



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

Final Audit Report

**Audit of the Blue Cross Blue Shield Association's
Federal Employee Program Service Benefit Plan's
Federal Employees Health Benefits Program
Pharmacy Operations as Administered by CVS Health
for Contract Years 2014 through 2016**

**Report Number 1H-01-00-18-020
March 26, 2019**

EXECUTIVE SUMMARY

Audit of the BCBSA FEP Service Benefit Plan's Federal Employees Health Benefits Program Pharmacy Operations as Administered by CVS Health

Report No. 1H-01-00-18-020

March 26, 2019

Why Did We Conduct the Audit?

The objective of the audit was to determine whether pharmacy costs charged to the Federal Employees Health Benefits Program (FEHBP) and services provided to its members were in accordance with the U.S. Office of Personnel Management Contract Number CS 1039 and applicable Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the Blue Cross Blue Shield Association's Federal Employee Program Service Benefit Plan (Plan) Pharmacy Operations as administered by CVS Health (Pharmacy Benefits Manager or PBM). Our audit consisted of a review of the administrative fees, claim payments, drug manufacturer rebates, fraud and abuse program, and performance guarantees as they relate to the FEHBP for contract years 2014 through 2016. We conducted our site visit at the PBM's office in Scottsdale, Arizona from March 5 through March 16, 2018. We conducted additional audit work at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

We determined that the PBM needs to strengthen its procedures and controls related to drug manufacturer rebates and performance guarantees.

Specifically, our audit identified the following deficiencies that require corrective action:

1. The PBM did not correctly calculate drug manufacturer rebates, resulting in a loss of \$37,192 to the FEHBP.
2. The PBM did not return \$6,300 due to underachieved performance guarantees.

In addition, we identified an opportunity for program improvement related to the reporting of drug manufacturer rebates on the Plan's Annual Accounting Statement.

Our reviews of the administrative fees, claim payments, and the fraud and abuse program did not identify any findings or program improvement areas.

ABBREVIATIONS

5 CFR 890	Title 5, Code of Federal Regulations, Chapter 1, Part 890
AAS	Annual Accounting Statement
Act	Federal Employees Health Benefits Act
Agreement	The Mail Order, Retail, and Specialty Drug Program contracts between the Plan and the PBM
Contract	OPM Contract Number CS 1039
CY	Contract Year
FEHBP	Federal Employees Health Benefits Program
HIO	Healthcare and Insurance Office
NDC	National Drug Code
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
PBM	CVS Health (Pharmacy Benefits Manager)
Plan	Blue Cross Blue Shield Association's Federal Employee Program Service Benefit Plan

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I. BACKGROUND

This report details the results of our audit of Blue Cross Blue Shield Association's (Plan) pharmacy operations as administered by CVS Health (Pharmacy Benefits Manager or PBM) for contract years (CY) 2014 through 2016. The audit was conducted pursuant to the provisions of Contract CS 1039 (Contract) between the U.S. Office of Personnel Management (OPM) and the Plan; the Pharmacy Benefit Management Agreement between the Plan and the PBM (Agreement); Title 5, United States Code, Chapter 89; and Title 5, Code of Federal Regulations, Chapter 1, Part 890 (5 CFR 890). The audit was performed by OPM's Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The Federal Employees Health Benefits Program (FEHBP) was established by the Federal Employees Health Benefits Act (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 (HIO) has overall responsibility for administration of the FEHBP, including the publication of program regulations and agency guidance. As part of its administrative responsibilities, the HIO contracts with various health insurance carriers that provide service benefits, indemnity benefits, and/or comprehensive medical services. The provisions of the Act are implemented by OPM through regulations codified in 5 CFR 890.

Pharmacy Benefit Managers are primarily responsible for processing and paying prescription drug claims. The services provided typically include retail pharmacy, mail order, and specialty drug benefits. For drugs acquired through retail, the PBM contracts directly with the approximately 50,000 retail pharmacies located throughout the United States. For maintenance prescriptions that typically do not need to be filled immediately, the PBM offers the option of mail order pharmacies. The PBM also provides specialty pharmacy services for members with rare and/or chronic medical conditions. Pharmacy Benefit Managers are used to develop, allocate, and control costs related to the pharmacy claims program.

The Plan contracted with the PBM, located in Scottsdale, Arizona, to provide pharmacy benefits and services to plan members for CYs 2014 through 2016. Section 1.11 of the Contract includes a provision that allows for audits of the program's operations. Additionally, section 1.26(a) of the Contract outlines transparency standards that require the PBM to provide pass-through pricing based on its cost. Our responsibility is to review the performance of the PBM to determine if the Plan charged costs to the FEHBP and provided services to its members in accordance with the Contract, the Agreement, and the Federal regulations.

