Final Audit Report

Subject:

AUDIT OF
AGING HEALTH BENEFIT REFUNDS
SAMPLE OF BLUECROSS AND BLUESHIELD PLANS

Report No. 1A-99-00-12-021

Date: November 6, 2012

--CAUTION--

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AUDIT REPORT

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

Aging Health Benefit Refunds
Sample of BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-12-021          DATE: November 6, 2012

Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

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

Aging Health Benefit Refunds
Sample of BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-12-021        DATE: November 6, 2012

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at a sample of 21 BlueCross and BlueShield (BCBS) plans questions $225,031 in health benefit refunds and lost investment income (LII). The BlueCross BlueShield Association agreed with $89,112 and disagreed with $135,919 of the questioned amount.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered all aging Federal Employee Program (FEP) health benefit refunds as of September 30, 2011 for a sample of 21 BCBS plans. Specifically, we reviewed these BCBS plans’ health benefit refund aging schedules to determine whether the plans were holding FEP refunds as of September 30, 2011 that were not deposited into the FEP investment account within 30 days after receipt and/or returned to the FEHBP letter of credit account within 60 days after receipt. We determined that 14 of these 21 BCBS plans had not returned 280 health benefit refunds, totaling $214,066 to the FEHBP. After receiving our audit notification letter (dated October 3, 2011), the BCBS plans disclosed that 278 of these questioned health benefit refunds, totaling $189,188, were subsequently returned to the FEHBP, as well as applicable LII of $10,965. However, BCBS of Idaho has not returned two of the questioned health benefit refunds, totaling $24,878, to the FEHBP.
I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at a sample of 21 BlueCross BlueShield (BCBS) plans.

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

BACKGROUND

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

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

The Association has established a Federal Employee Program (FEP) Director’s Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director’s Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BlueCross BlueShield, located in Washington, D.C. These activities include acting as fiscal intermediary between the Association and member plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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

1 Throughout this report, when we refer to "FEP", we are referring to the Service Benefit Plan lines of business at the Plan. When we refer to the "FEHBP", we are referring to the program that provides health benefits to federal employees.
This is our first audit of aging FEP health benefit refunds covering multiple BCBS plans. The results of this audit were discussed with the Association and BCBS plan officials throughout the audit and at an exit conference on March 22, 2012. The Association’s comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report. Also, additional documentation provided by the Association and BCBS plans on various dates through August 7, 2012 was considered in preparing our final report.
II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether BCBS plans complied with contract provisions relative to the return of health benefit refunds to the FEHBP. Specifically, our objective was to determine whether BCBS plans held FEP refunds as of September 30, 2011 that were not deposited into the FEP investment account within 30 days after receipt and/or returned to the FEHBP letter of credit account (LOCA) within 60 days after receipt.

SCOPE

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

The audit covered all aging FEP health benefit refunds as of September 30, 2011 for a sample of 21 BCBS plans. Our sample included all BCBS plans with FEHBP health benefit payments of $250 million or less in contract year 2010 (except for Capital BlueCross and several other BCBS plans that are part of multi-plan organizations, such as WellPoint, Inc.). Specifically, we reviewed these BCBS plans’ aging schedules to determine if there were FEP refunds held by the BCBS plans as of September 30, 2011 that were not deposited into the FEP investment account within 30 days after receipt and/or returned to the LOCA within 60 days after receipt.

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

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

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2 Our sample consisted of the following BCBS plans: BCBS of Arkansas, BCBS of Delaware, BCBS of Hawaii, WellMark BCBS of Iowa and South Dakota, BCBS of Idaho, BCBS of Kansas, BCBS of Louisiana, BCBS of Kansas City, BCBS of Mississippi, BCBS of Montana, BCBS of North Dakota, BCBS of Nebraska, BCBS of Western New York, Excellus BCBS, Independence BlueCross, BlueCross of Northeastern Pennsylvania, BCBS of Rhode Island, BCBS of Vermont, Mountain State BCBS of West Virginia, BCBS of Wyoming, and Triple-S Salud, Inc. of Puerto Rico.
In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director’s Office and the BCBS plans. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

The audit was performed at our office in Cranberry Township, Pennsylvania from January 17 through March 22, 2012.

