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**U.S. Office of Personnel Management  
Office of the Inspector General  
Office of Audits**

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# **Final Audit Report**

**Audit of BlueCross BlueShield of  
Massachusetts Boston, Massachusetts**

**Report Number 2022-ERAG-0013  
April 13, 2023**

# Executive Summary

## Audit of BlueCross BlueShield of Massachusetts

Report No. 2022-ERAG-0013

April 13, 2023

### Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Massachusetts (Plan), Plan codes 200/700, is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. The objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of Contract CS 1039.

### What did we audit?

Our audit covered administrative expense charges for contract years 2017 through 2021, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2017 through 2021, and the Plan's Fraud and Abuse Program activities for contract year 2021.



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**Michael R. Esser**  
*Assistant Inspector General  
for Audits*

### What did we find?

We questioned \$53,442 in administrative expense charges and lost investment income (LII). The BlueCross BlueShield Association and/or Plan agreed with the questioned amounts. As part of our review, we verified that the Plan subsequently returned these questioned amounts to the FEHBP because of the audit.

Our audit results are summarized as follows:

- **Administrative Expenses** – We questioned \$50,667 in unallocable cost center expenses that were charged to the FEHBP and \$2,775 for LII on these questioned charges. Except for these questioned cost center charges, we concluded overall that the Plan's administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with Contract CS 1039 and applicable laws and regulations.
- **Cash Management** – The audit disclosed no findings pertaining to the Plan's cash management activities and practices related to FEHBP funds. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations concerning cash management in the FEHBP.
- **Fraud and Abuse Program** – The Plan is complying with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter 2017-13.

# Abbreviations

<b>Association</b>	<b>BlueCross BlueShield Association</b>
<b>BCBS</b>	<b>BlueCross and/or BlueShield</b>
<b>BCBSA</b>	<b>BlueCross BlueShield Association</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>FAR</b>	<b>Federal Acquisition Regulations</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FEP</b>	<b>Federal Employee Program</b>
<b>FSTS</b>	<b>FEP Special Investigations Unit Tracking System</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>BlueCross BlueShield of Massachusetts</b>
<b>SIU</b>	<b>Special Investigations Unit</b>

# Table of Contents

	<b>Executive Summary</b> .....	i
	<b>Abbreviations</b> .....	ii
I.	<b>Background</b> .....	1
II.	<b>Objectives, Scope, and Methodology</b> .....	3
III.	<b>Audit Findings and Recommendations</b> .....	7
	<b>A. Administrative Expenses</b> .....	7
	1. Unallocable Cost Center Expenses .....	7
	<b>B. Cash Management</b> .....	9
	<b>C. Fraud and Abuse Program</b> .....	9
IV.	<b>Schedule A – Questioned Charges</b>	

**Appendix:** BlueCross BlueShield Association Draft Report Response, dated January 20, 2023

**Report Fraud, Waste, and Mismanagement**

# I. Background

This final report details the findings, conclusions, and recommendations from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Massachusetts (Plan). The Plan's headquarters are in Boston, Massachusetts.

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

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

The BlueCross BlueShield Association (Association or BCBSA), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (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 is one of 34 BCBS companies participating in the FEHBP. These 34 companies include 60 local BCBS plans.

The Association has established a Federal Employee Program (FEP<sup>1</sup>) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

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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, annuitants, and eligible family members.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Plan management. In addition, working in partnership with the Association, the Plan's management is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of the Plan (Report No. 1A-10-11-16-027, dated March 27, 2017), for contract years 2011 through 2015, have been satisfactorily resolved.

The results of this audit were provided to the Plan in a written audit inquiry; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on December 7, 2022; and were presented in detail in a draft report, dated December 22, 2022. 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.

