



## Memorandum

Date

MAR 24 1992

From

Richard P. Kusserow  
Inspector General

Subject

Review of the Department's Health Benefits Program  
(A-12-91-00008)

To

Thomas S. McFee  
Assistant Secretary for  
Personnel Administration

The attached final report presents our review results of the Department's health benefits program. The Personnel and Pay Systems Division (Payroll) and Servicing Personnel Offices (SPO) administer the program. The Payroll staff cooperated in this review and already started several important changes.

During the review, we identified four areas needing improvement in the Department's program.

- o The Department did not always pay to the Office of Personnel Management the correct amount for the number of enrolled employees in a timely manner.
- o The Department resolved about two-thirds of the discrepancies that the carriers identified through the reconciliation process.
- o Some SPOs lacked documentation to confirm that carriers received enrollment changes and terminations timely.
- o Internal control reviews of personnel operations were not adequate to identify and correct the weaknesses we identified.

As a result of these conditions, carriers are not receiving the premiums for some insured employees in a timely manner. Carriers could deny coverage to some employees because the Department has not resolved some discrepancies. Further, a lack of documented, timely notifications to carriers exposes the Department to unnecessary potential liability for premiums and health care costs after employees have separated or changed plans.

Your office concurred with our draft report and indicated steps are underway to carry out the four recommendations. The response is attached to the report as Attachment A.

Page 2 - Thomas S. **McFee**

Please advise us regarding the status of corrective actions on our findings and recommendations within the next 60 days. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

OFFICE OF  
INSPECTOR GENERAL

REVIEW OF THE DEPARTMENT'S  
HEALTH BENEFITS PROGRAM



**Richard P. Kusserow**  
**INSPECTOR GENERAL**

A-12-91-00008



## Memorandum

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Richard P. Kusserow  
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Subject

Review of the Administration of the Department's Health Benefits Program  
(A-12-91-00008)

To

Thomas S. McFee  
Assistant Secretary for  
Personnel Administration

This final report provides you with our review results of this Department's health benefits program. This Governmentwide program, run by the Office of Personnel Management (OPM), offers health insurance for Department employees and their families. Last year, the Department's Council on Management Oversight asked us to review the Department's timeliness and accuracy in handling employee payments to plans. The Department's program is an important benefit for employees.

We found four areas needing improvement in the Department's program.

- o The Department did not always pay OPM the correct amount for the number of employees enrolled in some plans in a timely manner.
- o The Personnel and Pay Systems Division (Payroll) and Servicing Personnel Offices (SPO) had researched and corrected about two-thirds of the discrepancies identified by carriers.
- o Some SPOs' files lacked documentation that would confirm the timely mailing to carriers of enrollment change or termination information.
- o Internal control reviews of personnel operations, which encompasses the health benefits program, were not adequate. The reviews had not identified and required correction of the weaknesses we found.

Considering the control weaknesses related to this program, we believe Payroll and the SPOs have worked diligently to have only 299 discrepancies related to the more than 43,000 employees enrolled in the 13 carriers we reviewed. However, carriers are complaining to OPM about not receiving premiums for some enrolled employees. Carriers are seeking reimbursement, initially from the individuals and

if unsuccessful from the Government, for medical claims paid on behalf of some individuals who have changed enrollment or separated from the Government. For example, one carrier has alleged that the Government owes the carrier about \$2.2 million in insurance premiums and \$600,000 for medical claims. The Department could be found liable for part of the Government's share of unpaid insurance premiums for enrolled employees and medical expense claims paid by carriers for separated employees. Therefore, retention of documentation supporting enrollment changes, timely premium payment, and reconciliations of enrollments with carriers is important. Because of the potential financial liability, we believe the Department should strengthen controls for this program to ensure:

- o timely payment of the correct amount for the employer's share of premiums for all enrolled employees,
- o central accountability for resolution of all discrepancies identified by carriers in response to semiannual reconciliation of enrollees,
- o the Department can confirm the carriers receipt of enrollment change and termination forms, and
- o performance of periodic internal control reviews which encompass Payroll and SPO handling of health benefits.

In responding to our draft report, the Assistant Secretary for Personnel Administration (ASPER) agreed with the conclusions and recommendations. The ASPER agreed (Attachment A) to provide a progress report on steps taken to carry out the four recommendations in 60 days.

