
AUDIT OF A.I.D. PAYMENTS TO HEALTHPLUS OF MARYLAND

Report No. 9-000-92-001
November 25, 1991



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HealthPlus of Maryland

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During the 12 pay periods we examined in 1988, 1989, and 1990, A.I.D. underpaid HealthPlus of Maryland by \$2,842, or 3.5 percent of all A.I.D. payments for HealthPlus premiums during these 12 pay periods. The primary reason for incorrect payments was a lack of effective controls to ensure that insurance enrollments and terminations were entered into the payroll system and to ensure that premiums payments were made for employees on leave without pay.

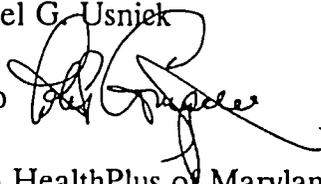
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

November 25, 1991

MEMORANDUM FOR FA/FM/CONT, Michael G. Usnick

FROM: AIG/A, John P. Competello



SUBJECT: Audit of A.I.D. Payments to HealthPlus of Maryland

This is our report on the audit of A.I.D. payments to HealthPlus of Maryland. We have considered your comments on the draft report and have included your comments as an appendix to this report. All of the report recommendations are closed upon issuance. I appreciate the cooperation and assistance provided to the auditors on this assignment and the prompt action taken to implement the recommendations.

Background

HealthPlus of Maryland is a health maintenance organization which participates in the Federal Employees' Health Benefits Program through a contract between HealthPlus and the Office of Personnel Management (OPM). Federal agencies with employees enrolled in HealthPlus, like A.I.D., pay premiums to OPM. OPM deducts a percentage of the gross premium for authorized reserves and then pays the remainder to HealthPlus.

HealthPlus has submitted a claim to OPM stating that HealthPlus is owed \$2.4 million by federal agencies for premiums from 1988, 1989, and 1990. The portion of the claim attributable to A.I.D. is \$34,544. According to HealthPlus, OPM paid HealthPlus \$453,419 on A.I.D.'s behalf during these three years but an additional \$34,544 (or 8 percent) was due.

A.I.D.'s Payroll Division in the Office of Financial Management is responsible for making payments to OPM for HealthPlus premiums. The Payroll Division:

- receives insurance enrollment and termination forms from A.I.D.'s personnel office,

- records employee insurance enrollments and terminations in the payroll system,
- transmits enrollment and termination forms to HealthPlus,
- makes the Agency contribution and deducts the employee portion of the HealthPlus premium from each employee's pay, and
- transfers the premiums to OPM.

Audit Objective

At the request of OPM's Office of Inspector General, A.I.D.'s Office of Inspector General/Programs and Systems Audits audited A.I.D. payments to HealthPlus to answer the following audit objective:

Did A.I.D. make payments through the Office of Personnel Management to Healthplus of Maryland in accordance with applicable laws and regulations and, if not, what were the amounts and the causes of any underpayments or overpayments?

In answering this audit objective, we tested whether A.I.D. followed applicable internal control procedures and complied with certain provisions of laws, regulations, and legally-binding requirements.

Our detailed verification of payments for HealthPlus premiums covered 12 randomly-selected pay periods in 1988, 1989, and 1990. These 12 pay periods may not be representative of the 79 pay periods in these three years. Therefore, our conclusions concerning these payments are limited to the pay periods actually tested.

The audit was also subject to other limitations which are discussed in Appendix 1. Appendix 1 contains a complete discussion of the scope and methodology for this audit.

Audit Finding

Did A.I.D. make payments through the Office of Personnel Management to HealthPlus of Maryland in accordance with applicable laws and regulations and, if not, what were the amounts and the causes of any underpayments or overpayments?

For the 12 pay periods we reviewed, A.I.D. made payments to OPM for HealthPlus premiums in accordance with applicable laws and regulations except for underpayments of \$4,190 and overpayments of \$1,348. The difference, a net underpayment of \$2,842, represents 3.5 percent of the \$81,492 A.I.D. paid to OPM during the 12 pay periods we reviewed. The underpayments and overpayments we found were caused mainly by internal control weaknesses in the Office of Financial Management.

