



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

Final Audit Report

**AUDIT OF
PENSION AND POST-RETIREMENT BENEFIT
COSTS FOR A SAMPLE OF BLUECROSS AND
BLUESHIELD PLANS**

**Report Number 1A-99-00-14-068
November 16, 2015**

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EXECUTIVE SUMMARY

Audit of Pension and Post-Retirement Benefit Costs for a Sample of BlueCross and BlueShield Plans

Report No. 1A-99-00-14-068

November 16, 2015

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that the BlueCross and BlueShield (BCBS) plans are complying with the provisions of the Federal Employees Health Benefits Act and regulations pertaining to pension and post-retirement benefit costs 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 24 BCBS plans in our sample charged pension and post-retirement benefit costs to the FEHBP in accordance with the terms of the contract and applicable regulations.

What did we audit?

Our focused audit covered pension and post-retirement benefit costs that were charged to the FEHBP from 2011 through 2013 for a sample of 24 BCBS plans.

What did we find?

We questioned \$115,126 in pension and post-retirement benefit costs that were overcharged to the FEHBP for 2011 through 2013. The BCBS Association and/or BCBS plans agreed with the questioned amounts. Lost investment income (LII) on these questioned charges amounts to \$4,040, which is calculated from January 1, 2012 through September 30, 2015.

Our audit results are summarized as follows:

- Pension Costs – Our audit determined that two BCBS plans in our sample overcharged the FEHBP \$10,399 for pension costs from 2011 through 2013. These pension cost overcharges consisted of \$8,771 by Triple-S, Inc. and \$1,628 by BCBS of Vermont.
- Post-Retirement Benefit Costs – Our audit also determined that BCBS of Delaware overcharged the FEHBP \$104,727 for post-retirement benefit costs from 2011 through 2013.
- Lost Investment Income on Audit Findings – As a result of our audit findings presented in this audit report, the FEHBP is due LII of \$4,040, calculated from January 1, 2012 through September 30, 2015.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

| | |
|--------------------|--|
| Association | BlueCross BlueShield Association |
| BCBS | BlueCross BlueShield <u>or</u> BlueCross and BlueShield |
| CFR | Code of Federal Regulations |
| FAR | Federal Acquisition Regulations |
| FEHB | Federal Employees Health Benefits |
| FEHBAR | Federal Employees Health Benefits Acquisition Regulations |
| FEHBP | Federal Employees Health Benefits Program |
| FEP | Federal Employee Program |
| LII | Lost Investment Income |
| OIG | Office of the Inspector General |
| OPM | U.S. Office of Personnel Management |
| PRB | Post-Retirement Benefit |

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| EXECUTIVE SUMMARY | i |
| ABBREVIATIONS | ii |
| I. BACKGROUND | 1 |
| II. OBJECTIVE, SCOPE, AND METHODOLOGY | 3 |
| III. AUDIT FINDINGS AND RECOMMENDATIONS | 5 |
| A. <u>Pension Costs</u> | 5 |
| B. <u>Post-Retirement Benefit Costs</u> | 7 |
| C. <u>Lost Investment Income on Audit Findings</u> | 8 |
| IV. MAJOR CONTRIBUTORS TO THIS REPORT | 10 |
| APPENDIX (BlueCross BlueShield Association’s Draft Report Response, dated July 27, 2015) | |
| REPORT FRAUD, WASTE, AND MISMANAGEMENT | |

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 a sample of 24 BlueCross and BlueShield (BCBS) plans, pertaining to pension and post-retirement benefit costs.

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 BCBS 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 BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. There are 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established a Federal Employee Program (FEP¹) 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 BlueCross BlueShield, 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), 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.

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.

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

This is our first focused audit of pension and post-retirement benefit costs for these 24 BCBS plans. The results of this audit were discussed with the Association and BCBS plan officials throughout the audit and at an exit conference on May 26, 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. Also, additional documentation provided by the Association and BCBS plans on various dates through September 21, 2015 was considered in preparing our final report.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the 24 BCBS plans in our sample charged pension and post-retirement benefit costs to the FEHBP 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.

The audit covered pension and post-retirement benefit costs from 2011 through 2013 for a sample of 24 BCBS plans (from a universe of 64 BCBS plans).² Our sample included all BCBS plans with FEHBP charges of \$350 million or less in contract year 2013 (except for several BCBS plans that are part of multi-plan companies, such as Anthem Inc. and Regence). For contract years 2011 through 2013, these 24 BCBS plans charged approximately \$21.7 million and \$5.5 million to the FEHBP for pension and post-retirement benefit costs, respectively. Specifically, we reviewed pension and post-retirement benefit costs to determine if these 24 BCBS plans charged these costs to the FEHBP in accordance with the contract and applicable regulations. The results of our reviews for the sample of 24 BCBS plans were not projected to the universe of all BCBS plans.

We did not consider each BCBS plan's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions and not tests of controls. Therefore, we do not express an opinion on each BCBS plan's system of internal controls taken as a whole.