## **INTRODUCTION**

### **Background**

The Federal Employees' Health Benefits Act (Act) was approved on September 28, 1959 and is included in Title 5 United States Code, Chapter 89. The Act created the Federal employees' health benefits program which the OPM administers, acting as a fiscal intermediary between Federal agencies and health insurance carriers. The OPM contracts with about 325 health insurance carriers for over 800 different health insurance options to provide health benefits coverage to Federal employees, annuitants, dependents, and former spouses.

The Government pays a stipulated percentage of premiums under each option, and individual employees pay the remainder of the premiums, usually through salary withholding. Premiums vary among carriers and the Government's contribution

varies among different plans. If an employee does not earn enough to cover the employee's share of the premium in a pay period, then OPM regulations permit the employee to either terminate or continue insurance coverage. The employee may pay the premium by personal check or defer paying for up to 1 year while waiting until earnings can cover the indebtedness.

The Payroll combines the premiums paid by employees with the employer's contribution. Biweekly, the Department sends a lump sum along with the number of enrollees by plan option to the OPM's Employees Health Benefit Fund. To pay for health benefits, every other week the Department collects over \$2.9 million from over 89,000 insured employees. The Department combines this amount with over \$7.7 million, which represents the employer's share of the premiums, and sends the lump sum to OPM. The OPM pays the amount it receives, less an amount held by OPM for reserves, to the insurance carriers.

The OPM has delegated certain responsibilities to Federal agencies for administering the program. Agencies are responsible for:

- o determining eligibility of employees for coverage,
- o maintaining a controlled and prompt system for sending enrollment data and changes to carriers,
- o maintaining a system for sending carriers notices of changes in agencies responsible for benefit deductions,
- o accounting for employee withholdings and employer contributions, and
- o sending withholdings and contributions to OPM.

The Federal Personnel Manual (FPM) Supplement 890-1, Subchapter S19 provides specific guidance to agencies in operating the program. For example, the FPM states "the responsibility for initiating reconciliations and doing the actual matching of names will be with the carrier, but performance of effective reconciliations will depend upon the responsiveness and cooperation of the payroll offices."

## **Objectives, Scope and Methodology**

We performed this audit in accordance with generally accepted Government auditing standards. The overall goal of this review was to assess the Department's administration of the health benefits program. Specifically, to

accomplish this goal, we assessed: (1) the internal controls in effect to be sure of the correct, timely processing of enrollments and premiums, (2) timeliness of collection and payment of premiums to OPM, (3) the comprehensiveness of the reconciliation process in responding to discrepancies identified by carriers through the semiannual review, and (4) the controls over changes or terminations in enrollment. We performed our work in Washington, District of Columbia and SPOs in Rockville, Bethesda, and Baltimore, Maryland, and Arlington, Virginia between April and October 1991.

To accomplish our objectives, we: (1) flow charted the processes and analyzed internal controls related to the enrollment change process, (2) collected and analyzed documents related to premium collection and payment, (3) reviewed the most recent reconciliation completed for 13 carriers, (4) discussed reconciliation procedures with 17 SPOs and selected carriers, and (5) requested all internal control reviews performed under the Federal Managers' Financial Integrity Act (FMFIA) for the health benefits function. The internal control officer stated that the ASPER reviews the health benefits program as part of the personnel operations internal control review.

We judgmentally selected and reviewed the Payroll reconciliation files related to 13 carriers. These carriers provide 27 options out of about 808 health insurance options offered by OPM to Government employees. These 13 carriers serve over 43,000 Department of Health and Human Services (HHS) enrollees among the approximately 89,000 enrolled in all plans in the Department. We reviewed the latest available discrepancy letters in the files at the start of our field work which covered different reconciliation periods from September 1989 to March 1991.

For the items we tested, except as noted in the "RESULTS OF REVIEW" section, we found no instances of noncompliance with applicable laws or regulations. With respect to those items not tested, nothing came to our attention to cause us to believe that untested items were not in compliance with applicable laws and regulations.

