



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

Final Audit Report

**Audit of
CareFirst BlueCross BlueShield
Owings Mills, Maryland**

Report Number 1A-10-85-20-001

September 18, 2020

EXECUTIVE SUMMARY

Audit of CareFirst BlueCross BlueShield

Report No. 1A-10-85-20-001

September 18, 2020

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that CareFirst BlueCross BlueShield (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 miscellaneous health benefit payments and credits, such as refunds and subrogation recoveries, from 2015 through March 31, 2019, and administrative expenses from contract years 2014 through 2018, as reported in the Annual Accounting Statements for the Plan's Washington, D.C. and Maryland Service Areas. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2015 through March 31, 2019, and the Plan's Fraud and Abuse Program activities from 2018 through March 31, 2019, for these Service Areas. Due to concerns with excess funds in the Federal Employee Program (FEP) investment accounts, we expanded our scope to also include these account balances as of December 31, 2019.

What did we find?

We questioned \$993,146 in administrative expense overcharges, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with all of the questioned amounts. 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:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$3,629 for LII calculated on 11 health benefit refunds that were returned untimely to the FEHBP during the audit scope. Except for these refund exceptions, we concluded overall that health benefit refunds and recoveries, medical drug rebates, and miscellaneous credits were timely returned to the FEHBP and miscellaneous payments were properly charged to the FEHBP.
- Administrative Expenses – We questioned \$33,185 in administrative expense charges and LII, consisting of \$20,000 for an out-of-system adjustment overcharge, \$9,689 for unallowable and/or unallocable costs, and \$3,496 for applicable LII on these questioned charges.
- Cash Management – We determined that the Plan held excess FEHBP funds of \$954,919 in the dedicated FEP investment accounts as of December 31, 2019. We also questioned \$1,283 for a United States Treasury offset against the FEHBP letter of credit account and \$130 for applicable LII on this Treasury offset.
- Fraud and Abuse Program – The Plan is 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
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for Audits*

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross and/or BlueShield
CFR	Code of Federal Regulations
FAR	Federal Acquisition Regulations
FEHB	Federal Employees Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
FSTS	FEP Special Investigations Unit Tracking System
LII	Lost Investment Income
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
OSA	Out-of-System Adjustment
Plan	CareFirst BlueCross BlueShield
Service Areas	Washington, D.C. (DC) and Maryland (MD) Service Areas
SIU	Special Investigations Unit
Treasury	United States Treasury

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	9
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u>	9
1. Health Benefit Refunds – Cash Receipts.....	9
B. <u>ADMINISTRATIVE EXPENSES</u>	11
1. Out-of-System Adjustments	11
2. Unallowable and/or Unallocable Costs	12
C. <u>CASH MANAGEMENT</u>	14
1. Excess Funds in the Federal Employee Program Investment Accounts	14
2. Treasury Offsets.....	17
D. <u>FRAUD AND ABUSE PROGRAM</u>	19
IV. SCHEDULE A – QUESTIONED CHARGES	
APPENDIX: BlueCross BlueShield Association Draft Report Response, dated June 30, 2020	
REPORT FRAUD, WASTE, AND MISMANAGEMENT	

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 BlueCross BlueShield (Plan) pertaining to the Plan's Washington, D.C. (DC) and Maryland (MD) Service Areas (Service Areas). The Plan's headquarters are 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 BlueCross BlueShield Association (Association), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (Contract CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BCBS plans throughout the United States to process the health benefit claims of its Federal subscribers. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established a Federal Employee Program (FEP¹) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf

¹ Throughout this report, when we refer to "FEP," we are referring to the Service Benefit Plan lines of business at the Plan. When we refer to the "FEHBP," we are referring to the program that provides health benefits to Federal employees.

of BCBS plans, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Plan management. In addition, working in partnership with the Association, management of the Plan is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of CareFirst BCBS pertaining to the Plan's DC and MD Service Areas (Report No. 1A-10-85-14-053, dated October 28, 2015), covering contract years 2009 through 2013, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on April 2, 2020; and were presented in detail in a draft report, dated May 15, 2020. The Association'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:

Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments 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

