

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable Albert Gore, Jr. United States Senate

CHAMPUS Has Improved Its Methods For Procuring And Monitoring Fiscal Intermediary Services To Process Medical Claims

In October 1982, Blue Shield of California was awarded the Southeastern regional contract to process medical claims submitted by beneficiaries and health care providers under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).

GAO and CHAMPUS reviews of this and other related procurements pointed out weaknesses in the process. When these matters were brought to CHAMPUS' attention, corrective actions were taken that should improve the procurement process. Therefore, GAO is not making recommendations in this report.

Blue Shield of California began operations in May 1983 under the Southeastern contract at a low level of performance and, as of June 1984, still was not meeting most critical CHAMPUS performance standards. As a result, CHAMPUS issued a new solicitation seeking offerors for the regional contract and in January 1985 awarded the contract to another fiscal intermediary.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-217903

The Honorable Albert Gore, Jr.
United States Senate

Dear Senator Gore:

In response to your request, we have reviewed (1) the contracting procedures used by the Defense Department's Office of Civilian Health and Medical Program of the Uniformed Services to obtain fiscal intermediary services for processing health insurance claims and (2) the performance of Blue Shield of California, a fiscal intermediary that was awarded a contract in October 1982 to process claims for the Southeast region of the United States.

This report discusses the problems found in both areas and Department of Defense changes that should correct these problems. Views of the Department and of Blue Shield of California were considered in finalizing this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its cover date. At that time we will send copies to the Department of Defense, Blue Shield of California, and other interested parties and make copies available to others upon request.

Sincerely yours,

Edward A. Hensmore
for
Richard L. Fogel
Director

EXECUTIVE SUMMARY

Under the \$1.2 billion Civilian Health and Medical Program of the Uniformed Services, the Department of Defense contracts with private organizations, known as fiscal intermediaries, to process medical claims submitted by beneficiaries and providers. In fiscal year 1984, intermediaries processed about 5.1 million claims and received about \$54 million for their services.

Because of concerns that arose over the 1982 award of a fiscal intermediary contract to Blue Shield of California to serve the Southeast region, Senator Albert Gore, Jr., requested that GAO examine

- contracting procedures to determine whether they were suited to ensuring high-quality performance at the lowest possible cost to the government and
- Blue Shield of California's performance under the contract.

BACKGROUND

The program pays a significant portion of the cost of medical care provided by civilian hospitals, physicians, and other providers to dependents of active-duty members, retirees and their dependents, and dependents of deceased members of the uniformed services. Under the policy guidance and operational direction of the Assistant Secretary of Defense (Health Affairs), the Office of Civilian Health and Medical Program of the Uniformed Services (program office) is responsible for program administration. The program office procures fiscal intermediary services through six competitively awarded, negotiated, fixed-price regional contracts. From May 1983 to April 1985, Blue Shield of California served as fiscal intermediary for the Southeastern region. Blue Shield of California received \$18.2 million for its services.

Evaluations of the program's procurement process also have been conducted by the Department of Defense Inspector General (Nov. 1982) and by a program office task force (during GAO's review). The results of their work are discussed in this report.

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RESULTS IN BRIEF

GAO, the task force, and the Department of Defense Inspector General identified areas of the program office process for procuring and monitoring fiscal intermediary services that needed strengthening, particularly the need to

- better document proposal evaluation criteria and the rationale for contract award decisions;
- better assess offerors' price, past experience, and ability to perform the operations promised in their proposals; and
- provide for more systematic and thorough assistance to and evaluations of contractor operations.

When these matters were brought to the program office's attention, corrective actions were taken which GAO believes should improve the procurement process. (See ch. 2.)

Blue Shield of California met the program's critical performance standards only 32.5 percent of the time during the first year of its contract. Most notably, claims were not processed in a timely and accurate manner, causing dissatisfaction among beneficiaries, providers, and the program office. Although Blue Shield of California took steps to improve its performance and some improvement did occur, the program office did not renew the third year of the contract. In January 1985 the program office awarded the Southeastern contract to another fiscal intermediary, which began operations on May 1, 1985. (See ch. 3.)

PRINCIPAL FINDINGS**Contracting and Monitoring Procedures**

GAO noted that sometimes documentation was not adequate to determine whether proposal evaluation criteria were established before evaluating contractors' proposals, nor was there adequate documentation as to why criteria changed from one procurement to another. GAO found errors in the scoring of offerors' proposals that were caused by unfamiliarity with the evaluation criteria among proposal evaluation team members. The program office now requires contracting officers to approve and document evaluation criteria before the closing date of proposal

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solicitation. Also, to make future scoring more accurate and consistent, the program office has assigned this responsibility to a specialized scoring team. (See pp. 10 and 11.)

GAO and the task force noted that contracting officers did not adequately document their rationale for selecting contractors. Now, contracting officers must document the rationale for their decisions. (See p. 12.)

As a result of a Department of Defense Inspector General report, the program office has revised its method for evaluating proposal prices and now gives price and price differences more weight. Formerly, scores for low priced proposals barely exceeded scores for proposals with much higher prices. (See p. 11.)

GAO also found that proposals were not evaluated in terms of whether offerors had the ability to perform the operations promised. The program office has announced it will conduct productivity assessments in which the ability to perform will be measured in relation to the number of staff that offerors propose assigning to each contract task. (See p. 12.)

GAO and the task force noted that the program office did not resolve fiscal intermediary problems encountered when preparing to begin operations under a new contract, resulting in contractors beginning operations before their systems were fully tested and ready. The program office now assigns a team of technical experts to assist the fiscal intermediary through this transition process and has moved up the testing to permit contractors more time to correct deficiencies before contract operations begin. (See p. 14.)

GAO found that the program office monitoring teams did not adequately measure Blue Shield of California's performance against the program's standards. Additionally, program office representatives did not check for compliance with provisions contained in the technical proposals to determine whether the systems and features described in the proposals were implemented.

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The office has recently revised its monitoring activities to improve the assistance it provides to fiscal intermediaries. It now schedules in-depth contractor evaluations about every 15 months, uses its team of experts to provide continuity to the monitoring process, and establishes milestones and checklists for implementing and evaluating system features. (See pp. 16 and 17.)

**Blue Shield of
California's
Performance**

In its first year of operations under the Southeastern contract, Blue Shield of California met or exceeded critical program office contract standards only 32.5 percent of the time. As a result of this substandard performance, Blue Shield of California was assessed about \$155,000 in penalties for the first year. Beneficiaries and providers also were dissatisfied with Blue Shield of California's performance, citing slow claims processing as the most common complaint. Blue Shield of California took specific measures to improve its performance, including hiring additional staff and authorizing additional overtime and training. Although there was some improvement, Blue Shield of California's performance continued at a level unsatisfactory to the program office. (See p. 19.)

RECOMMENDATIONS

Because actions taken by the program office should adequately address the problems described in this report, GAO is making no recommendations.

ADVANCE COMMENTS

The Department of Defense concurs with all findings and conclusions in the report and believes that the actions already implemented by the program office should adequately address the problems described in the report. (See app. IV.)

Blue Shield of California generally agrees with GAO's findings concerning its performance with one exception. Blue Shield believes that the comparison of its performance with other fiscal intermediaries was not valid. (See app. V.) GAO made additional comparisons along the lines suggested by Blue Shield, and these also showed Blue Shield's performance to be considerably below that of three of the other fiscal intermediaries. A full evaluation of Blue Shield's comments is on pages 17-18 and 33.

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ABBREVIATIONS

BC-BST	Blue Cross and Blue Shield of Tennessee
BSC	Blue Shield of California
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
FI	fiscal intermediary
GAO	General Accounting Office
OCHAMPUS	Office of Civilian Health and Medical Program of the Uniformed Services
RFP	request for proposals

CHAPTER 1

INTRODUCTION

Under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), the federal government pays for much of the medical care provided by civilian hospitals, physicians, and other providers to dependents of active-duty members, retirees and their dependents, and dependents of deceased members of the uniformed services. The uniformed services covered by CHAMPUS are the Army, Navy, Air Force, Marine Corps, Coast Guard, and Commissioned Corps of the Public Health Service and the National Oceanic and Atmospheric Administration.

The Department of Defense contracts with private organizations, known as fiscal intermediaries (FIs), for processing and payment of medical claims submitted by providers and beneficiaries. In fiscal year 1984, FIs processed about 5.1 million claims and received about \$54 million in administrative costs for their services. Government costs for program benefits in fiscal year 1984 totaled about \$1.2 billion.

The Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS) is responsible for program administration. Located at Fitzsimons Army Medical Center near Denver, OCHAMPUS is under the policy guidance and operational direction of the Assistant Secretary of Defense (Health Affairs). Within OCHAMPUS, the Contract Management Division is responsible for procuring FI services and for administering and monitoring FI contracts. The Office of Program Integrity, which audits FI operations, helps the Contract Management Division carry out its monitoring responsibilities.

OCHAMPUS procures FI services through competitively awarded, negotiated, fixed-price incentive contracts. As of June 1984, five FIs held the six regional contracts, as shown on the following page.

CHAMPUS FI Contracts in Six Regions
(June 30, 1984)

<u>FI</u>	<u>Region</u>	<u>Claims volume^a</u>	<u>Percent of CHAMPUS claims^{b,c}</u>
Blue Cross and Blue Shield of South Carolina	Mid-Atlantic	850,000	16.7
Blue Cross of Washington/Alaska	North-western	500,000	26.1
	South-western	1,000,000	
Blue Shield of California	South-eastern	950,000	18.9
Blue Cross and Blue Shield of Rhode Island	Northern	1,050,000	21.8
Wisconsin Physicians Service	South Central	800,000	15.0

^aEstimated calendar year 1984 claims volume.

^bDoes not include the FI that processes claims from Hawaii and the Pacific area or the OCHAMPUS field office in West Germany, which processes claims from Europe, Africa, and the Middle East. These areas account for about 1.5 percent of the total CHAMPUS claims volume.

^cBased on April 1984 claims volume.

Since June 1984, OCHAMPUS has made some changes in FIs. Blue Cross and Blue Shield of South Carolina is the FI for the Southeastern region, and Wisconsin Physicians Service is the FI for the Mid Atlantic region. In addition, OCHAMPUS is reviewing new proposals for the Northern and Southwestern regions.

CHAMPUS PROCUREMENT PROCESS

The Federal Acquisition Regulation governs CHAMPUS procurement of FI services. The CHAMPUS procurement process takes about 14 months from the issuance of the initial solicitation, commonly known as the request for proposals (RFP), to the date work is to begin under the contract.

The major steps in the procurement process are:

- Issuance of RFP. The RFP, issued by OCHAMPUS, contains detailed specifications and performance standards and describes monetary incentives and penalties for high and low performance. The RFP also cites evaluation and award factors.
- Evaluation of Proposals. OCHAMPUS evaluates proposals for technical merit and price. The technical factors--claims processing, general administration, and experience/performance--are evaluated by a Source Selection Evaluation Board made up of OCHAMPUS staff. Price evaluation is done by a price analyst. An OCHAMPUS Source Selection Advisory Council reviews the work of the Board and the price analyst.
- Preaward Survey and Negotiation. OCHAMPUS conducts preaward surveys and negotiates with all offerors in the competitive range. The surveys are intended to determine whether the offeror can perform the job. Negotiations are held to allow offerors to correct errors and deficiencies in their proposals and to ensure the terms of the RFP are completely understood.
- Best and Final Offers. Based on the negotiations, offerors may correct and amend proposals and submit their best and final technical proposal and price for review.
- Evaluation of Revised Proposals. The Board and the Council evaluate the revised proposals. The Council prepares a final report on the procurement and recommends an offeror to the contracting officer.
- Selection of Offeror. The contracting officer, based on the report submitted by the Council and professional judgment, selects an offeror for the contract and prepares a report to justify the selection.
- Transition Activities. Following contract award, a transition to the new FI takes place. The winning offeror must acquire staff, coordinate with any outgoing FI, test the prior FI's files for accuracy, and reconfigure those files to adapt them to the winning offeror's processing system.
- Benchmark Tests. Before the start work date, OCHAMPUS tests the contractor's computer system to determine the system's ability to process CHAMPUS claims.

