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

# Final Audit Report

## Audit of
## CareFirst BlueChoice, Inc.
## Owings Mills, Maryland

**Report Number 1D-2G-00-20-003**
**November 30, 2020**

# EXECUTIVE SUMMARY

*Audit of CareFirst BlueChoice, Inc.*

**Report No. 1D-2G-00-20-003** **November 30, 2020**

**Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that CareFirst BlueChoice, Inc. (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 objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

**What did we audit?**

Our audit covered health benefit refunds and recoveries, including pharmacy and medical drug rebates, for contract year 2015 through March 31, 2019, and administrative expenses for contract years 2014 through 2018. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract year 2015 through March 31, 2019, and the Plan's Fraud and Abuse Program for contract year 2018 through March 31, 2019.

Due to concerns with the Plan's voucher deduction refunds, we expanded our review of these refunds and plan to issue a supplemental final report with the results of this expanded review.

**What did we find?**

We questioned $2,302,023 in health benefit refunds and recoveries, administrative expense overcharges, and lost investment income (LII). We also identified a procedural finding regarding the Plan's Fraud and Abuse Program. The Plan agreed with all of the questioned amounts as well as the procedural finding for the Plan's Fraud and Abuse Program. As part of our review, we verified that the Plan subsequently returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Health Benefit Refunds and Recoveries – We questioned $2,104,361 for 43 voucher deduction refunds, 4 provider audit recoveries, and a cash receipt refund that had not been returned to the FEHBP as of March 31, 2019, and $194,592 for applicable LII on these funds that were returned untimely to the FEHBP.

- Administrative Expenses – We questioned $2,943 for post-retirement benefit cost overcharges and $127 for applicable LII on these overcharges. Except for these overcharges, we concluded that the Plan's administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with the contract and applicable Federal regulations.

- Cash Management – The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

- Fraud and Abuse Program – The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

**Michael R. Esser**
***Assistant Inspector General for Audits***

# ABBREVIATIONS

| | |
|---|---|
| **CFR** | **Code of Federal Regulations** |
| **CL** | **Carrier Letter** |
| **FAR** | **Federal Acquisition Regulations** |
| **FEHB** | **Federal Employees Health Benefits** |
| **FEHBAR** | **Federal Employees Health Benefits Acquisition Regulations** |
| **FEHBP** | **Federal Employees Health Benefits Program** |
| **FWA** | **Fraud, Waste, and Abuse** |
| **HMO** | **Health Maintenance Organization** |
| **LII** | **Lost Investment Income** |
| **LOCA** | **Letter of Credit Account** |
| **OIG** | **Office of the Inspector General** |
| **OPM** | **U.S. Office of Personnel Management** |
| **Plan** | **CareFirst BlueChoice, Inc.** |
| **PRB** | **Post-Retirement Benefit** |

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# I. BACKGROUND

This final report details the findings, conclusions, and recommendations from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at CareFirst BlueChoice, Inc. (Plan). The Plan is located in Owings Mills, Maryland.

The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The FEHBP was established by the Federal Employees Health Benefits (FEHB) Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for Federal employees, annuitants, and dependents. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to enrollees and their families.[1] Enrollment is open to all Federal employees and annuitants in the Plan's service area, which includes Maryland, Northern Virginia, and Washington, D.C.

The Plan's contract (CS 2879) 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 that 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 the Plan's management. In addition, management of the Plan is responsible for establishing and maintaining a system of internal controls.

[1] Members of an experience-rated HMO plan have the option of using a designated network of providers or using out-of-network providers. A member's choice in selecting one health care provider over another has monetary and medical implications. For example, if a member chooses an out-of-network provider, the member will pay a substantial portion of the charges and covered benefits may be less comprehensive.

There were no findings from our previous audit of the Plan (Report No. 1D-2G-00-14-054, dated June 19, 2015), covering contract year 2011 through April 30, 2014.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan officials throughout the audit and at an exit conference on April 2, 2020; and were presented in detail in a draft report, dated June 15, 2020. The Plan's comments offered in response to this draft report were considered in preparing our final report and are included as an Appendix to this report.

