



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

Final Audit Report

**AUDIT OF
CAREFIRST BLUECROSS BLUESHIELD'S
FEDERAL EMPLOYEE PROGRAM OPERATIONS CENTER COSTS
OWINGS MILLS, MARYLAND AND WASHINGTON, D.C.**

**Report Number 1A-10-92-14-055
September 11, 2015**

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EXECUTIVE SUMMARY

Audit of CareFirst BlueCross BlueShield's Federal Employee Program Operations Center Costs

Report No. 1A-10-92-14-055

September 11, 2015

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that CareFirst BlueCross BlueShield (Plan) 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. Specifically, the objective of our audit was to determine whether the Plan charged administrative expenses to the FEHBP for the Federal Employee Program (FEP) Operations Center that were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

What did we audit?

Our audit covered the Plan's administrative expenses for the FEP Operations Center from 2009 through 2013 as reported in the Annual Accounting Statements.

What did we find?

We questioned \$2,795,412 in administrative expenses and applicable lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with these questioned amounts. We noted that the Plan returned \$2,520,696 of these questioned amounts to the FEHBP during our audit fieldwork phase.

Our audit results are summarized as follows:

- Administrative Expenses – During our audit fieldwork phase, the Plan self-disclosed overcharges of \$2,696,644 to the FEHBP for post-retirement benefit (PRB) costs that were incurred from 2009 through 2013. As a result, the Plan returned \$2,520,696 to the FEHBP in December 2014, consisting of \$2,421,928 for the PRB costs overcharged to the FEHBP from 2010 through 2013 and \$98,768 for applicable LII. The Plan also submitted prior period adjustments in December 2014 for the 2009 PRB cost overcharges of \$274,716.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield
BCBSA	BlueCross BlueShield Association
CFR	Code of Federal Regulations
FAR	Federal Acquisition Regulations
FAS	Financial Accounting Standards
FEHB	Federal Employees Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
FTE	Full Time Equivalent
LII	Lost Investment Income
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	CareFirst BlueCross BlueShield
PPA	Prior Period Adjustment
PRB	Post-Retirement Benefit Costs

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I. BACKGROUND

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 CareFirst BlueCross BlueShield (Plan) pertaining to the Federal Employee Program (FEP¹) Operations Center. The Plan's headquarters are located in Owings Mills, Maryland and the FEP Operations Center is located in Washington, D.C.

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), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (contract or 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 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established an 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 BCBS, located in Owings Mills, Maryland and 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),

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.

maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

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

There were no findings from our previous audit of the Plan (Report No. 1A-10-92-09-024, dated March 10, 2010), covering administrative expenses of the FEP Operations Center, for contract years 2004 through 2008.

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 on April 1, 2015; and were presented in detail in a draft report, dated May 20, 2015. 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. OBJECTIVE, SCOPE, AND METHODOLOGY