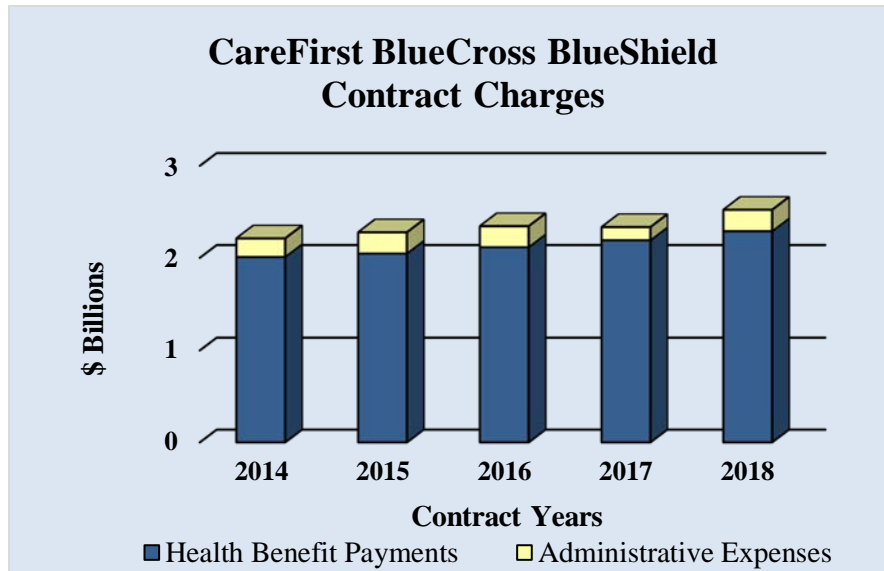
- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and Carrier Letter 2017-13.

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 BlueCross and BlueShield FEHBP Annual Accounting Statements pertaining to the Plan’s DC and MD Service Areas (Plan codes 080, 081, 082, 190, 580, 581, 582, and 690) for contract years 2014 through 2018. During this period, the Plan paid approximately \$10.6 billion in FEHBP health benefit payments and charged the FEHBP \$1.0 billion in administrative expenses for the DC and MD Service Areas (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash receipt and voucher deduction refunds, subrogation recoveries, provider audit recoveries, medical drug rebates, and special plan invoices) from 2015 through March 31, 2019; administrative expense charges from contract years 2014 through 2018; and the Plan’s cash management activities and practices from 2015 through March 31, 2019, for the Plan’s DC and MD Service Areas. We also reviewed the Plan’s Fraud and Abuse Program activities from 2018 through March 31, 2019, for these Service Areas. Due to concerns of excess funds in the Plan’s dedicated FEP investment accounts as of March 31, 2019, we expanded our scope to also review these investment account balances as of December 31, 2019, for these Service Areas.

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. 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 and the FEP Director's Office. 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; Jacksonville, Florida; 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 really 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 miscellaneous health benefit payments and credits. For the period 2015 through March 31, 2019, we also judgmentally selected and reviewed the following FEP items for the DC and MD Service Areas:

Health Benefit Refunds

- A high dollar sample of 200 FEP cash receipt health benefit refunds, totaling \$20,298,059 (from a universe of 31,552 FEP cash receipt refunds, totaling \$48,802,683, for the audit scope). Our high dollar sample included the 100 highest cash receipt refunds from the audit scope for each Service Area.
- A high dollar sample of 40 FEP health benefit refunds returned via voucher deductions, totaling \$8,503,475 (from a universe of 27,021 FEP refunds returned via voucher deductions, totaling \$34,285,600, for 2016 through March 31, 2019). Our high dollar sample only included the 20 highest voucher deduction amounts for each Service Area from contract year 2016 through March 31, 2019. For contract year 2015, the Plan only maintained the provider retention balances (or claim overpayment balances) and could not provide the claim level details for the voucher deductions, as provided in the subsequent years of the audit scope. Therefore, we did not include the voucher deductions for contract year 2015 in our review.
- A high dollar sample of 20 unidentified health benefit refunds, totaling \$596,172 (from a universe of 51 unidentified refunds, totaling \$695,852, for the audit scope). For this sample, we selected the 20 highest dollar unidentified refunds from the audit scope for the DC Service Area only.
- All 13 FEP aging health benefit refunds, totaling \$224,349, as of March 31, 2019, for the Service Areas combined. The Plan's aging FEP refund schedules as of March 31, 2019, consisted of FEP refunds held by the Plan that had not been returned to the FEHBP as of March 31, 2019.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 75 FEP subrogation recoveries, totaling \$8,656,374 (from a universe of 8,524 FEP subrogation recoveries, totaling \$23,751,997, for the audit scope). For this sample, we selected the 25 highest dollar subrogation recoveries from contract year 2015 through March 31, 2017 (from the Plan's Casemate System), and the 50 highest dollar subrogation recoveries from 2015 through March 31, 2019 (from the Plan's Casetrack System), for the Service Areas combined.