- Contract Monitoring. After the start work date, OCHAMPUS monitors contractor performance by (1) measuring monthly reports against contract standards, (2) on-site visits by contract management personnel, and (3) on-site reviews of selected activities by the Office of Program Integrity.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review, in accordance with Senator Gore's request, were to review

- CHAMPUS contracting procedures to determine whether they ensure high-quality performance at the lowest possible cost to the government and
- Blue Shield of California's (BSC's) performance under the Southeastern regional contract.

Because Senator Gore expressed interest in the 1982 Southeastern regional contract award, we performed a detailed examination of the entire procurement process as it applied to all offerors who bid on this contract. (See app. I.) We also reviewed other regional procurements that took place between 1981 and 1984 to ascertain the similarities and differences between them and the Southeastern procurement.

We reviewed requirements for negotiated contracts as contained in the Defense Acquisition Regulation. We discussed the procurement process with CHAMPUS contract management personnel and with members who served on the Board and the Council. We also discussed the overall procurement process with officials of several current CHAMPUS FIs. In addition, for comparative purposes, we contacted Health Care Financing Administration officials to obtain information on fixed-price contracting under the Medicare program.

To evaluate contracting procedures, we reviewed RFPs, proposals submitted by all offerors, CHAMPUS evaluation criteria, scoring sheets, selection documents, and internal reports. Because OCHAMPUS was concerned about compromising future contract evaluations, we are not presenting details on the scoring or weighting system used or the criteria applied in scoring. Also, specific information contained in offerors' proposals is not presented because of its proprietary nature.

To evaluate BSC's performance, we compared it against the standards and requirements of the Southeastern contract. This included reviewing both reports generated by OCHAMPUS and reports submitted by BSC. However, we did not independently assess OCHAMPUS computer-generated reports, although we did

discuss the performance figures extracted from these reports with BSC officials, who generally agreed with them. In addition, we reviewed reports submitted by other FIs that were used in measuring their performance.

We discussed BSC's performance with OCHAMPUS contract management personnel and BSC management. We obtained an understanding of BSC's claims processing and related operations and compared those operations to BSC's proposal, which was made part of the Southeastern contract. We also reviewed BSC's management reports and correspondence from providers and beneficiaries to learn the nature of their concerns. Furthermore, we contacted health benefit advisors, who are located at military installations and assist both beneficiaries and providers in processing CHAMPUS claims, to obtain their comments on BSC's performance.

We performed most of our fieldwork from January to June 1984 at OCHAMPUS in Aurora, Colorado, and at BSC's CHAMPUS facility in Escondido, California. Since then, we have met several times with OCHAMPUS officials to discuss changes that have been made in the procurement process as a result of our review, as well as that of an OCHAMPUS task force. Our review was performed in accordance with generally accepted government auditing standards.

CHAPTER 2

WEAKNESSES FOUND IN THE SOUTHEASTERN

PROCUREMENT WERE CORRECTED BY OCHAMPUS

OCHAMPUS awarded BSC the contract for claims processing and payment for states in the Southeastern United States, even though Blue Cross and Blue Shield of Tennessee (BC-BST) submitted a lower priced proposal and, according to OCHAMPUS, had a better performance record as a CHAMPUS FI. This occurred because:

- BSC's technical proposal was rated higher by OCHAMPUS than BC-BST's.
- Past performance as a CHAMPUS FI was not a significant evaluation factor.
- Offerors' proposed prices, under OCHAMPUS' evaluation criteria, were not among the most significant factors; this reduced the importance of price differences among offerors.

Our review showed that due to OCHAMPUS' incorrect weighting of the scores assigned to the offerors' proposals, BSC was incorrectly shown as the top ranked offeror. Had this and other errors not been made, however, BSC still would have ranked ahead of BC-BST.

Since the Southeastern procurement, OCHAMPUS has made improvements in its contracting procedures, including revising its criteria for evaluating price and requiring OCHAMPUS evaluators, who make up the Board, to provide more complete justifications for giving higher than satisfactory ratings. In addition, an OCHAMPUS task force studying the procurement process during our review recommended a number of improvements in the procurement process. Some of these recommendations have been implemented, and others are in process. Our review identified the need for further improvements that we discussed with OCHAMPUS officials. OCHAMPUS has taken action on our suggestions to improve the procurement process.

THE SOUTHEASTERN PROCUREMENT

On April 1, 1982, OCHAMPUS issued an RFP to contract for FI services for claims from the Southeastern region. This was a newly formed region consisting of five states (Alabama, Florida, Georgia, Mississippi, and Tennessee) and Puerto Rico that were formerly served by three FIs: BC-BST, BSC, and Mutual of Omaha.

In addition to the three incumbents, two other firms--Blue Cross and Blue Shield of Florida and Blue Cross and Blue Shield of South Carolina--submitted proposals.

A 14-member Board reviewed the proposals and awarded scores for each of eight tasks: claims processing, fiscal controls, management, experience/performance, automatic data processing, support services, procedures for processing appealed claims, and FI transition procedures. Ratings were assigned on the basis of the evaluators' assessment of how well the offerors' proposal description met the specifications. Ratings above satisfactory resulted in extra points. In addition, each proposal was evaluated on the proposed price of the contract.

After preaward surveys had been conducted, negotiations held, and best and final offers evaluated, the Council recommended that either BSC, the top ranked offeror, or BC-BST, which ranked third, be selected. The second ranked offeror was not recommended because its proposed price was too high.

The Council report on BSC pointed out that it had a higher cost of \$2.8 million over 3 years, an inconsistent performance record in administering other CHAMPUS contracts, and a new claims processing system still in the developmental stage. The report said, however, that BSC's pre- and post-utilization review systems had potential for savings in benefit dollars. The Council report said BC-BST ranked third among technical proposals but offered the lowest administrative costs and had a consistently strong performance record. The Council was concerned, however, about the company's ability to absorb the approximate eight-fold increase in claims volume.

Based on the Council's recommendations and the contracting officer's judgment, BSC was awarded the Southeastern contract on October 22, 1982. BC-BST protested the award of the Southeastern contract to the Comptroller General, who upheld the award of the contract to BSC.¹

REASONS FOR BSC'S SELECTION

Blue Shield of California was awarded the CHAMPUS Southeastern contract because:

--BSC's technical proposal was rated higher by OCHAMPUS than BC-BST's.

¹Blue Cross and Blue Shield of Tennessee, B-210227, May 23, 1983, 83-1 C.P.D. Para. 555.

--Past performance as a CHAMPUS FI was not a significant evaluation factor.

--Offerors' proposed prices, under OCHAMPUS' evaluation criteria, were not among the most significant factors; this reduced the importance of price differences among offerors.

In addition, the OCHAMPUS contracting officer said the more sophisticated claims review system proposed by BSC could save benefit dollars, thereby reducing the cost advantage offered by BC-BST with its lower priced proposal for administrative costs. Further, the contracting officer believed BSC would encounter less difficulty in transition because it was the incumbent for about 50 percent of the CHAMPUS business in the Southeastern region, while BC-BST--as a single-state FI--was the incumbent for only 10 percent of the region's business. The contracting officer also said BC-BST's CHAMPUS staff would need to expand significantly to handle the large increase in claims volume, and although BC-BST's performance record was superior to BSC's on the surface, it was a comparison of a single-state FI with a multistate FI.

BSC's technical proposal
rated higher than BC-BST's

BSC's proposal was rated technically superior to BC-BST's primarily due to the evaluation of claims processing. The greatest differences were BSC's sophisticated method to determine reimbursement of providers and its review of claims before payment. Also, BSC's proposed system was rated exceptional because of its comprehensive review system to prevent duplicate benefit payments, while BC-BST's was rated satisfactory. The ratings depended greatly on the OCHAMPUS evaluators' assessments of how well the offerors' proposed systems would satisfy the OCHAMPUS specifications. In making this determination, the evaluators use both criteria developed by OCHAMPUS and professional judgment. The Comptroller General has recognized that where technical factors are an important part of the competition and the higher technical evaluation score accorded the awardee's system reflects nothing more than the agency's reasonable assessment that the awardee's offered system best met the RFP requirements, the award of more points is proper.²

²Mutual of Omaha Insurance Company, B-203338.2, September 24, 1982, 82-2 C.P.D. Para. 268.

Past performance not a significant evaluation factor

BC-BST received maximum points for past performance as a CHAMPUS FI; BSC received somewhat less. Points for past performance were determined using performance data for the first half of 1982.

The maximum points assigned to BC-BST recognized its excellent past performance. The higher score given BC-BST, however, had little effect on the overall technical score because the maximum points for past performance represented a small percentage of the total technical points. (A further discussion of claims processing experience and past performance as a factor in the procurement process begins on p. 11.)

Method of evaluating price minimized the importance of price differences

OCHAMPUS' evaluation method reduced the effect of price differences. In addition, price was a low-weighted factor relative to technical scores. As a result, BC-BST's lower price did not greatly benefit it in the overall scoring of proposals. The OCHAMPUS procedure assigned the highest scores to the lowest prices and vice versa. However, scores for low-priced proposals barely exceeded scores for higher priced bids. Thus, for price to make a difference, technical scores had to be very close. To show the minimal impact that price differences had on the scoring process, BC-BST's offer was \$2.8 million (or 8 percent) lower than BSC's, but BC-BST received only 2 percent more points than BSC for price. The second ranked offeror submitted a price of \$16.4 million (or 53 percent) above BC-BST's low bid and received 11 percent fewer points than BC-BST for price.

WEAKNESSES IDENTIFIED AND IMPROVEMENTS MADE IN THE CHAMPUS PROCUREMENT PROCESS

Both our review and OCHAMPUS reviews of the Southeastern regional procurement and other procurements pointed out several areas in the process that needed strengthening--particularly in the way OCHAMPUS (1) scored technical proposals, (2) evaluated price and past performance, (3) evaluated technical proposals, (4) assisted the incoming FIs, (5) documented evaluation and award decisions and changes in criteria, and (6) monitored contracts after award. Since the Southeastern procurement, OCHAMPUS management has taken steps to strengthen these areas.

During our review, an OCHAMPUS task force studied the procurement process and concluded that the process, in general,

was adequate, but some revisions and improvements were needed. The task force identified weaknesses in OCHAMPUS transition assistance and benchmark testing procedures (see p. 3) and recommended improvements in these and other areas of the procurement process. OCHAMPUS has implemented some of these recommendations, and others were still in process as of June 1, 1985. See appendix II for the status of each recommendation.

Responsibility for scoring has changed

To bring more consistency and accuracy to the evaluation process, proposals are now weighted by a specialized team (see below), which provides its work to the Council. At the time of the Southeastern and Southwestern regional procurements, the Council--which frequently changed members--weighted proposals.

In the Southeastern procurement, OCHAMPUS incorrectly scored the technical proposals by misapplying OCHAMPUS evaluation criteria. As a result, BSC was incorrectly shown as the top ranked offeror when technical and price scores were combined. The second ranked offeror should have been ranked first because its higher technical ranking offset its high price. The error did not affect BC-BST's third place ranking. Although the second ranked offeror ranked first when the proposals were properly scored, OCHAMPUS officials told us this offeror would not have been awarded the contract because its price was too high.

