Recommendation 9**

We recommend that the contracting officer verify that the Plan credited the FEHBP \$262,789 for unsupported provider offsets.

**4. Fraud Recoveries **\$310,615****

The Plan did not support the return of, or timely return, \$302,450 in fraud recoveries and \$8,165 in LII to the FEHBP. Subsequent to March 27, 2009, the Plan returned \$40,239 of the questioned amount to the FEHBP, consisting of \$37,240 for fraud recoveries and \$2,999 for LII on recoveries deposited untimely into the FEP investment account. As a result, the FEHBP is still due \$265,210 for the remaining questioned recoveries and \$5,166 for LII.

As previously stated under audit finding A1, the Plan is required to promptly return fraud recoveries to the FEHBP with applicable LII. Also, the carrier must retain and make available all records applicable to a contract term.

For the period January 1, 2006 through June 30, 2009, we identified 295 fraud recoveries, totaling \$2,754,776, for the WellPoint, Inc. plans. From this universe, we selected and reviewed a judgmental sample of 157 fraud recoveries, totaling \$2,706,957, to determine whether the Plan timely returned these recoveries to the FEHBP. We selected all recoveries from the Plan's "Compliance 360" database that were greater than \$1,000, as well as all recoveries from the Association's "Fraud Information Management System" (FIMS) database that were greater than \$500 and did not appear to be reported in the "Compliance 360" database.

Based on our review, we noted the following exceptions:

**Fraud Recoveries Not Supported**

The Plan did not provide documentation, or did not provide adequate documentation, to support the return of 36 fraud recoveries, totaling \$257,512, to the FEHBP. We also calculated LII on these questioned funds in Schedule C of this report.

### Fraud Recoveries Returned Untimely After Audit Notification

The Plan deposited six fraud recoveries, totaling \$37,240, into the FEP investment account in an untimely manner. The recoveries were deposited into the FEP investment account from 17 to 1,050 days late. The Plan also returned \$2,999 in LII to the FEHBP for these recoveries. Although the Plan returned these recoveries and applicable LII to the FEHBP, we are considering this as a monetary finding since the Plan returned these recoveries to the FEP investment account and/or LOCA from 306 to 566 days after receiving our audit notification letter and standard information request (dated March 27, 2009). In addition, the Plan did not return LII on the Virginia recoveries. Therefore, the FEHBP is due an additional \$976 in LII for funds deposited untimely into the FEP investment account.

### Fraud Recoveries Partially Returned

The Plan did not return four fraud recoveries in full to the FEHBP. The Plan returned a portion of these recoveries; however, the FEHBP is still due \$7,698. We calculated LII on these funds in Schedule C of this report.

### Fraud Recoveries Returned Untimely Before Audit Notification

The Plan returned seven fraud recoveries untimely to the FEHBP. In each instance, we determined that the funds were not deposited timely into the FEP investment account. The Plan did not return LII on these recoveries to the FEHBP. Therefore, the FEHBP is due \$4,190 for LII on recoveries not deposited timely into the FEP investment account.

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

In response to the amount questioned in the draft report, the Association agrees with \$222,358 (\$214,790 in fraud recoveries plus \$7,568 in LII) and disagrees with \$606,134 (\$605,537 in fraud recoveries plus \$597 in LII). The Association states, "The Plan provided documentation to support the return of \$33,484 in fraud recoveries and \$2,999 in LII to the auditors while they were on-site. Documentation to support the return of \$181,306 in fraud recoveries and \$4,569 in lost investment income, to the FEHBP, was provided to the FEP Director's Office on December 22, 2010.

To enhance the accuracy of Fraud Recoveries, the Plan included a review of fraud recovery activity as part of its 2011 Compliance Audit plan."

The Association also states that the Plan will work with the FEP Director's Office to monitor all refunds on a quarterly basis to ensure that they are returned to the FEHBP timely in the future.

**OIG Comments:**

Based on our review of the Association's response and additional documentation provided by the Plan, we revised the amount questioned from the draft report to \$310,615. Subsequent to receiving the Association's response, the Plan provided additional documentation supporting agreement with \$224,790 and disagreement with \$85,825 of the revised questioned amount. The Plan disagreed with this amount because they were either unable to provide additional information or stated that the information provided was sufficient. We will continue to question this amount until the Association and/or Plan provide adequate documentation supporting the return of these recoveries to the FEHBP.

As part of our review, we verified that \$37,240 of the questioned fraud recoveries and \$2,999 of the questioned LII were returned to the FEHBP.

**Recommendation 10**

Since we verified that \$37,240 of the questioned fraud recoveries were returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 11**

We recommend that the contracting officer verify that the Plan credits the FEHBP \$265,210 for the remaining questioned fraud recoveries.

**Recommendation 12**

Since we verified that \$2,999 of the questioned LII was returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 13**

We recommend that the contracting officer verify that the Plan credits the FEHBP \$5,166 for the remaining questioned LII on fraud recoveries that were deposited untimely into the FEP investment account.

**Recommendation 14**

We recommend that the contracting officer have the Association verify that the Plan implemented procedures to ensure that fraud recoveries are returned to the FEHBP in a timely manner.

## 5. Subrogation Recoveries

**\$69,041**

The Plan did not support the return of, or return timely, \$56,687 in subrogation recoveries and \$12,354 in LII to the FEHBP. Subsequent to March 27, 2009, the Plan returned \$63,968 of the questioned amount to the FEHBP, consisting of \$56,687 for subrogation recoveries and \$7,281 for LII on recoveries deposited untimely into the FEP investment account. As a result, the FEHBP is still due \$5,073 for LII.

As previously stated under audit finding A1, the Plan is required to promptly return subrogation recoveries to the FEHBP with applicable LII. Also, the carrier must retain and make available all records applicable to a contract term.

For the period January 1, 2006 through June 30, 2009, we identified 19,312 subrogation recoveries, totaling \$52,612,643, for the WellPoint, Inc. plans. From this universe, we selected and reviewed a judgmental sample of 240 subrogation recoveries, totaling \$11,169,818, to determine whether the Plan timely returned these recoveries to the FEHBP. For each of the individual plans, if total recoveries were greater than \$5 million, we selected the 30 highest dollar recoveries for review; if less than \$5 million and greater than \$3 million, we selected the 20 highest dollar recoveries for review; and, if less than \$3 million, we selected the 10 highest dollar recoveries for review.

Based on our review, we noted the following exceptions:

### Subrogation Recoveries Returned Untimely After Audit Notification

The Plan untimely deposited two subrogation recoveries, totaling \$31,461, into the FEP investment account before returning the funds to the LOCA. These recoveries were deposited into the FEP investment account 1,142 days late. The Plan also returned \$3,199 in LII to the FEHBP for these recoveries. Although the Plan returned these recoveries and applicable LII to the FEHBP, we are considering this as a monetary finding since the Plan returned the recoveries to the FEP investment account and/or LOCA 360 days after receiving our audit notification letter and standard information request (dated March 27, 2009). Also, due to a variance in the Plan's LII calculation method, the FEHBP is due an additional \$1,784 in LII for funds deposited untimely into the FEP investment account.

These subrogation recoveries were part of a batch that included an additional \$8,176 that was deposited untimely into the FEP investment account. The Plan also returned \$831 in LII to the FEHBP on these recoveries. Although the Plan returned these funds, we are considering this as a monetary finding as previously noted above. In addition, due to a variance in the Plan's LII calculation method, the FEHBP is due an additional \$464 in LII for funds deposited untimely into the investment account.