- A high dollar sample of 40 FEP provider audit recoveries, totaling \$5,428,739 (from a universe of 22,106 FEP provider audit recoveries, totaling \$50,178,661, for the audit scope). For this sample, we selected the 10 highest dollar provider audit recoveries from each of the four audit recovery types (i.e., credit balance, hospital bill, diagnostic related grouping, and data mining) for the Service Areas combined.
- A judgmental sample 32 FEP medical drug rebate amounts, totaling \$5,421,503 (from a universe of 80 FEP medical drug rebate amounts, totaling \$6,178,160, for the audit scope). For this sample, we selected the 20 highest dollar medical drug rebate amounts from 2015 and 2016 as well as all rebate amounts from contract year 2017 through March 31, 2019, for the Service Areas combined.
- A high dollar sample of 20 FEP fraud recoveries, totaling \$911,124 (from a universe of 86 FEP fraud recoveries, totaling \$915,713, for the audit scope). For this sample, we selected the 20 highest dollar fraud recoveries from the audit scope for the Service Areas combined.
- A judgmental sample of 30 FEP claim overpayment write-offs, totaling \$248,911 (from a universe of 254 FEP claim overpayment write-offs, totaling \$332,924, for the audit scope). For this sample, we selected the 20 highest dollar write-offs for the DC Service Area and the 10 highest dollar write-offs for the MD Service Area from the audit scope. We reviewed these claim overpayment write-offs to determine if the Plan made diligent efforts to recover the applicable funds before writing these overpayments off.
- A judgmental sample of 38 special plan invoices, totaling \$1,671,698 in net FEP payments (from a universe of 1,405 special plan invoices, totaling \$4,982,008 in net FEP payments, for the audit scope). We judgmentally selected these special plan invoices based on our nomenclature review of invoice amounts. From each year in the audit scope, we judgmentally selected two special plan invoices with payment amounts and two special plan invoices with credit amounts from each Service Area, if applicable. (For the DC Service Area, there were no special plan invoices with payment amounts in contract year 2019.) Special plan invoices are used by the Plan to process items such as miscellaneous payment and credit transactions that do not include primary claim payments or checks.

We reviewed these samples to determine if health benefit refunds and recoveries, medical drug rebates, and miscellaneous credits were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected

to the universe of miscellaneous health benefit payments and credits, since we did not use statistical sampling.

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; employee health benefits; out-of-system adjustments; prior period adjustments; non-recurring projects; subcontracts; executive compensation limits; return on investment; Association dues; lobbying; and Patient Protection and Affordable Care Act fees.² We used the FEHBP contract, the FAR, the FEHBP, 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 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account drawdowns, working capital calculations, adjustments and/or balances, provider advances, United States Treasury (Treasury) offsets, and interest income transactions from contract year 2015 through March 31, 2019, as well as the Plan's dedicated FEP investment account activity during the scope and balances as of March 31, 2019, for the DC and MD Service Areas. Due to concerns regarding excess funds in the Plan's dedicated FEP investment accounts as of March 31, 2019, we also reviewed these investment account balances as of December 31, 2019.

We also interviewed the Plan's Special Investigations Unit regarding the compliance of the Fraud and Abuse Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 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 FEP. For contract years 2014 through 2018, the Plan allocated administrative expenses of \$627,397,061 (before adjustments) to the FEHBP for the DC and MD Service Areas, from 954 cost centers that contained 122 natural accounts. From this universe, we selected a judgmental sample of 131 cost centers to review, which totaled \$290,151,971 in expenses allocated to the FEHBP. We also selected a judgmental sample of 46 natural accounts to review, which totaled \$254,856,282 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. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no significant findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that health benefit refunds and recoveries, medical drug rebates, and miscellaneous credits were timely returned to the FEHBP and miscellaneous payments were properly charged to the FEHBP (except as noted in the audit finding for “Health Benefit Refunds – Cash Receipts”).

1. Health Benefit Refunds – Cash Receipts \$3,629

Our audit determined that the Plan untimely returned 11 health benefit refunds, totaling \$271,522, to the FEHBP during the audit scope. As a result of this finding, the Plan subsequently returned \$3,629 to the FEHBP for lost investment income (LII) calculated on these health benefit refunds that were returned untimely to the FEHBP.