# 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:

### 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 laws and regulations.

### Cash Management

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

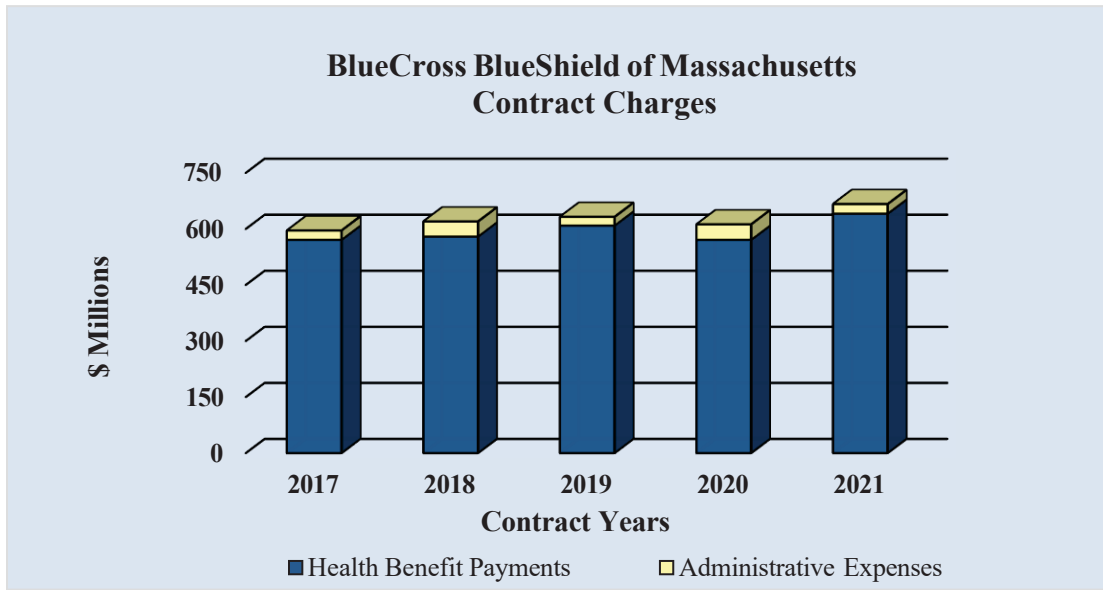
### Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and FEHBP Carrier Letter 2017-13.

## 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 pertaining to BlueCross BlueShield of Massachusetts (Plan codes 200/700) for contract years 2017 through 2021. During this period, the Plan paid approximately \$2.97 billion in FEHBP health benefit payments and charged the FEHBP approximately \$155 million in administrative expenses (see chart on the next page).



Specifically, we reviewed the Plan’s administrative expense charges for contract years 2017 through 2021, as reported in the Annual Accounting Statements. We also reviewed the Plan’s cash management activities and practices related to FEHBP funds for contract years 2017 through 2021, and the Plan’s Fraud and Abuse Program activities for contract year 2021.

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 significant matters involving the Plan’s internal control structure and operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

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 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 Plan and the FEP Director’s Office. 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, 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 fieldwork was performed remotely as a desk audit in the Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. areas from August 1, 2022, through December 7, 2022. Throughout the audit process, the Plan did a great job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

## 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 judgmentally reviewed **administrative expenses** charged to the FEHBP for contract years 2017 through 2021. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; allocations; accounts payable transactions; pensions; post-retirement benefits; employee health benefits; executive compensation limits; Association dues; lobbying; and Patient Protection and Affordable Care Act fees.<sup>2</sup> We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, United States Department of Treasury offsets, and interest income transactions for contract years 2017 through 2021, as well as the Plan's dedicated FEP investment account activity during the scope and balance as of December 31, 2021. As part of our testing, we selected and reviewed a judgmental sample of 102 LOCA drawdowns, totaling \$277,040,918 (from a universe of 1,209 LOCA drawdowns, totaling \$2,945,438,954, for contract years 2017 through 2021), for the purpose of determining if the Plan's drawdowns were