### Subrogation Recoveries – No Provider Offset

In one instance, the Plan did not return a subrogation recovery of \$17,050 to the FEHBP. The Plan originally intended to return this recovery through the recoupment process. However, the recoupment was set up under an identification number that the provider was no longer using. As of June 30, 2010, the Plan intended to recoup the funds under the provider's correct identification number but had not yet recovered the funds. We did not assess LII on this recovery since the Plan did not hold the FEHBP funds.

### Subrogation Recoveries Returned Untimely Before Audit Notification

The Plan returned eight subrogation recoveries untimely to the FEHBP. For one of these recoveries, the Plan did not return \$3,251 in LII to the LOCA until 486 days after the date of our audit notification letter (March 27, 2009). Therefore, we questioned the total LII for this recovery. For the remaining seven recoveries, we determined that because of a variance in the Plan's calculation method, additional LII of \$610 is due the FEHBP.

Of these eight subrogation recoveries, two of them were part of a batch of recoveries. Although the Plan calculated LII on these recoveries, the Plan did not return the LII to the LOCA. Therefore, \$2,215 is due to the FEHBP on the batch where LII was not returned to the LOCA.

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

In response to the amount questioned in the draft report, the Association agrees with \$48,188 (\$39,637 in subrogation recoveries plus \$8,551 in LII) and disagrees with \$20,868 (\$17,050 in subrogation recoveries plus \$3,818 in LII).

The Association states, "The Plan disagreed with \$17,050 based on the facility had been Non-Par since 2005. The Plan identified the overpayment and sent four letters to the provider. This activity demonstrates the Plans' due diligence to obtain overpayment from the provider. On January 5, 2011, the Plan provided documentation to support the receipt of \$17,050 from its provider, on November 23, 2010. . . .

The payments were good faith erroneous benefits payments and fall within the context of CS 1039, Section 2.3(g). . . . Because these are good faith erroneous payments, they are not subject to lost investment income.

The Plan notes that 3 of the 11 findings were the result of subrogation recoveries processed on a legacy system no longer utilized; as a result the documentation to support the return of the funds to the Program was not available."

Regarding the contested LII, the Association states, "As of July 1, 2010, the Plan changed their lost investment income calculation to take into consideration semi-annual rate changes. Prior to July 1st LII was calculated based on the current Treasury rate which

resulted in incorrect LII calculations for the audit scope and additional LII due the FEHBP.”

**OIG Comments:**

Based on our review of the Association’s response and additional documentation provided by the Plan, we determined that the Association and/or Plan agree with \$48,174 (\$39,637 in subrogation recoveries plus \$8,537 in LII) and disagree with \$20,867 (\$17,050 for a subrogation recovery plus \$3,817 in LII) of the questioned amount.

We verified that the Plan returned the contested subrogation recovery of \$17,050 to the FEHBP on December 1, 2010. However, we are continuing to question this amount as a monetary finding since the Plan did not provide documentation to support its alleged good faith efforts to recover these funds during the audit scope. We also verified that the Plan returned the contested LII of \$3,817 to the LOCA. However, \$3,215 of the contested LII was not returned to the FEHBP until July 26, 2010, or 486 days after receiving our audit notification letter (dated March 27, 2009). Therefore, we are continuing to question this LII amount as a monetary finding.

After reviewing documentation provided by the Association and Plan, we were unable to verify that \$5,073 of the uncontested LII was returned to the FEHBP.

**Recommendation 15**

Since we verified that \$56,687 of the questioned subrogation recoveries were returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 16**

Since we verified that \$7,281 of the questioned LII was returned to the FEHBP, no further action is required for this questioned amount.

**Recommendation 17**

We recommend that the contracting officer verify that the Plan credits the FEHBP \$5,073 for the remaining questioned LII on subrogation recoveries that were deposited untimely into the FEP investment account.

**6. Unidentified Refunds \$8,045**

The Plan had not returned four unidentified refunds of \$7,697 to the FEHBP as of January 6, 2010. Subsequent to this date, the Plan returned these unidentified refunds to the FEHBP. However, the FEHBP is still due LII of \$348 on these refunds.

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

For the period 2006 through June 30, 2009, there were 1,097 unidentified refunds, totaling \$19,142 (net), for the Virginia plan. This universe included both unidentified refunds that were allocated to the FEP and refund adjustments that were subsequently identified as non-FEP. From this universe, we judgmentally selected and reviewed a sample of 25 unidentified refunds or adjustments, totaling \$8,943 (net), for the purpose of determining whether the Plan correctly allocated and promptly returned these funds to the FEHBP, or properly made adjustments for non-FEP refunds. Our sample included all dollar refunds or adjustments of \$1,000 or more.

Based on our review, we determined that the Plan did not return four unidentified refunds, totaling \$7,697, to the FEHBP as of January 6, 2010 (date of our audit information request). Subsequent to this date, the Plan returned these unidentified refunds to the FEHBP. However, the FEHBP is still due LII of \$348 on these refunds.

**Association's Response:**

The Association agrees with this finding. The Association states, "The OIG verified that \$7,697 had been returned to the FEHBP. Documentation to support the return of \$348 in lost investment income will be submitted by January 31, 2011.

In addition, the Plan is currently drafting a policy that will document the Virginia unidentified refund process and strengthen internal controls."

**OIG Comments:**

The Association did not provide adequate documentation to support that it returned LII of \$348 to the FEHBP.

**Recommendation 18**

Since we verified that the Plan returned \$7,697 to the FEHBP for the questioned unidentified refunds, no further action is required for this questioned amount.

**Recommendation 19**

We recommend that the contracting officer verify that the Plan credited the FEHBP \$348 for LII on the questioned unidentified refunds.

## **B. ADMINISTRATIVE EXPENSES**

### **1. Sale and Leaseback**

**\$699,717**

The Plan did not properly charge costs incurred under sale and leaseback arrangements, resulting in net overcharges of \$699,717 to the FEHBP. Specifically, this amount includes \$727,134 for rental cost overcharges, \$99,936 in undercharges due to losses from the sale of buildings, and \$72,519 for LII.

48 CFR 31.205-16(a) states, “Gains and losses from the sale, retirement, or other disposition . . . of depreciable property shall be included in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to those assets was included . . . .”

48 CFR 31.205-36(b) states, “The following costs are allowable . . . (2) Rental costs under a sale and leaseback arrangement only up to the amount the contractor would be allowed if the contractor retained title, computed based on the net book value of the asset on the date the contractor becomes a lessee of the property adjusted for any gain or loss recognized in accordance with 31.205–16(b).”

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.”

For the period 2004 through 2008, four WellPoint, Inc. plans (California, Connecticut, New Hampshire, and Virginia) participated in sale and leaseback arrangements. Based on our initial review of cost records, we found that these plans did not make the necessary true-up adjustments to be in compliance with 48 CFR 205-36(b)(2) until submitting their 2008 annual cost filings in March 2009. During our on-site survey visit, we conducted an overview meeting on November 10, 2009 to gain an understanding of the Plan’s cost accounting system, which included the Plan’s sale and leaseback arrangements. At the meeting, the Plan stated that it was in the process of completing additional sale and leaseback true-up adjustments. Subsequently, we requested that the Plan provide all documentation supporting these true-up calculations.

The following summarizes our review of the Plan’s documentation:

- The Plan overcharged the FEHBP \$727,134 for rental costs from 2004 through 2008, consisting of \$478,486 in overcharges for 2004 through 2007 true-up adjustments and \$248,648 in overcharges for corrections to its 2008 true-up calculations.
- The Plan is due \$99,936 for losses on the sale of buildings in 2004 and 2007.

