Final Audit Report

AUDIT OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM OPERATIONS AT QUALCHOICE

Report Number 1C-DH-00-16-025
February 22, 2017

-- CAUTION --

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EXECUTIVE SUMMARY

Audit of the Federal Employees Health Benefits Program Operations at
QualChoice

Report No. 1C-DH-00-16-025    February 22, 2017

Why Did We Conduct The Audit?

The primary objectives of this performance audit were to determine whether QualChoice (Plan) developed the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current data, and that the rates are equivalent to the Plan’s Similarly-Sized Subscriber Groups (SSSG), as provided in the Federal Employees Health Benefits Acquisition Regulations 1652.215-70(a). Additional tests were performed to determine if the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

What Did We Audit?

Under Contract CS 2921, the Office of the Inspector General (OIG) completed a performance audit of the FEHBP’s rates offered for contract years 2011 and 2012. Our audit fieldwork was conducted from April 11, 2016, through August 11, 2016, at the Plan’s office in Little Rock, Arkansas, and in our OIG offices.

What Did We Find?

This report questions $301,910 for inappropriate health benefit charges to the FEHBP in contract years 2011 and 2012, and recommends an area for program improvement. Specifically, our audit identified the following:

- In contract year 2011 we found that the FEHBP’s rates were developed with incorrect loadings, copay values, and factors. We also determined that an SSSG received a [ ] percent discount not applied to the FEHBP rates. Based on these errors and the SSSG discount, we found the FEHBP was overcharged $173,283.

- In contract year 2012 we found that the FEHBP’s rates were developed with incorrect factors and did not properly account for the grandfathering of our benefits. We also determined that an SSSG received a [ ] percent discount not applied to the FEHBP rates. Based on these errors and the SSSG discount, we found the FEHBP was overcharged $99,131.

- The FEHBP is due $29,496 for lost investment income on the defective pricing overcharges calculated through February 28, 2017.

- The Plan did not maintain original source documentation for various components of the rate developments.

- The Plan does not currently have fraud and abuse detection software in place to analyze claims data, as required under FEHBP Carrier Letters.

Michael R. Esser
Assistant Inspector General for Audits

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<th>Abbreviation</th>
<th>Full Form</th>
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<td>ACR</td>
<td>Adjusted Community Rating</td>
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<td>FEHBAR</td>
<td>Federal Employees Health Benefits Acquisition Regulations</td>
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<td>SSSG</td>
<td>Similarly Sized Subscriber Group</td>
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This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at QualChoice (Plan). The audit was conducted pursuant to FEHBP contract CS 2921; 5 United States Code (U.S.C.) Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. 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 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 and is administered by OPM’s Healthcare and Insurance Office. Health insurance coverage is provided through contracts with health insurance carriers who provide service benefits, indemnity benefits, or comprehensive medical services.

Community-rated carriers participating in the FEHBP are subject to various Federal, state and local laws, regulations, and ordinances. In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The FEHBP should pay a premium rate that is equivalent to the best rate given to either of the two groups closest in subscriber size to the FEHBP. In contracting with community-rated carriers, OPM relies on carrier compliance with appropriate laws and regulations and, consequently, does not negotiate base rates. OPM negotiations relate primarily to the level of coverage and other unique features of the FEHBP.

The chart to the right shows the number of FEHBP contracts and members reported by the Plan as of March 31 for each contract year audited.
The Plan has participated in the FEHBP since 2010 and provides health benefits to FEHBP members in the State of Arkansas. This is our first audit of the Plan.

The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan’s response was considered in preparation of this report and is included, as appropriate, as the Appendix to the report.
II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary objectives of the audit were to determine if the FEHBP premium rates were developed using complete, accurate and current data, and were equivalent to the Plan’s Similarly-Sized Subscriber Groups (SSSG), as provided in Federal Employees Health Benefits Acquisition Regulation (FEHBAR) 1652.215-70(a). Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

SCOPE

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, 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.

This performance audit covered contract years 2011 and 2012. For these years, the FEHBP paid approximately $3.2 million in premiums to the Plan.

OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the rate instructions. These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan’s internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan’s rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan had in place to ensure that:

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The appropriate SSSGs were selected;

- the rates charged to the FEHBP were developed using complete, accurate, and current data, and were equivalent to the best rate given to the SSSGs; and

- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our audit utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed from April 11, 2016, through August 11, 2016, at the Plan’s office in Little Rock, Arkansas and in our OIG offices. Additional audit work was completed at our Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. offices.

**METHODOLOGY**

We examined the Plan’s Federal rate submission and related documents as a basis for validating its Certificates of Accurate Pricing. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the FEHBP rates were reasonable and equitable. Finally, we used the contract, the FEHBAR, and the rate instructions to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan’s rating system.

To gain an understanding of the internal controls in the Plan’s rating system, we reviewed the Plan’s rating system policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.
III. AUDIT FINDINGS AND RECOMMENDATIONS

A. DEFECTIVE PRICING

The Certificates of Accurate Pricing QualChoice signed for contract years 2011 and 2012 were defective. In accordance with Federal regulations, the FEHBP is, therefore, due a rate reduction for these years. Application of the defective pricing remedy shows that the FEHBP is due a premium adjustment totaling $272,414 (see Exhibit A).

FEHBAR 1652.215-70 provides that carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates are complete, accurate and current. Furthermore, FEHBAR 1652.216-70 states that the subscription rates agreed to in the contract shall be equivalent to the subscription rates given to the community-rated carrier’s SSSGs as defined in FEHBAR 1602.170-13. SSSGs are the Plan’s two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP rates were increased because of defective pricing or defective cost or pricing data, then the rates shall be reduced in the amount by which the price was increased because of the defective data or information.

1. 2011

We found that the Plan overcharged the FEHBP by $173,283 in contract year 2011. The Plan rated the FEHBP and both SSSGs using a blended adjusted community rating (ACR) and community rating by class (CRC) methodology. The ACR methodology utilizes a group’s own claims experience data, while the CRC methodology relies on a community pool of claims data and adjusts it by group specific factors such as age, industry, and class. The Plan selected and as the SSSGs for contract year 2011. We agree with the Plan’s selections. Our analysis of the rates charged shows that received a percent discount, which was not applied to the FEHBP’s rates. Our review also showed that did not receive a discount.

Additionally, we determined that the Plan was inconsistent in its application of the children's loading charged to the FEHBP and SSSGs rates. In regards to children's loadings, the rate instructions state, "A carrier may add a loading to the FEHBP only if it adds a loading to all of its commercial business. The loading added to the FEHBP must be calculated with the same method that is used for all of its other groups." In deriving the SSSGs rates, the Plan charged a percent children's loading to the CRC portion of the rates for both SSSGs. However, we found this loading should have been .
percent. The Plan did not charge this loading to the FEHBP’s CRC rates. Consequently, based on the above guidance, we applied this loading to the audited FEHBP CRC rates and we removed it from the overall blended rate.

We also found that the FEHBP’s audited benefit relativity was slightly higher for the CRC rate than it should have been. This was caused by the Plan’s use of an 80% coinsurance level for inpatient stays when the benefit brochure required no copay. We adjusted the FEHBP’s audited CRC rates to reflect the correct copay level.

Moreover, we analyzed the underwriting factor for each group based on the formula provided by the Plan. The underwriting factor for the FEHBP was calculated to be [missing value]. However, the Plan discounted this factor by [missing value] percent to a factor of [missing value]. We also found that the Plan discounted [missing value]’s underwriting factor by [missing value] percent. Since [missing value] received a higher discount for their underwriting factor, we applied the same discount amount of [missing value] percent to the calculated FEHBP underwriting factor, which resulted in an audited underwriting factor of [missing value].

Finally, we found that the Plan used a [missing value] industry factor in deriving the FEHBP’s rates. However, the rate instructions state, "The Federal group industry factor must be no larger than the lowest industry factor used for an SSSG and must be no larger than 1.0." [missing value] received the lowest industry factor of [missing value] so we applied this industry factor to the FEHBP rates.

