



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

Final Audit Report

Subject:

**AUDIT OF THE FEDERAL EMPLOYEES DENTAL
AND VISION INSURANCE PROGRAM OPERATIONS
AS ADMINISTERED BY FEP BLUEVISION
FOR 2008 THROUGH 2010**

Report No. 1J-0C-00-13-025

Date: September 17, 2013

--CAUTION--

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AUDIT REPORT

**AUDIT OF THE FEDERAL EMPLOYEES DENTAL AND
VISION INSURANCE PROGRAM OPERATIONS AS
ADMINISTERED BY FEP BLUEVISION
FOR 2008 THROUGH 2010**

CONTRACT NUMBER: OPM-06-00060-2

Report No. 1J-0C-00-13-025

Date: September 17, 2013



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

**AUDIT OF THE FEDERAL EMPLOYEES DENTAL AND
VISION INSURANCE PROGRAM OPERATIONS AS
ADMINISTERED BY FEP BLUEVISION
FOR 2008 THROUGH 2010**

CONTRACT NUMBER: OPM-06-00060-2

Report No. 1J-0C-00-13-025

Date: September 17, 2013

The enclosed audit report details the results of our audit of the Federal Employees Dental and Vision Insurance Program Operations as Administered by FEP BlueVision (Plan) for contract years 2008 through 2010. The primary objective of our audit was to determine whether the Plan complied with the requirements in its contract with the Office of Personnel Management (OPM). We conducted preliminary surveys at the Plan's locations in Chicago, Illinois and Latham, New York from November 26, 2012 to December 6, 2012, and in San Antonio, Texas from January 15, 2013 to January 18, 2013. Additional audit fieldwork was performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania from January 28, 2013 to May 1, 2013.

The results of our audit have been summarized below.

UNDERWRITING AND PRICE REDETERMINATION REVIEW

The results of our review showed that the Plan followed the applicable guidelines for annual underwriting submissions and price redeterminations.

CASH MANAGEMENT REVIEW

The results of our review showed that the Plan had adequate policies and procedures in place to pay administrative expenses, process claim payments, and handle un-cashed checks.

ADMINISTRATIVE EXPENSE REVIEW

The results of our review showed that the Plan had controls in place to ensure that administrative expenses were allowable and accurate.

CLAIMS REVIEW

The results of our review showed that the Plan had the appropriate policies and procedures in place to process high dollar claims and deny duplicate claims.

PERFORMANCE REVIEW

- **Compliance with Performance Standards** **Procedural**

The Plan did not meet all of the customer service performance standards required by Contract OPM-06-00060-2 for 2010.

COMPLIANCE REVIEW

The results of our review showed that the Plan had sufficient internal controls in place to meet its annual reporting requirements and to prevent and detect fraud, waste, and abuse.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) Operations as Administered by FEP BlueVision (Plan) for contract years 2008 through 2010. The audit was conducted pursuant to the provisions of Contract OPM-06-00060-2 (the Contract); and Title 5, Code of Federal Regulations, Chapter 1, Part 894 (5 CFR 894). The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General, as established by the Inspector General Act of 1978, as amended. We conducted preliminary surveys at the Plan's locations in Chicago, Illinois and Latham, New York from November 26, 2012 to December 6, 2012, and in San Antonio, Texas from January 15, 2013 to January 18, 2013. Additional audit fieldwork was performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania from January 28, 2013 to May 1, 2013.

BACKGROUND

The Federal Employees Dental and Vision Benefits Enhancement Act of 2004, Public Law 108-496, 118 Statute 4001, was signed into law on December 23, 2004. This law established a dental and vision benefits program for federal employees, annuitants, and their eligible family members.

The duties and responsibilities of insurance carriers participating in the FEDVIP program include the following:

1. To provide payments or benefits to an eligible individual if such individual is entitled thereto under the terms of the contract;
2. With respect to disputes regarding claims for payments or benefits under the terms of the contract –
 - a. to establish internal procedures designed to expeditiously resolve such disputes;
 - b. to establish, for disputes not resolved through procedures mentioned above, procedures for one or more alternative means of dispute resolution involving independent third-party review under appropriate circumstances by entities mutually acceptable to OPM and the carrier;
3. To make available to each individual eligible to enroll in a vision benefits plan, information on services and benefits to enable the individual to make an informed decision about electing coverage;
4. To maintain accounting records that contain such information and reports as OPM may require;
5. To furnish such reasonable reports as OPM determines to be necessary to enable it to carry out its functions; and
6. To permit OPM and representatives of the Government Accountability Office to examine such records of the carrier as may be necessary to carry out the purposes of the contract.

