



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

Final Audit Report

**Audit of CareFirst BlueCross BlueShield's
Federal Employee Program Operations Center Costs
Owings Mills, Maryland and Washington, D.C.**

Report Number 1A-10-92-20-002

September 10, 2020

EXECUTIVE SUMMARY

Audit of CareFirst BlueCross BlueShield's Federal Employee Program Operations Center Costs

Report No. 1A-10-92-20-002

September 10, 2020

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that CareFirst BlueCross BlueShield (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations 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 Plan charged administrative expenses to the FEHBP for the Federal Employee Program (FEP) Operations Center that were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable Federal regulations.

What did we audit?

Our audit covered the Plan's administrative expenses for the FEP Operations Center from 2014 through 2018, as reported in the Annual Accounting Statements.

What did we find?

We questioned \$7,877 in administrative expense charges and lost investment income, consisting of \$7,594 for unallowable costs (i.e., lodging costs in excess of Federal per diem rates, alcoholic beverages, and gifts) and \$283 for applicable lost investment income on these questioned charges. The BlueCross BlueShield Association and Plan agreed with these questioned amounts. As part of our review, we verified that the Plan subsequently returned these questioned amounts to the FEHBP.

Overall, we concluded that the Plan's administrative expenses charged to the FEHBP for the FEP Operations Center were actual, allowable, necessary, and reasonable expenses incurred in accordance with the contract and applicable Federal regulations.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross and/or 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
Plan	CareFirst BlueCross BlueShield

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I. BACKGROUND

This final report details the findings, conclusions, and recommendations from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at CareFirst BlueCross BlueShield (Plan) pertaining to the Federal Employee Program (FEP¹) Operations Center. The Plan's headquarters are located in Owings Mills, Maryland and the FEP Operations Center is located in Washington, D.C.

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 local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (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. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established an FEP 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 the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in 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

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.

claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

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

All findings from our previous audit of the Plan pertaining to the FEP Operations Center (Report No. 1A-10-92-14-055, dated September 11, 2015), covering administrative expenses for contract years 2009 through 2013, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on April 2, 2020; and were presented in detail in a draft report, dated April 30, 2020. The Association's comments offered in response to this draft report were considered in preparing our final report and are included as an Appendix to this report.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

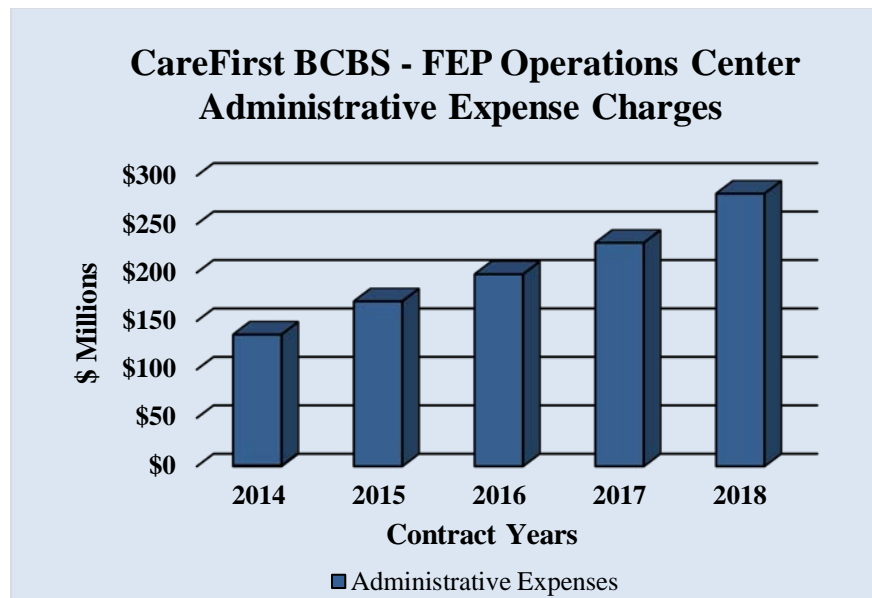
OBJECTIVE

The objective of our audit was to determine whether the Plan charged administrative expenses to the FEHBP for the FEP Operations Center that were actual, allowable, necessary, and reasonable expenses incurred 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.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements pertaining to the Plan's administrative expenses for the FEP Operations Center for contract years 2014 through 2018. During this period, the Plan charged approximately \$1.02 billion in administrative expenses to the FEHBP for the FEP Operations Center.



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 significant matters involving the Plan's internal control structure and 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, 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 pertaining to administrative expenses. 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 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 and the FEP Director's Office. 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 the Plan's office in Owings Mills, Maryland on various dates from October 16, 2019, through January 31, 2020. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. through April 2, 2020.