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<sup>2</sup> In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. For contract years 2017 through 2021, the Plan allocated administrative expenses of \$129,218,442 (before adjustments) to the FEHBP, from 310 cost centers that contained 185 natural accounts. From this universe, we selected a judgmental sample of 36 cost centers to review, which totaled \$72,775,484 in expenses allocated to the FEHBP. We also selected a judgmental sample of 36 natural accounts to review, which totaled \$56,002,075 in expenses allocated to the FEHBP through the cost centers. For contract year 2021, we additionally reviewed a sample of 51 accounts payable transactions that were judgmentally selected from cost centers and natural accounts that were charged to the FEHBP. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers, natural accounts, and accounts payable transactions based on high dollar amounts, our nomenclature review, and/or our trend analysis. We reviewed the expenses from these cost centers, natural accounts, and accounts payable transactions for allowability, allocability, and reasonableness. The results of these

appropriate and adequately supported. Our sample included 20 weeks of LOCA drawdowns that were selected based on the week with the highest dollar drawdown day within the highest dollar drawdown month from each quarter in the audit scope. The sample also included eight additional LOCA drawdowns that were selected based on our nomenclature review of the LOCA drawdown universe. The sample results were not projected to the universe of LOCA drawdowns, since we did not use statistical sampling.

We also interviewed the Plan's Special Investigations Unit regarding the compliance of the **Fraud and Abuse Program**, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2017-13.

# III. Audit Findings and Recommendations

## A. Administrative Expenses

The audit disclosed no significant findings pertaining to administrative expenses. Overall, we concluded that the Plan’s administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with Contract CS 1039 and applicable laws and regulations, except as noted in the audit finding below for “Unallocable Cost Center Expenses.”

### 1. Unallocable Cost Center Expenses: \$53,442

The Plan charged unallocable costs center expenses of \$50,667 to the FEHBP for contract years 2017 through 2021. As a result of this finding, the Plan subsequently returned \$53,442 to the FEHBP, consisting of \$50,667 for these unallocable cost center charges and \$2,775 for applicable lost investment income (LII) on these questioned charges.

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

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.”

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 . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

For contract years 2017 through 2021, the Plan allocated administrative expenses of \$129,218,442 (before adjustments) to the FEHBP, from 310 cost centers that contained 185 natural accounts. From this universe, we selected a judgmental sample of 36 cost centers to review, which totaled \$72,775,484 in expenses allocated to the FEHBP. We also selected a judgmental sample of 36 natural accounts to review, which totaled \$56,002,075 in expenses allocated to the FEHBP through the cost centers. For contract year 2021, we additionally reviewed a sample of 51 accounts payable transactions that were judgmentally selected from cost centers and natural accounts that were charged to

the FEHBP. We selected these cost centers, natural accounts, and accounts payable transactions based on high dollar amounts, our nomenclature review, and/or our trend analysis. We reviewed the expenses from these cost centers, natural accounts, and accounts payable transactions for allowability, allocability, and reasonableness.

**The Plan allocated and charged \$50,667 to the FEHBP for cost center expenses that did not benefit the FEHBP.**

Based on our review, we determined that the Plan charged unallocable external partnership expenses to the FEHBP from cost center “8106” (External Partnerships) for contract years 2017 through 2021. Specifically, the Plan allocated and charged \$50,667 to the FEHBP for external partnership expenses that did not benefit the FEHBP. In total, we are questioning \$53,442 for this audit finding, consisting of \$50,667 for unallocable cost center expenses that were charged to the FEHBP and \$2,775 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

**Association Response:**

**The Association agrees with the finding and recommendations.**

**OIG Comments:**

As part of our review, we verified that the Plan returned \$53,442 to the FEHBP in October 2022, consisting of \$50,667 for the questioned unallocable cost center charges and \$2,775 for applicable LII on these questioned charges.