Contract CS 1039, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries, including erroneous payment 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.”

The Plan untimely returned health benefit refunds of \$271,522 to the FEHBP during the audit scope.

For contract year 2015 through March 31, 2019, there were 31,552 FEP cash receipt refunds, totaling \$48,802,683, for the Plan’s DC and MD Service Areas. From this universe, we selected and reviewed a high dollar sample of 200 cash receipt refunds, totaling \$20,298,059, to determine if the Plan timely returned these refunds to the FEHBP. Our high dollar sample included the 100 highest cash receipt refunds from the audit scope for each Service Area. We also reviewed the Plan’s FEP aging refund schedules as of March 31, 2019, to identify potential untimely health benefit refunds. These aging refund schedules consisted of 13 FEP cash receipt refunds, totaling \$224,349, for the Plan’s Service Areas combined.

Based on our review, we noted the following exceptions:

- For the DC Service Area, we determined that the Plan returned four health benefit refunds, totaling \$218,687, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds into the FEP investment account from 44 to 173 days late. Since the Plan returned these refunds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, we calculated LII of \$2,629 on these refunds since the funds were deposited untimely into the FEP investment account.
- For the MD Service Area, we determined that the Plan returned seven health benefit refunds, totaling \$52,835, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds into the FEP investment account from 28 to 310 days late. Since the Plan returned these refunds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, we calculated LII of \$1,000 on these refunds since the funds were deposited untimely into the FEP investment account.

In total, we are questioning LII of \$3,629 (\$2,629 plus \$1,000) calculated on 11 (4 plus 7) health benefit refunds that were returned untimely to the FEHBP.

Association/Plan Response:

The Plan agrees with the finding and recommendation.

OIG Comment:

As part of our review, we verified that the Plan returned \$3,629 to the FEHBP on various dates in 2019 and 2020 for the questioned LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$3,629 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$3,629 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Out-of-System Adjustments

\$22,639

The Plan incorrectly calculated an out-of-system adjustment (OSA) for Healthways Services Inc. expenses in 2014, resulting in an overcharge of \$20,000 to the FEHBP. As a result of this finding, the Plan subsequently returned \$22,639 to the FEHBP, consisting of \$20,000 for the questioned overcharge and \$2,639 for applicable LII on this overcharge.

Contract CS 1039, Part III, Section 3.2 (b)(1) states, “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable.”

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 years 2014 through 2018, there were 100 OSA’s, totaling \$252,722,070 in net credits, to the FEHBP for the DC Service Area. There were also 89 OSA’s, totaling \$153,397,530 in net credits, to the FEHBP for the MD Service Area. From this universe, we judgmentally selected and reviewed five OSA’s, totaling \$33,255,198 in net credits, to the FEHBP for the DC Service Area. We also judgmentally selected and reviewed five OSA’s, totaling \$26,164,635 in net credits, to the FEHBP for the MD Service Area. For these 10 OSA’s, we determined if the Plan properly charged and/or credited these adjustment amounts to the FEHBP. Our sample selections included OSA’s based on our nomenclature review of the Plan’s OSA descriptions.

The Plan overcharged the FEHBP \$20,000 for an OSA in 2014.

Based on our review of these OSA’s, we identified an exception where the Plan overcharged the FEHBP \$20,000 for Healthways Services Inc. expenses in 2014 for the DC Service Area. Specifically, the Plan made an OSA to charge the FEHBP \$7,621,620 for Healthways Service Inc. expenses when the adjustment amount should have only been \$7,601,620. This exception occurred because the Plan incorrectly charged the FEHBP twice for a \$20,000 invoice.

In total, the Plan returned \$22,639 to the FEHBP for this audit finding, consisting of \$20,000 for the Healthways Services Inc. expenses that were overcharged to the FEHBP and \$2,639 for applicable LII on this questioned overcharge (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

Association/Plan Response:

The Plan agrees with the finding and recommendations.

OIG Comment:

As part of our review, we verified that the Plan returned \$22,639 to the FEHBP in February 2020, consisting of \$20,000 for the questioned OSA overcharge and \$2,639 for applicable LII.