## **RESULTS OF REVIEW**

The Payroll and SPO staff have worked diligently to have only 299 discrepancies related to the more than 43,000 employees enrolled with the 13 carriers in our review. However, we found that the Department had not paid the Government's share of premiums for some enrolled employees under OPM guidance. Due to the Department's potential legal liability to carriers for additional premiums and medical expenses, the Department needs procedures which ensure better controls over enrollment changes and terminations and central control over the reconciliations with carriers. The Department could pinpoint systemic problems which

might cause persistent discrepancies in a timely manner through better controls. The FMFIA internal control reviews of personnel operations did not provide adequate coverage of the health benefits program. Specifically, the reviews did not identify control weaknesses, result in the development of correction procedures or policy changes that met OPM requirements.

## **COLLECTION AND PAYMENT OF PREMIUMS**

The FPM Supplement 890-1, Subchapter **S20**, states that:

“Each agency must pay its share of the cost of an enrollment for every pay period during which an employee’s enrollment continues whether the employee is in a pay or **nonpay** status. The government share should be submitted as soon as it becomes due, that is, with the other deductions and contributions...for the same pay period in which coverage continued.”

At the time we began this review, the Department was not paying timely the employer’s share of health insurance premiums for certain enrolled individuals including persons in leave without pay (LWOP) or absent without leave (AWOL) status. The OPM regulations permit an employee who lacks enough earnings to choose to continue coverage. The employee pays his/her share of back premiums when the employee has enough earnings. The employee can delay payment of the employee’s share for as much as a year. Regardless of whether the employee pays, the OPM regulations require the Department to pay OPM in a timely manner the employer’s share of the premium for all enrolled individuals. It was the Department’s policy to withhold payment of the employer’s share for employees who did not have enough earnings and did not submit a personal check for the premium. In such cases, the Department paid the employer’s share if and when the individual paid the employee’s share.

For the pay period ending March 9, 1991, 631 employees (about 0.7 percent of the Department’s enrolled employees) did not earn enough to cover the health benefits. These individuals were typically on LWOP or AWOL status. We found they had enrolled in 129 different health options offered by 84 carriers. The Department did not pay the employer’s share of at least \$56,000 to OPM timely. For those employees who later returned to work and had their premiums deducted from salary or paid their share of premiums with cash, the Department submitted the employees’ and employer’s share of the premiums to OPM.

The Department had programmed the payroll computer that processes health benefits to pay the employer’s share only when the computer could deduct the employee’s share. The 631 employees did not have enough earnings to cover the

employees' portion of the insurance premiums which amounted to over \$21,500. At that time the employees had not paid the premium by personal check. As a result, the carriers did not receive the required employer's portion of premiums (\$56,000) until the Department collected the employees' premium (\$21,500). The employer's payment was untimely if the employee returned to work. The employer's payment was not made at all if the individual did not return to work. In some cases this caused discrepancies identified in the semiannual reconciliation with the carriers which we discuss later in this report.

The Department changed its policy to comply with OPM regulations after we identified the problem. The Payroll acted promptly by changing the computer program to pay the employer's share for each enrolled employee regardless of whether the computer could deduct the employee's portion. Later, we tested the records for five employees who did not have enough earnings to cover the employees' share of premiums. We wanted to determine whether the system change corrected the problem. We found the Department paid the employer's share of premiums for four of the five. No premium was due for the fifth individual because the person retired on disability. The Department transferred health insurance collection responsibility from this Department earlier in the year.

## **MONITORING OF THE RECONCILIATION PROCESS**

The Payroll lacks the central focus necessary to be sure reconciliations are thorough and systemic problems are identified. In March and September of each year, the Department provides a listing of all enrolled employees to carriers and SPOs. The FPM Supplement states: "the names and numbers of employees enrolled in a particular plan and payrolled by an office must be reconciled with the carrier's records..." We analyzed the controls over the system used by the Department to be sure Payroll and SPOs corrected all discrepancies. In our opinion, the process lacks controls needed to be sure the Department resolves all discrepancies. We found that once the Department sends the lists to the carriers, there is no central control for tracking and overseeing corrective actions.