**Recommendation 1:**

We recommend that the contracting officer disallow \$50,667 for the questioned unallocable cost center expenses that were charged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned \$50,667 to the FEHBP for these questioned charges, no further action is required for this amount.

**Recommendation 2:**

We recommend that the contracting officer require the Plan to return \$2,775 to the FEHBP for the questioned LII calculated on the unallocable cost center charges. However, since we verified that the Plan subsequently returned \$2,775 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## B. Cash Management

The audit disclosed no findings pertaining to the Plan’s cash management activities and practices related to FEHBP funds. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations concerning cash management in the FEHBP.

## C. Fraud and Abuse Program

**The Plan timely entered fraud and abuse cases into the Association’s FSTS.**

The audit disclosed no findings pertaining to the Plan’s Fraud and Abuse Program activities and practices. For contract year 2021, the Plan opened 36 fraud and abuse cases with potential FEP exposure. Based on our nomenclature review of this universe, we selected and reviewed a judgmental sample of 11 cases and determined if the Plan timely entered these fraud and abuse cases into the Association’s FEP Special Investigations Unit Tracking System (FSTS) and if the Association timely reported these cases to the OIG.<sup>3</sup> For our sample, we selected all fraud and abuse cases with estimated losses and/or recoveries of \$1,500 or more. Based on our review, we identified no exceptions with the Plan timely entering cases into the Association’s FSTS and the Association timely reporting cases to the OIG. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter 2017-13.

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<sup>3</sup> FSTS is a multi-user, web-based FEP case-tracking database application and storage warehouse administered by the Association’s FEP Special Investigations Unit (SIU). FSTS is used by the local BCBS plans’ SIUs, the FEP Pharmacy Benefit Managers’ SIUs, and the Association’s FEP SIU to store, track and report potential fraud and abuse activities.

# IV. Schedule A – Questioned Charges

## BlueCross BlueShield of Massachusetts Boston, Massachusetts

### Questioned Charges

Audit Findings	2017	2018	2019	2020	2021	2022	Total
<b>A. Administrative Expenses</b>							
<b>1. Unallocable Cost Center Expenses*</b>	\$9,246	\$9,707	\$9,813	\$11,137	\$12,469	\$1,070	\$53,442
<b>Total Administrative Expenses</b>	\$9,246	\$9,707	\$9,813	\$11,137	\$12,469	\$1,070	\$53,442
<b>A. Cash Management Total</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>B. Fraud and Abuse Program Total</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Questioned Charges</b>	\$9,246	\$9,707	\$9,813	\$11,137	\$12,469	\$1,070	\$53,442

\*We included lost investment income (LII) within audit finding A1 (\$2,775). Therefore, no additional LII is applicable.

# Appendix



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January 20, 2023

Mr. John A. Hirschmann, 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  
BCBS of Massachusetts Limited Scope Audit  
Audit Report Number 2022-ERAG-0013**

Dear Mr. Hirschmann:

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) of BCBS of Massachusetts. Our comments concerning the findings in the report are as follows:

**A. Administrative Expenses: Unallocable Cost Center Expenses** **\$53,442**

## **Recommendation 1**

We recommend that the contracting officer disallow \$50,667 for the questioned unallocable cost center expenses that were charged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned \$50,667 to the FEHBP for these questioned charges, no further action is required for this amount.

## **BCBSA [Association] Response**

BCBSA agrees with this recommendation and as stated, no further action is required.

**Recommendation 2**

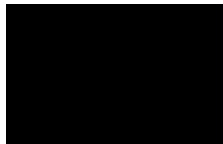
We recommend that the contracting officer require the Plan to return \$2,775 to the FEHBP for the questioned LII calculated on the unallocable cost center charges. However, since we verified that the Plan subsequently returned \$2,775 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**BCBSA Response**

BCBSA agrees with this recommendation and as stated, no further action is required.

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,



Managing Director, Program Assurance

CC:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]





# Report Fraud, Waste, and Mismanagement

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