We conducted tests to determine whether the BCBS plans in our sample 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),

² Our sample consisted of the following BCBS plans: BCBS of Arkansas, Highmark BCBS of Delaware, BCBS of Hawaii, BCBS of Idaho, Wellmark BCBS (Iowa/South Dakota), BCBS of Kansas, BCBS of Louisiana, BCBS of Michigan, BCBS of Mississippi, BCBS of South Carolina, BCBS of Kansas City, BCBS of Montana, BCBS of Nebraska, BCBS of Western New York, Excellus BCBS (New York), BCBS of North Dakota, Capital BlueCross (Pennsylvania), Independence BlueCross (Pennsylvania), BlueCross of Northeastern Pennsylvania, Triple-S, Inc. of Puerto Rico, BCBS of Rhode Island, BCBS of Vermont, Mountain State BCBS (West Virginia), and BCBS of Wyoming.

and the laws and regulations governing the FEHBP as they specifically relate to pension and post-retirement benefit costs. The results of our tests indicate that, with respect to the items tested, the BCBS plans did not fully comply with the provisions of the contract and applicable regulations relative to pension and post-retirement benefit costs. 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 BCBS plans 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 BCBS plans. 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 objective.

The audit was performed at our offices in Washington, D.C. and Jacksonville, Florida from January 15, 2015 through May 26, 2015.

METHODOLOGY

We reviewed the BCBS plans' policies, procedures, calculations, and/or accounting records during our audit of pension and post-retirement benefit costs. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of the plans' charges to the FEHBP for pension and post-retirement benefit costs.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Pension Costs

\$10,399

Our audit determined that 2 of the 24 BCBS plans in our sample overcharged the FEHBP \$10,399 for pension costs from 2011 through 2013. These pension cost overcharges consisted of \$8,771 by Triple-S, Inc. and \$1,628 by BCBS of Vermont.

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(j)(1) states, “Pension plans are normally segregated into two types of plans: defined-benefit and defined-contribution pension plans. The contractor shall measure, assign, and allocate the costs of all defined-benefit pension plans and the costs of all defined-contribution pension plans in compliance with 48 CFR 9904.412 (Cost Accounting Standard for Composition and Measurement of Pension Cost) and 48 CFR 9904.413 (Adjustment and Allocation of Pension Cost). Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(1)(i) . . . of this subsection.” Paragraph (j)(1)(i) of this subsection states, “Except for nonqualified pension plans using the pay-as-you-go cost method, to be allowable in the current year, the contractor shall fund pension costs by the time set for filing of the Federal income tax return or any extension. Pension costs assigned to the current year, but not funded by the tax return time, are not allowable in any subsequent year. For nonqualified pension plans using the pay-as-you-go method, to be allowable in the current year, the contractor shall allocate pension costs in the cost accounting period that the pension costs are assigned.”

FAR limits the amount of pension cost that may be charged to a government contract to the amount of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard (CAS) 412 and 413, whichever is lower.

For the period 2011 through 2013, we reviewed the pension costs that were charged to the FEHBP for a sample of 24 BCBS plans to determine if the pension costs were properly charged to the FEHBP in accordance with the contract and applicable regulations. Based on our review of these BCBS plans’ pension costs and supporting documentation, we determined that two of the BCBS plans (Triple-S, Inc. and BCBS of Vermont) did not properly charge pension costs to the FEHBP in accordance with the contract and applicable regulations.

The following schedule summarizes the questioned pension costs for these two BCBS plans:

| Plan | 2011 | 2012 | 2013 | Total Questioned |
|-----------------|-----------|-----------|----------|---------------------|
| Triple-S, Inc. | (\$3,307) | (\$1,640) | \$13,718 | \$8,771 |
| BCBS of Vermont | (802) | 329 | 2,101 | 1,628 |
| Total | (\$4,109) | (\$1,311) | \$15,819 | \$10,399 |

For Triple-S, Inc., we determined that the plan overcharged the FEHBP \$8,771 (net) for pension costs from 2011 through 2013. Specifically, the plan did not make the applicable out-of-system adjustments for pension costs in 2011 through 2013. This resulted in pension cost undercharges of \$3,307 and \$1,640 to the FEHBP in 2011 and 2012, respectively, and a pension cost overcharge of \$13,718 to the FEHBP in 2013.

For BCBS of Vermont, we determined that the plan overcharged the FEHBP \$1,628 (net) for pension costs from 2011 through 2013. In 2011, the plan made an out-of-system adjustment for pension costs but inadvertently removed too much of the costs, resulting in an undercharge of \$802 to the FEHBP. In 2012 and 2013, the plan made out-of-system adjustments for pension costs but removed amounts that were less than what the plan actually should have, resulting in overcharges of \$329 and \$2,101 to the FEHBP in 2012 and 2013, respectively.

Association's Response:

Regarding Triple-S, Inc., the Association states that the plan agrees that out-of-system adjustments were not made for pension costs in 2011 through 2013, resulting in undercharges to the FEHBP in 2011 and 2012 and an overcharge in 2013.

For BCBS of Vermont, the Association states that the plan agrees with the questioned charges.

