



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

Final Audit Report

**AUDIT OF
COMPASS ROSE BENEFITS GROUP
RESTON, VIRGINIA**

Report Number 1B-42-00-17-006

January 16, 2018

EXECUTIVE SUMMARY

Audit of the Compass Rose Benefits Group

Report No. 1B-42-00-17-006

January 16, 2018

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that the Compass Rose Benefits Group (CRBG), as underwriter and administrator of the Compass Rose Health 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. The objective of our audit was to determine whether CRBG handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

What did we audit?

Our limited scope audit covered CRBG's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016. Specifically, we reviewed CRBG's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances for the Compass Rose Health Plan. Due to concerns with CRBG's working capital funds, we expanded our scope to also include these funds from July 1, 2016, through December 31, 2016.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$3,480,136 in cash management activities. Specifically, we determined that CRBG held an excess working capital deposit of \$3,480,136 in the dedicated FEHBP investment account as of December 31, 2016. CRBG agreed with this questioned amount. As part of our review, we verified that CRBG returned the excess working capital deposit of \$3,480,136 to the LOCA in March 2017.

ABBREVIATIONS

ACH	Automated Clearing House
CFR	Code of Federal Regulations
Contract	Contract CS 1065
CRBG	Compass Rose Benefits Group
EFTs	Electronic Fund Transfers
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
Guidelines	Letter of Credit System Guidelines
LOCA	Letter of Credit Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
PBM	Pharmacy Benefit Manager
WC	Working Capital

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. BACKGROUND	1
II. OBJECTIVE, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDING AND RECOMMENDATIONS	5
A. Excess Working Capital Deposit	5
APPENDIX: Compass Rose Benefits Group’s Draft Report Response, dated June 26, 2017	
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 the Compass Rose Benefits Group (CRBG), as underwriter and administrator of the Compass Rose Health Plan. CRBG's headquarters are located in Reston, Virginia.

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.

CRBG is a non-profit insurance provider that offers health insurance plans for civilian employees and retirees of the United States' Intelligence Community, Department of Defense, and Department of State. Effective January 1, 2011, CRBG established the Compass Rose Health Plan. CRBG underwrites and administers the Compass Rose Health Plan.

The Compass Rose Health Plan is a fee-for-service employee organization plan with a preferred provider organization that offers health care to eligible enrollees and their families. Enrollment is open to federal employees and retirees of the following organizations: Central Intelligence Agency, Defense Intelligence Agency, Department of Defense, Department of Energy's Office of Intelligence and Counterintelligence, Department of Homeland Security's Office of Intelligence and Analysis, Department of State, Department of Treasury's Office of Intelligence and Analysis, Drug Enforcement Administration's Intelligence Division, Federal Bureau of Investigation, National Geospatial-Intelligence Agency, National Reconnaissance Office, National Security Agency, Office of the Director of National Intelligence and Affiliated Centers, Office of Naval Intelligence, and the United States Agency for International Development.

CRBG's contract (CS 1065) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that 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 CRBG's management. In addition, management of CRBG is responsible for establishing and maintaining a system of internal controls.

This is our first audit of CRBG. The results of this audit were discussed with the CRBG officials throughout the audit and at an exit conference on May 17, 2017, and were presented in detail in a draft report, dated May 31, 2017. CRBG'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. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether CRBG handled FEHBP funds in accordance with the contract and 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit covered CRBG's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016, for the Compass Rose Health Plan. Specifically, we reviewed CRBG's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances to determine if CRBG handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP. Due to concerns with CRBG's working capital funds, we expanded our audit scope for these funds to also include the period July 1, 2016, through December 31, 2016.

In planning and conducting our audit, we obtained an understanding of CRBG'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 CRBG'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 CRBG's system of internal controls taken as a whole.

We also conducted tests to determine whether CRBG had complied with the contract provisions, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Health Benefits Acquisition Regulations, as appropriate), and the laws and regulations governing the FEHBP that relate to cash management of FEHBP funds. The results

of our tests indicate that, with respect to the items tested, CRBG did not fully comply with all provisions of the contract relative to cash management of FEHBP funds. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Finding 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 CRBG. 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 office in Jacksonville, Florida from December 1, 2016, through May 17, 2017. During our fieldwork phase, we also made a short on-site visit to CRBG from February 7, 2017, through February 9, 2017. Throughout the audit process, CRBG did an excellent job providing complete and timely responses to our requests for supporting documentation. We greatly appreciated CRBG's exceptional cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

To test CRBG's compliance with contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 50 LOCA drawdown amounts, totaling \$41,321,073 (from a universe of [REDACTED] LOCA drawdowns, totaling \$[REDACTED], for the Compass Rose Health Plan during the period 2014 through June 30, 2016), for the purpose of determining if CRBG's LOCA drawdowns were appropriate and adequately supported. Our sample included a week of LOCA drawdowns (representing 5 LOCA drawdown amounts) judgmentally selected from each of the 10 quarters in the audit scope. The sample results were not projected to the universe of LOCA drawdowns. We also reviewed CRBG's working capital calculations, adjustments, and/or balances from 2014 through December 31, 2016; treasury offsets and interest income transactions from 2014 through June 30, 2016; as well as CRBG's dedicated FEHBP investment account activity during the scope and balance as of June 30, 2016, for the Compass Rose Health Plan.