After receiving our audit notification letter on March 27, 2009 and subsequent to our on-site survey visit in November 2009, the Plan returned \$578,679 (net) to the FEHBP on various dates from December 29, 2009 through April 14, 2010, via prior period adjustments for the California, Connecticut, and Virginia plans. However, we were unable to verify if the Plan returned \$48,519 to the FEHBP for the New Hampshire plan's true-up adjustments.

In addition, the Plan calculated and returned \$72,519 for LII on the funds returned to the FEHBP for the California, Connecticut, and Virginia plans. We reviewed the Plan's LII calculation and agree with this amount. In Schedule C of this report, we calculated LII on the \$48,519 in adjustments for the New Hampshire plan.

We acknowledge the Plan's actions to appropriately calculate the sale and leaseback costs for 2004 through 2007, as well as identifying the 2008 calculation error. Nevertheless, these overcharges had not been returned to the FHEBP prior to our audit notification letter, dated March 27, 2009, or the start of our on-site survey visit in November 2009.

**Association's Response:**

The Association agrees with this finding. The Association states that "the Plan had returned, to the FEHBP, \$578,679 on various dates . . . as well as, \$72,519 in lost investment income. In addition, the Plan submitted a Prior Period Adjustment, related to the New Hampshire 2005 through 2007 costs incurred under the sale and leaseback arrangements, on November 17, 2010, in the amount of \$48,519. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010."

The Association also states that the Plan has implemented procedures to ensure compliance with the January 31, 2010 Sale and Leaseback Agreement between OPM and the FEP Director's Office.

**Recommendation 20**

Since we verified that the Plan returned \$578,679 (net) to the FEHBP for the questioned sale and leaseback charges for the California, Connecticut, and Virginia plans, no further action is required for these questioned charges.

**Recommendation 21**

Since we verified that the Plan returned \$72,519 to the FEHBP for LII on the questioned sale and leaseback charges for the California, Connecticut, and Virginia plans, no further action is required for this LII amount.

## **Recommendation 22**

We recommend that the contracting officer disallow \$48,519 for sale and leaseback overcharges by the New Hampshire plan and verify that these funds were returned to the FEHBP.

### **2. 2006 Allocation Error and Cost Center Adjustments \$655,790**

Due to an allocation weighting error, the Plan did not correctly allocate certain BCBS plans' administrative expenses to the FEP in 2006. The Plan identified this allocation error in May 2007 and after completing a detailed analysis to determine the full extent of the error, the Plan subsequently returned, on various dates in July and October of 2009, \$4,553,686 (net) in overcharges and \$580,372 in LII to the FEHBP. However, neither the FEP Director's Office (FEPDO) nor OPM were aware of this error during the time period that the Plan performed this analysis. Although there are no specific contract requirements or regulations on how to handle this type of situation, it is our position that the Plan should have notified the FEPDO and/or OPM of this error due to the dollar impact on the FEHBP and length of time taken to correct this error.

In addition, when revising the cost filings to correct the above allocation weighting error, the Plan made additional adjustments to charge or remove allowable/unallowable cost centers, resulting in an additional cost reduction of \$590,891 (net) to the FEHBP. The Plan also determined that the FEHBP was due LII for these cost center overcharges, however, only calculated \$64,899 for 3 of 11 plans because these plans had remaining overcharges after netting each plan's allocation error with the cost center adjustments.<sup>4</sup> Subsequent to receiving our audit notification letter on March 27, 2009, the Plan submitted prior period adjustment (PPA) forms to return \$655,790 to the FEHBP for these cost center overcharges and LII. Since the Plan did not identify and make these adjustments until after receiving our audit notification letter, we consider this issue to be a monetary finding.

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."

Contract CS 1039, Part III, section 3.2 (b)(1) states, "The Carrier may charge a cost to the

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<sup>4</sup> In Schedule C of this report, we questioned additional LII, from 2007 through June 30, 2009, on the remaining eight WellPoint, Inc. plans that had cost center overcharges prior to the Plan netting amounts against undercharges for the 2006 allocation error.

contract for a contract term if the cost is actual, allowable, allocable, and reasonable.”

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.”

While reviewing FEP’s 2006 cost filings in May 2007, the Plan noticed that FEP’s 2006 administrative costs for BlueCross of California (CA) increased by \$5.6 million over the previous year (2005), and then subsequently found that costs for Empire BlueCross BlueShield (NY) also increased by \$1 million. The Plan determined that these increases to FEP’s expenses were because of a statistical adjustment in membership weighting that was needed in the cost system for FEP’s CA and NY memberships. Since CA and the greater part of NY only administer BlueCross (hospital claims) products, these plans should have been allocated costs using a weighted membership statistic for their indirect cost pools to reflect only the processed hospital claims.

In December 2007, the Plan requested that its Financial Data and Systems Management (FDSM) team create a detailed allocation database for years 2006 and 2007 with cost allocations reflecting the weighted memberships for CA and NY. The Plan also set up an administrative cost reserve of \$3.6 million with the understanding that FEP’s CA 2006 cost filing was \$2 million under reimbursed.

In February 2008, FDSM completed the 2007 revised weighted database, and after detailed testing, the Plan used this database to submit the 2007 cost filings. By implementing a statistical change to FEP’s CA and NY memberships, the Plan also found that the redistribution of indirect costs impacted other FEP plans’ filed administrative expenses.

In October 2008, the Plan completed the 2006 revised weighted database but did not complete the detailed testing of this database until December 2008. In May/June 2009, the Plan completed its review, revised its 2006 cost submissions, and submitted PPA forms, totaling \$5,144,577, to correct this allocation error and other errors subsequently identified. The PPA forms submitted by the Plan covered the following issues:

- 2006 Allocation Weighting Error – The Plan determined that it overcharged the FEHBP \$4,553,686 (net) in 2006 based on the redistribution of indirect costs using the membership weighting method.

Due to a lack of guidance given to the BCBS plans on how and when to communicate material administrative expense issues to the FEPDO and OPM, the Plan did not disclose this material allocation error until after receiving our audit notification letter on March 27, 2009. Although the Plan stated that it originally notified an Association

account executive about this issue via a telephone conversation in 2009, this issue was not documented between the Plan and FEPDO until an April 18, 2009 email, nearly two years after the issue was identified, when the Plan requested assistance from the FEPDO to process 24 PPA forms to return the funds to the FEHBP. During this two-year period, the Plan had opportunities to disclose this allocation error to the FEPDO, such as when the FEPDO conducted its 2007 Control and Performance Review (CPR) of the Plan's 2006 filed costs. Although this CPR review included the CA plan, we noted that there was no disclosure of this allocation error in the report.

- Cost Center Adjustments – The Plan made adjustments, not related to the above allocation weighting error, to charge or remove allowable/unallowable cost centers, resulting in an additional cost reduction of \$590,891 (net) to the FEHBP. Specifically, the Plan reduced FEP's 2006 costs by excluding 29 unallowable cost centers, totaling \$793,771, and including 4 allowable cost centers, totaling \$202,880.

Notwithstanding the Plan's attempt to report actual costs, these cost centers should have been adjusted according to their expressed (un)allowability, per Federal regulations, before the Plan reported its original 2006 FEP cost filings. The Plan did not identify or make these adjustments until after receiving our audit notification letter on March 27, 2009.

We reviewed documentation supporting the above PPA's and verified that the FEHBP was overcharged a total of \$5,144,577. Therefore, we accept the Plan's amounts. In July and October 2009, the Plan also deposited a total of \$645,271 into the FEP investment account for LII calculated on the above overcharges. Correspondingly, we attribute LII of \$580,372 to the 2006 allocation error and \$64,899 to the net cost center overcharges on three plans.