The percentage of erroneous payments in 1990, the most recent year we reviewed, was considerably less than in earlier years. The percentage in 1990 was 1.8 percent, compared to 6.3 percent in 1989 and 5.6 percent in 1988. In our opinion, this improvement was due to the Office of Financial Management's assignment of a new employee to the health benefits program in late 1989 and the fact that this employee began performing reconciliations between A.I.D.'s and HealthPlus enrollment records in 1990.

Most of the underpayments and overpayments we found were caused by internal control weaknesses which are discussed in the following section. However, underpayments of \$359 and overpayments of \$910 occurred because A.I.D. was appropriately making adjustments to correct errors in previous pay periods.

**Incorrect Premium Payments Were
Caused by Weak Internal Controls**

Federal Personnel Manual Supplement 890-1, S20-1.a. and c. require federal agencies to maintain adequate controls to ensure that the payroll records are maintained in such a manner as to provide for prompt and accurate reporting of contributions for health benefits. We found net underpayments of \$2,842 during the 12 pay periods we reviewed. The primary reason for incorrect payments was a lack of effective internal controls to ensure that insurance enrollment and termination actions were entered into the payroll system and to ensure that premium payments were made for employees on leave without pay. While the dollar impact of these weaknesses was not great for the 12 pay periods we examined, HealthPlus is one of the smaller health insurance carriers participating in the Federal Employees' Health Benefits Program. These internal control weaknesses need to be corrected to help ensure that future payments to all insurance carriers are correct.

Recommendation No. 1: We recommend that the Office of Financial Management:

- 1.1 establish and maintain a log of all standard form 2809s and 2810s received by the Payroll Division, showing when they are entered into the payroll system and when they are transmitted to the insurance carrier;**

- 1.2 assign an employee, other than the employee who makes the entries, to be responsible for verifying the accuracy of insurance enrollment and termination actions entered into the payroll system;
- 1.3 perform monthly reconciliations between A.I.D.'s payroll records and the number of enrollees reported to insurance carriers on standard form 2811;
- 1.4 in conjunction with the Office of Information Resources Management, modify A.I.D.'s payroll system to make the Agency's contribution on a current basis for all employees on leave without pay who maintain their health insurance coverage; and
- 1.5 design and implement a system to periodically verify that employees on leave without pay who continue their health insurance coverage are billed for their portion of the premium.

Federal Personnel Manual (FPM) Supplement 890-1, S20-1.a. requires federal agencies to maintain adequate records to provide for prompt and accurate reporting of contributions for health benefits. Underpayments of \$2,776 occurred because A.I.D. did not record insurance enrollments in the payroll system ¹ and overpayments of \$315 occurred because insurance terminations were not entered into the payroll system. The Office of Financial Management lacked effective controls to ensure that all enrollment and termination forms sent to HealthPlus were entered into A.I.D.'s payroll system. In addition, we noted that enrollment and termination actions entered into the payroll system were not reviewed by anyone other than the employee who makes the entries. Also, the Office of Financial Management did not perform monthly reconciliations between the SF 2811s sent to HealthPlus and its own payroll records which were required by FPM Supplement 890-1, S19-4.b. Finally, another set of reconciliations, required to be made annually between A.I.D.'s enrollment records and HealthPlus' enrollment records, were not performed in 1988 and 1989, although they were performed in 1990.

Title 5 of the Code of Federal Regulations, Section 890.501(e), and FPM Supplement 890-1, S20-2.b.(2) require that federal agencies make contributions for each enrollee (except for certain temporary employees) in an insurance plan for each pay period, regardless of

¹Underpayments to HealthPlus of \$2,776 occurred because HealthPlus enrollments were not entered into the payroll system. In some cases where employees were changing their enrollment from another insurance carrier to HealthPlus, A.I.D. continued to pay premiums to the old insurance carrier. While we only examined payments to HealthPlus, A.I.D. may be entitled to refunds from other insurance carriers.

whether the employee involved is in a pay status. FPM Supplement 890-1, S20-2.b. provides that if an employee is in non-pay status, the employee is still responsible for payment of the amount that would have been withheld for health benefits. Underpayments of \$1,055 occurred because employees enrolled in HealthPlus were on leave without pay and neither the Agency contribution nor the employee portion of the premium was paid to HealthPlus. The payroll system is not designed to pay the Agency contribution for employees on leave without pay and adequate controls were not in place to verify that employees are billed for their portion of the premium while they are on leave without pay.