The prior OIG audit of the Plan (Report No. 1H-01-00-14-067), dated August 15, 2015, identified two audit findings, duplicate claim payments and non-reporting and untimely reporting of fraud cases for the 2012 and 2013 audit scope. Specifically, the PBM did not identify and

reverse duplicate claim payments and the Plan did not report all of the fraud cases that were reported by the PBM to the OIG. Also, the Plan did not report fraud cases in the required time frame to the OIG. On September 30, 2015, the Contracting Officer issued a letter to the Plan stating that all of the recommendations were considered closed and resolved. No other leads were identified from the previous audit.

The results of our audit were discussed with Plan and PBM officials at an exit conference on October 23, 2018. In addition, a draft report, dated December 26, 2018, was provided to the Plan and PBM for review and comment. The Plan and PBM's response to the draft report was considered in preparing the final report and is included as an Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The main objective of the audit was to determine whether the costs charged to the FEHBP and services provided to its members were in accordance with the terms of the Contract, the Agreement, and applicable Federal regulations.

Our specific audit objectives were to determine if:

Administrative Fees Review

- The Plan paid the PBM administrative fees in accordance with their Agreement and if the fees were properly documented.

Claims Payment Review

- Any claims were paid for ineligible dependents age 26 and older, excluded drugs, non-FEHBP members, or members from another group.
- The pricing elements for retail, mail order, specialty, and compound drug claims were transparent and paid correctly in accordance with the Agreement.

Drug Manufacturer Rebates Review

- The FEHBP was credited the appropriate amount of drug manufacturer rebates in a timely manner.
- The PBM properly reported and credited all rebates earned by the Plan in comparison to the rebates collected from its non-FEHBP book of business.

Fraud and Abuse Program Review

- The Plan and the PBM complied with the fraud, waste, and abuse requirements in Carrier Letter 2014-29 and if potential fraud cases were being reported to OPM.

Performance Guarantees Review

- The Plan and the PBM's performance standards were properly calculated, if the guarantees were met, and if any associated penalties were paid timely.

SCOPE AND METHODOLOGY

We conducted this 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit included a review of the administrative fees, claims payment, drug manufacturer rebates, fraud and abuse program, and performance guarantees related to the FEHBP for CYs 2014 through 2016. As part of our survey work, we conducted a site visit at the PBM's office in Scottsdale, Arizona from March 5 through March 16, 2018. The audit fieldwork was completed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. from May 15 through October 23, 2018.

The Plan is responsible for providing FEHBP members with medical and prescription drug benefits. To meet this responsibility, the Plan collected healthcare premium payments of approximately \$92.2 billion in CYs 2014 through 2016, of which approximately two-thirds was paid by the government on behalf of Federal employees. In its annual accounting statements, the Plan reported total pharmacy claims paid of approximately \$23.5 billion for CYs 2014 through 2016 (See below).

Contract Year	Earned Healthcare Premiums	Number of Pharmacy Claims	Amount of Pharmacy Claims Paid	Amount of Medical Claims Paid
2014	\$29,137,895,212	84,480,351	\$7,401,068,337	\$21,180,344,027
2015	\$30,363,707,800	84,792,099	\$7,827,384,606	\$22,255,095,102
2016	\$32,736,276,246	83,452,770	\$8,318,973,887	\$23,297,470,670
Total	\$92,237,879,258	252,725,220	\$23,547,426,830	\$66,732,909,799

In planning and conducting the audit, we obtained an understanding of the Plan's and PBM's internal control structures 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. Additionally, 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 and PBM's system of internal controls taken as a whole.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contract, the Agreement and Federal regulations. Exceptions noted in the areas reviewed are set forth in the “Audit Findings and Recommendations” section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan and PBM had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan and PBM. Due to the 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.

To determine whether costs charged to the FEHBP and services provided to its members for contract years 2014 through 2016 were in accordance with the terms of the Contract, Agreement, and applicable Federal regulations, we performed the following audit steps:

Administrative Fees Review

- For each CY, we reviewed the monthly administrative fee invoices and line items, to determine if the PBM’s fees were properly calculated and supported in accordance with the terms of the Agreement between the Plan and the PBM.