# II. OBJECTIVES, SCOPE, AND METHODOLOGY

## OBJECTIVES

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

Health Benefit Refunds and Recoveries

- To determine whether health benefit refunds and recoveries, including pharmacy and medical drug rebates, were returned timely to the FEHBP.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

Cash Management

- To determine whether the Plan handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

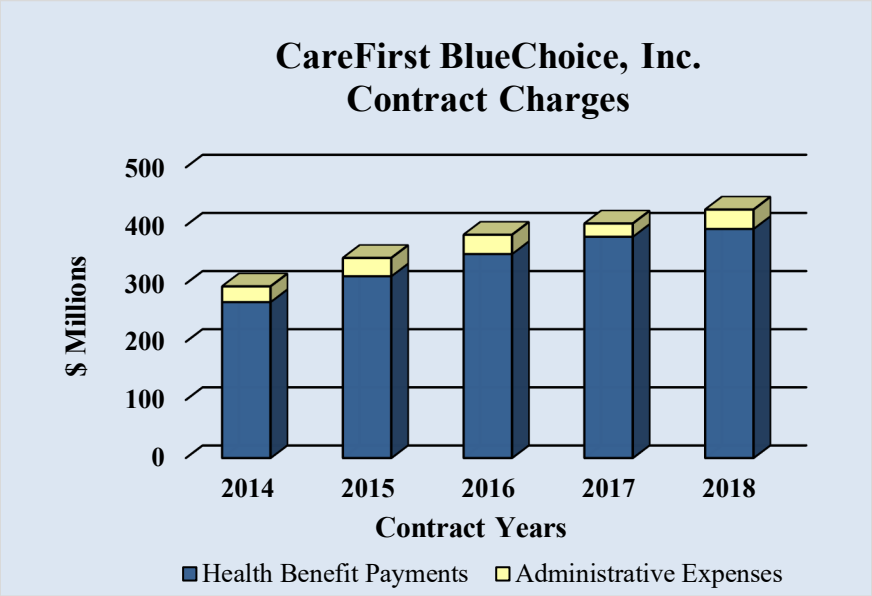
Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 2879 and Carrier Letter 2017-13.

## SCOPE

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the Plan's Annual Accounting Statements for contract years 2014 through 2018. During this period, the Plan paid approximately $1.7 billion in FEHBP health benefit payments and charged the FEHBP $147 million in administrative expenses (see chart below).




Specifically, we reviewed health benefit refunds and recoveries (e.g., cash receipt and voucher deduction refunds, provider audit recoveries, and pharmacy and medical drug rebates) and the Plan's cash management activities and practices for contract year 2015 through March 31, 2019, as well as administrative expenses for contract years 2014 through 2018. We also reviewed the Plan's Fraud and Abuse Program activities for contract year 2018 through March 31, 2019.

Due to concerns with the Plan's voucher deduction refunds, we expanded our review of these refunds and plan to issue a supplemental final report (Report No. 1D-2G-00-21-002) with the results of our expanded review. For this expanded review, we also increased our scope to include these voucher deduction refunds from January 1, 2014, through May 31, 2020.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify significant matters involving the Plan's internal control structure and operations, except with the Plan's processing of voucher deduction refunds (see "Health Benefit Refunds - Voucher Deductions" audit finding (A1) on pages 8 through 10). However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and Federal regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. 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 objectives.

The audit was performed at the Plan's office in Owings Mills, Maryland on various dates from October 16, 2019, through January 31, 2020. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. through April 2, 2020.

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

## METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial, cost accounting, and cash management systems by inquiry of Plan officials.

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of health benefit refunds and recoveries. For the period 2015 through March 31, 2019, we also judgmentally selected and reviewed the following FEHBP items:

*Health Benefit Refunds*

- A high dollar sample of 100 health benefit refunds returned via voucher deductions, totaling $3,963,596 (from a universe of 48,304 refunds returned via voucher deductions, totaling $24,380,865, for the audit scope). Our sample included the 20 highest dollar voucher deduction refunds from each year in the audit scope.