FPM Supplement 890-1, S20-2.d. and e. state that when an employee transfers from one federal payroll office to another, the losing office must prorate the health insurance premium if the employee leaves four or more days after the end of the preceding pay period. Overpayments of \$123 occurred because employees transferred to another federal agency during a pay period and A.I.D. did not prorate the premium payment. This occurred because Agency personnel had misinterpreted the guidance on prorating premiums.

In addition to the errors discussed above, we found certain overpayments and underpayments which represented appropriate adjustments to correct errors in prior pay periods. In this category, overpayments of \$825 were made because the Office of Financial Management was making adjustments to correct underpayments in prior pay periods. Also, underpayments of \$359 and overpayments of \$85 occurred because enrollments and terminations were made effective retroactively. We do not consider these overpayments and underpayments to be deficiencies because A.I.D. was appropriately making adjustments to correct errors in prior pay periods.

While the dollar impact of the internal control weaknesses we found was not great for the pay periods reviewed, HealthPlus is one of the smaller health insurance carriers participating in the Federal Employees' Health Benefits Program. These internal control weaknesses need to be corrected to help ensure that future payments to HealthPlus and other insurance carriers will be correct.

In conclusion, we found net underpayments of \$2,842 which were caused by internal control weaknesses in the Office of Financial Management. The Office needs to correct these weaknesses. We are not recommending that repayment to HealthPlus be made at this time, because HealthPlus' claim will be settled by OPM using the results of our audit and similar audits performed in other federal agencies. OPM will allocate any payment to HealthPlus to the responsible federal agencies.

The Office of Financial Management concurred with our findings and has implemented the recommendations, which are closed upon issuance of this report. The Office of Financial Management's comments are presented in Appendix 4.

SCOPE AND METHODOLOGY

Scope

We audited A.I.D. payments for HealthPlus premiums in accordance with generally accepted government auditing standards, except that we did not design the audit to provide reasonable assurance of detecting abuse and illegal acts during the entire three-year period covered by the audit. We performed the audit from August 21, 1991 through September 20, 1991 and covered payments during the three years beginning January 3, 1988 (the start of the first pay period in 1988) and ending January 12, 1991 (the end of the last pay period in 1990). The audit tests covered A.I.D. payments of \$81,492 or 17 percent of the gross premiums of \$471,556 that A.I.D. paid to OPM for HealthPlus premiums during these three years.² We performed our work in A.I.D.'s offices in Washington, D.C.

The audit had the following limitations:

- Our detailed verification of payments for HealthPlus premiums covered 12 randomly-selected pay periods in 1988, 1989, and 1990. These 12 pay periods may not be representative of the 79 pay periods in these three years. Therefore, our conclusions concerning these payments are limited to the pay periods actually tested. Our audit procedures were sufficient to provide reasonable assurance of detecting abuse or illegal acts (for example, payments that were not made in accordance with laws and regulations) that occurred during the 12 pay periods we examined in detail but not abuse and illegal acts occurring during the entire three-year period covered by the audit.

²These amounts are taken from HealthPlus records. As discussed in the methodology section of this appendix, we verified the \$81,492 paid during the 12 pay periods we reviewed but not the \$471,556 paid over the entire three-year period.

- We did not review the general and application controls of A.I.D.'s payroll system. Instead, we relied on substantive tests of the data in the system.
- Records were not available in A.I.D. to show when one employee terminated his enrollment in HealthPlus. Therefore, we could not determine whether A.I.D. payments related to this employee were made in accordance with applicable laws and regulations.

Methodology

We followed the methodology prescribed in an audit program provided by OPM's Office of Inspector General. The specific audit steps we performed are discussed in this section.

