Memorandum: Report Number 2023-SAG-013

For: Dennis N. Hodges  
Program Manager, FEDVIP

From: James L. Tuel, JR.  
Group Chief, Special Audits Group

Subject: Audit of the Blue Cross Blue Shield Federal Employee Program’s Dental 2024 Premium Rate Proposal

The U.S. Office of Personnel Management’s (OPM) Office of the Inspector General (OIG) has conducted a limited-scope audit of the Blue Cross Blue Shield (BCBS) Federal Employee Program’s (FEP) Dental (Plan) 2024 premium rate proposal for the Federal Employees Dental and Vision Insurance Program (FEDVIP). Our objective was to determine whether the premium rates proposed for contract year (CY) 2024 were in accordance with the terms of Contract Number OPM02-FEDVIP-02AP-03 (Contract) and Federal regulations. The audit included a review of the Plan’s 2024 premium rate proposal and 2022 certified annual accounting statement (AAS) for FEDVIP operations.

We are providing this memorandum to OPM’s Healthcare and Insurance Office (HIO) to be used by OPM’s Office of Actuaries in negotiating the Plan’s 2024 premium rates. Under section 8M of The Inspector General Act of 1978, as amended (Title 5 U.S Code §§ 401-424), the OIG makes redacted versions of its final reports available to the public on its webpage. Since this was a limited-scope audit, the OIG reserves the right to perform a full-scope audit of the Plan in the future; however, any future audit would exclude a review of the Plan’s initial 2024 FEDVIP premium rate proposal. Due to the nature of this audit, a draft report/memorandum was not issued.

Background

The FEDVIP was created on December 23, 2004, by the Federal Employee Dental and Vision Benefits Enhancement Act of 2004 (Act). The Act provided for the establishment of programs under which supplemental dental and vision benefits are made available to Federal employees, retirees, and their dependents.

OPM has overall responsibility to maintain the FEDVIP website, be a liaison with Federal agencies, facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a timely basis to the carrier requests for information and assistance, and perform, as provided by
the Act, functions typically associated with insurance commissions. These functions include the review and approval of rates, forms, and education materials. OPM contracts with the Blue Cross and Blue Shield Association (Carrier) to provide dental insurance benefits to FEDVIP participants. The Carrier’s responsibilities under the Contract are carried out via its subcontractor located in Minneapolis, Minnesota. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, that allows for audits of the Carrier’s FEDVIP operations.

Our previous audit of BCBS FEP Dental (Report Number 1J-0C-00-18-030), dated July 30, 2018, included a review of the Plan’s 2017 certified annual accounting statement and its 2019 proposed premium rates for FEDVIP operations. The results of our audit did not identify any findings, and no corrective action was necessary.

**Objective, Scope, and Methodology**

We conducted a limited-scope performance audit of the Plan’s 2024 premium rate proposal for the FEDVIP. Our audit objective was to determine whether premium rates proposed for CY 2024 were in accordance with the terms of the Contract and Federal regulations.

We conducted the 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 the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

The audit included a review of the Plan’s 2024 premium rate proposal (as of May 31, 2023) and its 2022 certified AAS for FEDVIP operations. Audit fieldwork was conducted remotely from our Jacksonville, Florida and Cranberry Township, Pennsylvania offices from June to July 2023.

In planning the 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. Additionally, 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.

In conducting the audit, we relied to varying degrees on computer-generated data provided by 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, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for CY 2024 were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:
2024 Premium Rate Proposal Review

- We traced the premium, enrollment, and claims data used to develop the Plan’s 2024 proposed rates to supporting documentation to ensure accuracy.

- We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were properly supported.

2022 Annual Accounting Statement Review

- We reconciled the premiums received, as reported in the Plan’s AAS, to the BENEFEDS cash transfer reports to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the AAS to supporting documentation to ensure the claims were accurately reported.

- We reviewed the Plan’s supporting documentation to determine whether the administrative expenses were allowable, allocable, and reasonable in compliance with FAR Subpart 31.2.

- We recalculated the Plan’s dental loss ratio and profit based on the supporting documentation provided by the Carrier to determine if the percentage and amounts were accurately calculated and disclosed to OPM in the 2022 certified AAS.

Results of the Audit

2024 Premium Rate Proposal Review

The results of our review showed that the Plan’s initial 2024 FEDVIP premium rate proposal was in accordance with the Contract and Federal regulations. We did not identify any findings during our review of the premium rates, and no corrective action is necessary.

2022 Annual Accounting Statement Review

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that its 2022 annual accounting statement was accurately reported to OPM. We did not identify any findings during this review, and no corrective action is necessary.

The results of the audit were communicated to Carrier officials via email on July 19, 2023. OPM’s HIO and Office of Actuaries may discuss the results of the audit with Carrier officials. We notified the Carrier that this memorandum is issued directly to the contracting officer to assist in finalizing the Plan’s 2024 premium rates for FEDVIP.

If I can be of assistance during your review of this memorandum, please contact me at [redacted] or Luke Z. Johnson at [redacted].

cc: The Honorable Kiran A. Ahuja
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The Honorable Robert H. Shriver
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