

UNCLAIMED PROPERTY REPORT

CAPITAL BLUE CROSS

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BACKGROUND

The Pennsylvania Treasury Department (Treasury) conducts examinations and audits to determine compliance with the provisions of the Pennsylvania Disposition of Abandoned and Unclaimed Property Act (the DAUPA), 72 P.S. §1301.1-1301.28a, as amended.

Capital Blue Cross (CBC) is a Pennsylvania non-profit health insurer offering a wide variety of comprehensive health care products for employer groups and its members. CBC has provided this service for 70 years to its members in a 21 county area. CBC has more than 8,300 professional providers and 37 hospitals available in its service area to deliver care to its members. CBC has a workforce of more than 2,000 employees.

Prior to July 1, 2002, non-profit hospitalization corporations and non-profit medical service corporations were excluded from provisions of the DAUPA. Capital Blue Cross (CBC) became subject to the DAUPA effective July 1, 2002, when the prior exclusionary section for nonprofit hospitalization corporation/medical service corporations was removed. Consequently, any unclaimed property liabilities CBC had at that time became reportable to Treasury the following April, provided the relevant holding period had expired. Treasury holds that CBC and holders of its kind were never excluded from accumulating or incurring unclaimed property obligations. Rather, the exclusion allowed CBC and holders of its kind to remain custodian of its unclaimed property obligations, holding this property for its rightful owners (CBC customers/clients). Once the exclusion was removed, Treasury became the rightful custodian of this property pursuant to the DAUPA. According to Treasury's records, prior to the initiation of the audit, CBC reported unclaimed property in the total amount of \$475 for the years 2002 to 2004.

During the course of our audit, CBC reported unclaimed property in the total amount of \$223,582.

In accordance with the DAUPA, Treasury conducted an examination relating to unclaimed property in the possession of Capital Blue Cross (CBC) for the period July 1, 1997 to December 31, 2000 to coincide with the effective date for elimination of the exclusion. It is the responsibility of CBC to comply with all relevant provisions of the DAUPA.

OBJECTIVE

The objectives of the audit were to determine compliance with the DAUPA and whether adequate management procedures were in place to ensure the proper identification and reporting of unclaimed property.

AUDIT SCOPE

The scope of this audit was for the period July 1, 1997 to December 31, 2000 (July 1, 1997 to December 31, 2003 for payroll and wages) and included specific areas such as reporting history, financial records, and accounting practices. During the planning of this audit, steps were taken to obtain an understanding of procedures CBC had in place pertaining to the identification and reporting of unclaimed property. To determine property types in the custody of the holder with a high risk of being escheatable, personnel responsible for each accounting area were interviewed, and written policy and procedure manuals were examined where available. As a result of obtaining an understanding of the entity's accounting system, the following areas were deemed to have a potential exposure for the occurrence of unclaimed property: insurance claims, accounts payable, and payroll.

METHODOLOGY

General ledger subsidiary information, a chart of current accounts, and a chart of accounts for the audit period were requested for the years 1997 to 2005. Records relating to open and closed bank accounts, reconciliations, and outstanding checks were requested. Additional record requests were made as necessary to verify the status of property identified as unclaimed and remittable to Treasury. Testing methodologies included a selection of test data based upon the availability of records, identification of potential unclaimed property, and a determination as to whether further fieldwork was warranted.

CONCLUSIONS

Based on our audit we determined that:

Insurance Claim Checks

- For the period under review, CBC contracted with employers (Groups) to administer certain provisions of the health benefits to the Group Participants (Administrative Service Contracts). CBC would pay out insurance claims on behalf of the Groups to either the individuals or to the service providers. The Groups reimbursed CBC for all claims incurred in the prior month on a monthly basis. On average, CBC had nearly 9,600 Groups containing 607,000 contracts that covered 1.2 million participants.
- Prior to July 2002, when CBC issued a check to pay for a claim and the claim check remained uncashed for 180 days, it became stale-dated. Once a check became stale-dated, CBC generated an abandoned property letter and form that was sent to the payee. If the check remained uncashed and the payee resided in a state other than Pennsylvania, CBC had a matrix in place whereby the holding period for each state was tracked in order for CBC to properly remit and report outstanding claim checks to the appropriate state as unclaimed property. Because CBC was excluded from the provisions of DAUPA, when a payee resided within Pennsylvania and a request for a reissued check was not received within 270 days of original issuance, CBC credited the amount of the outstanding claim check to the particular payee's group with the responsibility for the Group to either return the claim amount to the rightful owners, or to report and remit the outstanding check as unclaimed property in accordance with the DAUPA. Taking into account the existing exclusion to report such property to Treasury, we determined that such measures constituted a good faith effort to return the property to the rightful owner and make the individual claimant whole.
- For the period under review, total credit adjustments to the Groups recorded in the four major disbursement areas (Major Medical, Comprehensive Major Medical, Hospital, and General Disbursements) totaled approximately \$724,000.
- CBC reported and remitted uncashed claim checks to all other states.
- Based on the results of our fieldwork, we determined that CBC has due diligence procedures in place to return uncashed claim checks to the rightful owner or, alternately, remit such unclaimed property to the appropriate state where CBC was subject to escheat law. We concluded that CBC was not in possession of reportable unclaimed property in the area of claims.

CONCLUSIONS (continued)

Accounts Payable

- CBC has policies and procedures in place to identify outstanding checks greater than six months old and to properly document the disposition of checks as voided, reissued, or still outstanding and due.
- CBC has an established liability account to house uncashed checks for a period of five years until such property becomes reportable to the appropriate state. We concluded that CBC was not in possession of reportable unclaimed property in the area of accounts payable.

Payroll

- CBC employees participate in direct deposit at a rate of approximately 99%.
- CBC has policies and procedures to identify outstanding checks greater than six months old and properly documents the disposition of checks as voided, reissued, or still outstanding and due. Furthermore, CBC has established a liability account to house uncashed payroll checks for a period of two years until such property becomes reportable to the appropriate state.
- Based on the results of our fieldwork, we determined that CBC has due diligence procedures in place to return uncashed payroll checks to the rightful owner. We concluded that CBC was not in possession of reportable unclaimed property in the area of payroll.

REPORTING

Prior to the initiation of this audit, CBC reported property to Treasury totaling \$475 for the years 2002 to 2004.

Since the exclusion expired for CBC to report and remit unclaimed property to Pennsylvania, and subsequent to the initiation of our audit, CBC has implemented procedures to report such property, including uncashed claim checks, directly to Treasury. CBC remitted property to Treasury totaling \$223,582 for the years 2005 to 2008.

Additionally, CBC returned uncashed claim checks totaling \$102,447 to Blue Cross of Northeastern Pennsylvania (BCNEPA) in connection with a joint agreement in 2002. The uncashed claim checks CBC returned to BCNEPA will be addressed in a separate audit being conducted by Treasury of BCNEPA.

AUDITEE'S RESPONSE

The results of the audit were discussed with representatives of CBC, at which time they were given the opportunity to respond and comment. Management agreed with the results of the audit.