



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

Final Audit Report

**AUDIT OF
CAREFIRST BLUECHOICE
OWINGS MILLS, MARYLAND**

**Report Number 1D-2G-00-14-054
June 19, 2015**

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EXECUTIVE SUMMARY

Audit of CareFirst BlueChoice

Report No. 1D-2G-00-14-054

June 19, 2015

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that CareFirst BlueChoice (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. Specifically, 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 of the Plan's FEHBP operations covered prescription and medical drug rebates from 2011 through April 30, 2014 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management activities and practices related to FEHBP funds from 2011 through April 30, 2014.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

Our limited scope audit disclosed no significant findings pertaining to prescription and medical drug rebates and the Plan's cash management activities and practices. Accordingly, this final report contains no questioned charges or recommendations.

Our audit results are summarized as follows:

- Prescription and Medical Drug Rebates – We determined that the Plan returned prescription and medical drug rebates to the FEHBP in a timely manner.
- Cash Management – We determined that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations concerning cash management in the FEHBP.

ABBREVIATIONS

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
HMO	Health Maintenance Organization
LOCA	Letter of Credit Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	CareFirst BlueChoice

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

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

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

BACKGROUND

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 (HMO) that provides health benefits to federal 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 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.

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 healthcare 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.

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

All findings from our previous audit of the Plan (Report No. 1D-2G-00-09-028, dated February 25, 2010) for contract years 2004 through 2008 have been satisfactorily resolved.

The results of this audit were discussed with Plan officials throughout the audit and at an exit conference on April 1, 2015. Since our audit disclosed no significant findings, a draft report was not issued.

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:

Prescription and Medical Drug Rebates

- To determine whether prescription and medical drug rebates were returned timely to the FEHBP.

Cash Management

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

SCOPE

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

We reviewed the Plan's Annual Accounting Statements for contract years 2011 through 2013. During this period, the Plan processed approximately \$608 million in FEHBP health benefit payments and charged the FEHBP \$40 million in administrative expenses (See Figure 1). Specifically, we reviewed prescription and medical drug rebates and cash management activities, such as letter of credit account (LOCA) drawdowns, from 2011 through April 30, 2014.

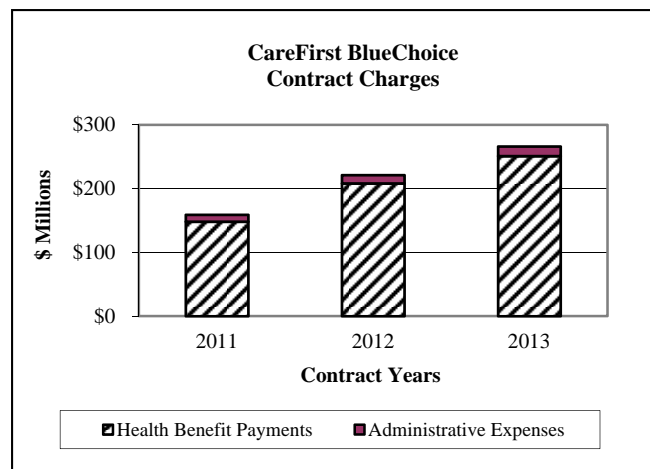


Figure 1 - Contract Charges

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 any significant matters involving the Plan's internal control structure and its 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 FEHBP contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Health Benefits Acquisition Regulations, 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 complied with all applicable provisions of the contract and federal procurement regulations. 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 testing, 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 September 9, 2014 through November 14, 2014. Audit fieldwork was also performed at our office in Cranberry Township, Pennsylvania.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial 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 prescription and medical drug rebates. For the period 2011 through April 30, 2014, we also judgmentally selected and reviewed all 26 prescription drug rebate amounts, totaling \$9,587,196, and 15 medical drug rebate amounts, totaling \$150,804 (from a universe of 76 medical drug rebate amounts, totaling \$194,054), to determine if these rebate amounts were timely returned to the FEHBP.²

² For the sample of medical drug rebate amounts, we selected all rebate amounts of \$1,000 or more. The results of this sample were not projected to the universe of medical drug rebates.

For the period 2011 through April 30, 2014, we reviewed the Plan's cash management activities and practices to determine if the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations. Specifically, we selected and reviewed 59 LOCA drawdowns, totaling approximately \$116 million (from a universe of 808 LOCA drawdowns, totaling \$737 million), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported.³ We also reviewed the Plan's working capital calculations, adjustments, and/or balances. Additionally, we reviewed a detailed itemization of exactly what funds were in the Plan's dedicated FEHBP investment account as of April 30, 2014, as well as the interest income earned in the dedicated investment account and/or returned to the FEHBP during the audit scope.

³ The sample consisted of LOCA drawdowns for a judgmentally selected week from each calendar quarter during the period 2011 through March 2014. The results of this sample were not projected to the universe of LOCA drawdowns.

III. RESULTS OF AUDIT

The audit disclosed no significant findings pertaining to prescription and medical drug rebates and the Plan's cash management activities and practices. Overall, we concluded that the Plan returned prescription and medical drug rebates to the FEHBP in a timely manner. We also concluded that the Plan handled FEHBP funds in accordance with Contract CS 2879 and applicable laws and regulations concerning cash management in the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

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[REDACTED], Senior Team Leader



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