We reviewed the requirements for the Federal Employee's Health Benefits Program described in 5 United States Code 8901-8913, 5 Code of Federal Regulations 890, and Federal Personnel Manual Supplement 890-1 S4, S5, S7, S13, S19, and S20.

We interviewed personnel in the Payroll Division to determine how enrollments and terminations are recorded, how enrollment and termination forms are transmitted to HealthPlus, how Agency contributions and employee withholdings for insurance premiums are made and transferred to OPM, how employees on leave without pay are billed for their portion of health insurance premiums, and how A.I.D. records are reconciled with other sources of information. To verify the information we were provided, we reviewed standard form (SF) 2809 and SF 2810 enrollment and termination forms, SF 2811 transmittal forms, and SF 2812 and SF 2812-A premium transfer forms. We also obtained examples of notices provided to employees entering leave without pay status, bills of collection issued to employees on leave without pay, and notices of collection.

We performed a mathematical verification of the claim submitted by HealthPlus of Maryland, which showed the gross amounts paid by A.I.D. to OPM, the amounts paid by OPM to HealthPlus, and HealthPlus' calculation of the amounts that should have been paid during 1988, 1989, and 1990.

Our detailed verification work was limited to 12 pay periods which were randomly selected by OPM's Office of Inspector General. We reviewed pay periods 2 and 23 in 1988; pay periods 6, 12, 22, and 24 in 1989; and pay periods 4, 6, 7, 15, 20, and 24 in 1990. The 12 pay periods we reviewed in A.I.D. were part of a much larger Government-wide sample selected by the OPM's Office of Inspector General. These 12 pay periods may not be representative of all A.I.D. payments during the 79 pay periods in 1988, 1989, and 1990.

However, in our judgment, reviewing additional pay periods would not be cost-effective, given the relatively small amount (\$34,554) claimed to be due by HealthPlus.

For the 12 selected pay periods, we traced the amounts shown by HealthPlus as paid by A.I.D. to the SF 2812s and SF 2812-As that A.I.D. used to transfer premium payments to OPM. We compared A.I.D.'s enrollment records with HealthPlus' enrollment records and compared the premiums paid by A.I.D. to a list of approved premiums provided by OPM's Office of Inspector General.

Where these comparisons revealed differences between amounts paid by A.I.D. and the amounts claimed to be due by HealthPlus, we determined the reasons for the differences. Generally, this involved reviewing SF 2809s and SF 2810s in employees' payroll and personnel files to determine correct enrollment and termination dates, reviewing SF 2811s to determine whether enrollments and terminations were transmitted to HealthPlus, reviewing employee pay records to determine when enrollments and terminations were recorded in A.I.D.'s payroll system, and reviewing employee pay records to determine whether employees were in pay status or on leave without pay.

When these reviews showed that A.I.D. paid more or less than was actually due for an employee in a given pay period, we counted the difference as an overpayment or underpayment. However, not all of these overpayments and underpayments represent errors: some of them occurred because A.I.D. was appropriately making adjustments to offset errors made in prior pay periods. We included all overpayments and underpayments in our results, regardless of their cause, so that the results would reflect correcting adjustments made by A.I.D. in the pay periods we reviewed.

REPORT ON INTERNAL CONTROLS

This appendix summarizes our assessment of internal controls related to the audit objective.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards, except that we did not design the audit to provide reasonable assurance of detecting abuse or illegal acts during the entire three-year period covered by the audit (see Appendix 1). Government auditing standards require that we assess the applicable internal controls when necessary to answer the audit objectives. These standards also require that we report on the controls assessed, the scope of our work, and any significant internal control weaknesses found during the audit.

Our assessment was limited to the internal controls applicable to the audit objective. We did not perform our assessment to provide assurance on the Office of Financial Management's overall internal control structure.

We classified the significant internal control policies and procedures applicable to the audit objective by categories. For each category of controls, we obtained an understanding of the design of relevant policies and procedures, determined whether they were placed in operation, and assessed control risk.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and implementing policies issued by the Office of Management and Budget, A.I.D. is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued a document entitled

Standards for Internal Controls in the Federal Government to be used by agencies in establishing and maintaining internal controls.