- A high dollar sample of 50 cash receipt health benefit refunds, totaling $1,298,575 (from a universe of 6,437 cash receipt refunds, totaling $3,377,171, for the audit scope). Our high dollar sample included the 50 highest cash receipt refunds from the audit scope.

*Other Health Benefit Credits and Recoveries*

- All 18 pharmacy drug rebate amounts, totaling $94,306,207, for the audit scope.

- A high dollar sample of 18 medical drug rebate amounts, totaling $1,403,868 (from a universe of 34 medical drug rebate amounts, totaling $1,517,481, for the audit scope). For this sample, we judgmentally selected the highest dollar medical drug rebate amount from each quarter in contract years 2015 and 2016. During these years, the Plan contracted directly with the drug manufacturers to obtain medical drug rebates. In addition, we selected all quarterly medical drug rebate amounts from contract years 2017 through 2019. During these years, the Plan used "CVS Caremark" (a pharmacy management company) to obtain the medical drug rebates from the drug manufacturers.

- A judgmental sample of 11 fraud recoveries, totaling $145,298 (from a universe of 26 fraud recoveries, totaling $146,616, for the audit scope). For this sample, we selected all fraud recoveries of $1,000 or more from the audit scope.

- A judgmental sample of 10 provider audit recoveries, totaling $65,665 (from a universe of 82 provider audit recoveries, totaling $96,832, for the audit scope). For this sample, we selected the 10 highest dollar provider audit recoveries from the audit scope.

We reviewed these samples to determine if health benefit refunds and recoveries, including pharmacy and medical drug rebates, were timely returned to the FEHBP. Since we did not use statistical sampling, the results of these samples were not projected to the applicable universes. However, due to concerns with the Plan's voucher deduction refunds, we expanded our review of these refunds and plan to issue a supplemental final report (Report No. 1D-2G-00-21-002) with the results of this expanded review.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2014 through 2018. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement benefits; out-of-system adjustments; executive

compensation limits; and Patient Protection and Affordable Care Act fees.[2] We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations. Specifically, we reviewed letter of credit account drawdowns, working capital calculations, adjustments and/or balances, United States Treasury offsets, and interest income transactions for contract year 2015 through March 31, 2019, as well as the Plan's dedicated FEHBP investment account activity during the scope and balance as of March 31, 2019.

We also interviewed the Plan's Special Investigations Unit regarding the effectiveness of the Fraud and Abuse Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases (including the Plan's 2018 Annual Fraud, Waste and Abuse Report) to test compliance with Contract CS 2879 and FEHBP Carrier Letter 2017-13.

[2] In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEHBP. For contract years 2014 through 2018, the Plan allocated administrative expenses of $97,555,735 (before adjustments) to the FEHBP from 1,088 cost centers that contained 156 natural accounts. From this universe, we selected a judgmental sample of 79 cost centers to review, which totaled $45,216,508 in expenses allocated to the FEHBP. We also selected a judgmental sample of 24 natural accounts to review, which totaled $40,157,364 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. HEALTH BENEFIT REFUNDS AND RECOVERIES

### 1. Health Benefit Refunds – Voucher Deductions $2,279,638

In 43 instances, the Plan reduced the payments to providers via voucher deductions to recover FEHBP health benefit refunds related to previous claim overpayments, but had not returned these refunds to the FEHBP as of March 31, 2019. As a result of our audit, the Plan subsequently returned $2,279,638 to the FEHBP in November 2019, July 2020, and August 2020, consisting of $2,086,149 for the questioned voucher deduction refunds and $193,489 for applicable lost investment income (LII) on these refunds.

Contract CS 2879, Part II, Section 2.3 (i) states, "All health benefit refunds and recoveries . . . must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier."

FAR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

Regarding reportable monetary findings, Contract CS 2879, Part III, section 3.16 (a) states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification."