OPM's Contracting Office contracts with the Blue Cross and Blue Shield Association (BCBSA), on behalf of and as an agent for participating Blue Cross and Blue Shield Plans, to provide vision insurance coverage to federal beneficiaries under the Plan. BCBSA serves as the chief liaison to OPM and provides contract oversight, field services for members, consumer education, reporting, and actuarial and financial services, with locations in Chicago, Illinois and Washington, D.C. BCBSA's responsibilities for administering the Plan under the contract are carried out by Davis Vision, a wholly owned subsidiary of Highmark, Inc., with locations in Latham, New York and San Antonio, Texas.

Section I.11 52.246-4 of OPM's contract with BCBSA allows for audits of the program's operations. Additionally, Section 5(a)(i) of the Agreement for Services Between BCBSA and Davis Vision allows for audits of Davis Vision's administration of the Plan. There were 495,565 members enrolled in the Plan in 2008; 605,347 members enrolled in 2009; and 711,527 members enrolled in 2010. This was our first audit of the FEDVIP operations as administered by FEP BlueVision.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary objectives of this audit were to:

- Obtain reasonable assurance that BCBSA and Davis Vision administered the Program in compliance with Contract OPM-06-00060-2 and 5 CFR 894.
- Obtain reasonable assurance of Davis Vision's compliance with the provisions of the Agreement for Services between BCBSA and Davis Vision.
- Ensure that premium rate changes, experience, underwriting methodology, and actuarial assumptions were compliant with the terms of the contract and federal regulations.
- Ensure that the Plan had adequate controls in place to handle member's premiums, accounts payable, and accounts receivable.
- Ensure that monthly administrative expenses were properly verified, reported, and in accordance with Subpart 31.2 of the Federal Acquisition Regulations (FAR 31.2).
- Ensure that costs charged and services provided to Plan members were in accordance with the terms of the contract and federal regulations.

SCOPE

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

This performance audit covered the Plan's adherence to its contractual requirements for contract years 2008 through 2010. The audit scope included a review of the Plan's premium underwriting, price redeterminations, administrative expenses, performance standards, fraud and abuse policies and procedures, internal controls related to its claim processing system, and cash management.

In planning and conducting 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. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operation. 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.

In conducting our 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 audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether the Plan had complied with the contract and the laws and regulations governing the FEDVIP. Exceptions noted in the areas reviewed are set forth in the “Audit Findings 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 Plan had not complied, in all material respects, with those provisions.

METHODOLOGY

To determine whether the Plan’s administration of the FEDVIP was in compliance with the contract and 5 CFR 894, we performed the following audit steps:

Premium Underwriting and Price Redetermination Review

- We conducted a meeting with Plan personnel to obtain an understanding of the Plan’s premium underwriting methodology and price redetermination process.
- We reviewed documentation to determine if the Plan negotiated any price changes with OPM and if the claims experience was submitted to OPM on an annual basis as required by the contract.
- We reviewed supporting documentation for the components included within Davis Vision’s administrative expense loading to determine if it complied with the contract and FAR 31.2.

Cash Management Review

- We reviewed bank statements and enrollment files from the first quarter of 2008, the second quarter of 2009, and the third quarter of 2010 to determine if premium income received by the Plan from BENEFEDS reconciled to the enrollment files.
- We reviewed the Plan’s bank statements to determine if premium income was held in an interest-bearing account, separate from its other assets.
- We obtained the Plan’s bank statements to determine if interest income earned on premium income was transferred back to the FEDVIP.
- We reviewed administrative expense invoices and claim expense invoices to determine if they reconciled with disbursements from the Plan’s bank accounts for the first quarter of 2008, the second quarter of 2009, and the third quarter of 2010.
- We held a meeting with Plan personnel and reviewed its policies and procedures for un-cashed checks to determine if un-cashed checks were returned to the designated bank account.

