



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

---

# Final Audit Report

Subject:

## AUDIT OF CAREFIRST BLUECROSS BLUESHIELD OWINGS MILLS, MARYLAND

Report No. 1A-10-92-09-024

Date: March 10, 2010

--CAUTION--

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain propriety information that was redacted from the publicly distributed copy.



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

---

CareFirst BlueCross BlueShield  
Federal Employee Program Operations Center  
Owings Mills, Maryland

REPORT NO. 1A-10-92-09-024

DATE: March 10, 2010

A handwritten signature in black ink, appearing to read "M. 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  
BlueCross BlueShield Association  
Plan Code 10

---

CareFirst BlueCross BlueShield  
Federal Employee Program Operations Center  
Owings Mills, Maryland

REPORT NO. 1A-10-92-09-024

DATE: March 10, 2010

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at CareFirst BlueCross BlueShield (Plan), which specifically included the Federal Employee Program (FEP) Operations Center's administrative expenses, disclosed no findings. Overall, we concluded that the FEP Operation Center's administrative expenses charged to the FEHBP were actual, allowable, necessary and reasonable expenses incurred in accordance with the terms of the contract and applicable laws and regulations.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered administrative expenses of the FEP Operations Center from 2004 through 2008 as reported in the Annual Accounting Statements.

## CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVE, SCOPE, AND METHODOLOGY .....	3
III. AUDIT RESULTS .....	5
A. <u>ADMINISTRATIVE EXPENSES</u> .....	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	6
V. SCHEDULE A – ADMINISTRATIVE EXPENSE CHARGES	

## **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 BlueCross BlueShield (Plan) pertaining to the administrative expenses of the Federal Employee Program (FEP) Operations Center. The Plan's offices are located in Washington, D.C. and 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 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 an 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.

---

<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.

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.

All findings from our previous audit of the Plan (Report No. IA-10-85-03-105, dated September 29, 2004) for contract years 2001 and 2002 have been satisfactorily resolved.

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

## **II. OBJECTIVE, SCOPE, AND METHODOLOGY**

### **OBJECTIVE**

The objective of our audit was to determine whether the FEP Operations Center'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.

### **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 conclusions based on our audit objective.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to administrative expenses for the FEP Operations Center for contract years 2004 through 2008. During this period, the Plan charged approximately \$376 million in administrative expenses for the FEP Operations Center (See Schedule A).

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.

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 comply 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 Owings Mills, Maryland on various dates from May 4, 2009 through 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 cost accounting system by inquiry of Plan officials.

We judgmentally reviewed administrative expenses of the FEP Operations Center that were charged to the FEHBP for contract years 2004 through 2008. 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, Association dues, lobbying expenses, return on investment, subcontracts, 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.

### **III. AUDIT RESULTS**

#### **A. ADMINISTRATIVE EXPENSES**

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the FEP Operation Center's administrative expenses charged to the FEHBP were actual, allowable, necessary and reasonable expenses incurred in accordance with the terms of the contract and applicable laws and regulations.

#### IV. MAJOR CONTRIBUTORS TO THIS REPORT

##### Experience-Rated Audits Group

██████████ Lead Auditor

██████████ Auditor

██████████ Auditor

██████████ Auditor

---

██████████ Chief ██████████

██████████ Senior Team Leader

V. SCHEDULE A

CAREFIRST BLUECROSS BLUESHIELD  
OWINGS MILLS, MARYLAND

ADMINISTRATIVE EXPENSE CHARGES

ADMINISTRATIVE EXPENSE CHARGES	2004	2005	2006	2007	2008	TOTAL
FEDERAL EMPLOYEE PROGRAM OPERATIONS CENTER	\$59,203,709	\$68,642,031	\$74,392,174	\$83,071,253	\$90,802,673	\$376,111,840