In reviewing the rates developed for [missing value] we found the Plan only used 11 months of claims experience instead of 12 months of experience. Therefore, we updated the audited claims amount using the full 12 months of experience. We also revised the children's loading to reflect a load of [missing value] percent, which is the same used in our audited FEHBP analysis mentioned above.

Moreover, for all groups in 2011, the enrollment reports the Plan provided were not the same reports that were used at the time of the rating. The Plan did not maintain the original documentation and had to recreate the enrollment reports during the audit. The enrollment figures affect many parts of the rating which also contributed to the findings. In this case, because we were unable to confirm the enrollment data in the Plan’s rating workbooks, we had to use the supporting data provided during the audit.
In conclusion, we applied the percent discount given to and we also updated the rates to reflect the revised factors and other adjustments mentioned above to derive the FEHPB’s audited rates. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHPB was overcharged $73,887 and $99,396 for the high and standard options respectively in contract year 2011 (see Exhibit B).

**Plan Response:**

*The Plan concurs with the audit finding and agrees to return $173,283 to the FEHPB for defective pricing in 2011.*

**Recommendation 1**

We recommend that the contracting officer require the Plan to return $173,283 to the FEHPB for defective pricing in contract year 2011.

2. **2012**

We found that the Plan overcharged the FEHPB by $99,131 in contract year 2012. The FEHPB and the SSSGs were rated using the same blended ACR and CRC methodology that was used in contract year 2011. The Plan selected ( ) and ( ) as the SSSGs for contract year 2012. We agree with the Plan’s selections. Our analysis of the rates charged shows that both SSSGs received a discount. received the highest discount of percent.

Our audit also showed that the Plan did not apply an experience period benefit change factor to the FEHPB claims experience, even though there were benefit changes during the experience period that should have been considered in deriving a factor. We calculated an audited benefit change factor based on these benefit changes and applied this factor to the claims experience.

Additionally, we analyzed the copay changes of the FEHPB high and standard option benefits from 2010 to 2012 to determine if the FEHPB retained grandfathering status as it relates to the Affordable Care Act. Grandfathering status means benefit packages do not have to follow the Affordable Care Act’s rules and regulations or offer the same benefits, rights and protections as new plans. Benefit copays can increase and retain grandfathering status as

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The Plan did not follow the regulations and rating instructions in developing the FEHPB’s 2012 rates, resulting in Program overcharges of $99,131.
long as the increase does not exceed medical inflation. If a group maintains grandfathering status, the Plan applies a credit to the manual medical base rate. The Plan correctly defined the high option as non-grandfathered, however, the Plan incorrectly identified the standard option as grandfathered. We found the standard option was non-grandfathered as well due to copay increases of surgical procedures exceeding medical inflation. As a result, the grandfathering factor should have been 1.00 for both the high and standard options. Instead, the Plan applied a grandfathering factor of to both options.

Moreover, the Plan applies a class factor which is calculated one time when a group begins coverage with the Plan. The class factor remains the same for the life of the group. The data used to calculate this factor was not available and could not be recreated. However, our review showed that received a class factor, which was the best factor applied to either SSSG. As the Plan calculated a class factor for the FEHBP, we adjusted the factor to in order to receive the lowest factor given to .

The Plan also uses an underwriting factor for each group. The underwriting factor for the FEHBP was calculated to be , however, the Plan applied a higher underwriting factor of . Therefore, we adjusted the FEHBP underwriting factor to .

Finally, we found that the Plan used a industry factor to rate the FEHBP. However, the rate instructions state, "The Federal group industry factor must be no larger than the lowest industry factor used for an SSSG and must be no larger than 1.0." received the lowest industry factor of , so we applied this industry factor to the FEHBP rates.

In reviewing the rates developed for , we calculated different plan relativity factors when determining the plan change factor from 2011 to 2012. We also calculated slightly different benefit package adjustments for the CRC rate.

We also found that the Plan was unable to fully support’s Rx claims figures for the five months of experience in 2011. The monthly totals in the support provided were less than what was originally used. Therefore, we used the original figures in our audited rate development.