Administrative Expense Review

- We reviewed the 2010 expense invoices from BCBSA and the 2009 expense invoices from Davis Vision to determine if they reconciled with the Plan's Annual Accounting Statements and enrollment files. These years were selected for review since they were the most recent contract years in our audit scope.
- To determine if BCBSA's administrative expenses were actual, allocable, reasonable, and allowable in compliance with the contract and FAR 31.2, we reviewed supporting documentation for a sample of 25 direct expenses, totaling \$215,758, out of a universe of 1,095 expenses totaling \$974,513. We judgmentally selected this sample by choosing the highest expense from each administrative cost center. Additionally, 1 of the 25 expenses selected for review contained 168 individual travel expenses, totaling \$8,511. From those 168 travel expenses, we selected 42 expenses, totaling \$4,510, to review. This judgmental sample was selected based on the highest expense and auditor judgment.

Claims Review

- We reviewed high dollar claims greater than \$650 (114 claims totaling \$86,257 out of 1,441,133 claims totaling \$120,355,161) to determine if they were properly paid and supported.
- We reviewed all claims from 2008 through 2010 (1,441,133 claims, totaling \$120,355,161) to ensure that the Plan was not processing duplicate claims.

Performance Review

- We conducted a meeting with Plan personnel to determine if its quality assurance program provided reasonable oversight of customer service and claims processing activities.
- We reviewed the Plan's 2010 performance reports to determine if it met the customer service and claims processing performance standards required by the contract. Contract year 2010 was selected for review since it was the most recent year in our audit scope.

Compliance Review

- We reviewed the Plan's response to our Fraud and Abuse Questionnaire to determine if the Plan had policies and procedures in place to prevent, detect, and disclose fraud and abuse activities.
- We held meetings with Plan personnel and reviewed documentation to determine if the Plan submitted reports to OPM in compliance with the contract.
- We reviewed the Plan's response to our internal control and claims processing questionnaires to determine if the Plan developed safeguards in its FEDVIP operations and implemented proper edits for claims processing.

The samples selected during our review were not statistically based. Consequently, the results could not be projected to the universe since it was unlikely that the results were representative of the universe as a whole.

The results of our audit were discussed with Plan officials throughout the audit and during an exit conference. In addition, a draft report was provided to the Plan for review and comment on May 1, 2013. The Plan's response and comments to our draft report were considered in preparing the final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. UNDERWRITING AND PRICE REDETERMINATION REVIEW

The results of our review showed that the Plan followed the applicable guidelines for annual underwriting submissions and price redeterminations.

B. CASH MANAGEMENT REVIEW

The results of our review showed that the Plan had adequate policies and procedures in place to pay administrative expenses, process claim payments, and handle un-cashed checks.

C. ADMINISTRATIVE EXPENSE REVIEW

The results of our review showed that the Plan had controls in place to ensure that administrative expenses were allowable and accurate.

D. CLAIMS REVIEW

The results of our review showed that the Plan had the appropriate policies and procedures in place to process high dollar claims and deny duplicate claims.

E. PERFORMANCE REVIEW

1. Compliance with Performance Standards

Procedural

The Plan did not meet all of the customer service performance standards required by Contract OPM-06-00060-2 for 2010.

As part of its response to Solicitation Number OPM-RFP-06-0060, the Plan guaranteed its ability to meet the following customer service performance standards under Contract OPM-06-00060-2, Section 7(B) Answer 2.b.i and 2.c.i:

1. 90 percent of written inquiries answered within **2** business days from receipt; and
2. >99 percent of email inquiries answered within **1** business day from receipt.

We reviewed the Plan's 2010 performance reports to determine if it met all of the standards required by the contract. During our review, we found that its level of customer service performance did not meet the contract's requirements. Specifically, the Plan's performance results were as follows:

1. 90 percent of written inquiries answered within **5** business days from receipt; and
2. >99 percent of email inquiries answered within **5** business days from receipt.

We asked the Plan why it did not meet the required performance standards and found that the discrepancies in the performance measures between the two contracts were due to the

time requirements to have the Davis Vision Agreement for Services in place prior to OPM awarding the vision contract to BCBSA. Once Contract OPM-06-00060-2 was awarded, a comparison between the agreements was not completed due to an oversight. BCBSA believes this was an isolated event and has adopted new sign-off procedures between procurement and legal as an added control for future contract agreements.

Because the Plan did not meet the required performance standards that were guaranteed under its fixed price contract agreement with OPM, federal employees participating in the Plan are not receiving the level of customer service for which they are paying.

