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

Final Audit Report

Subject:

AUDIT OF CAREFIRST BLUECHOICE OWINGS MILLS, MARYLAND

Report No. 1D-2G-00-09-028

Date: February 25, 2010

--CAUTION--

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Experience-Rated Health Maintenance Organization

CareFirst BlueChoice
Contract CS 2879 Plan Code 2G
Owings Mills, Maryland

REPORT NO. 1D-2G-00-09-028 DATE: February 25, 2010

Michael R. Esser
Assistant Inspector General
for Audits

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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EXECUTIVE SUMMARY

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This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at CareFirst BlueChoice (Plan) in Owings Mills, Maryland questions $107,358 in administrative expenses and lost investment income. The Plan agreed *(A)* with this questioned amount.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits and administrative expenses for 2004 through 2008 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2004 through 2008.

Questioned items are summarized as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan returned health benefit refunds and recoveries, including prescription drug rebates, to the FEHBP in a timely manner.

B. ADMINISTRATIVE EXPENSES

- **Unallowable and/or Unallocable Cost Centers *(A)*** **$107,358**

  The Plan charged the FEHBP for two unallowable and/or unallocable cost centers, resulting in overcharges of $100,234 to the FEHBP. Subsequent to us identifying these overcharges, the Plan returned $107,358 to the FEHBP, consisting of $100,234 for the overcharges and $7,124 for lost investment income.

C. CASH MANAGEMENT

The audit disclosed no findings pertaining to cash management. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

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 BlueChoice (Plan). The Plan is located in Owings Mills, Maryland.

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 Retirement and Benefits 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 Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.[1] Enrollment is open to all federal employees and annuitants in the Plan's service area, which includes Maryland, Northern Virginia, and Washington, D.C.

The Plan's contract (CS 2879) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses which have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

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

[1] Members of an experience-rated HMO have the option of using a designated network of providers or using non-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses a non-network provider, the member will pay a substantial portion of the charges and benefits available may be less comprehensive.

This is our first audit of this Plan as an experience-rated HMO. The results of this audit were provided to the Plan in a written audit inquiry (finding) during fieldwork, and were discussed with Plan officials throughout the audit and at an exit conference. The Plan's comments offered in response to our audit inquiry were considered in preparing our final report and are included as an Appendix to this report. Since the Plan agreed with our audit inquiry, we bypassed the draft report and only issued a final report. The Plan agreed with this decision.

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 Plan's Annual Accounting Statements for contract years 2004 through 2008. During this period, the Plan paid approximately $235 million in health benefit charges and $15 million in administrative expenses (See Figure 1 and Schedule A). The Plan also paid approximately $1 million in other expenses and retentions (See Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, provider audit recoveries, fraud recoveries and prescription drug rebates), administrative expenses, and cash management for 2004 through 2008.

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.