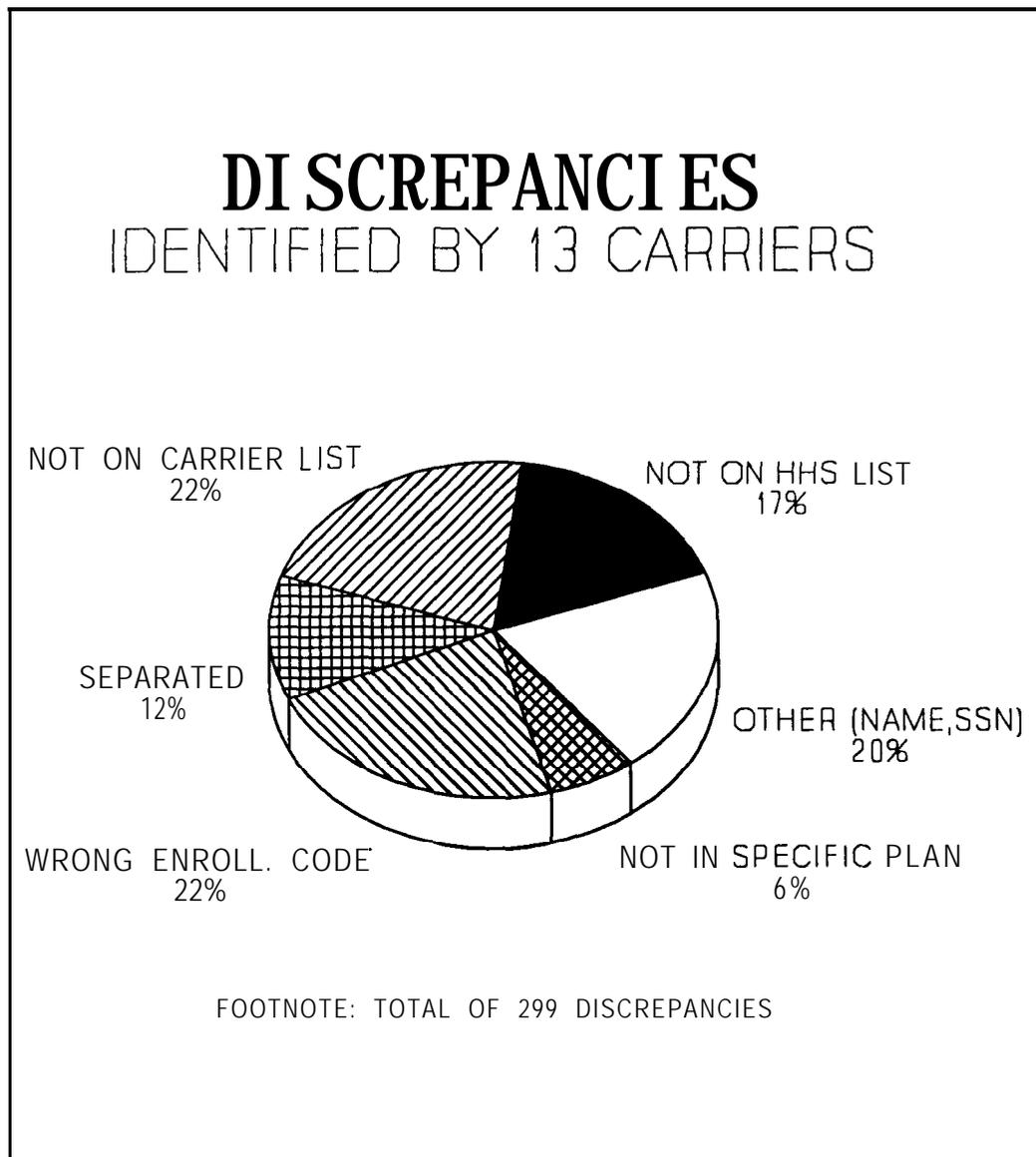
The Department's semiannual listing provides an inventory of the HHS employees enrolled in each specific health plan option. The listing shows: payroll office number, social security number, name, and birth year. The Department instructs the carriers to compare these lists with their records for the same period. If differences are identified, the carriers return a discrepancy list to the Department. Often Payroll receives no reply from a carrier and sometimes the carriers deal directly with the SPOs.