For contract year 2015 through March 31, 2019, there were 48,304 health benefit refunds, totaling $24,380,865, that potentially were returned to the FEHBP via the Plan's voucher deduction process (based on the Plan's universe file of voucher deduction refunds). From this universe, we selected and reviewed a judgmental sample of 100 voucher deduction refunds, totaling $3,963,596, to determine if the Plan timely returned these refunds to the FEHBP. Our sample included the 20 highest dollar voucher deduction refunds from each year in the audit scope. Voucher deductions occur when the Plan reduces payments to participating providers or members for the purpose of recovering refunds related to previous claim overpayments.

We noted that the Plan did not have a dedicated FEHBP disbursement account during the audit scope. We also noted that the Plan's payments to providers from contract year 2015 through March 31, 2019 included charges for approved claims, net of refund voucher deductions related to previous claim overpayments, for all lines-of-business. Based on the Plan's process, these voucher deductions that were made to recover FEHBP refunds were offset against claim payments for all lines-of-business. Therefore, this process also requires the Plan to make corporate fund transfers to the letter of credit account (LOCA) to return these refunds to the FEHBP.

**The Plan did not return 43 voucher deduction refunds, totaling $2,086,149, to the FEHBP as of March 31, 2019.**

Based on our review of the sample, we determined that the Plan did not return 43 health benefit refunds (or 43 percent of the sample), totaling $2,086,149, to the FEHBP as of March 31, 2019, that were recovered through the Plan's voucher deduction process. These exceptions occurred because the Plan processed voucher deductions to offset claim overpayments but had not made the necessary LOCA drawdown adjustments to return these refund recoveries to the FEHBP. In total, the Plan subsequently returned $2,279,638 to the FEHBP for this audit finding, consisting of $2,086,149 for the questioned voucher deduction refunds and $193,489 for applicable LII on these refunds (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Due to the high exception rate for our sample (43 percent), we expanded our review of the voucher deduction refunds and plan to issue a supplemental final report with the results of this expanded review (Report No. 1D-2G-00-21-002). For our expanded review, we also increased the scope to include all FEHBP voucher deduction refunds from January 1, 2014, through May 31, 2020.

***Plan Response:***

***The Plan agrees with the finding and recommendations.***

***Regarding the expanded review, "The Plan is currently in the process of completing the review of the remaining voucher deduction refunds. Upon completion of the review, estimated by the Plan to be December 15, 2020, the Plan will return identified amounts due to the FEHBP via LOCA draw adjustment and provide the supporting documentation to the OPM OIG for review and approval."***

***The Plan also states, "after the review of the remaining voucher deduction refunds is completed, the Plan will calculate LII and provide supporting documentation to the OPM OIG for review and approval. Upon approval by the OPM OIG, the Plan will return the LII via the LOCA draw."***

***Regarding corrective procedural actions, the Plan states, "Upon completion of the implementation of the FEHBP HMO dedicated disbursement account and the review of the remaining voucher deductions, the Plan will provide evidence that the voucher deductions are being returned timely to the FEHBP."***

**OIG Comment:**

As part of our review, we verified that the Plan returned $2,279,638 to the FEHBP in November 2019, July 2020, and August 2020, consisting of $2,086,149 for the questioned voucher deduction refunds and $193,489 for applicable LII.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return $2,086,149 to the FEHBP for the questioned voucher deduction refunds. However, since we verified that the Plan subsequently returned $2,086,149 to the FEHBP for these questioned refunds, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return $193,489 to the FEHBP for LII calculated on the questioned voucher deduction refunds. However, since we verified that the Plan subsequently returned $193,489 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 3**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that voucher deduction refunds are timely returned to the FEHBP.

## 2. Health Benefit Refunds – Cash Receipts $10,562

Our audit determined that the Plan had not returned a cash receipt health benefit refund, totaling $9,717, to the FEHBP as of March 31, 2019. The Plan subsequently returned this questioned refund to the FEHBP on October 25, 2019, more than three years late, after receiving our audit notification letter, and/or because of our audit. As a result, we are questioning $10,562 for this finding, consisting of $9,717 for the questioned cash receipt refund and $845 for applicable LII.