Recommendation 2

We recommend that the contracting officer disallow \$20,000 for the questioned OSA overcharge to the FEHBP in 2014 for Healthways Services Inc. expenses. However, since we verified that the Plan subsequently returned \$20,000 to the FEHBP for the questioned OSA overcharge, no further action is required for this amount.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$2,639 to the FEHBP for the questioned LII calculated on the OSA overcharge. However, since we verified that the Plan subsequently returned \$2,639 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Unallowable and/or Unallocable Costs **\$10,546**

The Plan charged unallowable and/or unallocable costs of \$9,689 to the FEHBP from contract years 2014 through 2018. As a result of this finding, the Plan subsequently returned \$10,546 to the FEHBP, consisting of \$9,689 for these unallowable and/or unallocable costs and \$857 for applicable LII on these questioned charges.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. 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.

48 CFR 31.205-46(a)(2) states, “costs incurred for lodging . . . shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel”

The Plan charged the FEHBP \$9,689 for unallowable and/or unallocable costs.

For contract years 2014 through 2018, the Plan allocated administrative expenses of \$627,397,061 (before adjustments) to the FEHBP for the DC and MD Service Areas, from 954 cost centers that contained 122 natural accounts. From this universe, we selected a judgmental sample of 131 cost centers to review, which totaled \$290,151,971 in expenses allocated to the FEHBP. We also selected a judgmental sample of 46 natural accounts to review, which totaled \$254,856,282 in expenses allocated to the FEHBP through the cost centers. 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.

Based on our review, we determined that the Plan charged the following unallowable and/or unallocable costs to the FEHBP from contract years 2014 through 2018:

- For the MD Service Area, we identified five transactions in cost center “ [REDACTED] ” (Corporate Board Expenses) and natural account “ [REDACTED] ” (Travel – Hotel) that included lodging costs of \$8,725 in excess of the maximum daily Federal per diem rates.
- For the DC and Maryland Service Areas, the Plan inadvertently charged unallocable costs to the FEHBP from natural account “ [REDACTED] ” (Meals, Brokers, and Account Consultants) that were allocated to the FEP through various cost centers. Specifically, the Plan charged unallocable costs of \$565 to the FEHBP for the DC Service Area and \$399 for the MD Service Area. We noted that these unallocable costs were not related to the FEP.

In total, the Plan returned \$10,546 to the FEHBP for this audit finding, consisting of \$9,689 for unallowable and/or unallocable costs (\$8,725 plus \$565 plus \$399) that were charged to the FEHBP and \$857 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

Association/Plan Response:

The Plan agrees with the finding and recommendations.

OIG Comment:

As part of our review, we verified that the Plan returned \$10,546 to the FEHBP in April and May of 2020, consisting of \$9,689 for the questioned unallowable and/or unallocable costs and \$857 for applicable LII.

Recommendation 4

We recommend that the contracting officer disallow \$9,689 for the questioned unallowable and/or unallocable costs that were charged to the FEHBP from contract years 2014 through 2018. However, since we verified that the Plan subsequently returned \$9,689 to the FEHBP for these questioned charges, no further action is required for this amount.

Recommendation 5

We recommend that the contracting officer require the Plan to return \$857 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable costs. However, since we verified that the Plan subsequently returned \$857 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

1. Excess Funds in the Federal Employee Program Investment Accounts \$954,919

Our audit determined that the Plan held excess FEHBP funds of \$954,919 in the dedicated FEP investment accounts as of December 31, 2019. These questioned excess FEHBP funds totaled \$618,780 for the DC Service Area and \$336,139 for the MD Service Area. As a result of our audit, the Plan subsequently returned these questioned excess funds to the FEHBP in July 2020. Since these excess FEHBP funds were in the Plan's dedicated FEP investment accounts, LII is not applicable.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable.

FEP Memorandum, Number 13-96PI, titled Audit Alert – FEP Investment Account Balance, dated November 15, 2013, states that the balance in the FEP investment account that exceeds the working capital deposit and is not considered an identifiable reconciling item should be reviewed and returned to the FEHBP as necessary.

The Plan's dedicated FEP investment accounts for the DC and MD Service Areas generally include FEP working capital funds, approved letter of credit account drawdown reimbursements, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. Based on Contract CS 1039, all funds deposited into a dedicated FEP investment account, such as health benefit refunds, should be returned to the FEHBP by adjusting the letter of credit account within 60 days after receipt by the BCBS plan.

The Plan held excess FEHBP funds in the FEP investment accounts.