In summary, we are not questioning the overcharges due to the 2006 allocation weighting error since the Plan identified this error before receiving our audit notification letter and subsequently returned the funds to the FEHBP. However, we are questioning procedurally how the Plan handled the communication of this allocation error with the FEPDO and OPM. Although, there are no specific contract requirements regarding notification of this type of error, it is our position that the Plan should have notified the FEPDO and/or OPM of this error due to the dollar impact on the FEHBP and length of time the Plan took to correct this error. As a dollar finding, we are questioning \$590,891 in net overcharges and \$64,899 in LII for the additional adjustments the Plan made to charge or remove allowable/unallowable cost centers. These cost centers were not directly related to the 2006 allocation weighting error and should have been adjusted by the Plan long before receiving our audit notification letter.

**Association's Response:**

The Association disagrees with this finding. The Association states, "During the process of correcting the 2006 allocation weighting issue, a thorough review was performed on cost center allowability. This review identified cost centers that were previously charged to the program that should not have been and vice versa. These corrections and the 2006 weighting adjustments were netted in the Prior Period Adjustments (PPAs) that were submitted in July 2009. These cost center adjustments did not prevent the Plan from meeting its obligation under the CS1039 contract. The Plan followed the proper procedure by notifying both parties through the Prior Period Adjustment process by submitting the Prior Period Adjustments within the five-year limitation period.

In order to improve communications with the Director's Office on conveying errors, the Plan added the following requirement to their Cost Filing Policy: The Plan will notify the Director's Office of any known errors in excess of \$500,000 within 3 business days of identification."

**OIG Comments:**

We acknowledge the Plan's thorough review performed on cost center allowability during the process of correcting the 2006 allocation weighting issue. However, it is our position that the Plan should have performed this thorough review and adjusted these cost centers prior to filing its 2006 costs, and not more than two years later (July 2009) and after receiving our audit notification letter on March 27, 2009. Also, these cost centers were not directly related to the 2006 weighting error and should have been timely adjusted as a separate issue.

**Recommendation 23**

We recommend that the contracting officer ensure that the Plan implements procedures to timely notify the FEP Director's Office and/or OPM when administrative expense errors occur that significantly impact the FEHBP.

**Recommendation 24**

Since we verified that the Plan returned \$590,891 (net) to the FEHBP for unallowable charges, no further action is required for these questioned charges.

**Recommendation 25**

Since we verified that the Plan returned \$64,899 to the FEHBP for LII on the questioned unallowable charges, no further action is required for this LII amount.

### 3. Unallowable and/or Unallocable Expenses

**\$468,993**

The Plan charged the FEHBP for eight unallowable and/or unallocable cost centers and did not credit the FEHBP for two natural accounts with credit balances, resulting in overcharges of \$468,993 to the FEHBP.

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

48 CFR 31.201-5 states, "The applicable portion of any income, rebate, allowance, or the 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."

For the period 2006 through 2008, the Plan allocated administrative expenses of \$579,725,469 (before adjustments) to the FEHBP from 2,884 cost centers and 656 natural accounts (totals include all WellPoint, Inc. plans for each year in the audit scope). From this universe, we selected a judgmental sample of 89 cost centers to review, which totaled \$96,136,733 in expenses allocated to the FEHBP. We also selected a judgmental sample of 25 natural accounts to review, which totaled \$33,263,630 in expenses allocated to the FEHBP. We selected the cost centers based on high dollar amounts, our nomenclature review, and high dollar allocation methods, and the natural accounts based on our nomenclature review. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. Also, we reviewed an additional seven cost centers and two natural accounts that were identified through nomenclature review while completing other audit sections.

Based on our review, we determined that the Plan charged the following expenses to the FEHBP that were expressly unallowable, and/or did not benefit the FEHBP or only minimally benefited the FEHBP:

<u>Cost Center Number</u>	<u>Cost Center Name</u>	<u>Reason for Questioning</u>	<u>Amount Charged</u>
5502112000	Legal - Corporate Services	Unallowable	\$274,638
5500136100	Special Inquiries Unit	Unallocable	81,179
5212054800	Client Communications	Unallowable	43,296
5500041600	Case Management - Cleveland	Unallocable	17,489
5500041600	Case Management - Columbus	Unallocable	11,252
5212013500	Marketing Administration - Missouri	Unallowable	10,395
5500041600	Case Management - Yorktown	Unallocable	1,561
5360055500	Investor Relations	Unallowable	895
			<u>\$440,705</u>

In regard to the questioned costs charged to the FEHBP, 48 CFR 31.205-1 (public relations and advertising costs), 48 CFR 31.205-33 (professional and consultant service), and 48 CFR 31.205-47 (costs related to legal and other proceedings) provide specific

criteria to the extent which such costs are chargeable. Based on our review of the Plan’s documentation, the above costs charged to the FEHBP did not comply with the federal regulations. As a result, the FEHBP is due \$440,705 for these unallowable and/or unallocable cost center expenses charged to the FEHBP.

In addition, we found that during the Plan’s process of removing unallowable costs charged to the FEHBP, the Plan incorrectly decreased the FEP’s total unallowable account balance by including two allowable natural accounts that had credit balances.

Consequently, the credit balances reduced the unallowable account expense, and the FEHBP did not benefit from the following natural account credits:

<u>Natural Account</u>		<u>Amount</u>
<u>Number</u>	<u>Natural Account Name</u>	<u>Not Credited</u>
699060	Miscellaneous Expense Purchase Discount “CN”	\$26,303
699065	Cafeteria Sales - Taxable	<u>1,985</u>
		<u>\$28,288</u>

In total, the FEHBP is due \$440,705 for the eight unallowable and/or unallocable cost centers that were charged to the FEHBP and \$28,288 for the two allowable natural accounts with credit balances that were not credited to the FEHBP. These exceptions resulted in administrative expense overcharges of \$468,993 to the FEHBP.

**Association’s Response:**

The Association agrees with this finding. The Association states, “The Plan submitted a Prior Period Adjustment on November 17, 2010, in the amount of \$468,993. The FEP Director’s Office received a wire transfer, for the same amount, on December 8, 2010.

To reduce the possibility of this occurring in the future, the Plan will continue to review cost center allocations monthly as well as perform a final review prior to submitting the annual cost filing. The Plan will ensure that the unallowable cost centers and expenses in the finding above will be corrected in the years going forward.”

**Recommendation 26**

We recommend that the contracting officer disallow \$468,993 for administrative expense overcharges and verify that these funds were returned to the FEHBP.

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

**\$177,756**

The Plan overcharged the FEHBP \$177,756 for post-retirement benefit (PRB) costs in 2006 and 2008.

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

48 CFR 31.205-6(o)(2) states, “To be allowable, PRB costs must be reasonable and incurred pursuant to law, employer-employee agreement, or an established policy of the contractor. In addition, to be allowable, PRB costs must also be calculated in accordance with paragraphs (o)(2)(i), (ii), or (iii) of this subsection.”

For 2006 through 2008, the Plan charged \$2,968,296 to the FEHBP for PRB costs. The Plan used both cash (pay as you go) and accrual accounting to charge PRB costs to the FEHBP. We reviewed the Plan’s calculations of PRB costs chargeable to the FEHBP for all of the WellPoint, Inc. plans and determined if these costs were calculated in accordance with 48 CFR 31.205-6(o)(2). Based on our review, we determined that the Plan overcharged the FEHBP \$177,756 for PRB costs.

The following summarizes the exceptions noted:

- The Plan did not make a Voluntary Employee Benefit Association (VEBA) true-up adjustment for 2006 PRB costs, resulting in overcharges of \$161,080 to the FEHBP.
- The Plan inadvertently used the 2007 active associates’ total to allocate the 2008 VEBA costs to the FEHBP, resulting in overcharges of \$16,676 to the FEHBP.