As previously cited from Contract CS 2879, all health benefit refunds and recoveries must be deposited into the FEHBP investment account within 30 days and returned to the FEHBP letter of credit account within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

Regarding reportable monetary findings, Contract CS 2879, Part III, Section 3.16 (a) states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification."

For contract year 2015 through March 31, 2019, there were 6,437 FEHBP cash receipt health benefit refunds totaling $3,377,171. From this universe, we selected and reviewed a judgmental sample of 50 cash receipt refunds, totaling $1,298,575, to determine if the Plan timely returned these refunds to the FEHBP. Our sample included the 50 highest dollar cash receipt refunds from the audit scope.

**The Plan returned a cash receipt refund, totaling $9,717, to the FEHBP more than three years late, after our audit notification, and/or as a result of our audit.**

Based on our review, we determined that the Plan had not returned a cash receipt refund, totaling $9,717, to the FEHBP as of March 31, 2019. This exception was a result of an inadvertent error by the Plan. Overall, we determined that the Plan has implemented proper controls to ensure that cash receipt refunds are timely returned to the FEHBP. The Plan subsequently returned this questioned cash receipt refund to the FEHBP on October 25, 2019, more than three years late, after receiving our audit notification letter (dated April 1, 2019), and/or as a result of our audit.

In total, the Plan returned $10,562 to the FEHBP for this audit finding, consisting of $9,717 for the questioned cash receipt refund and $845 for applicable LII on this refund (as calculated by the OIG).

***Plan Response:***

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $10,562 to the FEHBP in October 2019 and May 2020, consisting of $9,717 for the questioned cash receipt refund and $845 for applicable LII.

**Recommendation 4**

We recommend that the contracting officer require the Plan to return $9,717 to the FEHBP for the questioned cash receipt refund. However, since we verified that the Plan subsequently returned $9,717 to the FEHBP for the questioned refund, no further action is required for this amount.

**Recommendation 5**

We recommend that the contracting officer require the Plan to return $845 to the FEHBP for LII calculated on the questioned cash receipt refund. However, since we verified that the Plan subsequently returned $845 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### 3. Provider Audit Recoveries $8,753

Our audit determined that the Plan had not returned four provider audit recoveries, totaling $8,495, to the FEHBP as of March 31, 2019. As a result of this finding, the Plan subsequently returned $8,753 to the FEHBP, consisting of $8,495 for the questioned provider audit recoveries and $258 for applicable LII on these recoveries.

As previously cited from Contract CS 2879, all health benefit refunds and recoveries must be deposited into the FEHBP investment account within 30 days and returned to the FEHBP letter of credit account within 60 days after receipt by the Carrier. Also, as

previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

For contract year 2015 through March 31, 2019, there were 82 FEHBP provider audit recoveries totaling $96,832. These provider audit recoveries were mostly recovered from providers via voucher deductions. From this universe, we selected and reviewed a judgmental sample of 10 provider audit recoveries, totaling $65,665, to determine if the Plan timely returned these recoveries to the FEHBP. Our sample included the 10 highest dollar provider audit recoveries from the audit scope. As previously noted in the "Health Benefit Refunds – Voucher Deductions" audit finding (A1), when the Plan recovers FEHBP funds via voucher deductions, the process also requires the Plan to make corporate fund transfers to the LOCA to return these recoveries to the FEHBP.

**The Plan had not returned four provider audit recoveries, totaling $8,495, to the FEHBP.**

Based on our review, we determined that the Plan had not returned four provider audit recoveries, totaling $8,495, to the FEHBP as of March 31, 2019. These exceptions occurred because the Plan made voucher deductions to offset these FEHBP provider audit recoveries against non-FEHBP claims, but inadvertently had not made the necessary LOCA drawdown adjustments to return these recoveries to the FEHBP. In total, the Plan returned $8,753 to the FEHBP for this finding, consisting of $8,495 for the questioned provider audit recoveries and $258 for applicable LII on these recoveries (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

***Plan Response:***

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

We verified that the Plan returned $8,753 to the FEHBP in April 2020 and May 2020, consisting of $8,495 for the questioned provider audit recoveries and $258 for applicable LII on these recoveries.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return $8,495 to the FEHBP for the questioned provider audit recoveries. However, since we verified that the Plan subsequently returned $8,495 to the FEHBP for these questioned recoveries, no further action is required for this amount.