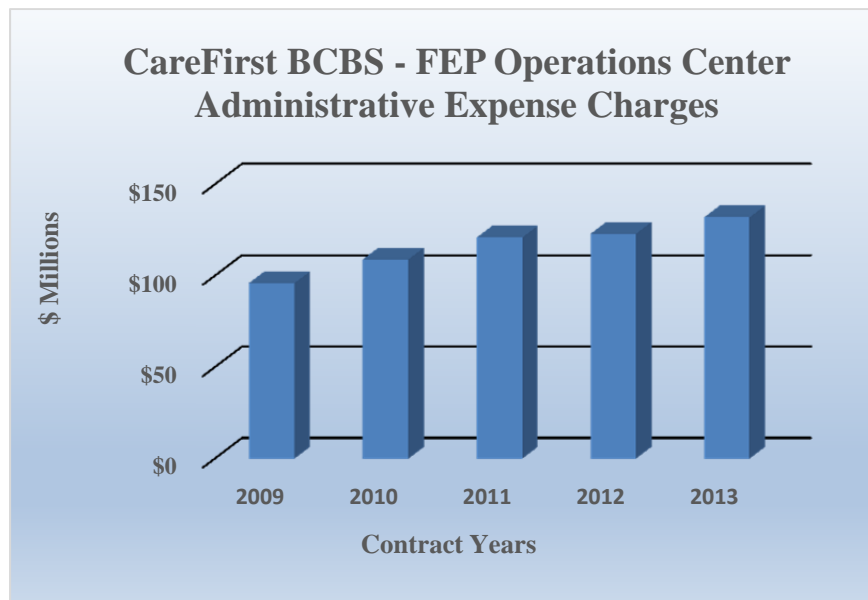
OBJECTIVE

The objective of our audit was to determine whether the Plan charged administrative expenses to the FEHBP for the FEP Operations Center that were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

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.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to the Plan's administrative expenses for the FEP Operations Center for contract years 2009 through 2013. During this period, the Plan charged approximately \$581 million in administrative expenses to the FEHBP for the FEP Operations Center.



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 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 pertaining to administrative expenses. 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 objective.

The audit was performed at the Plan's office in Owings Mills, Maryland on various dates from September 9, 2014 through November 14, 2014. Audit fieldwork was also performed at our office in Cranberry Township, Pennsylvania through March 2015.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's cost accounting system by inquiry of Plan officials. For contract years 2009 through 2013, we also judgmentally reviewed the Plan's administrative expenses for the FEP Operations Center that were charged to the FEHBP. Specifically, we reviewed the administrative expenses relating to cost centers, natural accounts, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, and return on investment.² We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

² The Plan allocated administrative expenses of \$570,074,309 to the FEHBP from 2,094 cost centers and 162 natural accounts. From this universe, we selected a judgmental sample of 24 cost centers to review, which totaled \$298,740,493 in expenses allocated to the FEHBP. We also selected a judgmental sample of 27 natural accounts to review, which totaled \$339,521,681 in expenses allocated to the FEHBP. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES

1. Post-Retirement Benefit Costs \$2,795,412

During our audit fieldwork phase, the Plan self-disclosed overcharges of \$2,696,644 to the FEHBP for post-retirement benefit (PRB) costs that were incurred from 2009 through 2013. As a result, the Plan returned \$2,520,696 to the FEHBP in December 2014, consisting of \$2,421,928 for the PRB costs overcharged to the FEHBP from 2010 through 2013 and \$98,768 for applicable lost investment income (LII).

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 31.205-6(o) states, “(1) PRB covers all benefits, other than cash benefits and life insurance benefits paid by pension plans, provided to employees, their beneficiaries, and covered dependents during the period following the employees' retirement. Benefits encompassed include, but are not limited to, postretirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. (2) 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 section.”

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.”

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., administrative expense overcharges . . . were already . . . returned to the FEHBP) prior to audit notification.”

In general, the Plan charges PRB costs to the FEHBP through a manual calculation performed outside of the cost allocation system. These charges include Financial Accounting Standards (FAS) 106 and FAS 112 costs determined on a cash basis, or when the PRB costs are actually paid, which are allowable charges to the contract. The Plan uses a “Full Time Equivalent” (FTE) headcount statistic to allocate PRB costs to the FEP.

While conducting our review of PRB costs, the Plan disclosed to us on November 3, 2014 that there was an issue with the allocation of FAS 106 and FAS 112 expenses during the audit scope. According to the Plan, this allocation issue was identified during a discussion between the Plan’s cost accounting and FEP reporting staff on September 2, 2014 and included multiple errors with the Plan’s FTE allocation methodology. For the FEP Operations Center, the Plan originally charged \$3,529,000 to the FEHBP for PRB costs from 2009 through 2013. Based on the Plan’s revised calculations, the Plan should only have allocated \$832,356 in PRB costs to the FEP, resulting in overcharges of \$2,696,644 to the FEHBP. Specifically, the Plan overcharged the FEHBP \$274,716 in 2009, \$354,629 in 2010, \$559,363 in 2011, \$605,064 in 2012, and \$902,872 in 2013.