Finally for all groups in 2012, the enrollment reports the Plan provided were not the same reports that were used at the time of the rating. The Plan did not maintain the original documentation and had to recreate the enrollment reports during the audit. The enrollment figures affect many parts of the rating which also contributed to the findings.
In this case, because we were unable to confirm the enrollment data in the Plan’s rating workbooks, we had to use the supporting data provided during the audit.

In conclusion, we applied the percent discount given to, and we also made the adjustments stated above to derive the FEHBP’s audited rates. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged $37,929 and $61,202 for the high and standard options, respectively, in 2012 (see Exhibit B).

Plan Response:

The Plan concurs with the audit finding and agrees to return $99,131 to the FEHBP for defective pricing in 2012.

Recommendation 2

We recommend that the contracting officer require the Plan to return $99,131 to the FEHBP for defective pricing in contract year 2012.

B. LOST INVESTMENT INCOME $29,496

We found that the FEHBP is due $29,496 for lost investment income on the defective pricing overcharges, calculated through February 28, 2017.

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing findings in contract years 2011 and 2012. We determined that the FEHBP is due $29,496 for lost investment income, calculated through February 28, 2017 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning March 1, 2017, until all defective pricing finding amounts have been returned to the FEHBP.

FEHBAR 1652.215-70 provides that, if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that was not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.
Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Plan Response:

The Plan concurs that the FEHBP is due lost investment income for the defective pricing findings.

Recommendation 3

We recommend that the contracting officer require the Plan to return $29,496 to the FEHBP for lost investment income, calculated through February 28, 2017. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning March 1, 2017, until all defective pricing finding amounts have been returned to the FEHBP.

C. RECORD RETENTION

The Plan did not provide original source documentation for various components of the rate development in both years. This includes enrollment data for all groups, benefit approval letters needed to determine grandfathering status for three of the four SSSGs that we audited over the two year audit scope, and original demographic information for new groups to determine the class factor and pharmacy claims for the SSSGs in 2012.

FEHBAR 1652.204-70 states, “the carrier will retain and make available all records applicable to a contract term … for a period of six years after the end of the contract term to which the records relate.”

Without appropriate source documentation, it is difficult to not only determine if the FEHBP received market rates, but also to determine whether the rates were established in accordance with the Plan’s contract, applicable regulations, and the rate instructions. Under these circumstances, we may have to depend on other data, and at times, different rating methodologies to determine the appropriateness of the FEHBP rates. Due to this, the outcome of our analysis may result in a less desirable outcome to the Plan and to the enrollees and Federal taxpayers who are responsible for paying the health care premiums.
Plan Response:

The Plan concurs with the audit finding and stated, “We have taken numerous steps to guarantee the safety and integrity of our data and detailed rate-development documentation. We have also improved our processes and procedures ensuring that we maintain original copies of all pertinent rating documents that support the calculations used in the rate development.”

OIG Comment

While the Plan states that it has taken numerous steps to guarantee the safety and the integrity of their data and rate development documentation, as well as updating their policies and procedures for maintaining source documentation, no formal documents were provided to the auditors, as part of the Plan’s response to the draft report, to evaluate these updated policies. Consequently, we cannot express an opinion on whether these new policies sufficiently address the FEHBAR’s record retention requirement, nor can we comment on the effectiveness of any new policies implemented since the conclusion of our audit fieldwork.

Recommendation 4

We recommend the contracting officer inform the Plan that:

- OPM expects it to fully comply with the record retention provision of the contract and all applicable regulations;
- it should maintain original copies of all pertinent rating documents that support the calculations used in the rate development; and
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be enforced if information requested during an audit is not provided.

D. PROGRAM IMPROVEMENT AREA

1. Fraud Protection and Detection Software

During our review of the Plan’s responses to our Fraud and Abuse questionnaire, it was determined that the Plan does not currently have fraud protection and detection software,
which became a requirement under an FEHBP Carrier Letter issued in contract year 2014. Consequently, we expanded our review to determine why and for how long they have been operating without this software. The software is necessary to not only protect the Program from improper payments related to fraud and abuse, but also to protect Program members from potential harm.