Claims Payment Review

Unless stated otherwise, the claim samples below were selected from the complete claims universe of 297,751,312 claims, totaling \$23,580,274,698, for CYs 2014 through 2016 (the paid claims data differs from the amounts reported in the table above due to timing, claim adjustments, and reversals).

- We identified and reviewed dependents, 26 years of age or older, to determine if the members were eligible for coverage due to a disability and because they were incapable of self-support.
- We identified and reviewed the Plan’s non-covered drugs list to determine if any claims were paid for excluded drugs.
- We reviewed all claims to determine if any were paid for non-FEHBP members or members enrolled in another FEHBP plan code.

- We identified a universe of 276,330,167 retail pharmacy claims, totaling \$11,331,122,976. From this universe, we randomly selected using SAS software, 150 claims totaling \$15,342 to determine if the pricing elements were transparent and if the claims were paid correctly.
- We identified a universe of 1,481,359 specialty pharmacy claims, totaling \$7,358,225,511. From this universe, we randomly selected using SAS software, 90 claims, totaling \$446,626, to determine if the pricing elements were transparent and if the claims were paid correctly.
- We identified a universe of 19,359,152 mail order pharmacy claims, totaling \$4,856,931,034. From this universe, we randomly selected using SAS software, 60 claims, totaling \$21,761, to determine if the pricing elements were transparent and if the claims were paid correctly.
- We identified a universe of 580,633 compound pharmacy claims, totaling \$33,995,177. From this universe, we randomly selected using SAS software, 30 claims, totaling \$1,434, to determine if the pricing elements were transparent and if the claims were paid correctly.

Drug Manufacturer Rebates Review

- We identified a universe of approximately \$247,806,375 in drug manufacturer rebates for the 4th quarter of contract year 2014. We selected only the 4th quarter of 2014 due to the large amount of rebate information from 2014 through 2016, which we would not be able to fully review. From this universe, we randomly selected using excel random number generator, 40 rebate collections (20 retail, 10 specialty, and 10 mail order collections) totaling \$136,417,410. We then reviewed the collections to determine if the rebates were properly supported, accurately calculated, and remitted to the Plan.
- We acquired a list of National Drug Codes (NDCs) that received a rebate by the PBM from the drug manufacturer for its book of business during the 4th quarter of 2014. We compared the NDC list to the FEHBP retail claims NDCs for the 4th quarter of 2014 and identified a universe of 332,781 claims with a paid amount of \$87,200,809 for which the FEHBP did not receive a rebate. From the universe, we randomly selected using excel random number generator, 50 claims with a total paid amount of \$12,927. We then requested an explanation from the PBM as to why the sampled claims did not receive a rebate.

Fraud and Abuse Program Review

- We reviewed all potential fraud and abuse cases reported by the PBM to the Plan to determine if those cases were reported to OPM.
- We reviewed the Plan's policies and procedures for fraud and abuse to ensure that they complied with Carrier Letter 2014-29.

Performance Guarantees Review

- For each CY, we reviewed all performance guarantees to determine if the guarantees were met, reported accurately, and if any associated penalties were paid to the Plan timely.

The samples that were selected and reviewed in performing the audit were not statistically based. Consequently, the results were not projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Administrative Fees Review

The results of our review showed that the administrative fees charged to the Plan were in accordance with the mail order, retail, and specialty drug program Agreements between it and the PBM.

B. Claims Payment Review

The results of our review showed that the PBM correctly paid pharmacy claims in accordance with the Agreements between it and the Plan.

C. Drug Manufacturer Rebates Review

1. Incorrectly Invoiced Drug Rebates **\$37,192**

The PBM incorrectly invoiced manufacturer rebates for one drug that resulted in a loss of \$37,192 to the FEHBP.

Incorrectly invoiced manufacturer rebates resulted in a loss of \$37,192 to the FEHBP.

Schedule A of the Specialty Pharmacy Agreement defines rebates as any and all upfront, concurrent or retrospective reimbursement or discount received by the PBM of any monetary amount or other consideration from a manufacturer that is directly or indirectly attributable to the purchase or utilization of any formulary drug by any member.

Additionally, Section 7.2.7.1 of the Specialty Pharmacy Agreement states that the Plan is to receive 100 percent of total rebates.

Lastly, the PBM contracts with many pharmaceutical manufacturers in order to receive rebates for drugs listed on the Plan's drug formulary as preferred. In some cases, the rebates received by the PBM are client specific and therefore differ from client to client.

We reviewed the PBM's pharmaceutical manufacturer rebate process to determine if the rebates were invoiced properly and returned to the FEHBP. During our review, we identified one drug where the PBM invoiced the pharmaceutical manufacturer incorrectly. Specifically, the PBM applied a rebate percentage lower than the rate applicable to the Plan.