While not all carriers send discrepancy lists to Payroll, we found that the Department used several informal procedures in resolving discrepancies. When Payroll receives discrepancy lists from the carriers, the staff identify whether the

individual is or was employed by the Department. If the Department employed the individual, Payroll determines which SPO had cognizance for the individual. The Payroll sends a copy of the carrier's discrepancy letter to that SPO with instructions to resolve the problem. The only information documenting this process is annotations made by Payroll on the discrepancy list received from the carrier. If Payroll receives changes from the SPO, Payroll sends the data to the carrier.

### **Incomplete Reconciliations**

Through reviews of Payroll files, contact with several carriers, and review of SPO files, we were able to satisfy ourselves that the Department corrected about two-thirds of the carrier identified discrepancies. We reviewed the most recent discrepancy letters received from 13 carriers identifying 299 names that in the carrier's opinion appeared to have some discrepancy. The carriers identified 52 names (17 percent) that were not on the HHS listing sent to the carriers. About 28 percent of the discrepancies related to individuals that had selected another option (single, family, high, or low) which differed from what the carriers' records showed. The carriers indicated that 65 discrepancies (22 percent) related to individuals HHS had enrolled but the carrier had not recorded the individuals as enrolled. About one-third of the discrepancies related to individuals who had retired, separated, changed names, or had differing social security numbers.



We found notations on the discrepancy lists beside some of the individuals' names showing Payroll researched the cases. In some cases, these notations showed the SPO, plan, date of birth, date an employee separated, when Payroll sent the letter to the SPO, and when the Payroll responded to the carrier. Because of missing notations, we were unable to confirm whether Payroll always followed this informal practice. The SPOs had corrected the information in about two-thirds of the personnel folders. We discussed this with several carriers and they acknowledged receiving information to resolve about two-thirds of the discrepancies they identified.

The Department's method of decentralized reconciliation inhibits Payroll's ability to be sure reconciliations are thorough. About one-third of the discrepancies lacked documentation of adequate resolution. The documentation showed that Payroll had not completed the correction on 105 of the 299 discrepancies reported by the 13 carriers. The Payroll had placed no notations beside 19 names. We could find no sign in Payroll files that Payroll staff had researched or informed carriers of the status of these 19 discrepancies. The Payroll noted beside an additional 86 names "not found." However, there is no evidence that Payroll informed the carriers about this information. At our request the Payroll performed additional research for the 86 names and identified about 30 percent of these individuals. Seven names were of HHS employees and 21 names were of individuals that worked for an agency outside this Department.

Additionally, we noted that 36 of the total 299 discrepancies related to individuals that had separated from the Department. To aid in the reconciliation, Payroll agreed to send each carrier a list of individuals that separated from the Department along with the twice yearly listing of enrollees.

#### **Inability to Identify Systemic or Chronic Problems**

The decentralized method thwarts Payroll's identification of systemic problems or individual SPOs with persistent problems. We noted that 5 of the 13 health benefit carriers dealt directly with SPOs in resolving discrepancies. Further, 2 of the 17 SPOs sent information directly to the carriers. Those SPOs did not provide information copies of documentation to Payroll. As a result, Payroll could not confirm that the SPOs resolved the discrepancies. These actions prevent a thorough reconciliation. In these instances, Payroll was not aware of the problems. Further, Payroll lacks documentation in the files to identify the nature or resolution of the discrepancies. However, 15 of the 17 SPOs told us that they send information copies back to Payroll for submission to the carriers.

We believe that central control is important both to be sure the reconciliation is thorough and to provide early detection and correction of systemic or chronic problems. As a result of the lack of a central control point in the existing system, we noted that many carriers are identifying discrepancies again and again on later discrepancy lists. In one troublesome case, we noted that a carrier had requested help seven times since 1986 to reconcile a discrepancy. We were not able to determine whether the Department responded to the latest request in May 1990.

## **DEPARTMENT NEEDS VALIDATION OF CHANGES**

The 17 SPOs in our review provide personnel services to about one-third of the Department employees. Weekly these SPOs process around 369 changes and terminations of insurance coverage. While the SPOs said that they process these changes in a timely manner, some carriers question the timeliness. Some carriers have sought OPM payment for costs of medical services provided to individuals after the Department had changed their enrollment, but before the Department notified the carrier.

The FPM Supplement states "...changes in health benefits enrollments should be sent to the appropriate carrier on a daily or weekly basis, depending on the volume in the payroll office. Under no circumstances should the (change form) be accumulated in the payroll office for longer than one week."