**Recommendation 7**

We recommend that the contracting officer require the Plan to return $258 to the FEHBP for LII calculated on the questioned provider audit recoveries. However, since we verified that the Plan subsequently returned $258 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## B. ADMINISTRATIVE EXPENSES

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

### 1. Post-Retirement Benefit Costs $3,070

Our audit determined that the Plan overcharged the FEHBP for post-retirement benefit (PRB) costs in contract years 2017 and 2018. As a result of this audit finding, the Plan subsequently returned $3,070 to the FEHBP, consisting of $2,943 for PRB cost overcharges and $127 for applicable LII on these overcharges.

Contract CS 2879, Part III, Section 3.2 (b)(l) states, "The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable."

48 CFR 31.205-6(o) states, "(1) PRB covers all benefits, other than cash benefits and life insurance benefits paid by pension plans, provided to employees, their beneficiaries, and covered dependents during the period following the employees' retirement. Benefits encompassed include, but are not limited to, postretirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. (2) To be allowable,

PRB costs shall be incurred pursuant to law, employer-employee agreement, or an established policy of the contractor, and shall comply with paragraphs . . . of this subsection."

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

**The Plan overcharged the FEHBP $2,943 for post-retirement benefit costs.**

Using the cash (or pay-as-you-go) method, the Plan charged $988,864 to the FEHBP for PRB costs for contract years 2014 through 2018. We reviewed the Plan's calculations of PRB costs charged to the FEHBP and determined if these costs were calculated in accordance with the contract and applicable regulations. Specifically, we recalculated the PRB costs using documentation provided by the Plan and compared our amounts to what the Plan charged the FEHBP for PRB costs.

Based on our review, we determined that the Plan overcharged the FEHBP $2,943 for PRB costs ($850 in contract year 2017 and $2,093 in contract year 2018). However, we could not specifically identify why our recalculations were less than the Plan's PRB cost amounts since the Plan did not provide us with the original calculations. Accordingly, our calculations were based on the Plan's most current documentation available.

In total, the Plan returned $3,070 to the FEHBP for this finding, consisting of $2,943 for the PRB costs that were overcharged to the FEHBP and $127 for applicable LII on these overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

***Plan Response:***

***The Plan agrees with the finding and recommendations.***

**OIG Comment:**

As part of our review, we verified that the Plan returned $3,070 to the FEHBP in February 2020 and March 2020, consisting of $2,943 for the questioned PRB cost overcharges and $127 for applicable LII.

**Recommendation 8**

We recommend that the contracting officer disallow $2,943 for the questioned PRB costs that were overcharged to the FEHBP in contract years 2017 and 2018. However, since we verified that the Plan subsequently returned $2,943 to the FEHBP for these questioned overcharges, no further action is required for this amount.

**Recommendation 9**

We recommend that the contracting officer require the Plan to return $127 to the FEHBP for the questioned LII on the PRB cost overcharges. However, since we verified that the Plan subsequently returned $127 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## C. CASH MANAGEMENT

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

## D. FRAUD AND ABUSE PROGRAM

### 1. Special Investigations Unit — Procedural

**The Plan did not report six fraud and abuse cases to the OIG.**

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases set forth in the FEHBP Carrier Letter (CL) 2017-13. Specifically, the Plan did not report six fraud and abuse cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole.

CL 2017-13 (OPM Federal Employees Health Benefits Fraud, Waste and Abuse), dated November 20, 2017, states that all Carriers "are required to submit a written notification to OPM-OIG within 30 working days when there is a reportable [fraud, waste, and abuse (FWA)] that has occurred against the FEHB Program. Potential FWA issues become reportable to the OIG if, after a preliminary review of the allegation and/or complaint,

the Carrier takes an affirmative step to expand, further investigate, develop and/or close an allegation/complaint."