The scores were incorrectly calculated in the Southwestern procurement, which took place immediately before the Southeastern award. In this procurement, the ranking of the offerors did not change. The point spread, however, was less than it would have been had the scoring been proper. OCHAMPUS officials attributed the scoring errors to the Council's lack of understanding of how the evaluation criteria were to be applied. Also, the Council's composition was not constant but changed with each procurement. In the Southeastern procurement, in its best and final offer, BSC reduced two proposed services and made a change in another service so that these features no longer warranted extra points. The Council, apparently not aware of these changes, did not reduce the points it had initially awarded for the proposed services. In addition, the points for one specification were inadvertently added twice due to best and final revisions. Making these corrections and using the correct evaluation criteria would not have changed the ranking of BSC and BC-BST, but would have brought the two closer together.

Weighting is now the responsibility of a team made up of the OCHAMPUS contract management price analyst and the chairman

of the Board. While the Board chairman changes, the price analyst is constant from one procurement to the next. Since this change was made, scorings--except for a minor mathematical error in the Northern region procurement--have been done in accordance with OCHAMPUS criteria.

Changes made to increase the significance of price differences

As a result of a November 24, 1982, Department of Defense Inspector General report,³ OCHAMPUS revised its method for evaluating price and now gives price more weight. This new evaluation method, referred to as a "best-buy" analysis, is designed to highlight the proposal with the best combination of technical merit and price. The price of the lowest technically acceptable proposal is used as a base, and all others are compared to it. Because the new formula places a greater emphasis on price, it gives the contracting officer a better picture of the technical capability to be bought for each dollar spent.

OCHAMPUS plans to give more weight to claims processing experience and past performance

Our review of the Southeastern procurement showed that claims processing experience and past performance receive little weight in the OCHAMPUS scoring and weighting of proposals. At the time of the Southeastern procurement, claims processing experience and past performance as a CHAMPUS FI were scored separately, but neither received much weight in the scoring process. Since that time, to promote more competition, OCHAMPUS has changed the criteria for evaluating performance. Under the revised system, OCHAMPUS combined claims processing experience and past performance, but the combination of the two factors received less weight than at the time of the Southeastern procurement.

The OCHAMPUS task force noted that the category of management/experience/performance was not adequately weighted in relation to claims processing and general administration. However, it made no specific recommendation to change the weights, but said only that OCHAMPUS should review the point and weighting system.

³"Management and Administration of the Office of Civilian Health and Medical Program of the Uniformed Services," No. 83-041, November 24, 1982.

OCHAMPUS contract management officials have held a series of meetings with the Health Care Financing Administration, which awards similar contracts, to discuss how it weighs past performance and experience. As of June 1985, OCHAMPUS told us they are reviewing this matter and expect to give more weight for past performance in future contracts.

Changes made to the technical evaluation process

Since the Southeastern procurement, OCHAMPUS has required a more complete justification for ratings above satisfactory, and evaluators no longer know the number of points assigned for each task. Since these changes were implemented, fewer ratings above satisfactory have been given and overall scores have dropped. We were told that these revised procedures were largely responsible for the reduction in scores.

Beginning with the Northern region procurement in 1983, point scores were no longer shown on the evaluation worksheets. Evaluators have been required to prepare separate narrative justifications on all ratings that exceed satisfactory, and we were told that these justifications are now more carefully reviewed by the Council. With these changes, the total points awarded for many of the tasks have been much less than in prior procurements. This drop in points was especially noticeable in evaluations of the claims processing task, which receives more weight than other tasks.

Current RFPs have been modified to make productivity assessments known to prospective offerors. Productivity assessments are an attempt by OCHAMPUS to measure bidders' ability to perform the operations promised in their proposals. The ability to perform is measured in relation to the number of staff bidders will have to do the work. Extra points are not awarded based on promised performance.

Changes requiring better documentation of the evaluation and selection of awardees

According to OCHAMPUS officials, the contracting officer has wide discretion in selecting the contract awardee. The final scoring resulting from the proposal evaluation process is looked upon as advisory only. While we recognize that the scoring is not binding, it is important that the OCHAMPUS evaluation and selection process assures that all offerors are treated fairly and that the contracts awarded are in the government's best interest. The decisions reached and the rationale for those decisions should be fully documented.

In one procurement, we noted that the contracting officer did not select the top ranked offeror. In making this selection, the contracting officer did not accept the Council's recommendation, and this official reduced the points awarded to the top ranked offeror. The contract file contained no evidence that either the Board was asked to reevaluate the proposals or the Board or Council were consulted before the contracting officer revised the scores. In addition, the reason for not accepting the Council's recommendation was not fully explained.

The OCHAMPUS task force also noted problems in this area. It recommended that the contracting officer be required to provide a written response to the Council when the Council-recommended offeror is not chosen and that the contracting officer document the rationale used to resolve major issues raised by the Board and the Council during the evaluation process. OCHAMPUS has implemented this recommendation.

Our review also showed that OCHAMPUS did not have adequate documentation to show that weights used on procurements were established before the evaluation of proposals. Furthermore, the files did not contain adequate documentation to explain when or why changes were made to the weights. These weights, which are determined by the Contract Management Division, have changed twice since the Southeastern procurement. OCHAMPUS officials agreed that the changes to the criteria should have been documented more completely.

OCHAMPUS has taken several steps to strengthen this area. Contracting officers now are required to:

- Approve the scoring weights before the close of the solicitation.
- Document the scoring criteria and proposed point assignments and explain why and document when changes, if any, were made to the criteria.
- Submit a complete Source Selection Document for each procurement. This includes assuring that the concerns of the Board, Council, and other OCHAMPUS officials are fully addressed and resolved. In addition, if the contracting officer must go outside the evaluation criteria to make an award, the rationale used must be fully explained.

OCHAMPUS is preparing a separate Operating Manual that will specify these above actions and clearly delineate the contracting officers' responsibilities.

Changes made in OCHAMPUS' transition
assistance and benchmark testing methods

Problems that occurred during BSC's transition and in the benchmark test were not corrected before BSC began work under the Southeastern contract. Between the contract award date and the start work date, BSC was involved in four separate transitions. BSC was the outgoing FI for the Southwestern region, for a portion of the newly formed Northern region, and for CHAMPUS dental claims and the incoming FI for the Southeastern region. Despite OCHAMPUS' belief that BSC would encounter fewer problems in transition, our review showed that BSC encountered difficulties because OCHAMPUS did not effectively resolve data base problems between outgoing FIs and BSC and did not provide sufficient on-site surveillance.

Between the contract award date and start work date, BSC was also required to demonstrate its ability to correctly process claims. A benchmark test is performed to measure this capability. This benchmark test, supervised by OCHAMPUS, indicated problems. Nearly one-third of the claims entered into the system during the test either remained unprocessed or were processed with errors.

Further, the test was not completed while OCHAMPUS was still on site, nor was it done on a system that included all of the features described in BSC's proposal. OCHAMPUS procedures at that time did not require that the contractor pass the benchmark test but only that BSC inform OCHAMPUS of corrective actions taken or planned. As a result, OCHAMPUS took no action to resolve BSC's processing problems.

The OCHAMPUS task force that studied the procurement process also noted weaknesses in OCHAMPUS procedures concerning both transition activities and benchmark testing. The task force found that BSC did not meet milestones and OCHAMPUS did not give sufficient assistance to BSC during transition. Further, the task force found that the benchmark test did not adequately measure productivity or capacity and OCHAMPUS follow-up procedures did not assure problems found during testing were resolved. Accordingly, the task force recommended that OCHAMPUS

- require periodic reports on progress toward milestones during transition;
- develop alternatives if milestones are not met;
- develop pass/fail criteria for benchmark testing and require contractors to pass the benchmark test to retain the contract;

- develop criteria to test productivity and capacity of the tested system; and
- require that deficiencies noted during testing be corrected and the corrections documented.

BSC's transition could have been less difficult with more assistance from OCHAMPUS. While incoming FIs must take responsibility for successfully accomplishing transition tasks, OCHAMPUS plays an important role in coordination and communication between incoming and outgoing FIs. Officials from BSC and other FIs told us that OCHAMPUS was not effective in this role. BSC's senior vice president for the CHAMPUS program told us OCHAMPUS was interested in BSC's transition process but provided limited assistance in dealing with the two outgoing FIs. He characterized OCHAMPUS as "sitting on the sidelines" at the time BSC needed its assistance. He suggested that OCHAMPUS representatives be on site during the transition period to assist outgoing and incoming FIs and to coordinate communication with OCHAMPUS. He said that, in 1 day, requests for the same information could be received from three different organizational units within OCHAMPUS. Other FIs expressed similar concerns.

While transitions that involve a change of FIs will always involve disruptions, these disruptions could have been reduced if OCHAMPUS had provided more assistance during the transition period.

OCHAMPUS Contracts Management officials agreed that better assistance could have been given. As a result of our review and the task force study, changes have been made to improve both transition assistance and benchmark testing procedures.
OCHAMPUS:

- Includes more technical experts on the transition team. These experts will be able to assist the incoming FI with data retrieval from the outgoing FIs, data reconfiguration, and coordination with OCHAMPUS. The team is also keeping management better informed on progress and potential problems through weekly status reports.
- Will move the benchmark test up in the transition period to allow new FIs more time to correct problems.
- Is developing a contingency plan in the event the winning offeror cannot perform the contract.

- Is developing a capacity test so that OCHAMPUS can better measure the winning FI's claims processing capability.
- Assigns a transition monitor for both incoming and outgoing FIs to assist in file transfers and coordination and has increased the on-site presence of the transition team at the most critical times during the transition period--when the winning FI reconfigures and tests the outgoing FI's files, during the benchmark test, and at start-up. OCHAMPUS believes this increased presence will put it in a better position to assist the FI should problems arise.
- Requires a staffing plan from the winning FI about two-thirds of the way through the transition period. OCHAMPUS officials believe this plan should give them a better idea of whether the incoming FI will be adequately staffed at the start work date.

On-site monitoring has improved

OCHAMPUS needed to improve its on-site monitoring of FI operations after contract operations had begun. OCHAMPUS measures each FI's performance against standards from internally generated computer reports, audits of claims submitted by FIs, and examinations of FI monthly reports. Performance against 18 standards can be monitored only on site. For example, all claims are to be date stamped within 3 workdays of receipt. BSC's performance against this standard was checked by OCHAMPUS on two site visits early in the contract. Both times OCHAMPUS found that BSC was not meeting the standard. Despite this, we found no evidence that BSC's performance against this standard was checked during later site visits. Further, we could find no documentation in the site visit reports that performance against 16 of the other 17 standards that can only be monitored on site was ever reviewed. In some cases the site visit itself was not documented. The purpose and scope of site visits to BSC were determined by the individual health analysts, and there was little continuity among the analysts that reviewed BSC's operations. According to OCHAMPUS' Chief of Contracts Management, FI contracts in general could have been monitored better. This official told us that site visit procedures were unstructured and informal and that OCHAMPUS would have recognized BSC's problems earlier with a better system for contract monitoring.

The OCHAMPUS monitoring plan at the time of our review attempted to measure FIs' performance on standards outlined in the RFP. It did not, however, require OCHAMPUS representatives to check compliance with provisions contained in the technical

proposals, which became part of the contract upon award. Although OCHAMPUS closely evaluated technical proposals, it did not follow up, after contract award, to determine that the systems and features described in the proposal were implemented. We selected 30 features of BSC's technical proposal to determine if they had been implemented. BSC received extra points (above satisfactory ratings) for these features, and each feature contributed to BSC's proposal being the highest ranked. Of the 30 technical features reviewed, 24 were fully implemented, 4 were partially implemented, and 2 had not been implemented. In our view, these unimplemented or partially implemented features did not have a major impact on the FI's ability to meet critical performance standards; however, this may not have been the case with other existing or future contracts.