#### **Association’s Response:**

The Association agrees with this finding. The Association states, “The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$177,756. The FEP Director’s Office received a wire transfer, in the same amount, on December 8, 2010.”

The Association also states that the Plan corrected the PRB schedules. In addition, the Plan reviewed the true-up process to ensure the accuracy of the data being used and will perform continued internal reviews to ensure compliance.

#### **Recommendation 27**

We recommend that the contracting officer disallow \$177,756 for PRB cost overcharges and verify that these funds were returned to the FEHBP.

## **5. Employee Benefits Review**

**\$60,100**

The Plan overcharged the FEHBP \$60,100 for employee benefit expenses in 2008 due to a clerical error within the Plan's long term disability calculation.

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

In general, employee benefits are indirect and non-cash compensation paid to an employee. For our audit testing, the employee benefits consists of health, dental, vision, term life and accidental death and dismemberment, long term disability, 401(k), deferred compensation match, supplemental executive retirement plan, post-employment medical, and other fringe benefits. Since we conducted separate audit tests for pension and post-retirement benefit costs, we did not include these costs in our audit universe of employee benefit expenses.

For the period 2006 through 2008, the Plan charged the FEHBP \$40,531,456 for employee benefits expenses. Of this total, \$1,034,202 were identified as long term disability expenses. We judgmentally selected the two WellPoint, Inc. plans and/or plan groupings with the highest employee health benefit expenses (Midwest<sup>5</sup> and Virginia), for each year in the audit scope, to determine whether the Plan properly charged the FEHBP. Our employee benefit expense sample totaled \$18,157,227, of which \$458,856 were long term disability expenses.

Based on our review, the Plan properly charged costs to the FEHBP with one exception. While gathering documentation to support our audit requests, the Plan informed us that there was a clerical error within the Plan's long term disability calculation for 2008. Instead of long term disability expenses being reduced by employees' contributions/withholdings, these expenses were offset against an incorrect spreadsheet cell. We verified this exception and agreed with the Plan. As a result of this error, the FEHBP was overcharged \$60,100 for employee benefit expenses in 2008.

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

The Association agrees with this finding. The Association states, "The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$60,100. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010."

The Association also states that the Plan has reviewed and updated the employee benefit expense true-up schedules to ensure that the correct data is being pulled into the calculation, as well as implemented checks and balances to enhance the operational process. In addition, the Plan will perform continued internal reviews to ensure compliance.

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<sup>5</sup> Midwest includes the Indiana, Kentucky, and Ohio plans.

## **Recommendation 28**

We recommend that the contracting officer disallow \$60,100 for employee benefit expense overcharges and verify that these funds were returned to the FEHBP.

### **6. BlueCross BlueShield Association Dues \$4,336**

The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and OPM regarding dues chargeability. As a result, the FEHBP was overcharged \$4,336 for Association dues in 2007.

FEP Memorandum #09-08PI (Memorandum), entitled BCBSA Regular Member Plan Dues and Other Assessments: 2004-2009, dated February 1, 2009, provides guidance to the BCBS plans with respect to charging the FEHBP for Association dues. The Memorandum also includes the methods acceptable for computing the amount of dues that can be charged to the FEHBP.

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

To determine the reasonableness of the amounts charged to the FEHBP, we reviewed each year within the audit scope and recalculated FEP's share of the Association dues in accordance with the methods outlined in the Memorandum. We found that the Plan overcharged the FEHBP \$4,336 in 2007 for Association dues in 2007. The above error occurred because the Plan used an allowability factor of 82.25 percent instead of the correct factor of 81.70 percent.

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

The Association agrees with this finding. The Association states, "The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$4,336. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010."

To minimize these types of errors, the Association states that the Plan will verify the appropriate allowability factor on the FEP Director's Office BlueWeb site to ensure the correct percentage is used to exclude unallowable expenses. Also, the Plan will perform continued internal reviews to ensure compliance.

## **Recommendation 29**

We recommend that the contracting officer verify that the Plan returned \$4,336 to the FEHBP for Association dues overcharged to the FEHBP.

**7. Out-of-System Adjustments**

**\$3,315**

The Plan did not correctly calculate a 2006 out-of-system adjustment (OSA), resulting in an overcharge of \$3,315 to the FEHBP.

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

For the period 2006 through 2008, the Plan made 86 OSA's totaling \$2,115,328 in net credit adjustments to the FEHBP. From this universe, we selected and reviewed a judgmental sample of nine OSA's, totaling \$3,178,474 in net credit adjustments, for the purpose of determining whether the Plan properly charged or credited these adjustments to the FEHBP.<sup>6</sup> From each year in the audit scope, we selected the three highest dollar OSA's (charges or credits) to review, excluding adjustments that were reviewed in our other audit sections.

Based on our review, we determined that the Plan did not correctly calculate a 2006 OSA for all of the WellPoint, Inc. plans. The Plan made this adjustment to remove "Health Maintenance Organization" and other unallowable field service costs from the FEP line of business. However, when making this OSA, the Plan used salary amounts from its old 2006 database instead of salary amounts from its corrected database, which was revised due to a membership weighting adjustment. As a result of this oversight, the Plan incorrectly calculated the OSA and overcharged the FEHBP \$3,315.

**Association's Response:**

The Association agrees with this finding. The Association states, "The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$3,315. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010."

**Recommendation 30**

We recommend that the contracting officer verify that the Plan returned \$3,315 to the FEHBP for an OSA overcharge.

**8. Limits on Executive Compensation**

**(\$36,421)**

The Plan undercharged the FEHBP \$36,421 (net) for executive compensation. Specifically, the Plan undercharged the FEHBP \$39,980 in 2007 and overcharged the FEHBP \$3,559 in 2008.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a

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<sup>6</sup> Our sample amount exceeded the universe amount because more credit adjustments than charges were selected for review.

benchmark amount established each year by the Office of Federal Procurement Policy. Beginning in 1999, this limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or not the home office or segment reports directly to the Plan's headquarters. The benchmark compensation amounts were \$546,689 in 2006, \$597,912 in 2007, and \$612,196 in 2008.

For the period 2006 through 2008, the Plan charged the FEHBP \$943,720 for executive compensation across all of the WellPoint, Inc. plans. From this universe, we judgmentally selected three of the plans and/or plan groupings (Georgia, Midwest, and Virginia) with executive compensation expenses totaling \$568,002, and determined if the executive compensation amounts were limited to the amounts set forth in 48 CFR 31.205-6(p). Our sample included the plans with the highest executive compensation expenses for each year in the audit scope.

Based on our review, we found that the Plan undercharged the FEHBP \$36,421 (net) for executive compensation. This net amount includes the three plans in our sample and the other WellPoint, Inc. plans affected by the identified errors. Specifically, the Plan undercharged the FEHBP \$39,980 in 2007 by using incorrect percentages to allocate executive compensation expenses for cost center number 5502110200. In 2008, the Plan overcharged the FEHBP \$3,559 by using an incorrect executive compensation amount for cost center number 5502111500.

**Association's Response:**

The Association agrees with this finding. The Association states, "The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$36,421 (undercharge)."

The Association also states that the Plan has updated the executive compensation calculation to reflect the correct percentages. In addition, the Plan will review the true-up process to ensure the accuracy of the data being used and will perform continued internal reviews to ensure compliance.

**Recommendation 31**

We recommend that the contracting officer verify that the Plan returned \$3,559 to the FEHBP for executive compensation overcharges in 2008.