The purpose of internal controls is to provide management with reasonable - but not absolute - assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, predicting whether a system of internal controls will work in the future is risky because changes in conditions may require additional controls or the effectiveness of the design or operation of the internal control system may deteriorate.

Conclusions

Our audit objective was to determine whether A.I.D. made payments through OPM to HealthPlus of Maryland in accordance with applicable laws and regulations and, if not, to determine the amounts and causes of any underpayments or overpayments. We assessed the internal controls established by the Payroll Division in the Office of Financial Management to control:

- the receipt of insurance enrollment and termination forms,
- entry of insurance enrollments and terminations into the payroll system,
- transmittal of enrollment and termination forms to HealthPlus,
- payment of premiums for employees on leave without pay, and
- transfer of Agency contributions and employee withholdings to OPM.

We did not review the general and application controls of A.I.D.'s payroll system. Instead, we relied on substantive tests of the data in the system.

We found that the internal controls were not properly designed and/or implemented and therefore we could not rely on the controls in performing the audit. However, we conducted substantive tests, described in Appendix 1, to achieve the audit objective.

We found the following significant internal control weaknesses:

- There were no internal controls to ensure that all enrollment and termination forms received by the Payroll Division were entered into the payroll system and transmitted to HealthPlus.
- Insurance enrollment and termination transactions entered into the payroll system were not approved or verified by anyone other than the employee who makes the entries.
- The Payroll Division did not reconcile the numbers of enrollees shown on SF 2811s with payroll records.
- The payroll system does not automatically make the Agency contribution for employees enrolled in a health insurance program who are on leave without pay.
- There were no controls to ensure that employees on leave without pay are billed for their portion of health insurance premiums.

These weaknesses are discussed in the report finding.

The Payroll Division performed an internal control assessment of its operations for the year ending October 14, 1990, but this assessment did not disclose any of the significant internal control weaknesses described above. We are recommending that these weaknesses be corrected, so we are not making a separate recommendation that these weaknesses be reported to the appropriate level of A.I.D. management.

We are communicating certain minor internal control weaknesses to the Office of Financial Management in a separate memorandum.

REPORT ON COMPLIANCE

This appendix presents our conclusions on the Office of Financial Management's compliance with laws, regulations, and binding policies and procedures.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that we did not design the audit to provide reasonable assurance of detecting abuse or illegal acts during the entire three year period covered by the audit (see Appendix 1). Government auditing standards require that we assess compliance with applicable requirements of laws and regulations when necessary to answer the audit objectives. These standards also require that we report all significant instances of noncompliance or abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during the audit.

We tested the Office of Financial Management's compliance with 5 Code of Federal Regulations 890.501(e) and Federal Personnel Manual Supplement 890-1, Sections S19-4.b. and d., S20-1.a. and c., S-20-2.b.(2), and S20-2.d. and e. as these provisions could affect our audit objective. However, our objective was not to provide an opinion on the Office of Financial Management's overall compliance with these provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements or a violation of prohibitions contained in laws, regulations, contracts, and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations. Abuse is distinguished from noncompliance in that abuse may not directly violate laws and regulations. Abusive activities

may be within the letter of laws and regulations but violate either their spirit or more general standards of impartial and ethical behavior.

A.I.D.'s Office of Financial Management is responsible for compliance with laws, regulations, and binding policies and procedures.

Conclusions on Compliance

During the 12 pay periods we reviewed, there were no indications or instances of abuse or illegal acts that could result in criminal prosecution that would significantly affect our audit objective. The rest of our conclusions on compliance are summarized below.

Federal Personnel Manual Supplement 890-1, S20-1.a. and c. require that federal agencies maintain adequate controls and records to ensure that agency contributions and employee withholdings are correct. The Office of Financial Management was not in compliance with this requirement because it had not implemented adequate internal controls (see Appendix 2).