For the period January 1, 2018, through March 31, 2019, the Plan opened 17 fraud and abuse cases with potential FEHBP exposure. We reviewed all of these fraud and abuse cases to determine if the cases were properly reported to the OIG, as required by CL 2017-13. Based on our review, we determined that the Plan did not submit notifications to the OIG for six of these cases.

Ultimately, the Plan's incomplete reporting of potential FEHBP cases to the OIG has resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2017-13. The lack of notification by the Plan did not allow the OIG to investigate if other FEHBP Carriers were exposed to the identified fraudulent activity. As a result, this lack of OIG notification by the Plan may result in additional improper payments being made by other FEHBP Carriers. This also does not allow the OIG's Administrative Sanctions Group to be notified timely.

***Plan Response:***

***The Plan agrees with the finding and recommendation.***

***"The Plan is currently in the implementation phase of a new case management software that will provide visual queues and more comprehensive reporting to help ensure compliance with the updated policies and procedures."***

**Recommendation 10**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2017-13.

# IV. SCHEDULE A – QUESTIONED CHARGES

**CAREFIRST BLUECHOICE, INC.**
**OWINGS MILLS, MARYLAND**

**QUESTIONED CHARGES**

| AUDIT FINDINGS | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| A. HEALTH BENEFIT REFUNDS AND RECOVERIES | | | | | | | | |
| 1. Health Benefit Refunds - Voucher Deductions* | $0 | $312,428 | $1,111,563 | $201,511 | $410,398 | $223,870 | $19,868 | $2,279,638 |
| 2. Health Benefit Refunds - Cash Receipts* | 0 | 0 | 9,771 | 237 | 297 | 257 | 0 | 10,562 |
| 3. Provider Audit Recoveries* | 0 | 0 | 0 | 0 | 0 | 8,691 | 62 | 8,753 |
| TOTAL HEALTH BENEFIT REFUNDS AND RECOVERIES | $0 | $312,428 | $1,121,334 | $201,748 | $410,695 | $232,818 | $19,930 | $2,298,953 |
| B. ADMINISTRATIVE EXPENSES | | | | | | | | |
| 1. Post-Retirement Benefit Costs* | $0 | $0 | $0 | $850 | $2,119 | $92 | $9 | $3,070 |
| TOTAL ADMINISTRATIVE EXPENSES | $0 | $0 | $0 | $850 | $2,119 | $92 | $9 | $3,070 |
| C. CASH MANAGEMENT | | | | | | | | |
| TOTAL CASH MANAGEMENT | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| D. FRAUD AND ABUSE PROGRAM | | | | | | | | |
| 1. Special Investigations Unit (Procedural) | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| TOTAL FRAUD AND ABUSE PROGRAM | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| TOTAL QUESTIONED CHARGES | $0 | $312,428 | $1,121,334 | $202,598 | $412,814 | $232,910 | $19,939 | $2,302,023 |

* We included lost investment income (LII) within audit findings A1 ($193,489), A2 ($845), A3 ($258), and B1 ($127). Therefore, no additional LII is applicable.

**CareFirst BlueChoice, Inc.**
10455 Mill Run Circle
Owings Mills, MD 21117
**www.carefirst.com**

# APPENDIX

July 31, 2020

Mr. [redacted], Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
Washington, DC 20415-11000

**Reference:** **OPM DRAFT AUDIT REPORT**
**CareFirst BlueChoice**
**Audit Report No. 1D-2G-00-20-003**
**(Dated June 15, 2020)**

Dear Mr. [redacted]:

This is the CareFirst BlueChoice response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). Our comments concerning the findings in the report are as follows:

## A. HEALTH BENEFIT REFUNDS AND RECOVERIES

### 1. Health Benefit Refunds – Voucher Deductions $2,086,149

**Recommendation 1**

We recommend that the contracting officer require the Plan to return $2,086,149 to the FEHBP, as well as all additional amounts resulting from our expanded review, for the questioned voucher deduction refunds.

