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

Final Audit Report

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

Report Number 1D-2G-00-21-002
August 19, 2021

EXECUTIVE SUMMARY

Supplemental Audit of CareFirst BlueChoice, Inc.

Report No. 1D-2G-00-21-002 **August 19, 2021**

Why did we conduct the audit?

We conducted this supplemental audit to obtain reasonable assurance that CareFirst BlueChoice, Inc. (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations pertaining to voucher deduction refunds that are included in the Federal Employees Health Benefits Program (FEHBP) contract. The objective of our audit was to determine if the Plan properly returned voucher deduction refunds to the FEHBP in accordance with the terms of the contract.

What did we audit?

Our audit covered an expanded review of voucher deduction refunds for contract year 2014 through May 31, 2020. We expanded our review of voucher deduction refunds because of significant concerns identified with these refunds during our recent audit of the Plan (Report No. 1D-2G-00-20-003, dated November 30, 2020).

Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $7,275,348 in voucher deduction refunds that had not been returned to the FEHBP as of November 30, 2020, and $560,314 in lost investment income calculated on these refund exceptions. The Plan agreed with all of the questioned amounts. As part of our review, we verified that the Plan subsequently returned these questioned amounts of $7,835,662 to the FEHBP in May 2021.

ABBREVIATIONS

FAR	**Federal Acquisition Regulations**
FEHB	**Federal Employees Health Benefits**
FEHBP	**Federal Employees Health Benefits Program**
HMO	**Health Maintenance Organization**
LII	**Lost Investment Income**
LOCA	**Letter of Credit Account**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**CareFirst BlueChoice, Inc.**

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I. BACKGROUND

This final report details the findings, conclusions, and recommendations from our supplemental audit of the Federal Employees Health Benefits Program (FEHBP) operations at CareFirst BlueChoice, Inc. (Plan), pertaining to the Plan's voucher deduction refunds. The Plan is located in Owings Mills, Maryland.

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

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

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

The Plan's contract (CS 2879) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires that an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

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

Audit findings from our previous audit of the Plan (Report No. 1D-2G-00-20-003, dated November 30, 2020), covering contract year 2015 through March 31, 2019, have been satisfactorily resolved.

The results of this audit were provided to the Plan in a written audit inquiry, dated April 30, 2021, and were discussed with Plan officials at an exit conference on May 10, 2021. The Plan's comments offered in response to this audit inquiry were considered in preparing our final report

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

and are included as an Appendix to this report. Since the Plan provided a complete response to our audit inquiry, we bypassed the draft report and only issued a final report. The Plan agreed with this decision.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether voucher deduction refunds were properly returned to the FEHBP in accordance with the terms of the contract.

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 objective.

This supplemental audit covered an expanded review of the Plan's voucher deduction refunds for contract year 2014 through May 31, 2020. We expanded our review of voucher deduction refunds because of significant concerns identified with these refunds during our recent audit of the Plan (Report No. 1D-2G-00-20-003, dated November 30, 2020).

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify significant matters involving the Plan's internal control structure and operations, except with the Plan's processing of voucher deduction refunds (see the "Health Benefit Refunds – Voucher Deductions" audit finding on pages 4 through 7). 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 Finding and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

The audit was performed remotely in the Cranberry Township, Pennsylvania and Washington, D.C. areas from December 15, 2020, through May 10, 2021. Throughout the audit process, the Plan did a good job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We appreciated the Plan's cooperation and responsiveness during the fieldwork and post-audit phases of this supplemental audit.

METHODOLOGY

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of voucher deduction refunds.

For contract year 2014 through May 31, 2020, there were 57,561 health benefit refunds, totaling $29,672,486, that potentially were returned to the FEHBP via the Plan's voucher deduction process (based on the Plan's universe file of voucher deduction refunds). Voucher deductions (or downward adjustments) occur when the Plan reduces payments to participating providers or members for the purpose of recovering refunds related to previous claim overpayments.

In our recent final report of CareFirst BlueChoice, Inc. (Report No. 1D-2G-00-20-003, dated November 30, 2020), we questioned $2,086,149 in voucher deduction refunds from a sample we tested for contract year 2015 through March 31, 2019, that had not been returned to the FEHBP as of March 31, 2019. Due to significant concerns with the Plan's voucher deduction refunds, we expanded our review of these refunds. For this expanded review, we revised our scope to include these refunds for contract year 2014 through May 31, 2020. We requested the Plan to perform an analysis and identify the specific root-cause(s) for the voucher deduction refund exceptions. For our expanded review, we also requested the Plan to perform a detailed analysis of all voucher deduction refunds for the revised scope, and specifically identify all refunds with exceptions (based on the Plan's root-cause analysis) that had not been returned to the FEHBP letter of credit account.