Title 5 of the Code of Federal Regulations, Section 890.501(e), and the Federal Personnel Manual (FPM) Supplement 890-1, S20-2.b.(2) require that federal agencies make contributions for each enrollee in an insurance plan for each pay period, regardless of whether the employee involved is in a pay status. During the 12 pay periods we reviewed, the Office of Financial Management complied with this requirement except that it did not make required Agency contributions of \$2,058 for employees enrolled in HealthPlus because it had not recorded the enrollments in the payroll system. Also, it did not make required Agency contributions of \$765 because the employees involved were on leave without pay and the payroll system did not automatically make Agency contributions for employees on leave without pay. (The amounts cited above differ from those in the report finding because the amounts in the report finding include both Agency contributions and employee withholdings.) The required Agency contributions that were not made represented 3.5 percent of the \$81,492 that A.I.D. transferred to OPM during the 12 pay periods we reviewed. (The latter figure includes both Agency contributions and employee withholdings. We did not calculate the total amount of Agency contributions transferred to OPM.)

FPM Supplement 890-1, S19-4.d. requires federal payroll offices to cooperate with insurance carriers to accomplish reconciliations between payroll office records and carrier enrollment records at least annually. The Office of Financial Management complied with this requirement in 1990 but no reconciliations were performed in 1988 and 1989.

FPM Supplement 890-1, S19-4.b. requires payroll offices to reconcile the number of enrollees shown on SF 2811s with payroll office records monthly or more often if necessary to maintain the accuracy of the perpetual inventory on the SF 2811s. The Office of Financial Management did not comply with this requirement because it did not perform any reconciliations between payroll records and the SF 2811s.

FPM Supplement 890-1, S20-2.d. and e. state that when an employee transfers from one federal payroll office to another, the losing office must prorate the health insurance premium if the employee leaves four or more days after the end of the preceding pay period. For the twelve pay periods we reviewed, the Office of Financial Management did not comply with this requirement because, in the two cases where a premium should have been prorated, the Office of Financial Management paid the full premium instead.

OCT 24 1991

MEMORANDUM

TO: IG/A/PSA, Coinage N. Gothard, Jr.

FROM: FA/FM/CONT, Michael G. Usnick 

SUBJECT: Draft Audit Report on A.I.D. Payments
to HealthPlus of Maryland

REFERENCE: Coinage/Usnick Memo of October 11, 1991

We have reviewed the draft audit report on A.I.D. payments to HealthPlus of Maryland and concur with your findings. The following action has been taken to address each recommendation.

1.1 Effective October 1, 1991, a Health Benefits Tracking System is maintained by the Payroll Systems Branch which tracks SF 2809s/SF 2810s date-in, date-out, and date-input into the payroll system. This report will be distributed to the Controller, Deputy Controller, Payroll Division and Deputy Chiefs, and Payroll Accounting/Retirement Branch Chief on the first of each month.

We will use this report as a management tool for monitoring the process.

1.2 Effective October 6, 1991, all health transactions are input into the payroll system by the Payroll Processing Branch and verified thru an edit report by the Payroll Accounting Technician.

The USER-ID for the Accounting Technician has been disabled, thus, disallowing input.

1.3 Effective October 1, 1991, Payroll Accounting/ Retirement Branch will perform monthly reconciliations between the payroll records and insurance carriers. The reconciliation will be distributed November 1, 1991, and every month thereafter to the Division and Deputy Chiefs.

We will use the report to ensure internal controls are in place and working.

1.4 Effective October 6, 1991, payroll reporting has been modified to include costing for employees in a

leave-without-pay status. The related records are reviewed on a biweekly basis and appropriate amounts added to the Agency's share for the current pay period.

This process is manual and will remain so at this time.

- 1.5 Effective October 1, 1991, a Health Benefits LWOP Tracking System is maintained by the Payroll Systems Branch, which tracks employees in a leave-without-pay status and the issuance of bill for collection. This report will be distributed the first of each month to the Division and Deputy Chiefs and HRDM.

We will use the report as a management tool for monitoring the process.

As a point of information, effective October 6, 1991, transfers to OPM using RITS are reviewed and certified by the Payroll Accounting/Retirement Branch Chief. The certified reports are maintained by the Accounting Technician for reviews by the Deputy and/or Division Chief on a random basis.

Based on the above actions, please issue the report with the recommendations closed. If you have any questions, please call Joan King on extension 32114.

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