**Recommendation 32**

We recommend that the contracting officer allow the Plan to charge the FEHBP an additional \$39,980 for executive compensation undercharges in 2007.

**C. CASH MANAGEMENT**

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

**D. LOST INVESTMENT INCOME ON AUDIT FINDINGS** **\$160,547**

As a result of the audit findings presented in this report, the FEHBP is due LII of \$160,547 from January 1, 2007 through December 31, 2010.

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

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our computations show that the FEHBP is due LII of \$160,547 from January 1, 2007 through December 31, 2010 on questioned costs for contract years 2006 through June 30, 2009 (see Schedule C).

**Association's Response:**

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

**Recommendation 33**

We recommend that the contracting officer direct the Plan to credit \$160,547 (plus interest accruing after December 31, 2010) to the Special Reserve for LII on audit findings.

**IV. MAJOR CONTRIBUTORS TO THIS REPORT**

[REDACTED], Lead Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Auditor

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[REDACTED], Chief ([REDACTED])

[REDACTED], Senior Team Leader

SCHEDULE A

V. SCHEDULES

WELLPOINT, INC.  
MASON, OHIO

CONTRACT CHARGES

CONTRACT CHARGES*	2006	2007	2008	TOTAL
<b>A. HEALTH BENEFIT CHARGES**</b>				
CLAIM PAYMENTS	\$3,194,817,113	\$3,577,054,506	\$4,017,858,892	\$10,789,730,511
MISCELLANEOUS PAYMENTS AND CREDITS	13,679,582	15,270,948	30,895,069	59,845,599
<b>TOTAL</b>	<b>\$3,208,496,695</b>	<b>\$3,592,325,454</b>	<b>\$4,048,753,961</b>	<b>\$10,849,576,110</b>
<b>B. ADMINISTRATIVE EXPENSES**</b>				
ADMINISTRATIVE CHARGES	\$165,284,597	\$162,019,549	\$157,882,009	\$485,186,155
PRIOR PERIOD ADJUSTMENTS	0	4,828,330	1,095,828	5,924,158
BUDGET SETTLEMENT REDUCTION	0	(2,000,000)	0	(2,000,000)
BUDGET SETTLEMENT REVISION	1	0	0	1
<b>TOTAL</b>	<b>\$165,284,598</b>	<b>\$164,847,879</b>	<b>\$158,977,837</b>	<b>\$489,110,314</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$3,373,781,293</b>	<b>\$3,757,173,333</b>	<b>\$4,207,731,798</b>	<b>\$11,338,686,424</b>

\* This audit covered miscellaneous health benefit payments and credits from January 1, 2006 through June 30, 2009 and administrative expenses from 2006 through 2008.

\*\* Include all amounts reported in the Annual Accounting Statements under Plan codes 041 (California), 050/550 (Colorado), 060/560 (Connecticut), 100 (Georgia), 130/630 (Indiana), 160/660 (Kentucky), 180/680 (Maine), 241/741 (Missouri), 265/765 (Nevada), 270/770 (New Hampshire), 303/803/808 (New York), 332/339 (Ohio), 423/923 (Virginia), and 450/950 (Wisconsin).

## SCHEDULE B

WELLPOINT, INC.  
MASON, OHIO

## QUESTIONED CHARGES

AUDIT FINDINGS*	2006	2007	2008	2009	2010	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>						
1. Health Benefit Refunds	\$317,206	\$62,665	\$76,048	\$734,979	\$157,291	\$1,348,189
2. Health Benefit Refunds Aging Schedules	0	0	0	546,219	0	546,219
3. Provider Audit Recoveries	220,210	42,579	101,670	0	0	364,459
4. Fraud Recoveries	27,315	68,273	83,288	126,832	4,907	310,615
5. Subrogation Recoveries	(56)	42,519	0	20,300	6,278	69,041
6. Unidentified Refunds	0	0	0	8,008	37	8,045
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$564,675</b>	<b>\$216,036</b>	<b>\$261,006</b>	<b>\$1,436,338</b>	<b>\$168,513</b>	<b>\$2,646,568</b>
<b>B. ADMINISTRATIVE EXPENSES</b>						
1. Sale and Leaseback**	\$267,423	\$134,746	\$265,555	\$30,991	\$1,002	\$699,717
2. 2006 Allocation Error and Cost Center Adjustments	590,891	26,196	23,578	15,125	0	655,790
3. Unallowable and/or Unallocable Expenses	115,870	295,165	57,958	0	0	468,993
4. Post-Retirement Benefit Costs	161,080	0	16,676	0	0	177,756
5. Employee Benefits Review	0	0	60,100	0	0	60,100
6. BlueCross BlueShield Association Dues	0	4,336	0	0	0	4,336
7. Out-of-System Adjustments	3,315	0	0	0	0	3,315
8. Limits on Executive Compensation	0	(39,980)	3,559	0	0	(36,421)
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$1,138,579</b>	<b>\$420,463</b>	<b>\$427,426</b>	<b>\$46,116</b>	<b>\$1,002</b>	<b>\$2,033,586</b>
<b>C. CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>D. LOST INVESTMENT INCOME ON AUDIT FINDINGS</b>	<b>\$0</b>	<b>\$24,912</b>	<b>\$40,572</b>	<b>\$51,051</b>	<b>\$44,012</b>	<b>\$160,547</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$1,703,254</b>	<b>\$661,411</b>	<b>\$729,004</b>	<b>\$1,533,505</b>	<b>\$213,527</b>	<b>\$4,840,701</b>

\* We included some lost investment income (LII) within audit findings A1, A4, A5, A6, B1, and B2. LII was not applicable for findings A2 and A3. We also calculated additional LII in Schedule C for findings A1, A4, B1, and B2, as well as LII for the questioned costs (overcharges only) reported in findings B3 through B8.

\*\* We expanded our review of costs incurred under the Plan's sale and leaseback arrangements to cover 2004 and 2005. The amount questioned in 2006 includes an undercharge of \$29,089 for 2004, an overcharge of \$125,066 for 2005, and an overcharge of \$171,446 for 2006.

SCHEDULE C

WELLPOINT, INC.  
MASON, OHIO

LOST INVESTMENT INCOME CALCULATION

LOST INVESTMENT INCOME	2006	2007	2008	2009	2010	TOTAL
<b>A. QUESTIONED CHARGES (Subject to Lost Investment Income)</b>						
Miscellaneous Health Benefit Payments and Credits*	\$27,277	\$49,432	\$66,584	\$806,431	\$0	\$949,723
Administrative Expenses**	425,672	319,337	138,293	0	0	883,302
<b>TOTAL</b>	<b>\$452,949</b>	<b>\$368,769</b>	<b>\$204,877</b>	<b>\$806,431</b>	<b>\$0</b>	<b>\$1,833,025</b>
<b>B. LOST INVESTMENT INCOME CALCULATION</b>						
a. Prior Years Total Questioned (Principal)	\$0	\$452,949	\$368,769	\$204,877	\$806,431	
b. Cumulative Total	<u>0</u>	<u>0</u>	<u>452,949</u>	<u>821,718</u>	<u>909,871</u>	
c. Total	\$0	\$452,949	\$821,718	\$1,026,595	\$1,716,301	
d. Treasury Rate: January 1 - June 30	5.125%	5.250%	4.750%	5.625%	3.250%	
e. Interest (d * c)	\$0	\$11,890	\$19,516	\$28,873	\$27,890	\$88,169
f. Treasury Rate: July 1 - December 31	5.750%	5.750%	5.125%	4.875%	3.125%	
g. Interest (f * c)	\$0	\$13,022	\$21,057	\$22,178	\$16,122	\$72,379
<b>Total Interest By Year (e + g)</b>	<b>\$0</b>	<b>\$24,912</b>	<b>\$40,572</b>	<b>\$51,051</b>	<b>\$44,012</b>	<b>\$160,547</b>

\* Only some principal amounts of the audit findings for miscellaneous health benefit payments and credits on Schedule B are subject to lost investment income.

