



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

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# Final Audit Report

**Subject:**

## AUDIT OF PREMIERA BLUECROSS MOUNTLAKE TERRACE, WASHINGTON

Report No. 1A-10-69-11-035

Date: 10/26/11

--CAUTION--

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

**AUDIT REPORT**

Federal Employees Health Benefits Program  
Service Benefit Plan Contract CS 1039  
BlueCross BlueShield Association  
Plan Code 10

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Premera BlueCross  
Washington and Alaska Service Areas  
Plan Codes 430/439/934/936/939  
Mountlake Terrace, Washington

REPORT NO. 1A-10-69-11-035

DATE: 10/26/11

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser  
Assistant Inspector General  
for Audits



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

## EXECUTIVE SUMMARY

Federal Employees Health Benefits Program  
Service Benefit Plan      Contract CS 1039  
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REPORT NO. 1A-10-69-11-035      DATE: 10/26/11

We conducted a limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Premera BlueCross (Plan) in Mountlake Terrace, Washington. The audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits and administrative expenses from 2006 through 2010 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2006 through 2010.

The audit disclosed no significant findings. Accordingly, this final audit report contains no questioned charges and recommendations.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This final audit report details the results from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Premera BlueCross (Plan), pertaining to the Washington and Alaska Service Areas. The Plan is located in Mountlake Terrace, Washington.

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

## **BACKGROUND**

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 BlueCross and BlueShield plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BlueCross and BlueShield plans throughout the United States to process the health benefit claims of its federal subscribers. The Plan is one of approximately 63 local BlueCross and BlueShield plans participating in the FEHBP.

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 BlueCross and BlueShield plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BlueCross BlueShield, located in Washington, D.C. These activities include acting as fiscal intermediary between the Association and member plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

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

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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.

All findings from our previous audit of this Plan (Report No. 1A-10-70-04-021, dated October 19, 2004) for contract years 1998 through 2002 have been satisfactorily resolved.

The results of this audit were discussed with the Plan and/or Association officials throughout the audit and at an exit conference. Since our audit disclosed no significant findings, we bypassed the draft report and issued this final 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:

#### **Miscellaneous Health Benefit Payments and Credits**

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

#### **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 regulations.

#### **Cash Management**

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

### **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 as they pertain to Plan codes 430, 439, 934, 936, and 939 for contract years 2006 through 2010. During this period, the Plan paid approximately \$1.5 billion in health benefit charges and \$74 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and fraud recoveries), administrative expenses, and cash management activities from 2006 through 2010.

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 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.

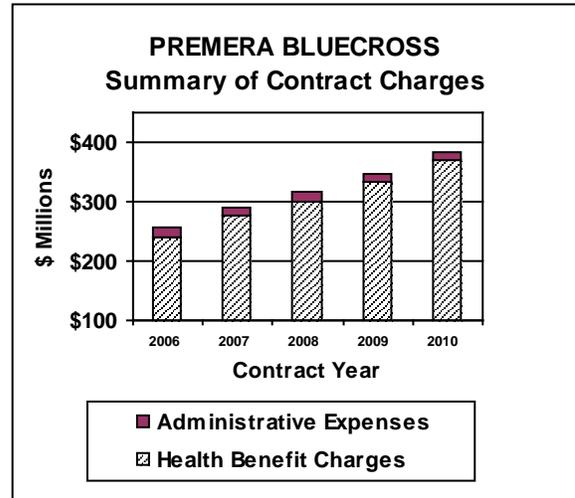


Figure 1 – Contract Charges

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 complied with all provisions of the contract and federal procurement regulations. 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 objectives.

The audit was performed at the Plan’s office in Mountlake Terrace, Washington from June 7 through June 30, 2011. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida.

**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 interviewed Plan personnel and reviewed the Plan’s policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 199 high dollar health benefit refunds and recoveries, totaling \$11,412,064 (from a universe of 44,594 refunds and recoveries, totaling \$40,844,461), and 21 special plan invoices (SPI), totaling \$596,098 in net payments (from a universe of 113 SPI’s, totaling \$20,670,300 in net payments), to determine if refunds and recoveries were

promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.<sup>2</sup> The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2006 through 2010. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, subcontracts, non-recurring projects, return on investment, Association dues, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

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<sup>2</sup> The Plan provided a consolidated universe of all types of FEP health benefit refunds and recoveries. From this universe, we selected all health benefit refunds and recoveries greater than \$25,000. From the SPI universe, we selected 17 SPI's with high dollar miscellaneous credits totaling \$414,370, as well as 4 SPI's with high dollar miscellaneous payments totaling \$1,010,468.

### **III. RESULTS OF AUDIT**

Our audit disclosed no findings pertaining to miscellaneous health benefit payments and credits, administrative expenses, and the Plan's cash management practices. Overall, we concluded that the Plan promptly returned health benefit refunds and recoveries to the FEHBP and properly charged miscellaneous payments to the FEHBP. We also concluded that the Plan's administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations. In addition, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### Experience-Rated Audits Group

██████████, Lead Auditor

██████████, Auditor

██████████, Auditor

██████████ Auditor

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██████████, Chief (██████████)

██████████ Senior Team Leader

**V. SCHEDULE A**  
**PREMERA BLUECROSS**  
**MOUNTLAKE TERRACE, WASHINGTON**  
**CONTRACT CHARGES**

<b>CONTRACT CHARGES</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>TOTAL</b>
<b>A. HEALTH BENEFIT CHARGES</b>						
PLAN CODE 430	\$125,796,054	\$145,084,020	\$158,669,888	\$176,763,077	\$195,178,688	\$801,491,727
MISCELLANEOUS PAYMENTS	(14,834)	3,692,532	1,920,501	2,779,241	3,388,234	11,765,673
PLAN CODE 439	40,194,035	44,952,376	50,533,808	54,568,911	61,636,661	251,885,791
MISCELLANEOUS PAYMENTS	0	0	0	0	0	0
PLAN CODE 934	3,760,816	4,164,490	4,110,980	4,598,064	5,094,474	21,728,824
MISCELLANEOUS PAYMENTS	0	0	0	0	0	0
PLAN CODE 936	21,416,001	23,454,510	25,118,459	26,903,059	27,246,715	124,138,744
MISCELLANEOUS PAYMENTS	0	0	0	0	0	0
PLAN CODE 939	49,537,241	55,339,154	61,096,261	66,910,092	76,660,447	309,543,195
MISCELLANEOUS PAYMENTS	0	0	0	0	0	0
<b>TOTAL</b>	<b>\$240,689,313</b>	<b>\$276,687,082</b>	<b>\$301,449,897</b>	<b>\$332,522,444</b>	<b>\$369,205,219</b>	<b>\$1,520,553,954</b>
<b>B. ADMINISTRATIVE EXPENSES</b>						
PLAN CODE 430	\$15,132,351	\$13,627,387	\$14,630,844	\$16,025,397	\$15,561,131	\$74,977,110
PRIOR PERIOD ADJUSTMENTS	0	(2,162)	131,362	0	0	129,200
BUDGET SETTLEMENTS	0	0	(376,313)	(328,398)	(143,265)	(847,976)
<b>TOTAL</b>	<b>\$15,132,351</b>	<b>\$13,625,225</b>	<b>\$14,385,893</b>	<b>\$15,696,999</b>	<b>\$15,417,866</b>	<b>\$74,258,334</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$255,821,664</b>	<b>\$290,312,307</b>	<b>\$315,835,790</b>	<b>\$348,219,443</b>	<b>\$384,623,085</b>	<b>\$1,594,812,288</b>