Throughout the audit process, the Plan did a good job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We greatly appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's cost accounting system by inquiry of Plan officials. For contract years 2014 through 2018, we also judgmentally reviewed the Plan's administrative expenses for the FEP Operations Center that were charged to the FEHBP. Specifically, we reviewed the administrative expenses relating to cost centers; natural accounts; out-of-system adjustments; prior period adjustments; pensions; post-retirement benefits; employee health benefits; executive compensation limits; return on investment; lobbying; Association dues; and subcontracts.² We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

² In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. For the FEP Operations Center, the Plan allocated administrative expenses of \$1,016,217,108 (before adjustments) to the FEHBP from 641 cost centers that contained 107 natural accounts. From this universe, we selected a judgmental sample of 89 cost centers to review, which totaled \$458,604,883 in expenses allocated to the FEHBP. We also selected a judgmental sample of 46 natural accounts to review, which totaled \$644,606,692 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES

The audit disclosed no significant findings pertaining to administrative expenses. Overall, we concluded that the Plan's administrative expenses charged to the FEHBP for the FEP Operations Center were actual, allowable, necessary, and reasonable expenses incurred in accordance with the contract and applicable Federal regulations (except as noted in the audit finding for "Unallowable Costs").

1. Unallowable Costs \$7,877

The Plan charged unallowable costs of \$7,594 to the FEHBP in 2018. Specifically, these unallowable costs pertained to lodging costs in excess of Federal per diem rates, alcoholic beverages, and gifts. As a result of this finding, the Plan subsequently returned \$7,877 to the FEHBP, consisting of \$7,594 for these unallowable costs and \$283 for applicable lost investment income (LII) on these questioned charges.

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 31.205-13(b) states, "Cost of gifts are unallowable."

48 CFR 31.205-46(a)(2) states, "costs incurred for lodging . . . shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel"

48 CFR 31.205-51 states, "Costs of alcoholic beverages are unallowable."

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 . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

For contract years 2014 through 2018, the Plan allocated administrative expenses of \$1,016,217,108 (before adjustments) to the FEHBP for the FEP Operations Center, from 641 cost centers that contained 107 natural accounts. From this universe, we selected a judgmental sample of 89 cost centers to review, which totaled \$458,604,883 in expenses

allocated to the FEHBP. We also selected a judgmental sample of 46 natural accounts to review, which totaled \$644,606,692 in expenses allocated to the FEHBP through the cost centers. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

The Plan charged the FEHBP \$7,594 for unallowable costs.

Based on our review, we determined that the Plan charged unallowable costs of \$7,594 to the FEHBP in 2018. Specifically, we identified one transaction recorded in natural account “791800” (Travel – Hotel) that included lodging costs of \$5,434 in excess of the maximum daily Federal per diem rates; six transactions recorded in natural account “792000” (Meetings – Meals) that included \$1,722 in charges for alcoholic beverages; and one additional transaction from natural account “792000” that included \$438 in charges for gifts.

In total, the Plan returned \$7,877 to the FEHBP for this audit finding, consisting of \$7,594 for the unallowable costs that were charged to the FEHBP and \$283 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

Association/Plan Response:

The Plan agrees with the finding and recommendations.

OIG Comment:

We verified that the Plan returned \$7,877 to the FEHBP in April 2020, consisting of \$7,594 for the questioned unallowable costs and \$283 for applicable LII.

Recommendation 1

We recommend that the contracting officer disallow \$7,594 for the questioned unallowable costs that were charged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned \$7,594 to the FEHBP for these questioned charges, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$283 to the FEHBP for the questioned LII calculated on the unallowable costs. However, since we verified that the Plan subsequently returned \$283 to the FEHBP for the questioned LII, no further action is required for this LII amount.



**BlueCross
BlueShield**

Association

1310 G Street, N.W.
Washington, D.C. 20005
202.626.4800
www.BCBS.com

APPENDIX

May 21, 2020

Mr. [REDACTED], 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
CareFirst BlueCross BlueShield-OP Center
Audit Report No. 1A-10-92-20-002
(Dated April 30, 2020)**

Dear Mr. [REDACTED]:

This is the CareFirst BlueCross BlueShield (CareFirst) response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). CareFirst is requesting the following changes to the Draft Report:

Under I. Background (page 1, para 6) The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by Service Benefit Plan Administrative Services Corporation (SBP), an affiliate of CareFirst BCBS, located in Washington, D.C. ~~and CareFirst BCBS, located in Owings Mills, Maryland.~~ These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining (page 2, para 1) 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.~~

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

Report No. 1A-10-92-20-002

A. Administrative Expenses

1. Unallowable Costs

\$7,877

Recommendation 1

We recommend that the contracting officer disallow \$7,594 for the questioned unallowable costs that were charged to the FEHBP in 2018. However, since we verified that the Plan subsequently returned \$7,594 to the FEHBP for these questioned charges, no further action is required for this amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

Recommendation 2

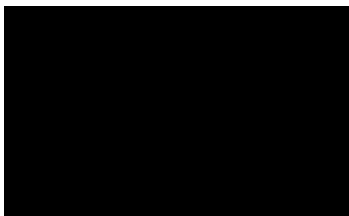
We recommend that the contracting officer require the Plan to return \$283 to the FEHBP for the questioned LII calculated on the unallowable costs. However, since we verified that the Plan subsequently returned \$283 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

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,



Managing Director, Program Assurance



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