In our Standard Information Request (dated April 1, 2019), we requested the Plan to provide an analysis of the funds (such as working capital, approved letter of credit account drawdown reimbursements, health benefit refunds and recoveries, medical drug rebates, interest income, and excess FEHBP and non-FEHBP funds) that were held in the dedicated FEP investment accounts as of March 31, 2019. In response to our Standard Information Request (during our pre-audit phase) and subsequent follow-up audit requests, the Plan disclosed that excess FEHBP funds of \$355,372 (\$288,335 for the DC Service Area and \$67,037 for the MD Service Area) were inadvertently held in the dedicated FEP investment accounts as of March 31, 2019.

Because of our concerns regarding excess FEHBP funds in the dedicated FEP investment accounts, the Plan also provided an analysis of the excess funds held in these accounts as of December 31, 2019. The Plan disclosed that excess FEHBP funds of \$954,919 (\$618,780 for the DC Service Area and \$336,139 for the MD Service Area) were also inadvertently held in the FEP investment accounts as of December 31, 2019. Based on our review of the Plan's analysis and supporting documentation, we agree with the Plan's disclosed amounts of excess FEHBP funds that were held in the dedicated FEP investment accounts as of December 31, 2019. In the analysis, the Plan also determined that these excess FEHBP funds were mostly related to overdraws from the FEHBP letter of credit account. Since the excess FEHBP funds were in the Plan's dedicated FEP investment accounts, these questioned funds are not subject to LII. As a monetary finding, we are questioning these excess FEHBP funds of \$954,919 that were held in the Plan's dedicated FEP investment accounts as of December 31, 2019.

Association/Plan Response:

The Plan agrees with the finding and recommendations. The Association states, "The amounts the Plan will return to FEHBP consist of amounts specifically identified as being overdrawn from the letter of credit account (LOCA) and . . . unidentified excess

funds in the investment account. The Plan will return \$954,919 to the FEHBP via the LOCA once approved by the OPM OIG.” Regarding the procedural recommendation, the Association states, “As of January 1, 2020, the Plan implemented corrective actions to ensure excess FEHBP funds are not held in the dedicated FEP investment accounts. . . . In addition, as of January 1, 2020, the Plan is reconciling the change in the investment account balance per the bank statement to the LOCA draw activity on a daily basis to identify and resolve any reconciliation issues timely. . . . The Plan believes that the implemented corrective actions will prevent the recurrence of this issue.”

OIG Comment:

In response to the draft report, the Plan provided additional analysis and documentation to support that excess FEHBP funds of \$954,919 (\$618,780 for the DC Service Area and \$336,139 for the MD Service Area) were held by the Plan in the dedicated FEP investment accounts as of December 31, 2019. We reviewed the Plan’s additional analysis and documentation and then revised the audit finding accordingly. As part of our review, we also verified that the Plan returned these questioned excess funds of \$954,919 to the FEHBP in July 2020.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$954,919 to the FEHBP for the questioned excess funds in the dedicated FEP investment accounts. However, since we verified that the Plan subsequently returned \$954,919 to the FEHBP for these questioned excess funds, no further action is required for this amount.

Recommendation 7

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so excess FEHBP funds are not held in the dedicated FEP investment accounts. The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

2. Treasury Offsets

\$1,413

Our audit determined that the Plan had not returned \$1,283 to the FEHBP for an offset taken from the letter of credit account by the Treasury as of March 31, 2019. The Plan subsequently returned this Treasury offset to the FEHBP on October 31, 2019, over 3 ¾ years late, after receiving our audit notification letter, and/or because of our audit. As a result, we are questioning \$1,413 for this audit finding, consisting of \$1,283 for the questioned Treasury offset and \$130 for applicable LII on this offset.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. 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 1039, 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 . . . prior to audit notification.”

The Treasury will occasionally recover non-FEHBP debts from a BCBS plan by reducing letter of credit drawdowns made to the plan for FEHBP claim payments. If this occurs, the BCBS plan should make the FEHBP whole by transferring funds into the dedicated FEP investment account to replenish the funds that were taken.

As of March 31, 2019, the Plan had not returned \$1,283 to the FEHBP for a Treasury offset taken from the letter of credit account.

