



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

Final Audit Report

Audit of Premera Blue Cross

**Report Number 1A-10-70-17-019
October 2, 2017**

-- CAUTION --

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EXECUTIVE SUMMARY

Audit of Premera Blue Cross

Report No. 1A-10-70-17-019

October 2, 2017

Why Did We Conduct the Audit?

The objectives of our audit were to determine whether Premera Blue Cross (Plan) charged costs to the Federal Employees Health Benefits Program (FEHBP) and provided services to FEHBP members in accordance with the terms of its contract with the U.S. Office of Personnel Management. Specifically, our objective was to determine whether the Plan complied with contract provisions relative to claim payments.

What Did We Audit?

The Office of the Inspector General (OIG) has completed a limited scope performance audit of the FEHBP operations of Premera Blue Cross. The audit covered claim payments from January 1, 2014, through December 31, 2016, as reported in the Blue Cross and Blue Shield Association's (Association) Federal Employee Program Government-wide Service Benefit Annual Accounting Statements.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

Our limited scope performance audit identified minimal exceptions and determined that Premera Blue Cross is generally pricing claim payments properly on behalf of the FEHBP. Therefore, we conclude that Premera Blue Cross appears to be in compliance with the terms of its contract with the U.S. Office of Personnel Management and industry standards.

ABBREVIATIONS

Association	Blue Cross Blue Shield Association
BCBS	Blue Cross and Blue Shield
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefit Program
FEP	Federal Employee Program
OBRA 93	Omnibus Budget Reconciliation Act of 1993
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	Premera Blue Cross

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REPORT FRAUD, WASTE AND MISMANAGEMENT	

I. BACKGROUND

This final report details the audit reviews and conclusion resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Premera Blue Cross (Plan). The Plan is located in Mountlake Terrace, Washington. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized 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, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The Blue Cross Blue Shield Association (Association), on behalf of participating Blue Cross and Blue Shield (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 64 BCBS plans participating in the FEHBP.

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 Blue Cross Blue Shield, 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.

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 Association and Plan management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

The most recent audit report issued that covered claim payments for Premera Blue Cross was Report No. 1A-10-70-04-021, dated October 19, 2004. All findings from the previous audit have been resolved.

The results of this current audit were discussed with Plan and Association officials throughout the audit and at an exit conference dated July 31, 2017. 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. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

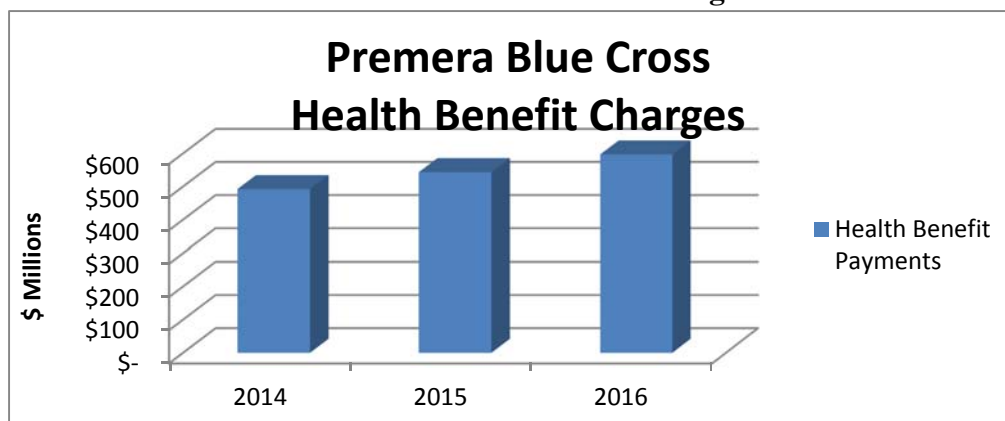
The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objective was to determine whether the Plan complied with contract provisions relative to health benefit payments.

SCOPE AND METHODOLOGY

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 Blue Cross and Blue Shield Association’s Government-wide Service Benefit Plan Annual Accounting Statements as they pertain to Plan codes 430, 439, 934 and 936 (Premera Blue Cross) for contract years 2014 through 2016 (see Exhibit I) and determined the Plan paid approximately \$1.6 billion in health benefit charges. From this universe, we judgmentally selected various samples for review. We reviewed approximately 127 claims, totaling \$7.7 million in payments, for the period of January 1, 2014, through December 30, 2016, for proper adjudication. The determination of our audit findings is based on the FEHBP contract, the 2014 through 2016 Service Benefit Plan brochures, the Plan’s provider agreements, and the Association’s FEP Administrative Procedures Manual. The results of these samples were not projected to the universe of claims.