Improvements have been made in contract monitoring since the Southeast procurement. OCHAMPUS is using the transition monitor after the contract award date to give continuity to the monitoring process. In addition, site visits are scheduled monthly, and OCHAMPUS has begun conducting in-depth Contractor Performance Evaluations. These evaluations will be conducted about every 15 months through the contract.

To check the compliance for implementing system features, OCHAMPUS has instituted a Post Award Conference, at which milestones are set for implementing all of the features promised by the contractor in its proposal. Finally, OCHAMPUS has developed a checklist called a Configuration Baseline Report, which shows which features should be implemented and when.

CONCLUSIONS

After the 1982 Southeastern procurement, reviews of the procurement process conducted by GAO and an OCHAMPUS task force identified areas in the process that needed strengthening. Since then, OCHAMPUS has acted to improve many of these areas. We believe the actions taken by OCHAMPUS should alleviate the problems identified.

ADVANCE COMMENTS AND OUR EVALUATION

The Department of Defense concurs with the report's findings and conclusions and believes the actions taken by OCHAMPUS should adequately address the problems described in the report. (See app. IV.)

BSC commented (app. V) that it believes irregularities in the CHAMPUS procurement process have had a substantial and negative effect on it. More specifically, BSC believes that if

the procurement process had been followed as designed and if scores had not been somewhat arbitrarily changed, it would have won the contract for the Southwestern Region, lost for the Southeastern Region, won for the Northwestern Region, and lost for the Northern Region. Further, BSC contends that the draft report confirms that it should not have won the Southeastern Region contract and that the report seems to imply that its assumptions were correct as they relate to the Southwest and Northwest Regions.

We did not determine who should have won the various CHAMPUS contracts for FI services. Rather, we examined CHAMPUS contracting procedures to determine whether these procedures were suited to ensuring high-quality performance at the lowest possible cost to the government. The report does not state or imply that BSC should not have been awarded the Southeastern contract, nor does it make any inferences or statements regarding who should have won other CHAMPUS contracts.

Our review did disclose weaknesses in the CHAMPUS procurement process, which are described on pages 9 through 17 of the report. One of these weaknesses concerned the scoring of offerors' proposals. Our work disclosed that there were errors in scoring but not arbitrary scoring changes as suggested by BSC. Scoring errors were caused by OCHAMPUS personnel misapplying evaluation criteria due to their lack of understanding of the scoring system and by mathematical errors. (See pp. 10, 11, and 12.)

CHAPTER 3

BSC'S PERFORMANCE AS THE CHAMPUS FI

FOR THE SOUTHEASTERN REGION WAS SUBSTANDARD

BSC did not meet many of the critical CHAMPUS standards during the first year of its contract, which began May 1, 1983. This substandard performance resulted in slow and inaccurate claims processing, which caused dissatisfaction among beneficiaries, health care providers, and OCHAMPUS. Although BSC's performance improved after a slow start, it was still not meeting most critical CHAMPUS standards at the completion of our fieldwork in June 1984.

Because of BSC's continued substandard performance, OCHAMPUS issued a new solicitation for the Southeastern region. After the completion of our fieldwork, OCHAMPUS did not renew BSC for the third year of its contract. In January 1985 OCHAMPUS awarded the Southeastern contract to Blue Cross and Blue Shield of South Carolina, which began operations on May 1, 1985. Blue Shield of California received \$18.2 million for the services it provided as FI for the Southeast region from May 1983 to April 1985.

BSC was not the only FI that was not meeting CHAMPUS standards. Our review showed that another FI had an overall performance record worse than BSC's. (After the completion of our fieldwork, OCHAMPUS also issued a new solicitation for this contract.) The other regional FIs did not consistently meet all critical program standards.

BSC'S PERFORMANCE UNDER THE SOUTHEASTERN CONTRACT DID NOT MEET MOST CHAMPUS STANDARDS

BSC started out under the Southeastern contract at a low level of performance and during the first year of the contract, which began on May 1, 1983, did not meet a significant number of critical CHAMPUS standards. Although performance had generally improved over that of the initial months of the contract, BSC was still not meeting most critical CHAMPUS standards at the completion of our fieldwork in June 1984.

OCHAMPUS monitors a contractor's performance by measuring performance against contract standards. The Southeastern contract contained 42 performance standards. Eighteen standards can be monitored only through on-site visits. Of the other 24 standards, which are monitored at OCHAMPUS headquarters by analyzing statistical reports, 10 are considered critical by

OCHAMPUS. These 10 standards govern the key areas of the claims process and measure the timeliness and accuracy of claims payments and the contractor's ability to satisfy beneficiary problems and information requests. When measured against the 10 critical standards, BSC's performance was not good. During its first year under the contract--May 1, 1983, to April 30, 1984--BSC met or exceeded the 10 critical standards only 32.5 percent of the time. For example, BSC:

--Did not meet three critical standards--Claims Processing Timeliness, Payment Record Error Rates, and Correspondence Processing Timeliness--during any month.

--Met two other critical standards, both of which related to the age of unprocessed claims at the end of the month, only once during the period.

--Met only three critical standards more than half the time. (See app. III.)

OCHAMPUS contracts contain both positive and negative monetary incentives. Positive incentives reward superior performance, while negative incentives penalize a contractor for poor performance against the critical standards. Incentives are determined on a quarterly basis. Penalties, however, do not apply during the first contract quarter but, after that time, are assessed when specified levels of performance are below standards. The further the FI's performance falls below the standards, the greater the penalty.

BSC was assessed about \$155,000 in penalties for the first contract year because of substandard performance. A more detailed discussion of BSC's performance as well as that of the other regional FIs begins on page 24.

<u>Quarter</u>	<u>Penalties assessed</u>
First	a
Second	\$ 82,500
Third	16,300
Fourth	<u>56,000</u>
Total	<u>\$154,800</u>

^aDoes not apply.

To obtain an indication of the impact that BSC's poor performance had on beneficiaries and providers, we contacted two health benefits advisors in each of the five states that make up the Southeastern region. The advisors are located at military installations and provide information and assistance to beneficiaries concerning benefits available under CHAMPUS. We chose advisors who had a great deal of experience assisting CHAMPUS beneficiaries and providers. We spoke with these advisors during May 1984--about 1 year after BSC began processing claims for the Southeastern region.

The advisors we spoke with were not satisfied with BSC's performance, and eight rated it below average. In addition, six told us that they saw no improvement in BSC's performance from the beginning of the contract. The advisors told us that the most common complaints from beneficiaries and providers were that BSC was extremely slow in making payments and often requested unnecessary information, BSC was nonresponsive to their problems, and they were unable to contact BSC on its toll-free telephone lines. A review of complaint letters at BSC from beneficiaries and providers substantiated that these were the most common problems experienced by these groups.

REASONS FOR BSC'S SUBSTANDARD PERFORMANCE AND ACTIONS TAKEN TO IMPROVE PERFORMANCE

BSC's initial substandard performance was caused by a combination of factors. Among the major factors were (1) difficulties encountered in transitions involving several CHAMPUS contracts, (2) BSC's introduction of a new claims processing and correspondence system, (3) relocation of its operations from San Diego to Escondido, California, and (4) conversion to new medical coding systems.

BSC took a number of actions to bring its performance up to CHAMPUS standards and to improve services to beneficiaries and providers. While performance improved, BSC was still not meeting the critical CHAMPUS standards at the completion of our fieldwork in June 1984.

Problems experienced in transition

BSC encountered several problems in preparing to take over the Southeastern region contract. Claims from the newly formed Southeastern region were previously processed by, in addition to BSC, Mutual of Omaha and BC-BST. According to BSC officials and CHAMPUS management reports, some of the more significant transition problems included:

- Computer provider files provided by Mutual of Omaha were purged of inactive providers. This required BSC to reestablish those providers' eligibility (e.g., credentials, certifications, licenses), resulting in an unexpected additional workload.
- Computer history files submitted by BC-BST were frequently late and had incorrect information on beneficiary family relationships.
- Claims sent by providers and beneficiaries to Mutual of Omaha were accumulated at OCHAMPUS in bulk rather than being forwarded to BSC in an even flow, which caused work scheduling problems.

In addition to the Southeastern region transition, BSC was also involved in three other transitions at about the same time. These multiple transitions strained BSC's resources.

New claims processing and correspondence system

Shortly before the contract's start work date, BSC converted to a new, highly automated claims processing and correspondence system known as the Total CHAMPUS System. In implementing this system, BSC management officials told us that they seriously misjudged the employees' capability to adjust and quickly become productive on this new system. To allow newly trained staff to become familiar with the system, new claims were not entered into it for 6 days ended May 6, 1983. BSC believed that the backlog of inventory built up during this shutdown could be adequately reduced by the end of May. However, according to the senior vice president, CHAMPUS program, productivity did not live up to expectations. This is shown by OCHAMPUS calculations that BSC's productivity in early June 1983 was only 57 percent of what it should have been based on BSC's contract proposal and, by the end of June, had increased to only 67 percent.

The senior vice president attributed the lower than expected productivity to the fact that many employees needed training. He further told us that these training needs existed at the contract start and have continued over the period of the contract because of high employee turnover.

Relocation of operations

In late March 1983, before the start work date of the Southeastern contract, BSC moved its operations from San Diego to Escondido, California. BSC seriously underestimated the consequences of this move. Although Escondido is only about 30 miles from San Diego, many of BSC's employees opted to resign rather than commute to Escondido. Consequently, BSC had to hire new staff, which increased the number of employees to be trained.

Conversion to new coding systems

While BSC was preparing for the start of the Southeastern region contract, it was converting to new diagnostic and procedures coding systems as specified in the RFP and contract. This required converting beneficiary history files not only from the new geographical areas picked up under the Southeastern region but also from Florida and Puerto Rico in the region BSC previously served. According to a BSC official, this conversion slowed claims processing and put an additional strain on BSC personnel.

The BSC senior vice president, CHAMPUS program, commented that the conversion of the medical codes was a major project and placed an excessive burden on BSC and adversely affected its preparation time and performance after the start work date. This official said that OCHAMPUS should, during the transition stage and the first 90 to 120 days of a contract, hold major program initiatives and special projects such as this to a minimum. OCHAMPUS officials told us that they look at all major changes to determine when they are needed. If they can be deferred to ease the burden on an FI, they will be. In the case of the new coding systems, BSC was aware that the conversion was required because it was part of the RFP. These officials believe that BSC simply underestimated the impact the conversion would have on its resources and told us that the conversion could have been deferred to a more convenient time for BSC, if BSC had so requested.

Specific steps BSC took to improve performance

In an attempt to bring performance up to CHAMPUS standards, BSC took several corrective actions. According to BSC officials, the contractor

- hired additional employees and authorized substantial overtime,
- increased training and retraining,
- replaced key management and supervisory personnel,
- improved work flow,
- implemented system changes designed to reduce claims processing errors, and
- added two toll-free telephone lines over the 11 required by OCHAMPUS.

In a March 1984 letter to OCHAMPUS, BSC's senior vice president, CHAMPUS program, stated:

"We are well aware that our performance has not been up to contract standards. We have attempted to provide information regarding the efforts we have made and will continue to make in order to bring our performance up to the desired level, which will not only meet, but ultimately exceed these standards."

Despite its actions and its commitment to OCHAMPUS to meet standards, BSC consistently failed to meet its goals. BSC was not able to identify the reasons for its continued substandard performance. BSC officials told us that (1) they were using the same management techniques under CHAMPUS that had been successful in BSC's other lines of business and (2) the claims processing system being used was modeled after BSC's Medicare system, which was implemented the previous year with few problems. BSC officials said they believed that implementing the system under CHAMPUS would result in only minor difficulties. However, under CHAMPUS, the system was not meeting their expectations. An official of BSC's automated data processing subcontractor told us that he believed it was possible that claims processing was slowed because of the sophistication of BSC's Total CHAMPUS System. For example, because of its numerous edits, the system identifies a high percentage of claims for suspected unallowable charges and services which then require manual inspection and reentry into the processing system.