**Plan Response**

The Plan has returned $2,086,149 to the FEHBP which included the adjustments to the finding previously reported to the OPM OIG. Supporting documentation is being submitted along with this response.

The Plan is currently in the process of completing the review of the remaining voucher deduction refunds. Upon completion of the review, estimated by the Plan to be December 15, 2020, the Plan will return identified amounts due to the FEHBP via LOCA draw adjustment and provide the supporting documentation to the OPM OIG for review and approval.

**Recommendation 2**

We recommend that the contracting officer require the Plan to calculate and return LII on the questioned voucher deduction refunds returned untimely or not previously returned to the FEHBP.

**Plan Response**

The Plan has calculated Lost Investment Income (LII) in the amount of $193,489.08 applicable to the voucher deduction refund amounts ($2,086,149) not returned timely. Upon review and approval by the OPM OIG, the Plan will return the LII via the Letter of Credit Account (LOCA) draw.

In addition, after the review of the remaining voucher deduction refunds is completed, the Plan will calculate LII and provide supporting documentation to the OPM OIG for review and approval. Upon approval by the OPM OIG, the Plan will return the LII via the LOCA draw.

**Recommendation 3**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that voucher deduction refunds are timely returned to the FEHBP.

**Plan Response**

Upon completion of the implementation of the FEHBP HMO dedicated disbursement account and the review of the remaining voucher deductions, the Plan will provide evidence that the voucher deductions are being returned timely to the FEHBP.

## 2. Health Benefit Refunds – Cash Receipts $10,562

### Recommendation 4

We recommend that the contracting officer require the Plan to return $9,717 to the FEHBP for the questioned health benefit refund. However, since we verified that the Plan subsequently returned $9,717 to the FEHBP for the questioned refund, no further action is required for this amount.

### Recommendation 5

We recommend that the contracting officer require the Plan to return $845 to the FEHBP for LII calculated on the questioned health benefit refund. However, since we verified that the Plan subsequently returned $845 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### Plan Response

The Plan agreed with these recommendations and as indicated; no additional action is necessary.

## 3. Provider Recoveries $8,753

### Recommendation 6

We recommend that the contracting officer require the Plan to return $8,495 to the FEHBP for the questioned provider audit recoveries. However, since we verified that the Plan subsequently returned $8,495 to the FEHBP for these questioned recoveries, no further action is required for this amount.

### Recommendation 7

We recommend that the contracting officer require the Plan to return $258 to the FEHBP for LII calculated on the questioned provider audit recoveries. However, since we verified that the Plan subsequently returned $258 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### Plan Response

The Plan agreed with these recommendations and as indicated, no additional action is necessary.

## B. ADMINISTRATIVE EXPENSES

### 1. Post-Retirement Benefit Costs $3,070

**Recommendation 8**

We recommend that the contracting officer disallow $2,943 for the questioned PRB costs that were overcharged to the FEHBP in 2017 and 2018. However, since we verified that the Plan subsequently returned $2,943 to the FEHBP for these questioned overcharges, no further action is required for this amount.

**Recommendation 9**

We recommend that the contracting officer require the Plan to return $127 to the FEHBP for questioned LII on the PRB cost overcharges. However, since we verified that the Plan subsequently returned $127 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agreed with these recommendations and as indicated, no additional action is necessary.

## C. CASH MANAGEMENT

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations.

**Plan Response**

The Plan acknowledges OIG's comments.

## D. FRAUD AND ABUSE PROGRAM

### 1. Special Investigations Unit Procedural

**Recommendation 10**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2017-13.

**Plan Response**

The Plan agrees with the recommendation. The Plan is currently in the implementation phase of a new case management software that will provide visual queues and more comprehensive reporting to help ensure compliance with the updated policies and procedures.

We appreciate the opportunity to provide our response to this Draft Audit Report and request that our comments be included in their entirety as an amendment to the Final Audit Report.

Sincerely,

Derek Butler, Director
FEP Audit and Advisory Services

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