During the rebate invoicing process, the PBM's Invoice Analyst manually selected the incorrect invoice report that resulted in the incorrect rebate percentage being applied to the claims. Our review determined that this error was isolated and only applied to claims for the drug in question filled on November 14, 2014.

Because the PBM applied an incorrect rebate percentage, the FEHBP did not receive rebates totaling \$37,192.

Recommendation 1

We recommend that the Plan direct the PBM to remit to the FEHBP \$37,192 in manufacturer rebates earned by the Plan in the fourth quarter of 2014.

PBM Response:

The PBM agrees with the recommendation and states that it will reimburse the Plan.

Recommendation 2

We recommend that the Plan direct the PBM to require a secondary review when drug information is manually entered into the invoicing process.

PBM Response:

The PBM agrees with the recommendation.

D. Fraud and Abuse Program Review

The results of our review showed that the Plan and the PBM had sufficient policies and procedures to help prevent fraud and abuse related to pharmacy operations.

E. Performance Guarantees Review

1. Unpaid Performance Guarantee Penalties

\$6,300

The PBM was unable to provide supporting documentation for a performance guarantee penalty waiver it believed to be in effect. As a result, the FEHBP is due \$6,300 in penalties incurred in CY 2015.

Schedule C of the Agreements indicates that performance penalties shall be due to the Plan on the annual payment date or one month after the PBM files its annual statement.

The PBM did not pay \$6,300 in performance guarantee penalties.

We reviewed all of the PBM's annual Performance Guarantee Reports to determine if it met the performance standard guarantees outlined in the Agreements and to determine if any associated penalties were accurately calculated and paid to the FEHBP. Our review determined that in CY 2015 penalties of \$6,300 were not paid. Specifically, we found that the following penalties were assessed and not paid to the FEHBP:

- Specialty Contract – Member Call Abandonment Rate (during a holiday period), totaling \$3,900; and
- Retail Contract – Member Call Answering by a Dedicated Customer Service Representative (during a holiday period), totaling \$2,400.

When this was brought to the attention of the PBM, it stated that it was granted a waiver by the Plan for these penalties. However, it was unable to provide any documentation to support its claim and has agreed to pay the penalties.

As a result of the PBM being unable to support any penalty waivers, the performance penalties were not paid to the FEHBP in a timely manner.

Recommendation 3

We recommend that the Plan ensure that a \$6,300 payment is made by the PBM for performance standard guarantee penalties due for CY 2015.

PBM Response:

The PBM agrees with the recommendation and states that it will reimburse the Plan.

Recommendation 4

We recommend that both the Plan and the PBM maintain all documentation related to their Agreements, including those related to performance guarantee waivers.

PBM Response:

The PBM agrees with the recommendation and states that it has implemented procedures to have documentation stored in two separate areas, by two separate internal groups.

F. Program Improvement Area

1. Drug Manufacturer Rebate Reporting

The Plan did not clearly report FEHBP pharmacy manufacturer rebates earned on its Annual Accounting Statements (AAS).

According to the AAS Certification statement, the Plan is required to report all “Income, rebates, allowances, refunds, and other credits made or owed” in its certified AAS to OPM on a yearly basis.

The Plan does not clearly report FEHBP pharmacy manufacturer rebates received on its AAS.

During our review of the Plan’s AAS, specifically the pharmacy manufacturer rebates, we determined the rebates earned and credited to the FEHBP were not distinctly identified and reported. It should be noted that in our reviews of other FEHBP carriers, all clearly report the pharmacy manufacturer rebates earned in their AAS. Discussion with the Plan determined that its rebates were commingled with other miscellaneous pharmacy credits and debits and are reported by it as miscellaneous payments on the AAS.

We reviewed the supporting documentation provided by the Plan to attempt to quantify the rebate amounts that may have been rolled up with the miscellaneous payment totals included in the AAS, but were unable to do so. During the five-month audit fieldwork period, we requested that the Plan specifically identify these amounts. However, it was unable to provide sufficient documentation for us to complete our review.

We find it inconsistent that the Plan, although the largest in the FEHBP, does not report rebates in a similar manner as all other Experience-Rated carriers serving FEHBP members. The AAS, created by OPM for the carriers use, specifically requires the amount of drug

rebates to be stated. All other carriers are required by OPM to report pharmacy manufacturer rebates as a separate and distinct line item on their AAS.