PERFORMANCE OF CHAMPUS FIS WAS INCONSISTENT

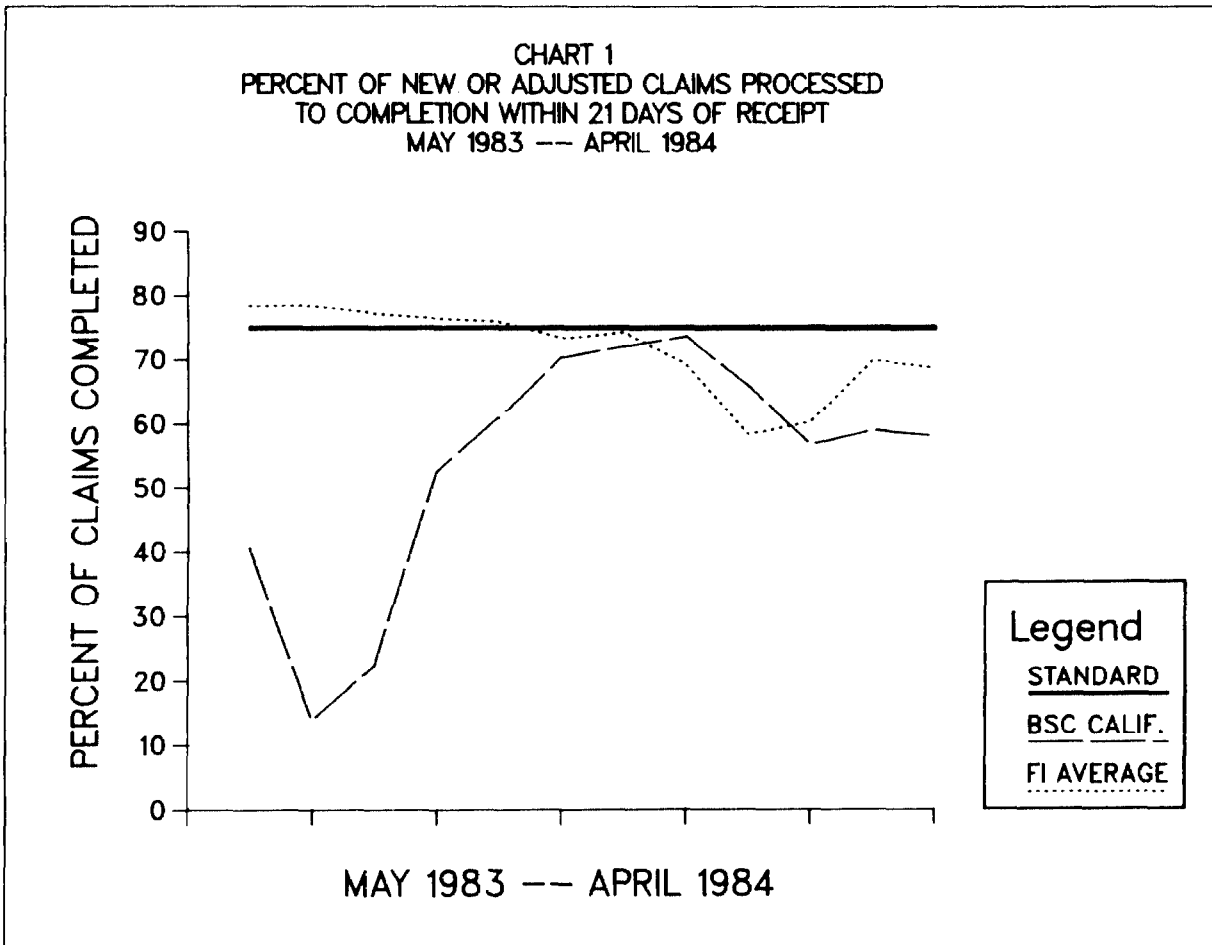
BSC was not the only FI having performance difficulties. Another FI had a performance record worse than BSC's, and the others exhibited inconsistent performance. Our review showed

that only one of the five regional FIs was able to meet or exceed the 10 critical CHAMPUS standards more than two-thirds of the time (see app. III). Officials of the three FIs we contacted told us that the standards that OCHAMPUS uses to measure FI performance were reasonable.

To illustrate BSC's performance as well as that of the other FIs, we chose 6 of the 10 critical contract standards that we believed were most significant and compared BSC's performance both against the selected standards and in relation to the average performance of the other CHAMPUS regional FIs. Data for the comparison period--May 1983 through April 1984--were the latest available at the time we performed our fieldwork. The latest data available for the Payment Error standards (see p. 27), however, were for March 1984.

Claims processing timeliness

This standard requires that 75 percent of all new or adjustment claims be processed within 21 calendar days from the date of receipt or identification of an adjustment. As shown in chart 1, BSC did not meet this standard but made considerable improvement from its June 1983 low. BSC experienced a number of problems at the start of the contract, even though it had been a CHAMPUS FI earlier. By adding additional staff and overtime and making system changes, BSC largely overcame its initial difficulties. In December 1983 and January 1984, BSC's performance exceeded the average performance of the other FIs. In February, however, a flu epidemic caused absenteeism at above average levels, resulting in a decrease in performance. In March and April 1984, BSC's performance leveled off to just below 60 percent of claims processed within 21 days. The chart also shows that the FI average performance was below the CHAMPUS standard from September 1983 to April 1984. For April 1984 only one of the five regional FIs met this standard.



Payment errors

This standard measures the quality of claims processing. It requires that the value of payment errors not exceed 4 percent of total billed charges for either hospital or professional (e.g., physician) claims. Payment error rates are computed from claims samples drawn on a monthly basis. Each month claims processed by each FI are reviewed at OCHAMPUS.

As depicted in charts 2 and 3, BSC's performance and the average for the other FIs were inconsistent, exceeding the standard in some months and failing to meet it in other months. In March 1984, only two of the five regional FIs exceeded the hospital standard, and only one exceeded the professional error rate standard.

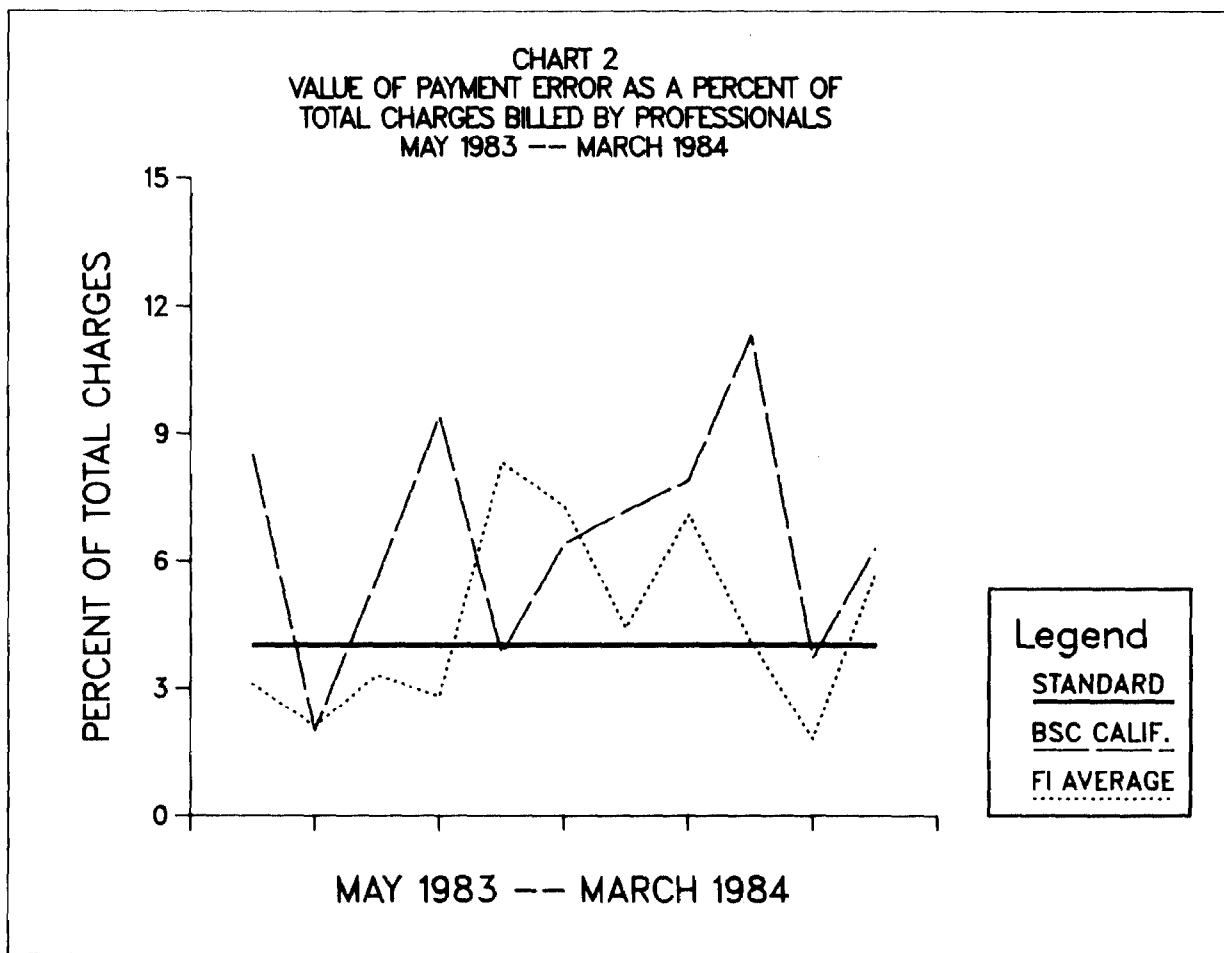
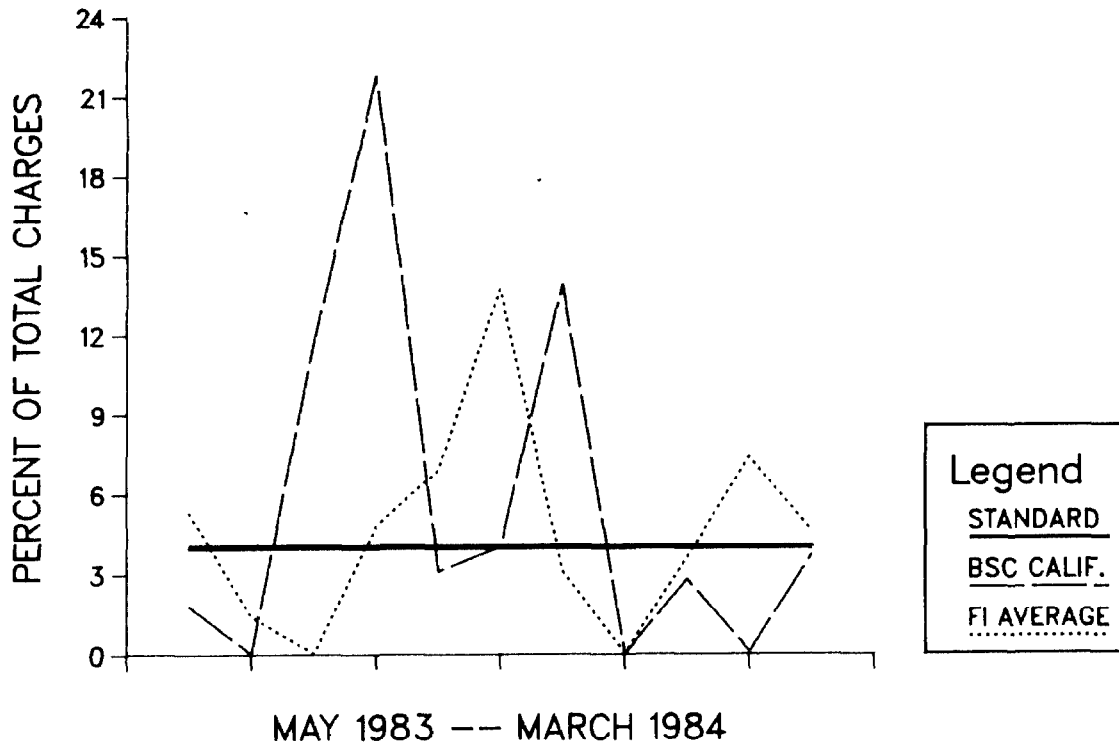
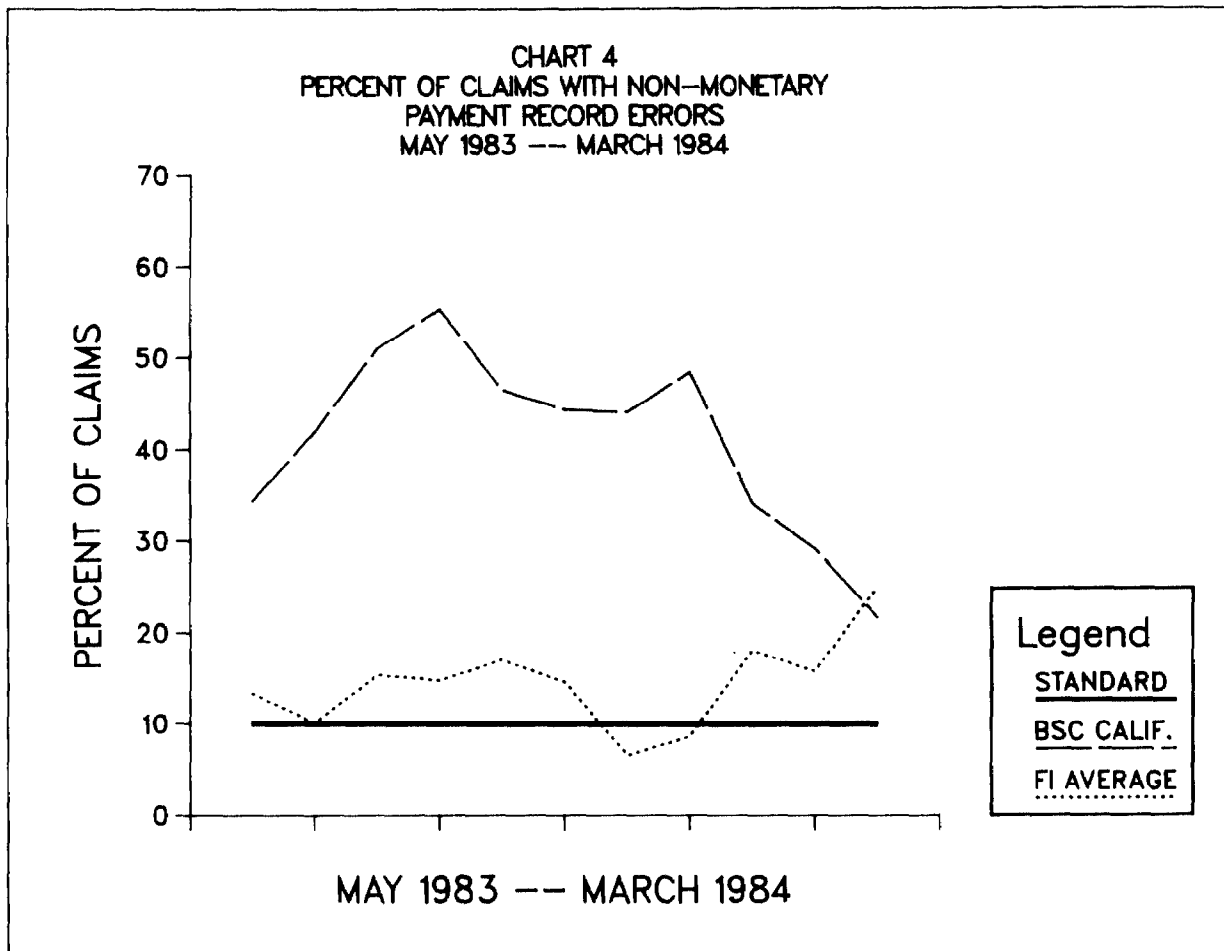