The Plan overcharged the FEHBP \$2,696,644 for PRB costs from 2009 through 2013.

We reviewed the Plan’s self-disclosed overcharges and agreed with the Plan’s revised calculations of PRB costs for the FEP Operations Center. As a result of this finding, the Plan returned \$2,520,696 to the FEHBP in December 2014, consisting of \$2,421,928 for the PRB cost overcharges from 2010 through 2013 and \$98,768 for applicable LII. We reviewed and accepted the Plan’s LII calculation. The Plan also submitted prior period adjustments (PPA) in December 2014 for the 2009 PRB cost overcharges of \$274,716.

Association’s Response:

The Association agrees with this finding. The Association states that the Plan submitted PPA’s in December 2014 for the 2009 PRB cost overcharges.

OIG Comments:

We verified that the Plan returned \$2,520,696 to the FEHBP, consisting of \$2,421,928 for the PRB cost overcharges from 2010 through 2013 and \$98,768 for applicable LII. We also verified that the Plan submitted PPA’s to the FEP Director’s Office for the 2009 PRB cost overcharges of \$274,716.

The Plan has unfunded costs in 2009 related to a PPA submitted in 2010 for a claims enhancement project. Since the Plan's total unreimbursed costs for 2009 exceeded the questioned PRB cost overcharges for 2009, these overcharges should be netted against the Plan's unfunded costs. Since there is no dollar impact on the amount charged to the FEHBP, LII is not applicable for these 2009 PRB cost overcharges.

Recommendation 1

We recommend that the contracting officer disallow \$2,421,928 for the PRB costs that were overcharged to the FEHBP from 2010 through 2013. However, since we verified that the Plan returned \$2,421,928 to the FEHBP for these questioned PRB costs, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$98,768 to the FEHBP for LII on the questioned 2010 through 2013 PRB cost overcharges. However, since we verified that the Plan returned \$98,768 to the FEHBP for LII on these questioned PRB costs, no further action is required for this LII amount.

Recommendation 3

Since we verified that the Plan has unreimbursed costs in 2009, we recommend that the contracting officer verify that the Plan makes the necessary corrections to properly adjust the filed costs for the PRB cost overcharges of \$274,716 in 2009.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[REDACTED], Lead Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Chief [REDACTED]

[REDACTED], Senior Team Leader



Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005

June 26, 2015

[REDACTED], 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
CAREFIRST BLUECROSS BLUESHIELD
FEP Operations Center
Report Number 1A-10-92-14-055
(Dated May 20, 2015)**

Dear [REDACTED]:

This is CareFirst BlueCross BlueShield's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the Plan are committed to enhancing existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

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

A. ADMINISTRATIVE EXPENSES

1. Post-Retirement Benefit Costs \$2,795,412

Recommendation 1

We recommend that the contracting officer disallow \$2,421,928 for PRB costs that were overcharged to the FEHBP from 2010 through 2013. Since we verified that the Plan returned \$2,421,928 to the FEHBP for these questioned PRB costs, no further action is required for this amount.

Plan Response

The Plan agrees with this recommendation.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$98,768 to the FEHBP for LII on the questioned 2010 through 2013 PRB costs. Since we verified that the Plan returned \$98,768 to the FEHBP for LII on these questioned PRB costs, no further action is required for this LII amount.

Plan Response

The Plan agrees with this recommendation.

Recommendation 3

Since we verified that the Plan had unreimbursed costs in 2009, we recommend that the contracting officer verify that the Plan makes the necessary corrections to properly adjust the filed costs for the PRB cost overcharge of \$274,716 in 2009.

BCBSA Response:

The Plan submitted prior period adjustments for the 2009 overcharge in December of 2014.

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,

[REDACTED]
[REDACTED]

Managing Director, Program Assurance

lr/rj

cc: [REDACTED], Contracting Officer, OPM
[REDACTED], FEP
[REDACTED], CareFirst Blue Cross Blue Shield



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