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## **CMS Issuer Audits of the Advance Payments of the Premium Tax Credit**

**April 1, 2019**

Since 2014, the Centers for Medicare & Medicaid Services (CMS) has made Advance Payments of the Premium Tax Credit (APTC) payments to issuers of Qualified Health Plans (QHPs) on the Federally Facilitated Exchanges (FFE) and State-based Exchanges (SBEs). Today CMS is releasing the results of its first audits of the APTC program, audits of issuers of 2014 individual market plans on the FFEs (2014 FFE issuers). These audits are one part of a robust program integrity framework that CMS uses to ensure accuracy of the APTC payments to issuers.

### **The Payment Process**

The 2014 benefit year was the first year of operating the FFEs and related financial assistance programs. Since automated payment systems were not fully in place during the first two years of FFE implementation, CMS implemented an interim payment process to calculate and make monthly payments of APTC and advance Cost-sharing Reduction (CSR) amounts, and to collect FFE user fees (UF). The interim payment process required issuers to self-report enrollment and payment data on a monthly basis, including any adjustments to previous months' requests, via a manual workbook submission along with issuer attestation. While using this interim process, CMS designed and implemented a robust set of internal controls within a larger program integrity framework, described below, ensure payment accuracy.

In 2016 CMS fully transitioned issuers in the FFEs to an automated payment system ("policy-based payments (PBP)"), allowing for the processing of financial assistance payments on a policy-level basis, which substantially improves CMS's ability to approve, collect and manage (APTC) accurately. CMS also worked with (SBEs) to transition over to PBP, and completed this transition for most SBEs in 2018. CMS has also clarified issuer policy guidance on topics such as grace periods, proration, and premium threshold policy through guidance in the intervening years since 2014.

### **Program Integrity Framework**

CMS takes the stewardship of taxpayer dollars seriously, and since 2014 CMS's payment program integrity framework included multiple layers of review to ensure the accuracy of APTC payments that apply to the interim and policy-based payment processes CMS administers. The program integrity framework includes the following elements:

- *Process controls*<sup>1</sup>: These controls include parallel processing, multiple levels of review of the data at CMS, and requiring QHP issuers to certify the accuracy of their data each month as a pre-requisite for payment. A deliberate misstatement of data in the face of this attestation would constitute fraud;
- *CMS CFO Report*: Each year, CMS undergoes a financial statement review from a third-party auditor testing financial reporting<sup>2</sup>;
- *Third-party review of Agreed Upon Procedures*: As an additional test beyond the CFO audit, the Internal Revenue Service (IRS) and CMS agreed annually, to a third-party auditor reviews CMS adherence to APTC payment procedures under the Agreed Upon Procedure engagement with the IRS;
- *Discrepancy process*: To further monitor APTC payment under the interim payment process, CMS conducted a discrepancy process in which CMS identified issuers with higher-than-expected variation between enrollment and manual workbook payment data and reached out to ask issuers to explain or correct these differences; and
- *APTC Audits*: CMS has developed a coordinated, risk-based audit process to determine the accuracy and integrity of 2014 and 2015 financial assistance payments to issuers, which includes verification of premium payment for a sample of issuer records. We will continue the audit process for 2016 and beyond.

### **APTC/UF Audit Program**

CMS established the audit program to confirm successful implementation of, and adherence to, CMS rules and regulations governing the APTC and FFE user fee programs.<sup>3</sup> CMS began with audits of the interim manual payment process (in progress) and will continue APTC audits into PBP benefit years. These audits are collaborative and involve coordination with issuers to resolve data discrepancies and identify process improvements to improve payment integrity. CMS will update audit protocols as appropriate as it transitions to auditing payment years in which PBP was in place.

### **2014 APTC/UF FFE Audit Results**

CMS completed audits of a total of 33 FFE issuer audits, which completes the 2014 benefit year FFE APTC/UF audit participation. The 2014 audits findings with the largest financial impact included discrepancies related to the reporting of: (1) retroactivity, 1095-A tax disputes and enrollment updates that occurred following the final 2014 manual workbook submissions, (2) duplicate enrollments, (3) non-effectuated and cancelled enrollments, (4) payment for second

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<sup>1</sup> These process controls are documented in CMS' annual Cycle Memo and reviewed through CMS's annual Office of Management and Budget (OMB) Circular A-123 review. These reviews concluded controls were operating effectively.

<sup>2</sup> <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/CFOReport/index.html>

<sup>3</sup> These audits review advance CSR amounts for informational purposes, but do not adjust CSR payments. CMS is currently launching audits of the 2014 benefit year CSR reconciliation program to ensure accuracy of CSR payments made to issuers in 2014.

and third months of exhausted grace periods with retroactive terminations, and (5) reduced premiums in the first month of a grace period leading to under-payment of FFE user fees. CMS adjusted payment to issuers to correct for any audit findings.

The net refund to CMS resulting from the 33 audits was approximately \$5 million, representing 0.1% of total payments to the audited issuers. The reports detailing findings from each of these issuer audits are available on the [CCIIO web page](#).

Despite the limitations of the interim payment process, in the sample of issuers tested, CMS generally found a high degree of industry compliance with CMS rules and regulations governing the APTC and FFE user fee programs for the 2014 benefit year. CMS had multiple processes that have updated 2014 data since to verify and improve enrollment and payment data alignment between issuers and CMS since the end of the coverage year. These included consumer submission of 1095-A tax disputes (which provided an independent source to verify and modify issuer reporting), enrollment reconciliation, the discrepancy and close-out process (mentioned above) conducted before these audits began, and several years in which issuers had the opportunity to review and update their data and submit manual workbook corrections to CMS. Internal controls such as QHP certification likely also influenced compliance.

### **Future APTC Audits**

CMS has begun APTC/UF audits for 2015 FFE and 2014 SBE issuers, and is beginning audits of 2015 SBE issuers to complete its audit review of payments made through the interim payment process in those two years. We plan to close out all 2014 and 2015 APTC audits by early 2020. CMS is also planning 2016 APTC audits to review issuers' updated business processes and systems under policy-based payments.