CHART 3
VALUE OF PAYMENT ERROR AS A PERCENT OF
TOTAL CHARGES BILLED BY HOSPITALS
MAY 1983 -- MARCH 1984



Claim occurrence errors¹

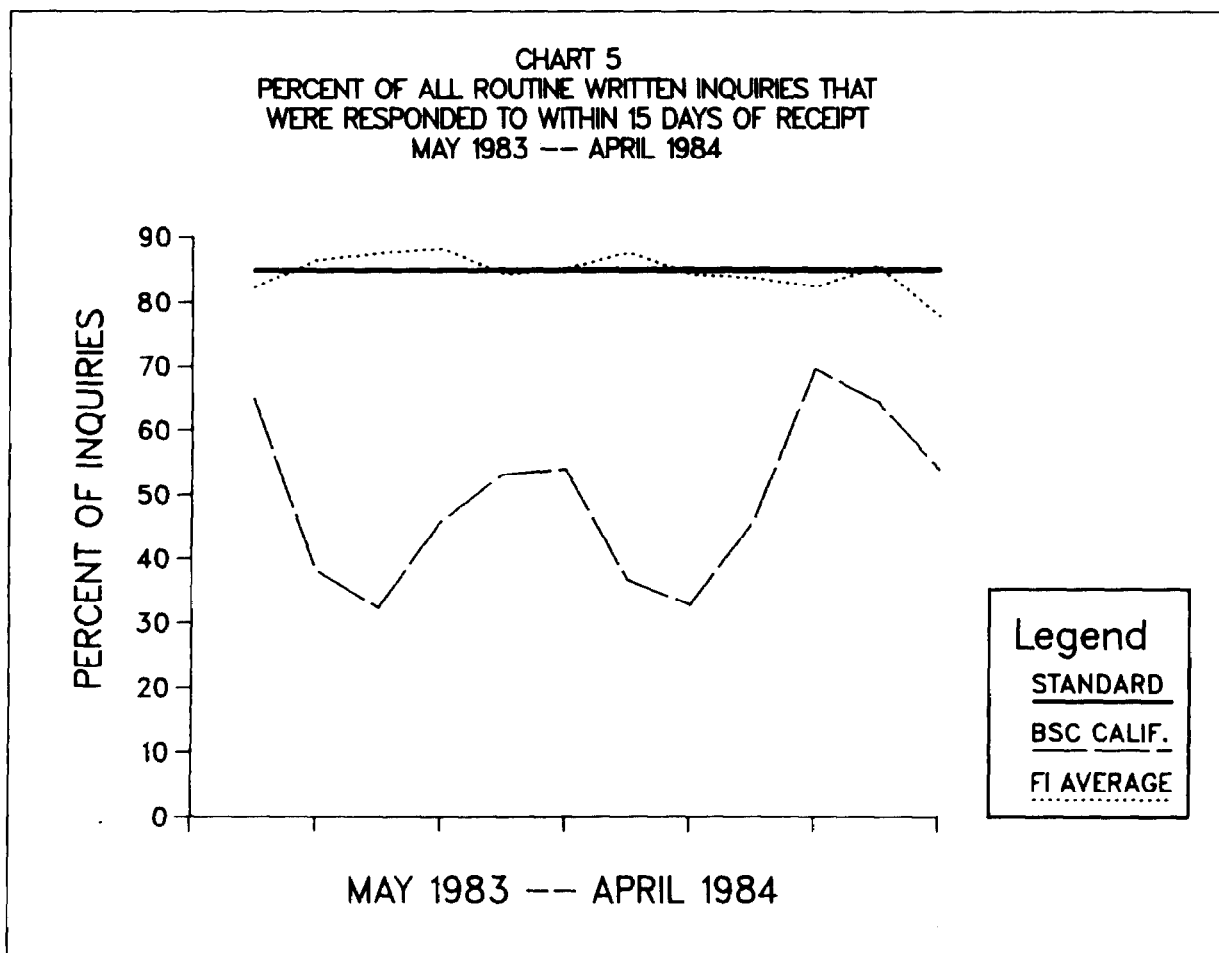
This standard also measures claims processing quality and provides that the payment record occurrence error rate not exceed 10 percent for hospital and professional (e.g., physician) services claims. Chart 4 shows that BSC did not meet this standard for the entire period, and the average performance of the other FIs met or exceeded this standard for only 2 months between May 1983 and March 1984. In March 1984, none of the regional FIs met the standard. FIs have been generally dissatisfied with how OCHAMPUS measures this standard. Because of this dissatisfaction, OCHAMPUS, beginning with January 1985 audits, changed how errors are counted and is planning to change the standard itself.



¹Claim occurrence errors represent incorrect entries on a payment record other than monetary errors that have already been considered when measuring performance against the Payment Error standard.

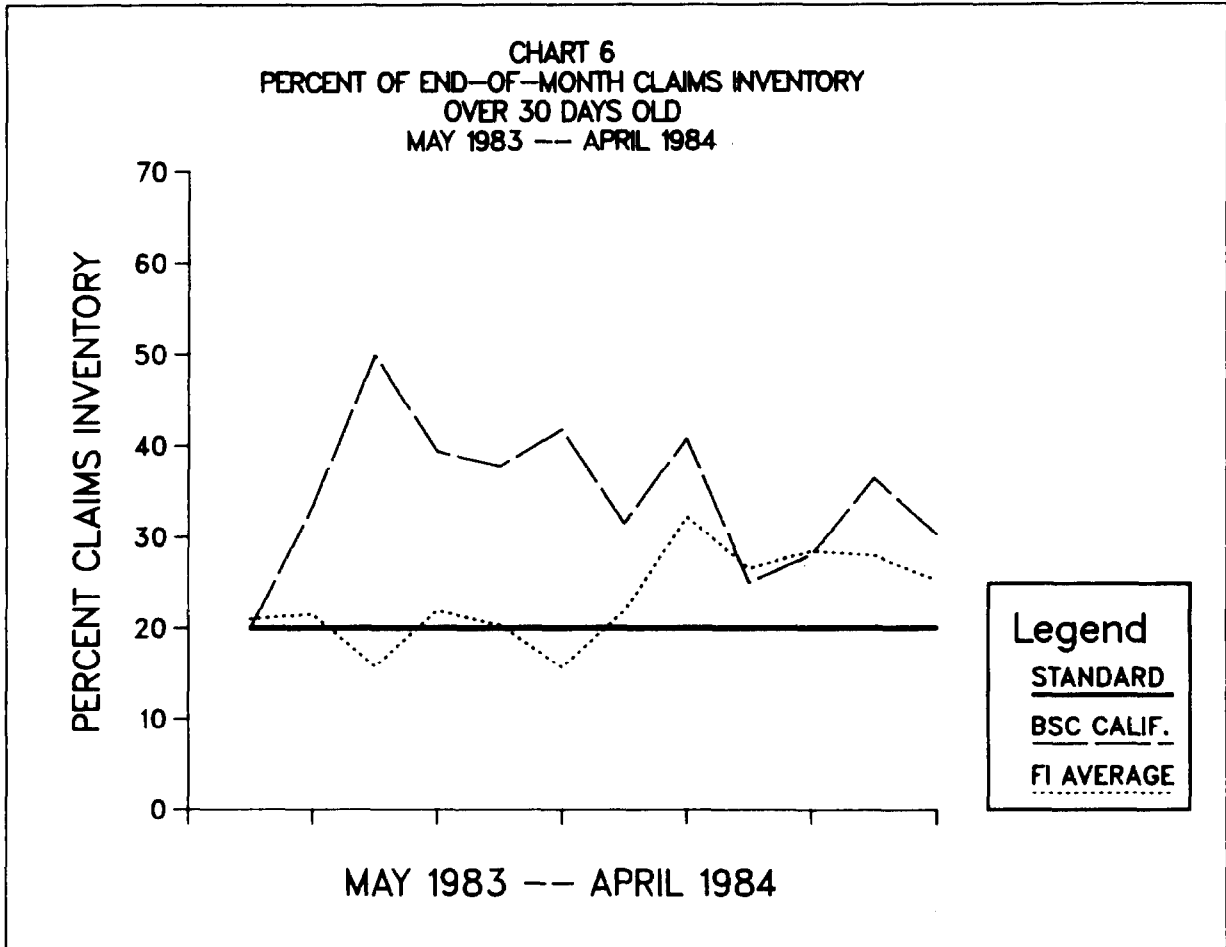
Processing timeliness of
routine correspondence