III. AUDIT FINDING AND RECOMMENDATIONS

A. Excess Working Capital Deposit

\$3,480,136

As of December 31, 2016, CRBG held a working capital (WC) deposit of \$3,480,136 over the amount needed to meet CRBG's daily cash needs for FEHBP claim payments. As a result of our audit, CRBG returned \$3,480,136 to the FEHBP for the excess WC deposit.

OPM's "Letter of Credit System Guidelines" (Guidelines), dated May 2009, state: "Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. . . . The working capital is not required but strongly recommended." Also, based on the Guidelines, the Carrier's WC calculation must exclude electronic fund transfers (EFTs).

In addition, based on the regulations governing the financing of Federal programs by the letter of credit method, as established in 31 CFR 205 (Treasury Department Circular No. 10750), EFTs should not be included in the WC calculation. These instructions are established under the provisions of Treasury Department Circular No. 1083 (Regulations Governing the Utilization of the U.S. TFCs), 5 CFR Part 890, and 48 CFR Chapter 16.

Based on industry practice (e.g., other FEHBP experience-rated Carriers), the WC deposit should be recalculated on a regular basis to determine if the amount currently maintained is adequate to meet CRBG's daily cash needs for FEHBP claim payments. If the WC deposit is not adequate, then CRBG should make an appropriate adjustment.

We noted that CRBG recalculated the WC deposit on a regular basis (usually quarterly) during the period January 2014 through December 2016, but made no adjustments to the WC deposit.¹ When reviewing CRBG's WC calculation, we determined that CRBG inappropriately included EFTs in the calculation.² As of December 31, 2016, CRBG held a WC deposit amount of \$ [REDACTED] in the dedicated FEHBP investment account.

¹ Although the scope for CRBG's cash management activities and practices initially only included 2014 through June 30, 2016, due to concerns with CRBG's WC funds we expanded the scope of our review for these funds to also include the period July 1, 2016, through December 31, 2016.

² For example, we noted that CRBG included the semi-monthly EFTs to the Pharmacy Benefit Manager (PBM) in the WC calculations. These semi-monthly EFTs averaged approximately \$2.8 million a payment during the audit scope. By including the semi-monthly EFT payment to the PBM in the WC calculation, CRBG is significantly overstating the WC deposit amount that is actually needed to meet CRBG's daily financial obligations for the Compass Rose Benefit Plan.

CRBG held an excess WC deposit of \$3,480,136 in the dedicated FEHBP investment account as of December 31, 2016.

During our fieldwork phase, CRBG recalculated the WC deposit (excluding EFTs) and determined that, as of December 31, 2016, the WC deposit should only be \$ [REDACTED]. We reviewed and accepted CRBG's WC calculation as of December 31, 2016. Therefore, we determined that, as of December 31, 2016, CRBG held a WC deposit with an excess amount of \$3,480,136 (\$ [REDACTED] minus \$ [REDACTED]) over the amount actually needed to meet CRBG's daily cash needs for FEHBP claim payments. Since CRBG maintained these excess WC funds in the dedicated FEHBP investment account, lost investment income is not applicable for this finding.

CRBG Response:

CRBG agrees with the finding. CRBG states, "Compass Rose agrees with the OIG Draft Audit Report finding that we were incorrectly including claims paid via ACH in our calculation of Working Capital. After correcting our Working Capital calculation and reducing our balance to the correct dollar amount on hand, we acted on a recommendation from the OIG to pursue an exemption to the formula that would allow us to include ACH's [EFTs] in our calculation. That request for exemption has been made with our Contracting Officer and we are extremely hopeful that it will ultimately be granted."

OIG Comment:

As part of our review, we verified that CRBG returned the excess WC deposit of \$3,480,136 to the LOCA in March 2017.

During our fieldwork phases, we specifically told the CRBG officials that the semi-monthly EFT payment to the PBM for the pharmacy drug claims should not be included in the WC calculation. During our discussions with the CRBG officials, we suggested that CRBG should consider requesting approval from the contracting officer to allow CRBG to withdraw the applicable funds from the LOCA a couple of days in advance, before actually making the EFT payment to the PBM.

Recommendation 1

We recommend that the contracting officer require CRBG to return \$3,480,136 to the FEHBP for the excess WC deposit. However, since we verified that CRBG returned \$3,480,136 to the FEHBP for the excess WC deposit, no further action is required for this questioned amount.

Recommendation 2

We recommend that CRBG implement corrective actions to ensure that the WC deposit is properly calculated in accordance with the Guidelines and applicable regulations. CRBG should recalculate the WC deposit on a monthly basis and adjust at least on a quarterly basis (if necessary). If an exception for the WC calculation is necessary, then CRBG should request prior approval (a waiver) from the contracting officer.

Recommendation 3

Since the use of EFTs by the experience-rated Carriers to pay FEHBP claim payments have substantially increased in the past several years, we recommend that the contracting officer(s) and/or OPM's Benefits Insurance Accounting Office review and revise (if necessary) the Guidelines, including the formula for the WC calculation, and propose regulation changes if applicable.



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