Our Office of General Counsel has reviewed the standard carrier contract and concluded: "...if the government fails to notify the carrier of the cancellation of an employee's enrollment, and the carrier pays a [medical] claim arising after the effective date of the cancellation the carrier is permitted to charge that expense to the contract."

In discussions with OPM officials, we discovered one carrier asserted a claim for approximately \$600,000 in medical expenses Governmentwide. This carrier, whose discrepancy letters we reviewed, had continued to carry several individuals that had separated from this Department more than 2 years ago. If Payroll is unable to prove that the Department provided timely notification of termination or change to the carrier and the carrier pays for the individual's medical services, the Department may be liable. Several SPOs have a policy of sending terminations and changes in plans via certified mail. We believe these receipts provide strong evidence of the time the Department notified the carrier of changes. This should mitigate any Government liability for medical expenses charged after the change.

## **CONCLUSIONS AND RECOMMENDATIONS**

The Department has taken actions to improve the effectiveness of the health benefits program over the last year. The Department responded by changing its policy to cover the employer's share of health benefits for all enrolled individuals in a timely manner. We found that internal control reviews which might have identified weaknesses in the system, did not adequately test the controls in the health benefits program. We believe central controls over reconciliations will ensure that the program is properly operating. Attempts at reconciling Department enrollee listings with carrier records have helped with many corrections and necessary changes. However, discrepancies classified as "not found" are not adequately followed up. About 12 percent of the discrepancies related to

individuals that had separated from the Department. The Department has not responded to carriers on “not found” and separation cases to reach resolution. Some names on the discrepancy lists have no information to show that the Payroll staff researched the names. Accordingly, we conclude the reconciliations often are not complete. Also, several offices have been sending changes and terminations to carriers via certified mail which reduces the Government’s potential liability on claims.

As a result of: (1) the differing procedures used by **SPOs**, (2) the lack of a central file of all actions on discrepancies identified by each carrier, and (3) the potential for claims by carriers, we believe that the Department is not achieving maximum benefits of reconciliations.

Accordingly, we recommend that the **ASPER**:

- o Require performance of an internal control review of the health benefits program in 1992.
- o Confirm controls to be sure Payroll pays the employer’s share of insurance premiums for every enrolled employee.
- o Provide central oversight of the reconciliation process by requiring:
  - (1) Payroll to provide carriers with a listing of individuals that separated from the Department as well as the listing of enrollees,
  - (2) all **SPOs** to provide enough documentation to confirm correction of discrepancies,
  - (3) the Payroll staff to converse with carriers for those individuals classified as “not found” until they resolve each case, and
  - (4) the Payroll to maintain documentation of the reconciliation with each carrier for 3 years.
- o Require **SPOs** inform carriers of all terminations and changes in coverage in a timely manner and retain return receipts from the carriers in **SPOs** files.



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**Memorandum**

Date FEB 27 1992

From Assistant Secretary for  
Personnel Administration

Subject Review of DRAFT of IG's Review of the Department's  
Health Benefits Program (A-12-91-00808)

To Richard P. Kusserow  
Inspector General

Thank you for forwarding a draft copy of your proposed report of your staff's review of the Department's Health Benefits Program. A preliminary draft was jointly reviewed by OIG and OASPER representatives at a review closeout meeting in my office December 19. We were especially pleased that your reviewers found a discrepancy level of only 0.68% among over 43,000 cases reviewed.

You may be interested in learning that, subsequent to your OIG inspectors completing their review, OPM issued Payroll Office Letter 91-17 (12/11/91) which will require quarterly (rather than semiannual) reconciliations with carriers beginning in June 1992. It further requires inclusion of financial data on employee and employer contributions not currently included in our semiannual reconciliation printouts. The necessary reprogramming to prepare these more detailed reports on a quarterly basis has already been initiated. HHS will meet this new OPM requirement, in June, and on time.

However, it is not the frequency of reconciliation reports but the thoroughness of their follow-up on discrepancies discovered that is important. We are already exploring methods to track each reported discrepancy until it is resolved.

After you have forwarded your final report, and within the normal reply period, we expect to respond advising you of the steps we have taken to carry out the 4 recommendations which now appear on pages 10-11 of your draft report.

  
Thomas S. McFee