**METHODOLOGY**

To test each of the 21 BCBS plans’ compliance with contract provisions relative to the return of health benefit refunds to the FEHBP, we requested that these BCBS plans provide FEP health benefit refund aging schedules as of September 30, 2011. The FEP refund aging schedules provided by these BCBS plans contained 1,728 refunds, totaling $966,258, that were received by the plans as of September 30, 2011. Based on our analysis of these refund aging schedules, we selected and reviewed a judgmental sample of 355 refunds, totaling $635,241. Specifically, we selected for review all refunds that were not deposited into the FEP investment account within 30 days and/or returned to the LOCA within 60 days of receipt. Additionally, we selected for review the two highest dollar refunds from each BCBS plan that were deposited into the FEP investment account and returned to the LOCA within 30 days and 60 days of receipt, respectively.

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3 All of these BCBS plans provided FEP refund aging schedules except for the BCBS of Rhode Island and Triple-S Salud, Inc. plans, which certified that they did not have any aging refunds as of September 30, 2011.
III. AUDIT FINDING AND RECOMMENDATIONS

Aging Health Benefit Refunds

Based on our review of the FEP health benefit refund aging schedules for a sample of 21 BCBS plans, we determined that 14 of these plans had not returned 280 refunds, totaling $214,066, to the FEHBP.\(^4\) After receiving our audit notification letter (dated October 3, 2011), the BCBS plans disclosed that 278 of these questioned health benefit refunds, totaling $189,188, were subsequently returned to the FEHBP, as well as applicable lost investment income (LII) of $10,965. However, BCBS of Idaho has not returned two of the questioned health benefit refunds, totaling $24,878, to the FEHBP.

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.”

The FEP health benefit refund aging schedules provided by the BCBS plans contained 1,728 refunds, totaling $966,258, that were received by the plans as of September 30, 2011.\(^5\) Based on our analysis of these refund aging schedules, we selected and reviewed a judgmental sample of 355 health benefit refunds, totaling $635,241. Specifically, we selected for review all refunds that were not deposited into the FEP investment account within 30 days and/or returned to the LOCA within 60 days of receipt. Additionally, we selected for review the two highest dollar refunds from each BCBS plan that were deposited into the FEP investment account and returned to the LOCA within 30 days and 60 days of receipt, respectively.

\(^4\) Our sample consisted of the following 21 BCBS plans: BCBS of Arkansas, BCBS of Delaware, BCBS of Hawaii, WellMark BCBS of Iowa and South Dakota, BCBS of Idaho, BCBS of Kansas, BCBS of Louisiana, BCBS of Kansas City, BCBS of Mississippi, BCBS of Montana, BCBS of North Dakota, BCBS of Nebraska, BCBS of Western New York, Excellus BCBS, Independence BlueCross, BlueCross of Northeastern Pennsylvania, BCBS of Rhode Island, BCBS of Vermont, Mountain State BCBS of West Virginia, BCBS of Wyoming, and Triple-S Salud, Inc. of Puerto Rico. This sample included all BCBS plans with FEHBP health benefit payments of $250 million or less in contract year 2010 (except for Capital BlueCross and several other BCBS plans that are part of multi-plan organizations, such as WellPoint, Inc.).

\(^5\) All of the BCBS plans in our sample provided FEP refund aging schedules except for the BCBS of Rhode Island and Triple-S Salud, Inc. plans, which certified that they did not have any aging refunds as of September 30, 2011.
Based on our review, we noted the following exceptions:

- **50 health benefit refunds, totaling $135,919, were not deposited into the FEP investment account within 30 days of receipt as of September 30th, but were returned to the LOCA within 60 days after receipt.** For this exception, we are questioning the principal amounts of these refunds and applicable LII.

- **44 health benefit refunds, totaling $4,150, were deposited into the FEP investment account within 30 days of receipt, but were not returned to the LOCA within 60 days of receipt as of September 30th.** For this exception, we are questioning only the principal amounts of these refunds and not LII since the funds were deposited timely into the FEP investment account.