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



**BlueCross BlueShield  
Association**

An Association of Independent  
Blue Cross and Blue Shield Plans

January 10, 2011

[REDACTED], Group Chief  
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U.S. Office of Personnel Management  
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Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
202.942.1000

**Reference: OPM DRAFT AUDIT REPORT**  
**Anthem BlueCross BlueShield Plans (WellPoint)**  
Audit Report Number 1A-10-39-10-011  
(Dated November 8, 2010 and Received November 8, 2010)

Dear [REDACTED]:

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) concerning the WellPoint, Inc. BlueCross BlueShield Plans (14 Plans in total). Our comments concerning the findings in the report are as follows:

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

**1. Health Benefit Refunds \$1,348,189**

The Plan agreed that 59 refunds totaling \$564,868, banking errors totaling \$684,513 and Lost Investment Income (LII) totaling \$98,808 are due the FEHBP. OIG confirmed refunds totaling \$507,371 and lost investment income totaling \$7,378 have been returned to the Program. Documentation to support the return of \$27,932 was provided on December 22, 2010. The remaining refunds totaling \$29,565 and lost investment income, totaling \$85,803 will be submitted to the FEP Director's Office by January 31, 2011. The Virginia Plan's banking error in the amount of \$684,513 was resolved on June 2, 2010. The Plan submitted documentation to support the transfer of funds to the Program on December 22, 2010.

The Plan noted that 11 of the 59 items questioned were the result of Health Benefit Refunds processed on a legacy system during 2007 that is no longer utilized. The Plan has implemented the following action plan:

- Beginning August 1, 2007 the Plan enhanced their Drawdown Review Process to include self review, peer review and management review. Two of the Virginia sample refund findings were prior to the enhanced review process and would have benefited from the Plan's strengthened internal controls.

- Beginning August 1, 2008 the Plan has detailed documentation to support the daily return of recoupment on the Virginia Plan. The sample finding, which was prior to August 2008, was the result of the Plan not being able to support the return of the recoupment due to insufficient detail.
- As of September 30, 2010 all working capital balancing reconciliations were brought current. The working capital balancing is a monthly reconciliation of the FEP Investment bank account balance to the working capital advance being held by the Plan. This balancing tracks both wire transfers to and from the WellPoint Corporate Bank Account and corresponding LOCA adjustments. Enhancements to this process include establishing a monthly due date for completion and aging any differences which allows for timely resolution of outstanding issues.

As of July 1, 2010, the Plan changed their lost investment income calculation to take into consideration semi-annual rate changes. Prior to July 1<sup>st</sup>, LII was calculated based on the current Treasury rate which resulted in incorrect LII calculations for the audit scope and additional LII due the FEHBP.

## **2. Fraud Recoveries**

**\$828,492**

The Plan agreed that \$214,790 in fraud recoveries and \$7,568 in Lost Investment Income was due to the FEHBP. The Plan disagrees that \$605,537 in fraud recoveries and \$597 in Lost Investment Income is due to the FEHBP. The Plan provided documentation to support the return of \$33,484 in fraud recoveries and \$2,999 in LII to the auditors while they were on-site. Documentation to support the return of \$181,306 in fraud recoveries and \$4,569 in lost investment income, to the FEHBP, was provided to the FEP Director's Office on December 22, 2010. Documentation to support contested fraud recoveries in the amount of \$605,537 and LII in the amount of \$597 was provided to the FEP Director's Office on December 22, 2010.

To enhance the accuracy of Fraud Recoveries, the Plan included a review of fraud recovery activity as part of its 2011 Compliance Audit plan. The objective of the compliance plan is to ensure controls are in place by developing written standards and procedures centering around the following areas: High Level Management Oversight; Due Care When Delegating Authority; Effective Communication; Auditing/Monitoring/Reporting; Enforcement and Discipline; Response and Prevention; Adhoc Reporting out of the Recovery System to Reduce audit findings and exposure. Further, we will be working with the BCBSA FEP Director's Office to monitor all refunds on a quarterly basis to ensure that they are returned to the Program timely in the future.

**3. Aging Health Benefit Refunds**

**\$575,427**

The Plan agreed with this finding. The Plan provided documentation to support the return of funds to the FEHBP for the questioned New York Plan refunds in the amount of \$54,376 (\$33,271 and \$21,105 on July 29, 2010 and August 5, 2010, respectively).

The Plan stated that the questioned Virginia and Georgia findings in the amount of \$521,051 had been returned to the LOCA through the standard refund process and notes nothing additional is due to the FEHBP. Subsequent to the Audit Inquiry, OPM auditors selected 20 refunds from the 991 questioned refunds and requested that the Plan provide documentation to support the return to the FEHBP, of any funds owed. The documentation was provided to the FEP Director's Office on December 22, 2010.

In addition, the Plan has implemented the following Action Plan:

- As of September 30, 2010 all working capital balancing reconciliations were brought current. The working capital balancing is a monthly reconciliation of the FEP Investment bank account balance to the working capital advance being held by the Plan. This balancing tracks both wire transfers to and from the WellPoint Corporate Bank Account and corresponding LOCA adjustments. Enhancements to this process include establishing a monthly due date for completion and aging any differences which allows for timely resolution of outstanding issues.
- For the audit scope, Georgia and Virginia refunds were returned to the FEHBP upon claim adjustment. Beginning January 1, 2011 Georgia refunds will be returned on a cash received basis and will be incorporated into the Plan's weekly refund process. Virginia cash receipts were moved to the Claim Overpayment Recovery System beginning July 1, 2010 and are now returned daily to the FEHBP. In addition to these changes, in November 2010, the FEP Director's Office began overseeing all Plans to ensure appropriate monitoring of aging refunds.

**4. Provider Audit Recoveries**

**\$364,459**

The Plan agrees that it did not timely make or support provider offsets for 12 provider audit recoveries. As a result, the FEHBP is due \$364,459. Documentation to support the return of funds totaling \$101,670 was provided to the OIG auditors during the audit. The Plan is still in the process of seeking documentation from its provider that will support that offsets were made in the amount of \$262,789. Documentation will be provided to the FEP Director's Office by January 31, 2011.

To enhance the timeliness of provider offset recoveries, the Plan included a review of provider offset activity as part of its 2011 Compliance Audit plan. The objective of the compliance plan is to ensure controls are in place by developing written standards and procedures centering around the following areas: High Level Management Oversight; Due Care When Delegating Authority; Effective Communication; Auditing/Monitoring/Reporting; Enforcement and Discipline; Response and Prevention; Adhoc Reporting out of the Recovery System to Reduce audit findings and exposure. Further, we will be working with the BCBSA FEP Director's Office to monitor this activity on a periodic basis to ensure that provider offsets are returned to the Program timely in the future.

5. **Subrogation Recoveries**

**\$69,056**

The Plan agrees that \$39,637 in subrogation recoveries and \$8,551 in Lost Investment Income is due the FEHBP but disagrees that \$17,050 in subrogation recoveries and \$3,818 in lost investment income is due the FEHBP. The OIG verified that \$39,637 in recoveries and \$7,281 in lost investment income had been returned to the FEHBP.