During our review of Treasury offsets, we identified five instances where the Treasury offset letter of credit account drawdowns by a total of \$45,605 (i.e., three from the DC Service Area, totaling \$3,522; and two from the MD Service Area, totaling \$42,083). Of these, we determined that the Plan had not returned a Treasury offset of \$1,283 to the FEHBP as of March 31, 2019, pertaining to the DC Service Area. However, the Plan subsequently returned the funds for this Treasury offset to the applicable FEP investment account on October 31, 2019, more than 3 ¾ years late, after receiving our audit notification letter (dated April 1, 2019), and/or as a result of our audit.

We determined that the Plan did not withdraw additional funds from the letter of credit account to cover the shortages caused by these five Treasury offsets. However, the Plan inadvertently did not transfer funds into the FEP investment account to cover one of these Treasury offsets, which left the FEP investment account for the DC Service Area short by \$1,283 as of March 31, 2019. As a result of this finding, the Plan subsequently returned \$1,413 to the FEHBP for the Treasury offset exception, consisting of \$1,283 for the questioned Treasury offset and \$130 for applicable LII on this offset (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with the finding and recommendations.

OIG Comment:

As part of our review, we verified that the Plan returned the questioned Treasury offset of \$1,283 to the FEHBP in October 2019. We also verified that the Plan returned the questioned LII of \$130 to the FEHBP in February 2020.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$1,283 to the FEHBP for the questioned Treasury offset. However, since we verified that the Plan subsequently returned \$1,283 to the FEHBP for the questioned Treasury offset, no further action is required for this amount.

Recommendation 9

We recommend that the contracting officer require the Plan to return \$130 to the FEHBP for LII calculated on the questioned Treasury offset. However, since we verified that the Plan subsequently returned \$130 to the FEHBP for this questioned LII, no further action is required for this LII amount.

D. FRAUD AND ABUSE PROGRAM

The Plan timely entered all of the fraud and abuse cases in our sample into the Association's FSTS.

The audit disclosed no findings pertaining to the Plan's Fraud and Abuse Program activities applicable to the DC and MD Service Areas. For the period January 1, 2018, through March 31, 2019, the Plan opened 44 fraud and abuse cases with potential FEP exposure for the DC and MD Service Areas. From this universe, we selected and reviewed all 44 cases and determined if the Plan timely entered these fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking System (FSTS).³ Based on our review, we determined that the Plan timely entered all of the fraud and abuse cases in our sample into the Association's FSTS. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

³ FSTS is a multi-user, web-based FEP case-tracking database application and storage warehouse administered by the Association's FEP Special Investigations Unit (SIU). FSTS is used by the local BCBS plans' SIUs, the FEP Pharmacy Benefit Managers' SIUs, and the Association's FEP SIU to store, track and report potential fraud and abuse activities.

IV. SCHEDULE A – QUESTIONED CHARGES

**CAREFIRST BLUECROSS BLUESHIELD
OWINGS MILLS, MARYLAND
QUESTIONED CHARGES**

AUDIT FINDINGS	2014	2015	2016	2017	2018	2019	2020	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. Health Benefit Refunds - Cash Receipts	\$38	\$957	\$0	\$0	\$2,182	\$452	\$0	\$3,629
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$38	\$957	\$0	\$0	\$2,182	\$452	\$0	\$3,629
B. ADMINISTRATIVE EXPENSES								
1. Out-of-System Adjustments*	\$20,000	\$450	\$438	\$488	\$613	\$624	\$26	\$22,639
2. Unallowable and/or Unallocable Costs*	2,125	2,797	139	2,097	3,017	304	67	10,546
TOTAL ADMINISTRATIVE EXPENSES	\$22,125	\$3,247	\$577	\$2,585	\$3,630	\$928	\$93	\$33,185
C. CASH MANAGEMENT								
1. Excess Funds in the FEP Investment Accounts	\$0	\$0	\$0	\$0	\$0	\$954,919	\$0	\$954,919
2. Treasury Offsets*	0	1,283	26	31	39	34	0	1,413
TOTAL CASH MANAGEMENT	\$0	\$1,283	\$26	\$31	\$39	\$954,953	\$0	\$956,332
D. FRAUD AND ABUSE PROGRAM								
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$22,163	\$5,487	\$603	\$2,616	\$5,851	\$956,333	\$93	\$993,146

* We included lost investment income (LII) within audit findings B1 (\$2,639), B2 (\$857), and C2 (\$130). Therefore, no additional LII is applicable.