The Plan terminated their contract with [Provider Name], which provided fraud protection and detection software, in the middle of 2013 because they were not satisfied with the reports and services [Provider Name] was providing. The Plan is not expected to have a new fraud protection and detection software provider until early 2017.

Although the Plan has taken steps to mitigate the impact of not having fraud protection and detection software during this time period, these steps were not formally encoded into policies and procedures. Therefore, we are unable to comment on the effectiveness of these steps.

The regulations regarding fraud detection and prevention software can be found in multiple FEHBP Carrier Letters. During the time period in which the Plan was operating without fraud prevention and detection software, there was a regulatory language change in the Carrier Letters from “expects” to “must have” as it relates to the fraud and abuse industry standards.

FEHBP Carrier Letter 2003-23 regarding Fraud, Waste and Abuse was issued on June 18, 2003. Industry Standard #6 expects carriers to use fraud protection and detection software.

FEHBP Carrier Letter 2014-29 regarding Fraud, Waste and Abuse was issued on December 19, 2014. Industry Standard #4 states carriers must have fraud protection and detection software.

While the Plan was in compliance with the Carrier Letter requirements during the scope of our audit, without effective fraud protection and detection software beginning in mid-2013, the Plan is less likely to detect real-time instances of fraud in the claims data they are processing. They are also unable to look at historic data trends and perform fraud analysis of their claims data. Additionally, there is a heightened risk that fraudulent claims were being processed by the Plan, that FEHBP funds were being used to pay for
these claims, and that FEHBP members were placed at potential risk by receiving care from these types of providers.

**Plan Response:**

“QualChoice has contracted with [Redacted] to conduct reviews of claims data for fraudulent activity. [Redacted] uses a fraud protection and detection software called [Redacted]. This tool is an advanced fraud, waste, and abuse detection and data mining system that leverages sophisticated rules-based analytics to identify and prioritize the cases that are potentially most likely to achieve the best results. [Redacted] will initially review historical claims data from January 1, 2013, on, for fraud, waste, and abuse. After that, [Redacted] will review claims data on a quarterly basis.”

**OIG Comment:**

The Plan's contract with [Redacted] is a positive step forward in the prevention and detection of fraud, waste, and abuse. However, the Plan only provided a narrative response regarding their agreement with [Redacted] and the steps they aim to take once the software is implemented. No official contract documentation was provided to confirm the contract or the effective date of the software implementation with [Redacted]. Because of this, we cannot express an opinion on whether the software has been implemented or the effectiveness of the software.

**Recommendation 5**

We recommend the Contracting Officer verify the exact implementation date for the [Redacted] fraud protection and detection software.

**Recommendation 6**

We recommend the Contracting Officer require the Plan to provide the results of the scheduled historical FEHBP claims review from January 1, 2013, on, for fraud, waste, and abuse.
Defective Pricing Questioned Costs

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<th>Amount</th>
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<tr>
<td>2012</td>
<td>$99,131</td>
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Total Defective Pricing Questioned Costs: $272,414

Lost Investment Income: $29,496

Total Questioned Costs: $301,910
# QualChoice
## Defective Pricing Questioned Costs

### Contract Year 2011 - High Option

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| Bi-weekly Overcharge | $ | $ |

To Annualize Overcharge:
- March 31, 2011 enrollment: 26 26
- Pay Periods: 26 26

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### Contract Year 2011 - Standard Option

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| Bi-weekly Overcharge | $ | $ |

To Annualize Overcharge:
- March 31, 2011 enrollment: 29 52
- Pay Periods: 26 26

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<th>Subtotal</th>
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<td>$99,396</td>
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### Total Defective Pricing Questioned Costs - 2011

$173,283

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QualChoice
Defective Pricing Questioned Costs - 2012

**Contract Year 2012 - High Option**

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<tr>
<td>Bi-weekly Overcharge</td>
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To Annualize Overcharge:
- March 31, 2012 Enrollment: 28
- Pay Periods: 26
- Subtotal: $[ ]