From December 15, 2020, through February 2, 2021, the Plan provided a detailed analysis of voucher deduction refunds for the revised scope (including exceptions, non-exceptions, and applicable lost investment income calculations), a root-cause analysis for the exceptions, as well as several files to support the analysis. We also met with Plan officials via Zoom on several occasions to discuss the Plan's analysis and supporting files. Based on the Plan's analysis and supporting files, the Plan identified 10,986 voucher deduction refund exceptions, totaling $9,361,497, for contract year 2014 through May 31, 2020, and calculated applicable lost investment income of $753,803 on these refund exceptions.

We reviewed the Plan's detailed analysis of voucher deduction refunds (including exceptions, non-exceptions, and lost investment income calculations) and supporting files for accuracy, completeness, and/or reasonableness. We also verified that the Plan returned the voucher deduction refund exceptions and applicable lost investment income to the FEHBP letter of credit account.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Health Benefit Refunds – Voucher Deductions $7,835,662

The Plan had not returned voucher deduction refunds, totaling $7,275,348, to the FEHBP as of November 30, 2020.

For contract year 2014 through May 31, 2020, our supplemental audit determined that the Plan had not returned voucher deduction refunds of $7,275,348 to the FEHBP as of November 30, 2020. Specifically, the Plan reduced payments to providers via voucher deductions to recover FEHBP health benefit refunds related to previous claim overpayments, but had not returned these refunds to the FEHBP as of November 30, 2020. As a result of our supplemental audit, the Plan subsequently returned $7,835,662 to the FEHBP on May 18, 2021, consisting of $7,275,348 for these questioned voucher deduction refunds and $560,314 for applicable lost investment income (LII) on these questioned refunds.

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

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

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

For contract year 2014 through May 31, 2020, there were 57,561 health benefit refunds, totaling $29,672,486, that potentially were returned to the FEHBP via the Plan's voucher deduction process (based on the Plan's universe file of voucher deduction refunds). Voucher deductions (or downward adjustments) occur when the Plan reduces payments to participating providers or members for the purpose of recovering refunds related to previous claim overpayments.

We noted that the Plan did not have a dedicated FEHBP disbursement account during the audit scope. We also noted that the Plan's payments to providers from contract year 2014 through May 31, 2020, included charges for approved claims, net of refund voucher deductions relating to previous claim overpayments, for all lines-of-business. Based on the Plan's process, these voucher deductions that were made to recover FEHBP refunds were offset against claim payments for all lines-of-business. Therefore, this process also requires the Plan to make corporate fund transfers to the FEHBP letter of credit account (LOCA) to return these refunds to the FEHBP.

In our recent final report of CareFirst BlueChoice, Inc. (Report No. 1D-2G-00-20-003, dated November 30, 2020), we questioned $2,086,149 in voucher deduction refunds from a sample we tested for contract year 2015 through March 31, 2019, that had not been returned to the FEHBP as of March 31, 2019. The Plan agreed with this audit finding and subsequently returned $2,279,638 to the FEHBP in November 2019, July 2020, and August 2020, consisting of $2,086,149 for the questioned voucher deduction refunds and $193,489 for LII on these refunds. Due to significant concerns with the Plan's voucher deduction refunds, we expanded our review of these refunds and decided to issue a supplemental final report with the results of this expanded review. For this expanded review, we also revised our scope to include these refunds for contract year 2014 through May 31, 2020. We requested the Plan to perform a thorough analysis and identify the specific root-cause(s) for the voucher deduction refund exceptions. For our expanded review, we also requested the Plan to perform an analysis of all voucher deduction refunds for the revised scope, and specifically identify all refunds with this exception type (based on the Plan's root-cause analysis) that had not been returned to the LOCA.

From December 15, 2020, through February 2, 2021, the Plan provided a detailed analysis of voucher deduction refunds for the revised scope (including exceptions, non-exceptions, and applicable LII calculations), a root-cause analysis for the exceptions, as well as several files to support the analysis. We also met with Plan officials via Zoom on several occasions to discuss the Plan's analysis and supporting files. Based on the Plan's analysis and supporting files, the Plan identified 10,986 voucher deduction refund exceptions, totaling $9,361,497, for contract year 2014 through May 31, 2020, and calculated applicable LII of $753,803 on these refund exceptions.

Based on the Plan's root-cause analysis, these refund exceptions were caused by a technology improvement in 2014 related to the voucher deduction system. According to the Plan, "As part of this improvement, an error was introduced into reporting used by CF [CareFirst] Finance to calculate the LOCA draw. This error applied to downward adjustments applied to certain checks to providers and how these checks were captured in the reporting used by CareFirst Finance to calculate the FEHBP LOCA draw. This technology change did not affect the accuracy of the downward adjustment process and transactions with the providers. This error in reporting was discovered as part of the OIG's audit and corrected in June 2020."