This standard requires that final responses be provided on 85 percent of all routine written inquiries within 15 calendar days of receipt in the mailroom. As depicted in chart 5, BSC did not meet this standard, and its performance was far below that of the other FIs. BSC's performance, however, did improve. In July 1983, BSC processed only 32.2 percent of correspondence within 15 days. Performance improved over the next several months but fell in December to 32.7 percent. Performance then fluctuated, rising to 69.5 percent in February 1984 but falling to 54 percent in April 1984. The average of the other FIs exceeded the standard in 6 of the 12 months between May 1983 and April 1984. In April 1984, two of the five regional FIs met the standard.

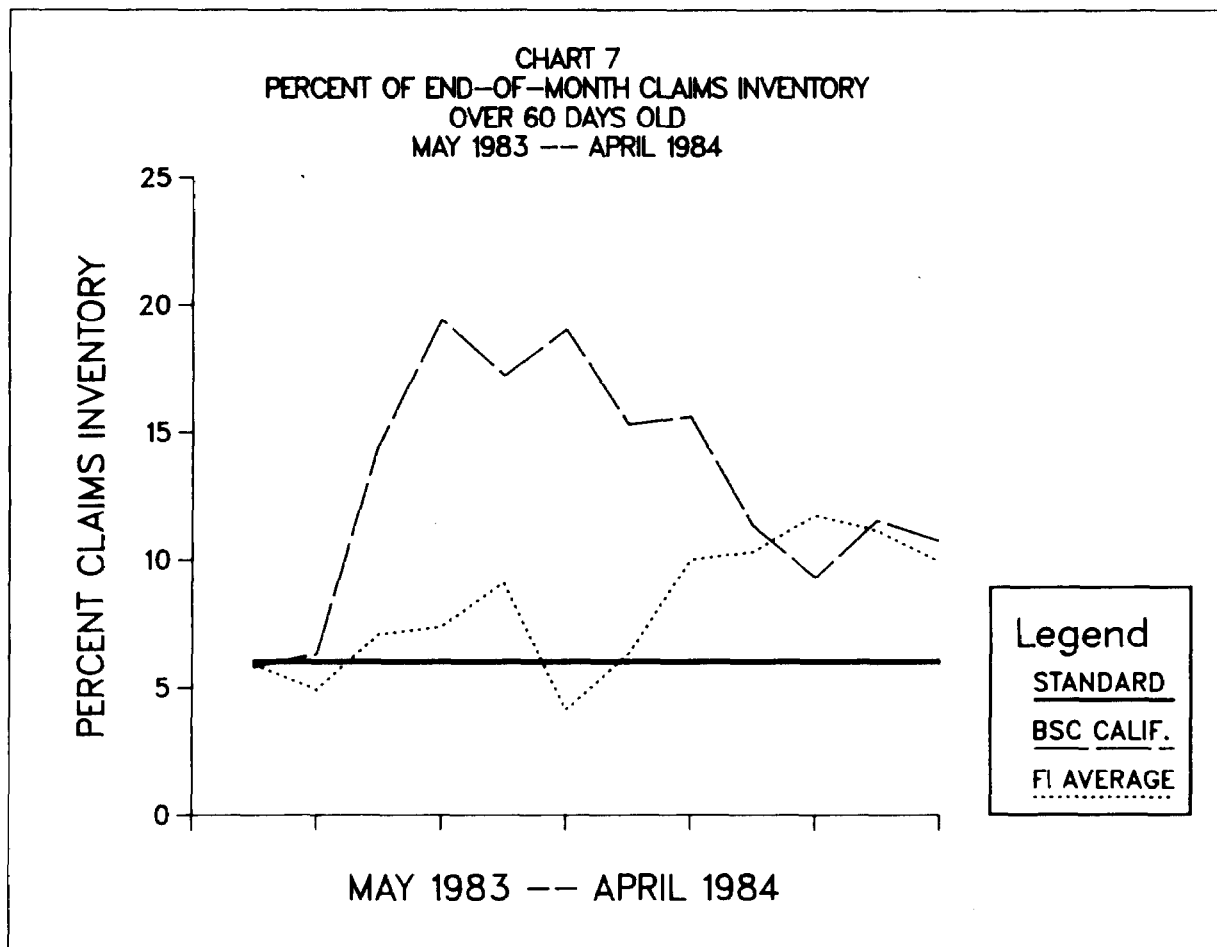


Age of claims inventory

The two standards that apply to the age of the claims inventory require that, of the total end-of-month claim inventory, 20 percent not be over 30 calendar days old and 6 percent not be over 60 calendar days old. These standards do not apply during the first 3 months of the contract. As shown in chart 6 below, for claims pending over 30 days, BSC did not meet the standard over the 9 months it was applied in the first contract year, August 1983 to April 1984. In April, only one of the five regional FIs met this standard.



As shown in chart 7, for claims pending over 60 days, in the last 9 months of the contract year, BSC did not meet the standard. However, BSC's performance improved. In August 1983, BSC's claims inventory over 60 days peaked at 19.4 percent. In April 1984, 10.7 percent of BSC's inventory was over 60 days old, which was close to the average of the other FIs. In April 1984, two of the five regional FIs met this standard.



CONCLUSIONS

BSC's initial performance under the Southeastern contract was not good. Despite attempts to correct these performance problems, BSC was still not meeting most critical CHAMPUS standards as of June 1984. As a result, claims had not been processed in a timely and accurate manner, causing dissatisfaction among beneficiaries, providers, and OCHAMPUS. Although BSC took steps to improve its performance and some improvement did occur, its performance was still not meeting most critical CHAMPUS standards at the close of our fieldwork.

ADVANCE COMMENTS AND OUR EVALUATION

The Department of Defense concurs with the report's findings and conclusions and believes the actions taken by OCHAMPUS should adequately address the problems described in the report. (See app. IV.)

BSC commented (app. V) that it met CHAMPUS' critical performance standards 32.5 percent of the time during the first year of its contract rather than 27 percent as stated in a draft of this report. OCHAMPUS officials informed us that they revised BSC's performance figures after the close of our review work and said that 32.5 percent was the correct level of performance. This change has been made in the final report, (see pp. ii, iv, and 20). Technical changes were also made in appendix III to reflect the improved performance.

BSC also stated that the time frame and conclusions drawn from our comparison of fiscal intermediary performance (app. III) present a highly biased picture. According to BSC, the time period analyzed (May 1983 to Apr. 1984) was the initial period for BSC and another FI but was a period well into the contracts of the other FIs. In BSC's view all contractors show improvement after the initial start-up months of a contract and a far more meaningful comparison would have been to take the first 7- or 12-month period for each contractor.

Appendix III (p. 40) has been revised to specifically recognize that BSC and one other FI were in the early stages of their CHAMPUS contracts and that the other FIs were well into their contracts with OCHAMPUS. While we did not attempt to obtain earlier performance data on the other FIs, we updated the information on BSC's performance, consistent with this assignment's objectives. From May 1984 through January 1985 (a period well into BSC's contract and the most current data available from OCHAMPUS as of July 3, 1985), BSC's performance improved to meeting the OCHAMPUS critical standards 44 percent of the time--considerably below the performance of three other contractors, whose performance ranged from 55.9 to 86.1 percent.

Lastly, the one contractor whose performance BSC believed was also shown inappropriately by us improved its performance to such a degree that it was reawarded the Northeastern contract.

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COMMITTEES:
ENERGY AND
COMMERCE

SCIENCE AND
TECHNOLOGY

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515
October 7, 1983

The Honorable Charles A. Bowsher
Comptroller General of the United States
441 G Street, Northwest
Washington, D.C. 20548

Dear Mr. Bowsher:

This letter is to formalize a request for a two-pronged General Accounting Office (GAO) audit of the Department of Defense's contracting procedures under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). The request follows discussions between my staff and officials at GAO extending over the past six weeks.

Based upon the facts that are currently available, it appears that CHAMPUS contracting procedures permit administrative contracts to be awarded to companies with relatively poor performance ratings and which bid substantially above the minimum bid made by a company that meets the performance criteria. This issue has been the subject of a previous GAO audit (see GAO Report HRD 81-38, February 2, 1981). Recent experience with the contract for the Southeast region provides evidence that this issue should be revisited.

On July 1, 1982, the CHAMPUS contract proposal for the Southeast region was opened for bids. Five companies offered bids for the contract. Blue Cross-Blue Shield of Tennessee (BCBST) submitted the lowest bid, and met all of the CHAMPUS performance criteria. Blue Shield of California (BSC) submitted the second highest bid.

Despite the fact that BCBST had the highest performance rating of any CHAMPUS contractor in the country, and that BSC had ranked sixth out of eight national contractors in performance, the contract was awarded to BSC. CHAMPUS claimed that it was not able to give weight to past performance under its evaluation criteria, on the grounds that evaluation of that performance was subjective in nature. CHAMPUS did give substantial weight, however, to the claims made by BSC that a new automated data processing system that it was developing would reduce the error rate for claims paid, and thereby reduce wasteful expenditures under the CHAMPUS program.

Due to concern expressed at the time the contract was awarded to BSC, and a protest of the contract award by BCBST, GAO conducted a limited review of the events that had occurred not extending beyond the written record and concluded that: (1) BCBST had not filed its substantive objections to the evaluation criteria in the bid proposal in a timely fashion; and (2) CHAMPUS had not in fact violated its contracting procedures.

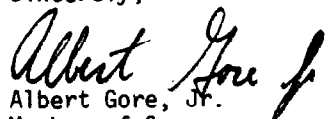
The Honorable Charles A. Bowsher
page two
October 7, 1983

The request made in this letter should be distinguished from both the 1981 GAO report and the GAO review of the 1982 contract award protest. Specifically, I am requesting:

- (1) follow-up audit of the CHAMPUS contracting procedures themselves, and a determination of whether those procedures are best suited to ensuring high quality care at the lowest possible cost to the government.
- (2) audit of BSC's performance under the Southeast regional contract.

Thank you for your attention to these concerns. I look forward to hearing from you at your earliest convenience.