**Contract Year 2012 - Standard Option**

<table>
<thead>
<tr>
<th></th>
<th>Self</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEHBP Line 5 - Reconciled Rate</td>
<td>$[ ]</td>
<td>$[ ]</td>
</tr>
<tr>
<td>FEHBP Line 5 - Audited Rate</td>
<td>$[ ]</td>
<td>$[ ]</td>
</tr>
<tr>
<td>Bi-weekly Overcharge</td>
<td>$[ ]</td>
<td>$[ ]</td>
</tr>
</tbody>
</table>

To Annualize Overcharge:
- March 31, 2012 Enrollment: 39
- Pay Periods: 26
- Subtotal: $[ ]

**Total Defective Pricing Questioned Costs - 2012**

$[ ]

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## QualChoice

### Lost Investment Income

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Findings:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Defective Pricing</td>
<td>$173,283</td>
<td>$99,131</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$272,414</td>
</tr>
<tr>
<td><strong>Totals (per year):</strong></td>
<td>$173,283</td>
<td>$272,414</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$272,414</td>
</tr>
<tr>
<td><strong>Cumulative Totals:</strong></td>
<td>$173,283</td>
<td>$272,414</td>
<td>$272,414</td>
<td>$272,414</td>
<td>$272,414</td>
<td>$272,414</td>
<td>$272,414</td>
<td>$272,414</td>
</tr>
<tr>
<td><strong>Avg. Interest Rate (per year):</strong></td>
<td>2.5625%</td>
<td>1.8750%</td>
<td>1.5625%</td>
<td>2.0625%</td>
<td>2.2500%</td>
<td>2.1875%</td>
<td>2.50000%</td>
<td></td>
</tr>
<tr>
<td><strong>Interest on Prior Years Findings:</strong></td>
<td>$0</td>
<td>$3,249</td>
<td>$4,256</td>
<td>$5,619</td>
<td>$6,129</td>
<td>$5,959</td>
<td>$1,135</td>
<td>$26,347</td>
</tr>
<tr>
<td><strong>Current Years Interest:</strong></td>
<td>$2,220</td>
<td>$929</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$3,149</td>
</tr>
<tr>
<td>**Total Cumulative Interest Calculated Through February 28, 2017:</td>
<td>$2,220</td>
<td>$4,178</td>
<td>$4,256</td>
<td>$5,619</td>
<td>$6,129</td>
<td>$5,959</td>
<td>$568</td>
<td><strong>$29,496</strong></td>
</tr>
</tbody>
</table>
November 29, 2016

Chief, Community-Rated Audits Group
Office of the Inspector General
1900 E Street NW, Suite 6400
Washington, DC 20415

Dear [Name]:

This memo is in response to the draft audit report you sent to me in your memorandum dated November 4, 2016. QualChoice chooses to accept all recommendations as detailed in your audit for FEHBP enrollees in the QualChoice plan for years 2011 and 2012.

We agree to the following:

**Recommendation 1** - return of $173,283 to FEHBP for defective pricing in 2011.


**Recommendation 3** - return of $27,864 for lost investment income.

**Recommendation 4** - Record retention - We have taken numerous steps to guarantee the safety and integrity of our data and detailed rate-development documentation. We have also improved our processes and procedures ensuring that we maintain original copies of all pertinent rating documents that support the calculations used in the rate development.

**Recommendations 5 and 6** - Fraud Protection and Detection Software - QualChoice has contracted with [Company Name] to conduct reviews of claims data for fraudulent activity. [Company Name] uses a fraud protection and detection software called [Software Name]. This tool is an advanced fraud, waste and abuse

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detection and data mining system that leverages sophisticated rules-based analytics to identify and prioritize the cases that are potentially most likely to achieve the best results. [Redacted] will initially review historical claims data from January 1, 2013, on, for fraud, waste, and abuse. After that, [Redacted] will review claims data on a quarterly basis.

If you have any further questions or comments, please contact me at [Redacted] or email me at [Redacted]@QualChoiceHealth.com

Sincerely,

[Redacted]

VP, Chief Underwriting Officer

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By Phone:  Toll Free Number:  (877) 499-7295  
Washington Metro Area:  (202) 606-2423

By Mail:  Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
Washington, DC 20415-1100

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