- **186 health benefit refunds, totaling $73,997, were not deposited into the FEP investment account within 30 days of receipt nor adjusted through the LOCA within 60 days of receipt as of September 30th.** For this exception, we are questioning the principal amounts of these refunds and applicable LII.

After receiving our audit notification letter (dated October 3, 2011), the BCBS plans disclosed that 278 of the questioned health benefit refunds, totaling $189,188, and applicable LII of $10,965, were subsequently returned to the FEHBP. However, based on supporting documentation, we only verified that the BCBS plans returned $152,262 of these questioned refunds to the FEHBP as well as the applicable LII. We also noted that BCBS of Idaho has not returned two of the questioned health benefit refunds, totaling $24,878, to the FEHBP.

In total, we are questioning $225,031, consisting of $214,066 for 280 health benefit refunds that were returned untimely or not returned to the FEHBP, as well as $10,965 for LII on the refunds that were deposited untimely into the FEP investment account.

**Association’s Response:**

The Association agrees with $89,295 of the questioned amount from the draft report, consisting of $78,330 for health benefit refunds and $10,965 for LII. The Association states, “For 45 refunds totaling $4,333, we agree that the funds were deposited into the FEP investment account timely, but were not adjusted against LOCA within 60 days. For 186 refunds totaling $73,997, we agree that the refunds were not deposited in the FEP investment account or adjusted against LOCA within 60 days. We also agree with the assessment of LII in the amount of $10,965.”

The Association disagrees with the remaining questioned amount. The Association states, “We agree that 50 health benefit refunds, totaling $135,919, were not deposited into the FEP investment account within 30 days of receipt and that LII was not calculated; however since the refunds were returned to the LOCA within 60 days of receipt in accordance with CS1039, we contest inclusion of the principal amount in the questioned amount as an untimely refund.”

The Association states that all of the questioned refunds have been returned to the FEHBP. Additionally, to ensure that the BCBS plans are complying with the FEHBP contract
requirements for the treatment of refunds, the Association states that the “Plans implemented the following:

- Converted manual refund processes to automated processes;
- Monitoring of the FEP claims processing system to ensure that the activity is accurately identified;
- A refund timeliness Service Level Agreement goal to meet CS1039 refund timeliness requirements; and
- Improved, robust communications between Plan Treasury and Claims staff to ensure timeliness goals are met.

Also, the FEP Director’s Office (FEPDO) continues to require Plans to submit quarterly refund balances for review and follow-up on aged balances. The FEPDO will also issue an audit alert to all Plans emphasizing the need for assessing LII on refunds not deposited into the FEP investment account within 30 days of receipt as soon as funds are deposited in the FEP investment account and re-emphasizing the need to return refunds to the Program within the 60 day contract requirement.”

**OIG Comments:**

After reviewing the Association’s response and additional documentation provided by the Association and/or BCBS plans, we revised the questioned amount from our draft report to $225,031. For our revised questioned amount, we determined that the Association agrees with $89,112, consisting of $78,147 for health benefit refunds and $10,965 for LII. (Note: In the draft report response, the Association agreed with $78,330 of the questioned health benefit refunds. However, after reviewing additional documentation, we removed one of these uncontested refunds, totaling $183, from the audit finding.)

We will continue to question the 50 contested refunds, totaling $135,919, since the funds were deposited untimely into the FEP investment account, i.e., more than 30 days after receipt. Although these refunds were actually returned timely to the LOCA, the funds were deposited late into the FEP investment account after receiving our audit notification letter (dated October 3, 2011).