Plan Comments:

BCBSA acknowledges the differences in performance standards between Contract OPM-06-00060-2 and its Agreement for Services with Davis Vision. An amendment will be added to the Davis Vision Agreement for Services to change the performance standards to those reflected within Contract OPM-06-00060-2, effective with the June 2013 performance reporting. Additionally, BCBSA has modified its quarterly reporting to the Contracting Officer to include these measures, effective for the second quarter reporting.

BCBSA also stated that it has a commitment to providing excellent customer service to its members, and that it believes the terms of the Agreement for Services between BCBSA and Davis Vision did not compromise its service to its members as demonstrated by the Plan's member satisfaction scores. The average member satisfaction score for the prior six years, 2007 through 2012, was 81 percent.

OIG Comments:

We accept the BCBSA's corrective action plan to modify the performance standards within the Agreement for Services with Davis Vision to match the performance standards required by Contract OPM-06-00060-2 and to modify its quarterly reporting to the Contracting Officer to include the higher performance measures. While we also acknowledge the Plan's response about its member satisfaction scores, this report is not questioning the level of satisfaction of its members. We are only attempting to ensure that the members serviced by this plan are receiving the level of customer service that is guaranteed as part of their premium payments.

Recommendation 1

We recommend that the Contracting Officer verify that the Plan has met the higher level of customer service required by Contract OPM-06-00060-2 in its second quarter performance reporting.

Recommendation 2

We recommend that the Contracting Officer verify that BCBSA has modified its Agreement for Services with Davis Vision to reflect the higher performance standards required by Contract OPM-06-00060-2.

Recommendation 3

We recommend that the Contracting Officer ensure that the original performance standards are met on an annual basis.

F. COMPLIANCE REVIEW

The results of our review showed that the Plan had sufficient internal controls in place to meet its annual reporting requirements and to prevent and detect fraud, waste, and abuse.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

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**BlueCross BlueShield
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An Association of Independent
Blue Cross and Blue Shield Plans

May 24, 2013

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**Reference: OPM DRAFT AUDIT REPORT
FEP BLUEVISION
Audit Report Number 1J-0C-00-13-025
(Dated May 1, 2013 and Received May 1, 2013)**

Dear ██████████:

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees Dental and Vision Insurance Program Operations as Administered by FEP BlueVision for the period of 2008 through 2010. Our comments are as follows:

**Deleted by the OIG
Not Relevant to the Final Report**

**Deleted by the OIG
Not Relevant to the Final Report**

A. PERFORMANCE REVIEW

1. Compliance with Performance Standard

Procedural

The OIG Auditors recommended the Plan increase its customer service performance to ensure that the level of performance guaranteed by Contract OPM-06-00060-2 is met, regardless of cost, since these performance standards were implemented under a fixed price contract agreement. The auditors also recommended that BCBSA modify its agreement for services with Davis Vision so that the performance standards required by Davis Vision match the performance standards required by Contract OPM-06-00060-2.

The auditors also recommended that the Contracting Officer ensure that the original performance standards are met on an annual basis. Any additional failure to meet the required performance standards should be considered a breach of contract, requiring immediate corrective action under the Contract's Correction of Deficiencies clause (Section I.23).

BCBSA Response

BCBSA acknowledges that there were differences in the performance measures as stated in Contract OPM-06-00060-2 and FEP's contract with Davis Vision. An amendment is being added to the Davis Vision Contract that changes the Performance Measures to reflect those stated in Contract OPM-06-00060-2. This change is effective with the reporting of the June 2013 performance.

The discrepancies in the performance measures between FEP's response to the RFP and the Davis Vision Contract was due to the time requirements to have the Davis Vision contract in place prior to OPM making the award. Once the contract was awarded, a comparison between the agreements was not done due to an oversight. We believe this to be an isolated event but as such have added a sign-off procedure between procurement and legal to our process as an added control.

BCBSA has also modified the quarterly reporting to the Contracting Officer to include these measures. These reporting changes will be effective with the report for the second quarter (includes June when the Amendment becomes effective) and will continue with future reports.

We reiterate our commitment to providing excellent customer service to our members and believe that the terms of the contract in no way compromised our service to members as demonstrated by our performance in the following table:

Year	Member Satisfaction Score
2007	72.4%
2008	81.7%
2009	79.4%
2010	81.1%
2011	87.0%
2012	86.3%
Average	81.32%

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 Signature]

[Redacted Name]
Vice President
[Redacted]

Attachment

cc: [Redacted], OPM
[Redacted], OPM
[Redacted], OPM
[Redacted], OPM
[Redacted], FEP