OIG Comment:

Subsequent to the draft report, we revised the questioned charges for Triple-S, Inc. In an email (dated August 20, 2015), the Association informed us that Triple-S, Inc. agrees with the revised questioned charges of \$8,771 (net).

Recommendation 1

We recommend that the contracting officer disallow \$10,399 (net) for pension costs that were overcharged to the FEHBP from 2011 through 2013 (\$8,771 by Triple-S, Inc. and \$1,628 by BCBS of Vermont).

B. Post-Retirement Benefit Costs

\$104,727

Our audit determined that BCBS of Delaware overcharged the FEHBP \$104,727 for post-retirement benefit (PRB) costs from 2011 through 2013.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be 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 shall be incurred pursuant to law, employer-employee agreement, or an established policy of the contractor, and shall comply with paragraphs (o)(2)(i), (ii), or (iii) of this subsection.”

**BCBS of Delaware
overcharged the
FEHBP \$104,727
for PRB costs.**

For the period 2011 through 2013, we reviewed the PRB costs that were charged to the FEHBP for a sample of 24 BCBS plans. Based on our review, we determined that BCBS of Delaware did not charge PRB costs to the FEHBP in accordance with the terms of the contract and applicable regulations.

BCBS of Delaware used the cash (or pay-as-you-go) method and charged \$221,470 to the FEHBP for PRB costs from 2011 through 2013. We reviewed the Delaware plan's calculations of the PRB costs charged to the FEHBP and determined if these costs were calculated in accordance with 48 CFR 31.205-6(o). We determined that the plan did not allocate PRB costs on an actual payment basis during the audit scope. Specifically, each year the plan allocated a percentage of the corporate payments in the cost system to FEP, without adjusting the corporate payments to reflect the actual PRB payments incurred. As a result, the FEHBP was overcharged \$104,727 for PRB costs from 2011 through 2013 (i.e., \$31,921 in 2011, \$15,265 in 2012, and \$57,541 in 2013).

Association's Response:

The Association states that BCBS of Delaware agrees with the questioned charges.

Recommendation 2

We recommend that the contracting officer disallow \$104,727 for PRB costs that were overcharged to the FEHBP by BCBS of Delaware from 2011 through 2013.

C. Lost Investment Income on Audit Findings \$4,040

As a result of the audit findings presented in this report, the FEHBP is due LII of \$4,040 from January 1, 2012 through September 30, 2015.

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."

We calculated investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our calculations show that the FEHBP is due LII of \$4,040 from January 1, 2012 through September 30, 2015 on the questioned pension and PRB costs that were overcharged to the FEHBP for contract years 2011 through 2013.

The following table summarizes the questioned LII amount that is due by each BCBS plan:

| Plan | LII Amount Due |
|------------------|----------------|
| BCBS of Delaware | \$3,478 |
| Triple-S, Inc. | 507 |
| BCBS of Vermont | 55 |
| Total | \$4,040 |

OIG Comment:

The draft audit report did not include an audit finding for LII. Therefore, the Association did not address this item in its reply.

Recommendation 3

We recommend that the contracting officer direct the applicable BCBS plans to credit \$4,040 (plus interest accruing after September 30, 2015) to the Special Reserve for LII on audit findings.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[REDACTED], Lead Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Chief [REDACTED]

[REDACTED], Senior Team Leader



APPENDIX

**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005
202.942.1000
Fax 202.942.1125

July 27, 2015

██████████ ██████████ 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
Audit of Pension and Postretirement Costs
For a Sample of Blue Cross Blue Shield Plans Audit
Audit Report Number 1A-99-00-14-068**

Dear ██████████:

This is the Blue Cross and Blue Shield Association's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) Pension and Postretirement Benefit costs for a sample of Blue Cross Blue Shield Plans.

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

Pension Costs \$2,853,379

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[REDACTED]
July 27, 2015

Page 2 of 4

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Triple-S, Inc. \$7,467

The Plan agrees that the plan did not make out-of-system adjustments for pension costs in 2011 through 2013, which resulted in an undercharge of \$3,307 and \$1,640 in 2011 and 2012, respectively and an overcharge of \$13,718 in 2013 to the FEHBP for a net overcharge of \$7,467.

Blue Cross Blue Shield of Vermont \$1,628

The Plan agrees that the plan overcharged the FEHBP \$1,628 (net) in pension expenses from 2011 through 2013. In 2011, the plan made an out-of-system adjustment but removed an amount more than what the plan should have, resulting in an undercharge of \$802 to the FEHBP. In 2012 and 2013, the plan made out-of-system adjustments but removed an amount less than what the plan should have, resulting in overcharges of \$329 and \$2,101 in 2012 and 2013, respectively.

[REDACTED]
July 27, 2015

Page 3 of 4

Post-Retirement Benefit Costs

\$320,151

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BCBS of Delaware

\$104,727

The Plan agrees that the Plan may have overcharged the FEHBP \$104,727 in post-retirement expenses from 2011 through 2013.

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[REDACTED]
July 27, 2015

Page 4 of 4

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]

Managing Director, Program Assurance

Attachment



Report Fraud, Waste, and Mismanagement

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By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
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Washington, DC 20415-1100

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