Sincerely,


Albert Gore, Jr.
Member of Congress

AG/jw

RECOMMENDATIONS MADE BY AN OCHAMPUS TASK FORCE
FOR IMPROVEMENTS IN THE PROCUREMENT PROCESS

<u>Regionalization methodology</u>	<u>Implementation status as of March 1, 1985</u>
--Establish a management control team to oversee the procurement process, including, but not limited to, preaward surveys, benchmark tests, and transition activities.	Implemented
--Increase executive committee involvement in the procurement process.	In process
<u>Scope of work and evaluation criteria</u>	
--Executive committee or subcommittee should review scoring and weighting processes and recommend changes, if necessary.	In process
--Develop improved criteria to evaluate offeror's management and review scope of work for excessive detail.	In process
<u>Source Selection Evaluation Board</u>	
--Board analysis of offeror's staffing be emphasized and reviewed.	Implemented
<u>Source Selection Advisory Council</u>	
--Receive briefing on point and weighting scoring systems for better understanding.	In process
--Executive committee should determine the purpose and function of Council, with the recommended functions being to	In process

Implementation
status as of
March 1, 1985

- review management of offerors.
- assume responsibility for analysis of offeror's staffing and expected productivity.
- have more time to assume these responsibilities.
- receive written responses from selection authority on selections that do not follow Council recommendations.

Business proposal analysis (price)

- | | |
|--|-------------|
| --Develop and document a should-cost "pricing model." | In process |
| --Provide analyst at least 10 working days to complete the analysis of the technical and business evaluations. | Implemented |

Preaward surveys

- | | |
|--|-------------|
| --Develop criteria to determine offeror's ability to perform. | In process |
| --Conduct preaward surveys in more depth and deal with critical issues, including transition plans and status of system development. | Implemented |
| --Teams should include top specialists with broad experience. | Implemented |

Best and final proposals

- | | |
|---|---|
| --To avoid equalizing proposals, assign fewer points to corrections of errors and omissions than would have been available if original proposal had not been deficient. | a |
|---|---|

Implementation
status as of
March 1, 1985

--Executive committee should review and provide direction to the weight and points used in the scoring process. In process

Source selection authority

--Oversee the executive committee review of the weights and points used in the scoring process. Implemented

--Document rationale used to resolve all major issues raised by the Board and Council. Implemented

Benchmark tests

--Require passing of test to retain contract. In process

--Develop standard instructions for inclusion in RFP which fully describe the process, required actions, and ramifications if not passed. In process

--Require that corrections of deficiencies be documented and retest as appropriate. Implemented

--Develop criteria to test productivity capacity of tested system. In process

--Executive committee consider changing responsibility for test and expansion of scope and participating groups. In process

Transitions

--Executive committee receive periodic reports on progress keyed to milestones. Implemented

--Develop alternatives when milestones are not met. In process

Implementation
status as of
March 1, 1985

--Have a moratorium on modifications
for up to 6 months except those
mandated by law.

a

--Uniformly require all FIs to comply
with OCHAMPUS instructions and
standards to simplify transitions.

Implemented

^aOCHAMPUS disagreed with this recommendation and does
not plan to implement it.

PERFORMANCE OF REGIONAL FISCAL INTERMEDIARIES
AS MEASURED AGAINST CHAMPUS CRITICAL STANDARDS

MAY 1983 TO APRIL 1984^a

<u>Standard</u>	<u>Number of months standard was met^b</u>				
	<u>Blue Shield of California</u>	<u>FI #1</u>	<u>FI #2</u>	<u>FI #3</u>	<u>FI #4</u>
(1) Claims processing timeliness - 75 percent within 21 days	0 of 12	9 of 12	9 of 12	7 of 12	0 of 7
(2) Payment errors - not to exceed 4 percent of billed charges for hospital and professional claims	3 of 12	5 of 8	3 of 11	3 of 9	0 of 7
(3) Payment record occurrence error rate - shall not exceed 10 percent for hospital and professional claims	0 of 12	0 of 8	2 of 11	1 of 10	0 of 7
(4) For all vouchers, payment edit corrections for the entire vouchers shall be received at one time and within 40 calendar days after identified by OCHAMPUS	7 of 12	10 of 11	11 of 11	7 of 11	0 of 6
(5) Not more than 5 percent of all payment record claims adjustments and resubmissions shall fail the OCHAMPUS edit	10 of 12	9 of 9	9 of 9	9 of 9	0 of 6
(6) Correspondence processing timeliness - 85 percent within 15 calendar days	0 of 12	12 of 12	11 of 12	5 of 12	0 of 7
(7) Reconsideration processing - 90 percent within 60 calendar days	6 of 12	12 of 12	12 of 12	11 of 12	0 of 7

<u>Standard</u>	<u>Number of months standard was met^b</u>				
	<u>Blue Shield of California</u>	<u>FI #1</u>	<u>FI #2</u>	<u>FI #3</u>	<u>FI #4</u>
(8) FI monthly workload and Cycle Time Aging Report submission timeliness - 10 calendar days follow- ing end of month	11 of 12	12 of 12	12 of 12	12 of 12	4 of 4
(9) End-of-month claim inventory shall not ex- ceed 20 percent of the total inventory over 30 calendar days old	1 of 12	12 of 12	1 of 12	1 of 12	1 of 7
(10) End-of-month claim inventory shall not ex- ceed 6 percent of total inventory over 60 calen- dar days old	<u>1 of 12</u>	<u>12 of 12</u>	<u>0 of 12</u>	<u>6 of 12</u>	<u>2 of 7</u>
Total	<u>39 of 120</u>	<u>93 of 108</u>	<u>70 of 114</u>	<u>62 of 111</u>	<u>7 of 65</u>
Percentage	32.5	86.1	61.4	55.9	10.8
Ranking	4	1	2	3	5

^aThe time period analyzed is the initial contract period for BSC and FI #4. Contractors' performances generally improve after the start-up months of a contract.

^bData not always available for 12 months.



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

11 JUL 1985

Mr. Frank Conahan
Director, National Security and
International Affairs Division
U. S. General Accounting Office
Washington, D. C. 20548

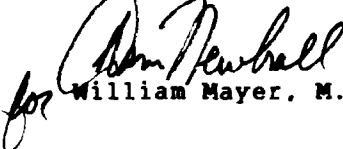
Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled, "CHAMPUS Has Improved Its Methods for Procuring and Monitoring Fiscal Intermediary Services," dated June 12, 1985, (GAO Code 101084/OSD Case 6777).

The report has been beneficial to OCHAMPUS in improving the methods used for procuring and monitoring fiscal intermediary services. The Department of Defense concurs in all findings and conclusions contained in the report. As indicated by GAO, the actions already implemented by OCHAMPUS should adequately address the problems described in this report. The Department expects to continue improvement in the administration of the program.

Thank you for the opportunity to comment on the draft report.

Sincerely,

for 
William Mayer, M.D.



BLUE SHIELD
of California

CHAMPUS/CHAMPVA

P. O. Box 3707 Escondido, CA 92025

June 27, 1985

Richard L. Fogel
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for providing us the opportunity to review the draft of the proposed report applicable to the CHAMPUS Program done at the request of Senator Gore, Tennessee.

The initial portions of the report deal with issues regarding the procurement process. Since Blue Shield of California was not involved in that process, we have no comments as to the validity of the findings. We had hoped that the report would be as specific as it relates to other procurements as it was to the procurement for the Southeast Region. As we advised your on-site audit team, we have believed and continue to believe that irregularities in that process had a substantial and negative effect on Blue Shield of California; specifically, we believe that if the procurement process had been followed as designed and if scores had not been somewhat arbitrarily changed, Blue Shield of California would have won the contract for the Southwestern Region, lost for the Southeastern Region, won for the Northwestern Region and lost for the Northern Region. The report confirms that we should not have won the Southeastern Region and seems to imply, but does not state, that our assumptions were correct as they relate to the Southwest and Northwest Regions. If our assumptions are correct, the subsequent performance in all regions probably would have been better than history now reflects.

Had we won the Southwest Region, as the incumbent contractor, our new system implementation problems would have been far easier to deal with than they were in taking over the new Southeastern Region from two other fiscal intermediaries. If Mutual of Omaha had been declared the winner of the Southeastern Region, their performance would probably have been better than the California performance, since they were not proposing as many changes or massive changes as were contained in the California proposal. Under our proposal for the Northwestern Region, there were no changes involved in either system or coding mechanisms which would have given us problems, therefore, that transition would probably have been a smooth transition.

Having just lost the Southwest contract under what we considered to be a biased award process, we did not anticipate being declared the winner for the Southeastern Region. That assumption on our part that we would not win led to some of the problems experienced during the early implementation period of the Southeastern Region.

Richard L. Fogel
June 27, 1985
Page Two

The second portion of the draft report is applicable to Blue Shield of California's performance. Basically, we agree with these findings with one rather major exception. That exception is the performance comparisons depicted between Blue Shield of California and other contractors.

Blue Shield of California met the program's so called critical performance standards 32.5% of the time during the first year of its contract rather than 27%. There are two errors applicable to Blue Shield of California's performance contained in appendix III. According to our records which are correct, item #4 "For all vouchers, payment edit corrections for entire voucher shall be received at one time and within 40 calendar days after identified by OCHAMPUS", we met seven of twelve, not two of twelve. Item #8, "F.I. Monthly Workload & Cycle Time Aging Report's submission timeliness - 10 calendar days following the end of the month", we met eleven of twelve, not nine of twelve.

In our opinion, this appendix and the conclusions drawn from this appendix present a highly biased picture. The timeframe displayed for all fiscal intermediaries was May 1983 to April 1984. In using this approach, this puts Blue Cross/Blue Shield of Rhode Island, identified as F.I. #4 on the appendix and Blue Shield of California in the worst possible light in comparison to each of the other three F.I.'s. The time slice shown is the initial period for Rhode Island and California, but is a period well into each of the other three contracts. All contractors including Rhode Island and California showed improvement in subsequent months over the initial start-up months of a contract. A far more meaningful comparison would have been to take the first seven or twelve month period for each contractor.

The draft report indicates that Blue Shield of California took extraordinary actions in an attempt to improve its performance which is correct. The report does not reflect the cost of those actions. Blue Shield of California was awarded the contract for the Southeastern Region on October 28, 1982. The contract was terminated as of April 30, 1985. During that period of time, Blue Shield of California spent \$6,046,209 over and above the amount of reimbursement from OCHAMPUS, in its efforts to improve performance. During the last several months of the contract, and following the conclusion of the GAO audit, performance was improved substantially. It is hoped that the successor contractor, or any other contractor for that matter, who might be faced with a similar set of circumstances will be willing to make that same degree of effort. While there are financial penalties contained in these contracts for poor performance, the dollar value of these penalties is nowhere near as great as the potential dollar losses that the contractor would suffer through a dedicated effort to correct the problems. For this reason, among others, I seriously question the new procurement procedures which will give even greater weight to price.

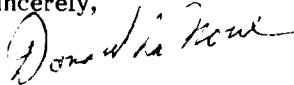
Following the award of the Southeastern Region contract to Blue Cross/Blue Shield of South Carolina, another CHAMPUS procurement has been completed. Blue Cross/Blue Shield of South Carolina has now been awarded the contract for the Southwestern Region. We were advised by OCHAMPUS that the principal reason for this award was the extremely low price proposed by South Carolina. An analysis would indicate that this price is probably substantially lower than the costs which will be incurred by the contractor.

Richard L. Fogel
June 27, 1985
Page Three

In its proposal for this particular contract, Blue Shield of California offered OCHAMPUS a unique opportunity to save several millions of dollars in benefit payments for beneficiaries residing within the State of California. The potential problems which could arise through the award of a contract at a price less than realistic costs, coupled with the rejection of a proposal which shows significant savings to the government would seem to bring into serious question a policy of giving even greater emphasis to price in the competitive bidding process for a service type contract.

Again, thank you for allowing us the opportunity to review and comment on this draft. We would sincerely appreciate receiving a copy of the final report when released.

Sincerely,



Donald LaNoue
Senior Vice President
CHAMPUS/CHAMPVA Program

DL:sw

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