Although we verified that the BCBS plans returned $152,262 of the questioned health benefit refunds to the FEHBP as well as the applicable LII, we did not request the necessary documentation to verify if the remaining questioned refunds, totaling $61,804, were returned to the FEHBP. This remaining amount includes two refunds, totaling $24,878, that have not been deposited into the FEP investment account by BCBS of Idaho (according to the Association via an email, dated March 8, 2012). Additionally, the remaining amount includes 210 refunds, totaling $36,926, that 8 BCBS plans (Wellmark BCBS, BCBS of Kansas City, BCBS of Montana, BCBS of Nebraska, Excellus BCBS, BlueCross of northeastern Pennsylvania, BCBS of Vermont, and Mountain State BCBS of West Virginia) disclosed were returned to the FEHBP, but we did not request the necessary documentation to verify if these refunds were actually returned to the FEHBP.
**Recommendation 1**

Since we verified that the BCBS plans returned $152,262 of the questioned health benefit refunds to the FEHBP, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer verify that the BCBS plans returned $61,804 to the FEHBP for the remaining questioned health benefit refunds.

**Recommendation 3**

Since we verified that the BCBS plans returned $10,965 to the FEHBP for LII on the health benefit refunds deposited untimely into the FEP investment account, no further action is required for this LII amount.
IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[Name], Auditor-In-Charge

[Name], Auditor

[Name], Chief

[Name], Senior Team Leader
### V. SCHEDULE A

**AGING HEALTH BENEFIT REFUNDS**

**SAMPLE OF BLUECROSS AND BLUESHIELD PLANS**

### AGING HEALTH BENEFIT REFUND UNIVERSE AND AMOUNTS QUESTIONED

<table>
<thead>
<tr>
<th>Plan Code</th>
<th>State/Territory</th>
<th>Plan Name</th>
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<th>Finding</th>
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<td><strong>280 $214,066</strong></td>
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* Untimely returned refunds are refunds that were not deposited into the FEP Investment Account within 30 days of receipt and/or not returned to the LOCA within 60 days of receipt.

FEP = Federal Employee Program

LOCA = Letter of Credit Account
May 23, 2012

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

Reference: OPM DRAFT AUDIT REPORT
Aging Health Benefit Refunds
Audit Report Number 1A-99-00-12-021

Dear [Name]:

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

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

AGING HEALTH BENEFIT REFUNDS $239,615

We have received your Draft Audit Report, dated March 23, 2012, in which you questioned the return of 325 refunds totaling $228,650 and lost investment income (LII) totaling $10,965.

We agree that 50 health benefit refunds, totaling $135,919, were not deposited into the FEP investment account within 30 days of receipt and that LII was not calculated; however since the refunds were returned to the LOCA within 60 days of receipt in accordance with CS1039, we contest inclusion of the principal amount in the questioned amount as an untimely refund. For 45 refunds totaling $4,333, we agree that the funds were deposited into the FEP investment account timely, but were not adjusted against LOCA within 60 days. For 186 refunds totaling $73,997, we agree that the refunds were not deposited in the FEP investment account or adjusted against LOCA within 60 days. We also agree with the assessment of LII in the amount of $10,965. We contest the remaining 44 refunds, totaling $14,401, because the Plan adjusted the LOCA from its corporate bank account within 30 days of receipt to return the funds to the Program. Using this methodology, the Plan returned funds to the Program faster than if they had deposited the funds in the FEP investment account and then adjusted LOCA. As a result, the Plan was in compliance with Contract requirements.
To-date, all refunds have been returned to the Program. We provided supporting documentation for returned refunds and applicable LII to the lead auditor.

In order to ensure that Plans are in compliance with CS1039 requirements for the treatment of refunds Plans implemented the following:

- Converted manual refund processes to automated processes;
- Monitoring of the FEP claims processing system to ensure that the activity is accurately identified;
- A refund timeliness Service Level Agreement goal to meet CS1039 refund timeliness requirements; and
- Improved, robust communications between Plan Treasury and Claims staff to ensure timeliness goals are met.

Also, the FEP Director’s Office (FEPDO) continues to require Plans to submit quarterly refund balances for review and follow-up on aged balances. The FEPDO will also issue an audit alert to all Plans emphasizing the need for assessing LII on refunds not deposited into the FEP investment account within 30 days of receipt as soon as funds are deposited in the FEP investment account and re-emphasizing the need to return refunds to the Program within the 60 day contract requirement.

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

Sincerely,

Director, Program Assurance