As a result of not clearly reporting rebates on its AAS, the Plan is not reporting rebates and credits as required. Additionally, by not clearly reporting rebates, the Plan is not reporting the effectiveness of its Agreements in regards to rebates to OPM.

Recommendation 5

We recommend the contracting officer require the Plan to clearly report the drug manufacturer rebates received from the PBM on its AAS.

Plan Response:

The Plan agrees with the recommendation and states that it will begin reporting the breakout of medical rebates starting on its 2018 AAS.

APPENDIX



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February 7, 2019

[REDACTED], Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
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**Reference: OPM DRAFT AUDIT REPORT
BCBS Pharmacy Ops Caremark PCS Health LLC Audit
Audit Report No. 1H-01-00-18-020
(Dated December 26, 2018 and Received January 02, 2019)**

Dear [REDACTED]

This is the BCBSA response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the PBM Vendor (CVS) are committed to enhancing existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

There were no findings in Sections A and B. Our comments concerning the findings in the report are as follows beginning with Section C:

C. DRUG MANUFACTURER REBATE REVIEW

1. Incorrectly Invoiced Drug Rebates \$37,192

Recommendation 1:

We recommend that the Plan direct the PBM to return \$37,192 to the FEHBP in manufacturer rebates earned by the Plan in the fourth quarter of 2014.

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CVS Response:

CVS agreed that due to a manual error, the FEHBP was underpaid \$37,192 in earned rebates for drug claims filled on November 14, 2014 for the specific drug in question. The FEHBP will be reimbursed for this error as part of the 2018 Annual Accounting Statement (AAS) process with proof of payment provided to BCBSA once payment has been released.

Recommendation 2:

We recommend that the Plan direct the PBM to require a secondary review when drug information is manually entered into the invoicing process.

CVS Response:

CVS agreed that a manual input error occurred which caused a pharmaceutical manufacturer's default rate to be selected instead of BCBSA-FEP's client specific rate for claims filled on November 14, 2014 for the drug in question. While controls are in place to reduce the likelihood of such errors from occurring, CVS recognizes that when manual entries are processed, errors can occur. The rebate invoicing control and review process was enhanced in 2014, when the manual entry error occurred, including secondary reviews. Effective August 9, 2016 procedures were implemented to have a secondary review completed by the Invoice Manager. As CVS recognizes the importance of the accuracy of the client rebate invoicing process, we will continue to make improvements to the review process in an effort to reduce contract rate errors from occurring.

E. PERFORMANCE GUARANTEE REVIEW

1. Unpaid Performance Guarantee Penalties \$6,300

Recommendation 3

We recommend that the Plan ensure that a \$6,300 payment is made by the PBM for performance standard guarantee penalties due for CY 2015.

CVS Response:

CVS is in agreement that the BCBSA-FEP was underpaid \$6,300 in performance standard guarantee penalties due for contract year 2015. BCBSA FEP will be reimbursed for this error as part of the 2018 Annual Statement process with proof of payment provided to BCBSA once payment has been released.

Recommendation 4

We recommend that both the Plan and the PBM maintain all documentation related to their Agreements, including those related to performance guarantee waivers.

CVS Response:

While CVS strives to maintain all documentation relating to Agreements with the BCBSA-FEP Vendor, we recognize improvements can be made to ensure all documentation, in particular email approvals relating to performance guarantee waivers, are readily accessible for future audit purposes. In order to ensure waivers can be provided upon audit requests, documentation will be stored in two separate areas, one maintained by FEP-CVS account management team and a separate copy maintained by Quality Analyst responsible for the Performance Guarantee tracker. This became effective January 1, 2019.

F. PROGRAM IMPROVEMENT AREA

1. Drug Manufacturer Rebate Reporting

Recommendation 5

We recommend the contracting officer require the Plan to clearly report the drug manufacturer rebates received from the PBM on its AAS.

BCBSA Response:

BCBSA completed a breakout of medical rebates for 2016 as an example of how this information will be reflected in the 2018 Annual Accounting Statement (AAS) (See Attachment 1). BCBSA will begin reporting in this manner beginning with the 2018 AAS which is due to OPM by April 30, 2019. It should be noted that this does not change the AAS but only serves to provide a detailed breakout of medical rebates. We will provide a copy of the completed AAS once it has been submitted to the Contracting Officer in April 2019.

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,

[Redacted]

[Redacted]

Attachments

cc: [Redacted], CVS, Caremark
[Redacted] FEPDO
[Redacted], FEPDO



Report Fraud, Waste, and Mismanagement

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