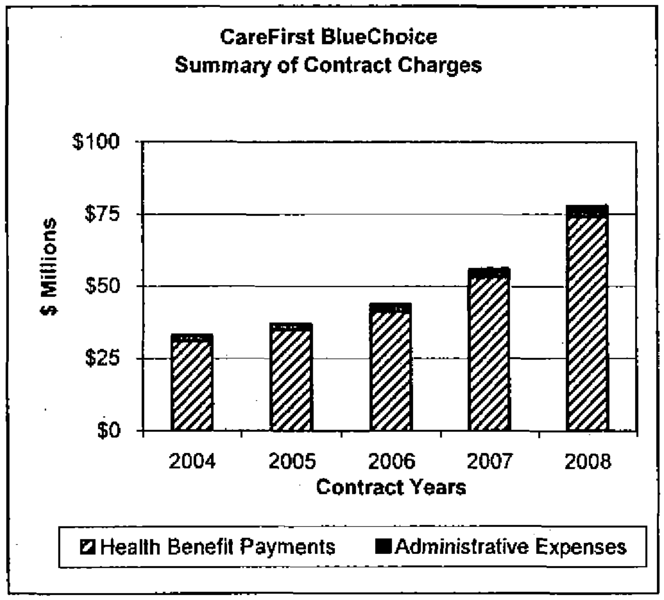

Figure 1 – Contract Charges

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 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 Plan. Due to time constraints, we did not verify the reliability of the data generated by the various 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 available was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Owings Mills, Maryland on various dates from May 4, 2009 though August 7, 2009. Audit fieldwork was also performed at our offices in Washington, D.C.; 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 10 health benefit refund adjustments, totaling $120,194 (from a universe of 23 health benefit refund adjustments, totaling $138,978); 10 provider audit recoveries, totaling $68,783 (from a universe of 86 provider audit recoveries for selected months, totaling $123,223); 15 subrogation recoveries, totaling $145,608 (from a universe of 93 subrogation recoveries, totaling $187,000); 10 fraud recoveries, totaling $28,992 (from a universe of 26 fraud recoveries, totaling $33,433); and 15 prescription drug rebate adjustments, totaling $2,045,868 (from a universe of 61 prescription drug rebate adjustments, totaling $3,981,297), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.[2] The results of these samples were not projected to the universe of miscellaneous payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2004 through 2008. Specifically, we reviewed administrative expenses relating to cost centers, expense accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, subcontracts, lobbying, benefit plan brochures, 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. The results of the testing were not projected to the universe of administrative expenses.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

[2] The sample of health benefit refund adjustments consisted of the two highest adjustments for each year from 2004 through 2008. The sample of provider audit recoveries consisted of all recoveries greater than $2,000 for selected months in 2004 through 2008. The sample of subrogation recoveries consisted of all recoveries greater than $2,500 from 2004 through 2008. The sample of fraud recoveries consisted of all recoveries greater than $1,000 from 2004 through 2008. The sample of prescription drug rebate adjustments consisted of the three highest adjustments for each year from 2004 through 2008.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan returned health benefit refunds and recoveries, including prescription drug rebates, to the FEHBP in a timely manner.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Cost Centers $107,358

The Plan charged the FEHBP for two unallowable and/or unallocable cost centers, resulting in overcharges of $100,234 to the FEHBP. Subsequent to us identifying these overcharges, the Plan returned $107,358 to the FEHBP, consisting of $100,234 for the overcharges and $7,124 for lost investment income (LII).

Contract CS 2879, 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."

48 CFR 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."

For the period 2004 through 2008, the Plan allocated administrative expenses of $11,540,003 to the FEHBP from 1,838 cost centers. From this universe, we selected a judgmental sample of 38 cost centers to review, which totaled $3,597,285 in expenses allocated to the FEHBP. We selected the cost centers based on high dollar amounts, our nomenclature review, and significant dollar amount fluctuations from year to year. We reviewed the expenses from these cost centers for allowability, allocability, and reasonableness.

Based on our review, we identified two cost centers that were unallowable and/or did not benefit the FEHBP.

- For cost center "00757" (Individual Telesales), the Plan allocated corporate advertising expenses, totaling $97,503, to the FEHBP from 2006 through 2008. Specifically, these advertising expenses were for telesales to "Market all product lines to increase enrollment" and internet sales to "Educate internet prospects". Regarding advertising expenses charged to the FEHBP, 48 CFR 31.205-1 and 48 CFR 1631.205-70 provide specific criteria on the extent to which such expenses are chargeable. Generally, these regulations state that such expenses are unallowable.

- For cost center "001D6" (Broker Compensation System Replacement), the Plan allocated broker expenses of $2,731 to the FEHBP in 2008. The Plan stated that these expenses were inadvertently allocated to the FEHBP.

In total, the Plan charged the FEHBP $100,234 for these unallowable and/or unallocable cost center expenses. After receiving our audit inquiry, the Plan returned the questioned cost center charges of $100,234 and applicable LII of $7,124 to the FEHBP. As part of our review, we verified that the Plan returned these funds to the FEHBP letter of credit account on October 1, 2009.

Plan's Response:

The Plan agrees with this finding. The Plan returned the questioned cost center charges and applicable LII to the FEHBP on October 1, 2009.

In reference to cost center "00757" (Individual Telesales), the Plan states, "In September 2006, the Account Product Specialist Manager terminated employment with CareFirst, and the FEHBP HMO Field Service activities were transitioned to another Account Manager residing in a different cost center. However, the Plan identified that a mapping of the FEHBP HMO contracts to the Account Product Specialist Manager's marketing representative number continued through the present and resulted in the incorrect allocation of $97,503 from September 2006 through December 2008. Since the incorrect mapping has been identified, the Plan has correctly mapped the FEHBP HMO contracts to the current Account Manager marketing representative."