Report No. 1A-10-85-20-001

APPENDIX

June 30, 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 Blue Cross Blue Shield-Owings Mills, Maryland
Audit Report No. 1A-10-85-20-001
(Dated May 15, 2020)**

Dear Mr. [REDACTED]:

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

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

Deleted by the Office of the Inspector General – Not Relevant to the Final Report

2. Health Benefit Refunds – Cash Receipts \$3,629

Recommendation

We recommend that the contracting officer require the Plan to return \$3,629 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$3,629 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

B. ADMINISTRATIVE EXPENSES

1. Out-of-System Adjustments \$22,639

Recommendation

We recommend that the contracting officer disallow \$20,000 for the questioned Healthways expenses that were overcharged to the FEHBP in 2014. However, since we verified that the Plan subsequently returned \$20,000 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

Recommendation

We recommend that the contracting officer require the Plan to return \$2,639 to the FEHBP for LII on the questioned Healthways expense overcharges. However, since we verified that the Plan subsequently returned \$2,639 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

2. Unallowable and/or Unallocable Costs \$10,546

Recommendation

We recommend that the contracting officer disallow \$9,689 for the questioned unallowable and/or unallocable administrative costs charged to the FEHBP from 2014 through 2018. However, since we verified that the Plan subsequently returned \$9,689 to the FEHBP for these questioned charges, no further action is required for this amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

Recommendation

We recommend that the contracting officer require the Plan to return \$857 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable costs. However, since we verified that the Plan subsequently returned \$857 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

C. CASH MANAGEMENT

1. Excess Funds in the Federal Employee Program Investment Accounts \$983,227

Recommendation

We recommend that the contracting officer require the Plan to return \$983,227 to the FEHBP for the questioned excess FEHBP funds held in the dedicated FEP investment accounts for the DC and MD Service Areas.

Plan Response

The Plan agrees there are excess funds in the dedicated FEP investment accounts to return to the FEHBP, however, based on the Plan's finalized reconciliation of working capital to the investment accounts as of December 31, 2019, the amount to be returned is \$954,919 (\$618,780 for DC and \$336,139 for MD). The finalized reconciliation reflects the results from comparing the change in the daily investment account balance per the bank statement to the daily draw activity from January 2017 to December 2019. A listing of the variances identified during this process and the finalized working capital to investment account reconciliation as of December 31, 2019 will accompany this response to the OPM OIG. Several variances identified during this reconciliation originated from, and therefore will be returned to, the CareFirst Operating account, including funds the Plan previously wired to the investment account for quarterly investment account reconciliation shortages, duplicate wires, etc. The amounts the Plan will return to FEHBP consist of amounts specifically identified as being overdrawn from the letter of credit account (LOCA) and the remaining unidentified excess funds in the investment account. The Plan will return \$954,919 to the FEHBP via the LOCA once approved by the OPM OIG.

Recommendation

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that excess FEHBP funds are not held in the dedicated FEP investment accounts.

Plan Response

As of January 1, 2020, the Plan implemented corrective actions to ensure excess FEHBP funds are not held in the dedicated FEP investment accounts. The monthly working capital to investment account balance reconciliations for December 2019 through May 2020 show that after accounting for the excess funds to be returned to the FEHBP and the CareFirst Operating account, there are no unidentified variances. In addition, as of January 1, 2020, the Plan is reconciling the change in the investment

account balance per the bank statement to the LOCA draw activity on a daily basis to identify and resolve any reconciliation issues timely. The monthly working capital to investment account balance reconciliations and an example of the daily reconciliation will accompany this response to the OPM OIG. The Plan believes that the implemented corrective actions will prevent the recurrence of this issue.

2. Treasury Offsets

\$1,413

Recommendation

We recommend that the contracting officer require the Plan to return \$1,283 to the FEHBP for the questioned Treasury offset. However, since we verified that the Plan subsequently returned \$1,283 to the FEHBP for the questioned Treasury offset, no further action is required for this amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

Recommendation

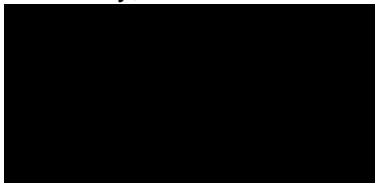
We recommend that the contracting officer require the Plan to return \$130 to the FEHBP for LII on the questioned Treasury offset. However, since we verified that the Plan subsequently returned \$130 to the FEHBP for this questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this finding and as indicated, no additional action is necessary.

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,



Managing Director, Program Assurance

C:  CareFirst
, CareFirst



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