Exhibit I – Health Benefit Charges



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. Our audit approach consisted mainly of 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 and the laws and regulations governing the FEHBP as they relate to claim payments. The results of our tests indicate that, with respect to the items tested, the Plan is in compliance with the provisions of the contract relative to claim payments. A summary of our reviews was noted and explained in detail in the "Audit Reviews and Conclusion" 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, the FEP Operations Center, and the Plan. Through audits and a reconciliation process, we have verified the reliability of the BCBS claims data in our data warehouse, which was used to identify the universe of claims for each type of review. The BCBS claims data is provided to us on a monthly basis by the FEP Operations Center, and after a series of internal steps, uploaded into our data warehouse. However, due to time constraints, we did not verify the reliability of the data generated by the Plan's local claims system. 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 objectives.

Audit fieldwork was performed at our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida from May through July 2017.

III. AUDIT REVIEWS AND CONCLUSION

The sections below summarize the results of the reviews we performed on claim payments made by Premera Blue Cross. As mentioned in the “scope” section above, all of our samples were selected from claim payments for services reimbursed between January 1, 2014, and December 31, 2016.

A. SYSTEM PRICING REVIEW

We reviewed a sample of claims where the FEHBP paid as the primary insurer to determine whether the Plan’s local claims adjudication system properly processed and priced these claims in accordance with contract CS 1039. See Exhibit II for a summary of our System Pricing Review.

Exhibit II – Summary of System Pricing Review

Universe of Claim Lines	Universe Dollar Total	Sampled Claims	Sampled Dollar Total
		107	\$ 7,729,248

Sample Selection Criteria

We selected 107 claims that were stratified by place of service (such as provider’s office or inpatient hospital) and payment category (such as \$50 to \$99). Our sample size was judgmentally determined by the number of sample items from each place of service stratum based on the stratum’s total claim dollars paid.

Review Summary

Our review did not identify any claim payment errors.

B. OMNIBUS BUDGET RECONCILIATION ACT OF 1993 (OBRA 93)

OBRA 93 limits the benefit payment to physicians for services provided to annuitants age 65 or older who are not covered under Medicare Part B. The FEHBP fee-for-service plans are required to limit the claim payment to the lesser of the billed charges or the amount equivalent to the Medicare Part B payment. The FEP Operations Center contracts with Palmetto (an OBRA 93 pricing vendor) to calculate the pricing amounts for FEHBP claims subject to OBRA 93 pricing regulations.

We reviewed a sample of OBRA 93 claim lines that contained procedure code modifiers 62, 66, AS, 50 and 51. Based on our audit experience, we consider these claim lines to be at high risk

for claim payment error since the FEP Express – FEHBP national claims system – was not configured to apply the Medicare modifier discount percentages. See Exhibit III for a summary of our OBRA 93 review.

Exhibit III – Summary of OBRA 93 Review

Universe of Claim Lines	Universe Dollar Total	Sampled Claims	Sampled Dollar Total
		20	\$21,317

Sample selection Criteria

All claim lines with amounts paid of \$400 or more.

Review Summary

Our review determined the Plan incorrectly paid four claims due to the fact that the FEP Express system was not configured to apply the correct modifier reimbursement percentage discounts for these claims. The Plan has already taken the necessary action and these overcharges of \$2,314 have been returned to the FEHBP. Therefore, no further action is required.

Overall Audit Conclusion

Our audit review did not detect any significant concerns with the Plan’s process for pricing and paying FEHBP claims, and the Plan appears to be in compliance with the terms of its contract with the U.S. Office of Personnel Management and industry standards.

APPENDIX A

August 3, 2017

[REDACTED]
Senior team Leader
Information System Audit group
OPM Office of the Inspector General

Re: Draft Audit Report No. 1A-10-70-17-019

Dear [REDACTED]:

Thank you for the time your team has spent working with our plan. It has been a pleasure working with all of you.

I am writing you concerning the Office of the Inspector General Draft Audit Report, which included claim payments from January 1, 2014 through December 31, 2016.

We have reviewed the Draft Audit Report that identified minimal exceptions. We are very pleased with the conclusion that Premera Blue Cross appears to be in compliance with the terms of our contract and is generally properly pricing claim payments on behalf of the Federal Employees Health Benefits Program.

Premera takes any potential findings seriously and we appreciate every opportunity to provide peace of mind to all of our customers.

Sincerely,

[REDACTED]
[REDACTED], Manager
Quality Review & Reporting
Premera Blue Cross

cc:

[REDACTED], BCBSA
[REDACTED], Premera Blue Cross
[REDACTED], Premera Blue Cross
[REDACTED], Premera Blue Cross



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