We reviewed the Plan's detailed analysis of voucher deduction refunds (including exceptions, non-exceptions, and LII calculations) and supporting files for accuracy, completeness, and/or reasonableness. Based on our review, we accept the Plan's analysis and/or calculations of the voucher deduction refund exceptions of $9,361,497 for contract year 2014 through May 31, 2020, and applicable LII of $753,803 on these exceptions. The following schedule summarizes the total questioned amounts of $10,115,300 ($9,361,497 plus $753,803) by contract year for the voucher deduction refund exceptions and LII (as calculated by the Plan):

Contract Year	Total Refund Exceptions	Total Calculated LII	Total Questioned Amounts (Refund Exceptions + LII)
2014	$1,263,993	$194,490	$1,458,483
2015	1,246,127	164,083	1,410,210
2016	1,529,608	159,777	1,689,385
2017	1,238,805	104,930	1,343,735
2018	1,342,508	79,396	1,421,904
2019	2,065,077	47,050	2,112,127
2020	675,379	4,077	679,456
Totals	**$9,361,497**	**$753,803**	**$10,115,300**

Our supplemental audit determined that the voucher deduction refund exceptions totaled $9,361,497 for contract year 2014 through May 31, 2020, and applicable LII on these refund exceptions totaled $753,803 (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. In response to our audit finding for voucher deduction refunds in Report No. 1D-2G-00-20-003 (dated November 30, 2020), the Plan already returned $2,279,638 of these total questioned amounts to the FEHBP in November 2019, July 2020, and August 2020, consisting of $2,086,149 for voucher deduction refund exceptions and $193,489 for applicable LII on these refund exceptions. Therefore, we are questioning the balance of $7,835,662 for this supplemental audit finding, consisting of $7,275,348 ($9,361,497 less 2,086,149) for the remaining voucher deduction refund exceptions and $560,314 ($753,803 less $193,489) for applicable LII on these remaining refund exceptions. The Plan subsequently returned these remaining questioned amounts of $7,835,662 to the FEHBP.

Plan's Response:

The Plan agrees with the finding and recommendations.

OIG Comments:

As part of our review, we verified that the Plan returned $7,835,662 to the FEHBP on May 18, 2021, consisting of $7,275,348 for the remaining questioned voucher deduction refunds and $560,314 for applicable LII on these refunds.

Since the Plan has implemented the necessary corrective actions to ensure that voucher deduction refunds are properly returned to the FEHBP (as a result of our recent audit), we did not include a procedural recommendation for this supplemental audit finding.

Recommendation 1

We recommend that the contracting officer require the Plan to return $7,275,348 to the FEHBP for the remaining questioned voucher deduction refunds. However, since we verified that the Plan subsequently returned $7,275,348 to the FEHBP for these questioned refunds, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $560,314 to the FEHBP for LII calculated on the remaining questioned voucher deduction refunds. However, since we verified that the Plan subsequently returned $560,314 to the FEHBP for the questioned LII, no further action is required for this LII amount.

APPENDIX

May 21, 2021

Mr. John A. Hirschmann, 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 AUDIT INQUIRY #1**
CareFirst BlueChoice – Supplemental
Audit Report No. 1D-2G-00-21-002
(Dated April 30, 2021)

Dear Mr. Hirschmann:

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

A. HEALTH BENEFIT REFUNDS AND RECOVERIES

1. Health Benefit Refunds

Recommendation 1

We recommend that the contracting officer require the Plan to return $7,275,348 to the FEHBP for the questioned voucher deduction refunds. If the Plan agrees, then we request the Plan to provide applicable documentation supporting the transfer of funds to the FEHBP investment account and return of the questioned voucher deduction refunds to the LOCA, when responding to this Audit Inquiry. (Based on the Plan's analysis and LII calculations, the Plan transferred funds to the FEHBP investment account on August 20, 2020, for this supplemental audit finding.)

Plan Response

The Plan agrees with this finding. The Plan transferred the applicable funds to the FEHBP investment account on August 20, 2020 and returned the funds through the LOCA on May 18, 2021.

Recommendation 2

We recommend that the contracting officer require the Plan to return $560,314 to the FEHBP for LII calculated on these questioned voucher deduction refunds. If the Plan agrees, then we request the Plan to provide applicable documentation supporting the transfer of funds to the FEHBP investment account and return of the questioned LII amount to the LOCA, when responding to this Audit Inquiry.

Plan Response

The Plan agrees with this finding. The Plan transferred the applicable funds to the FEHBP investment account on August 20, 2020 and returned the funds through the LOCA on May 18, 2021.

We appreciate the opportunity to provide our response to these recommendations and request that CareFirst's comments be included in their entirety as an amendment to the Final Audit Report.

Sincerely,

Linda Dudash, Director
FEP Audit and Advisory Services

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