In reference to cost center "001D6" (Broker Compensation System Replacement), the Plan agrees that the expenses related to this cost center were inadvertently allocated to the FEHBP.

Recommendation 1

We verified that the Plan returned $100,234 to the FEHBP for the questioned cost center charges. Therefore, no further action is required for these questioned charges.

Recommendation 2

We verified that the Plan returned $7,124 to the FEHBP for LLI on the questioned cost center charges. Therefore, no further action is required for this LII amount.

C. CASH MANAGEMENT

The audit disclosed no findings pertaining to cash management. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[redacted] Auditor-In-Charge

[redacted], Auditor

[redacted] Auditor

[redacted] Auditor

[redacted] Auditor

[redacted] Chief [redacted]

[redacted] Senior Team Leader

V. SCHEDULE A

CAREFIRST BLUECHOICE
OWINGS MILLS, MARYLAND

CONTRACT CHARGES AND AMOUNTS QUESTIONED

CONTRACT CHARGES*	2004	2005	2006	2007	2008	TOTAL
HEALTH BENEFIT CHARGES	$31,119,521	$35,068,755	$41,131,980	$53,197,740	$74,208,829	$234,726,825
ADMINISTRATIVE EXPENSES	2,496,340	2,170,846	2,607,078	3,256,008	4,166,604	14,696,876
OTHER EXPENSES AND RETENTIONS	268,954	68,353	92,083	224,062	324,621	978,073
TOTAL CONTRACT CHARGES	$33,884,815	$37,307,954	$43,831,141	$56,677,810	$78,700,054	$250,401,774

AMOUNTS QUESTIONED	2004	2005	2006	2007	2008	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$0	$0	$0	$0	$0	$0
B. ADMINISTRATIVE EXPENSES						
1. Unallowable and/or Unallocable Cost Centers**	0	0	13,581	43,412	50,365	107,358
C. CASH MANAGEMENT	0	0	0	0	0	0
TOTAL AMOUNTS QUESTIONED	$0	$0	$13,581	$43,412	$50,365	$107,358

* We did not review claim payments and other expenses and retentions.

** This audit finding also includes lost investment income of $7,124.

CareFirst BlueCross BlueShield
10455 Mill Run Circle
Owings Mills, MD 21117-5559

CareFirst. BlueCross BlueShield

October 9, 2009

[redacted]
U.S. Office of Personnel Management
Office of Inspector General
Auditor - Experience Rated Audits Group
800 Cranberrry Woods Drive
Suite 130
Cranberry Township, PA 16066

Dear [redacted]

This is in response to the OPM OIG revised Audit Inquiry #1, which was issued on October 6, 2009. In the inquiry, the OIG indicated that CareFirst charged the FEHBP for two unallowable and /or unallocable cost centers, resulting in overcharges of $100,234 to the FEHBP. CareFirst is providing the following response to each cost center issue:

Cost Center 00757 – Individual Telesales – $97,503

The Plan agrees with this section related to expenses charged from September 2006 to December 2008.

In September 2006, the Account Product Specialist Manager terminated employment with CareFirst, and the FEHBP HMO Field Service activities were transitioned to another Account Manager residing in a different cost center. However, the Plan identified that a mapping of the FEHBP HMO contracts to the Account Product Specialist Manager's marketing representative number continued through the present and resulted in the incorrect allocation of $97,503 from September 2006 through December 2008. Since the incorrect mapping has been identified, the Plan has correctly mapped the FEHBP HMO contracts to the current Account Manager marketing representative. The Plan has returned the principal amount of $97,503 and lost investment income of $7,017.49 to the Program on October 1, 2009. Supporting documentation is attached for your review. In addition, the misallocation for the Year 2009 was corrected during the August 2009 financial close process.

Cost Center 001D 6 – Broker Compensation System Replacement - $2,731

The Plan agrees that the project expenses related to this cost center were inadvertently misallocated to the FEHBP HMO in the amount of $2,731. The Plan has returned the principal amount of $2,731 and lost investment income of $106.44 to the Program on October 1, 2009. Supporting documentation is attached for your review.

We request that CareFirst's comments be included in their entirety in the OPM Final Audit Report.

Sincerely,

[redacted]
External Audit Coordination

cc: [redacted]