The Plan disagreed with \$17,050 based on the facility had been Non-Par since 2005. The Plan identified the overpayment and sent four letters to the provider. This activity demonstrates the Plans' due diligence to obtain overpayment from the provider. On January 5, 2011, the Plan provided documentation to support the receipt of \$17,050 from its provider, on November 23, 2010. Based on a recalculation of lost investment income on these recoveries, the Plan agreed that \$4,505 of the non-verified \$5,088, is due the FEHBP. Documentation to support the return of these funds will be provided by January 31, 2011.

The payments are good faith erroneous benefits payments and fall within the context of CS 1039, Section 2.3(g). Any benefit payments the Plan is unable to recover are allowable charges to the Program. In addition, as good faith payments, the Plan continues to initiate recovery in a timely manner. Because these are good faith erroneous payments, they are not subject to lost investment income.

The Plan notes that 3 of the 11 findings were the result of subrogation recoveries processed on a legacy system no longer utilized; as a result the documentation to support the return of the funds to the Program was not available.

As of July 1, 2010, the Plan changed their lost investment income calculation to take into consideration semi-annual rate changes. Prior to July 1<sup>st</sup> LII was calculated based on the current Treasury rate which resulted in incorrect LII calculations for the audit scope and additional LII due the FEHBP.

As of September 30, 2010 all working capital balancing reconciliations were

brought current. The working capital balancing is a monthly reconciliation of the FEP Investment bank account balance to the working capital advance being held by the Plan. This balancing tracks both wire transfers to and from the WellPoint Corporate Bank Account and corresponding LOCA adjustments. Enhancements to this process include establishing a monthly due date issues.

**6. Unidentified Refunds \$8,045**

The Plan agreed that \$7,697 in unidentified refunds and \$348 in Lost Investment Income is due the FEHBP. The OIG verified that \$7,697 had been returned to the FEHBP. Documentation to support the return of \$348 in lost investment income will be submitted by January 31, 2011.

In addition, the Plan is currently drafting a policy that will document the Virginia unidentified refund process and strengthen internal controls.

**B. ADMINISTRATIVE EXPENSES**

**1. Sale and Leaseback \$699,717**

The Plan agrees with this finding. The OIG verified that the Plan had returned, to the FEHBP, \$578,679 on various dates from December 29, 2009 through April 14, 2010, as well as, \$72,519 in lost investment income. In addition, the Plan submitted a Prior Period Adjustment, related to the New Hampshire 2005 through 2007 costs incurred under the sale and leaseback arrangements, on November 17, 2010, in the amount of \$48,519. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010.

The Plan further stated that:

- For the period 2004 through 2007, its position was that it took appropriate action to gather the information needed to appropriately calculate the sale/leaseback costs for the 2004 through 2007 period. These actions were already in process at the time the Plan received the audit notification letter in March 2009. Once the information was available, the Plan diligently pursued their analysis and promptly returned the appropriate funds and lost investment income to the program as stated above.
- The 2008 calculation error in the rental charges was identified by the Plan, rather than by the auditors. The error was discovered due to the Plan's continuous review process to ensure contractual compliance. The Plan demonstrated due diligence in promptly correcting the error and should not be penalized due to the timing of when the error was found or the issuance of the auditor's audit notification letter.

The Plan has implemented procedures have been implemented to ensure that the Plan is in compliance with the January 31, 2010 Sale and Leaseback Agreement between OPM and the FEP Director's Office.

**2. 2006 Allocation Error and Cost Center Adjustments \$655,790**

The Plan contests the entire finding of \$655,790 related to the 2006 allowable/unallowable adjustments. During the process of correcting the 2006 allocation weighting issue, a thorough review was performed on cost center allowability. This review identified cost centers that were previously charged to the program that should not have been and vice versa. These corrections and the 2006 weighting adjustments were netted in the Prior Period Adjustments (PPAs) that were submitted in July 2009. These cost center adjustments did not prevent the Plan from meeting its obligation under the CS1039 contract. The Plan followed the proper procedure by notifying both parties through the Prior Period Adjustment process by submitting the Prior Period Adjustments within the five-year limitation period.

In order to improve communications with the Director's Office on conveying errors, the Plan added the following requirement to their Cost Filing Policy: The Plan will notify the Director's Office of any known errors in excess of \$500,000 within 3 business days of identification.

**3. Unallowable and/or Unallocable Expenses \$468,993**

The Plan agrees with the Unallowable and/or Unallocable Expense finding of \$468,993. The Plan submitted a Prior Period Adjustment on November 17, 2010, in the amount of \$468,993. The FEP Director's Office received a wire transfer, for the same amount, on December 8, 2010.

To reduce the possibility of this occurring in the future, the Plan will continue to review cost center allocations monthly as well as perform a final review prior to submitting the annual cost filing. The Plan will ensure that the unallowable cost centers and expenses in the finding above will be corrected in the years going forward.

**4. Post Retirement Benefit Costs \$177,756**

The Plan agrees that the FEP Program was overcharged \$177,756 for Post Retirement Benefit (PRB) costs in 2006 and 2008. The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$177,756. The FEP Director's Office received a wire transfer, in the same amount, on

December 8, 2010.

To reduce the possibility of this occurring in the future, the Plan corrected the Post Retirement Benefit schedules. The Plan also reviewed the true-up process to ensure the correct data being used is accurate. The Plan will perform continued internal reviews to ensure program compliance.

**5. Employee Benefits Review \$60,100**

The Plan agrees with the finding that overcharged the FEHBP \$60,100 for employee benefits expenses in 2008. The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$60,100. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010.

The Plan implemented the following actions to minimize these types of errors in the future:

- The Plan has reviewed and updated the employee benefit expense true-up to ensure the correct data is pulling into the calculation. Checks and balances have been implemented to enhance the operational processes.
- The Plan will perform continued internal reviews to ensure program compliance.

**6. BlueCross BlueShield Association Dues \$4,336**

The Plan agrees with the finding that overcharged the FEHBP \$4,336 in 2007 for Association dues. The above error occurred because the Plan used an allowability factor of 82.25 percent instead of the correct factor of 81.70 percent. The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$4,336. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010.

The Plan will take the following actions to minimize these types of errors in the future:

- The plan will verify the appropriate allowability factor on the Director's Office BlueWeb site to ensure the correct percentage is used to exclude unallowable expenses.
- The Plan will perform continued internal reviews to ensure program compliance.

**7. Out-of-System Adjustments \$3,315**

The Plan agrees that it did not correctly calculate one 2006 out of system adjustment (OSA), resulting in an overcharge of \$3,315 to the Program. The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$3,315. The FEP Director's Office received a wire transfer, in the same amount, on December 8, 2010.

The Plan stated that the out of system adjustment above is related to the PPO directories and Field service calculation. Prior to 2007, the Field service area had to manually identify unallowable expense items within their cost centers. In 2007, Finance created separate cost centers for Field service unallowable expenses. The process to back out unallowable costs from each field service cost center was no longer needed and the entire "unallowable" cost center is now excluded.

**8. Limits on Executive Compensation (\$36,421)**

The Plan agrees with the finding that undercharged the FEHBP \$36,421 (net) for executive compensation. Specifically, the Plan undercharged the FEHBP \$39,980 in 2007 and overcharged the FEHBP \$3,559 in 2008. The Plan submitted a Prior Period Adjustment, on November 17, 2010, in the amount of \$36,421 (undercharge).

Plan has implemented the following Action Plan:

- The Executive Compensation calculation has been updated to reflect the correct percentages to allocate executive compensation expenses.
- The true-up process will be reviewed to ensure the correct data being used is accurate.
- The Plan will perform continued internal review to ensure program compliance.

**C. CASH MANAGEMENT**

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

[Redacted]

January 10, 2011  
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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.

[Redacted Signature]

Executive Director  
FEP Program Integrity

[Redacted]