



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the  
Inspector General

March 14, 2011

MEMORANDUM FOR JOHN BERRY  
Director

FROM: PATRICK E. McFARLAND  
Inspector General

SUBJECT: Review of the Payroll Functions Related to the Federal  
Employees Health Benefits Program Enrollment Transactions  
for Annuitants (Report No. 1K-RS-00-11-034)

### Executive Summary

The U.S. Office of Personnel Management (OPM), Office of the Inspector General (OIG) has completed a review of the payroll functions related to the Federal Employees Health Benefits Program (FEHBP) enrollment transactions for Federal annuitants. All Federal annuitants, unless specifically excluded by law or regulations, are eligible to participate in the FEHBP. The FEHBP is jointly financed by contributions from the Federal Government and participating Federal annuitants through premiums established by law or regulations.

This report describes the results of our review of OPM's payroll function related to the FEHBP enrollment transactions for annuitants. We found that overall OPM has an effective program to monitor employees' health benefits transactions; however, there are some areas which need improvement.

In addition, we identified another matter that needs immediate attention. Based on our review, we believe that the Centralized Enrollment Clearinghouse system's (CLER) impact has resulted in a significant decrease in enrollment discrepancies to the point where OPM should reduce, or potentially remove, the 1 percent special premium rate loading for enrollment discrepancies currently offered to the FEHBP community-rated carriers. This would result in tens of millions of dollars in program savings.

### Introduction

OPM has overall authority for administering the FEHBP. OPM's authority for the program is cited in Title 5 of the United States Code. Premiums are collected for the FEHBP annuitants through OPM's payroll office. OPM collects these funds and, through the U.S. Treasury, invests and pays insurance carriers on behalf of the annuitants enrolled in the FEHBP. The failure to correctly and promptly collect and transmit the appropriate amount of funds for the FEHBP can result in the loss of income and increased costs to annuitants and, in some instances, the Federal Government.

## **Background**

To help resolve enrollment discrepancies, OPM requested the National Finance Center (NFC) to design, develop, and implement a system to automate FEHBP enrollment reconciliations between Federal agencies' payroll offices and the participating FEHBP carriers. Accordingly, the NFC developed CLER, a Web-based system that receives electronic enrollment data from the agencies and the FEHBP carriers to facilitate reconciliation and reporting. Agencies submit enrollment data quarterly to the NFC for processing in CLER. The FEHBP carriers submit enrollment data quarterly to OPM's Macon, Georgia data processing center. OPM then transmits the data provided by the FEHBP carriers to the NFC for CLER. The NFC is responsible for processing the enrollment data, maintaining the reconciled data, and assisting in resolving discrepancies between the payroll offices and the FEHBP carrier enrollment records. Once the data is processed, agencies review the data, take appropriate corrective action, and document action taken in CLER. The FEHBP carriers are responsible for taking corrective action requested by the responsible agencies either by the receipt of Form SF-2809, Health Benefits Election Form; Form SF-2810, Notice of Change in Health Benefits Enrollment; or by other notification.

## **Objectives, Scope, and Methodology**

The objectives for this review were to determine if OPM's payroll office for annuitants:

- accurately and timely processes FEHBP enrollment transactions and terminations with FEHBP carriers;
- reconciles FEHBP enrollment transactions with CLER;
- processes/resolves reconciliation differences with carriers; and,
- verifies that the annuitants' withholdings are correct based on the annuitants' health carrier selection and type of enrollment (i.e., self only or self and family).

To accomplish our objectives, we obtained an understanding of the controls in place to monitor enrollment transactions. We randomly selected a sample of 50 annuitants for the pay period ending December 31, 2008 and another 50 annuitants who made changes during the 2008 Open Season for the pay period effective January 1, 2009.

Using each annuitant's official file, the Annuitant Express System (an electronic mechanism used by annuitants to make changes to health insurance coverage, taxes, etc.), and OPM's payroll records, we conducted tests to:

- Determine if the health benefit codes indicated on the annuitants' Health Benefits Election Form (SF-2809) agreed with the plan codes reported in OPM's payroll system. We also verified that annuitants' withholdings agreed with the official subscription rates issued by OPM for the plan and option elected by each annuitant.

- Determine if the health benefit codes indicated on the annuitants' Notice of Change in Health Benefits Enrollment Form (SF-2810) agreed with the plan codes reported in OPM's payroll system.
- Verify that the annuitants' withholdings agreed with the official subscription rates issued by OPM for the plan and option elected by each annuitant.
- Determine whether the changes made through the Annuitant Express System agreed with the plan codes reported in the OPM payroll system. We also verified that the annuitants' withholdings agreed with the official subscription rates issued by OPM for the plan and option elected by each annuitant.
- Determine compliance with applicable laws and regulations.

We also analyzed the quarterly CLER summaries for the quarters ending: December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009 to determine if OPM was applying appropriate procedures in reconciling the FEHBP enrollment transactions in CLER.

Our review was not conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The nature and scope of the work performed was consistent with that expected of a GAGAS audit; however, because we consider this to be a review, the documentation, reporting, and quality control standards are not as stringent.

## **Results**

### **Enrollment Transactions for Annuitants**

Based on applying the procedures identified previously, we found that OPM has implemented appropriate controls related to enrollment transactions for annuitants participating in the FEHBP. However, we did identify an opportunity for improvement.

Our review revealed that OPM does not have a formal policy for reconciling discrepancies on the CLER Report. Carrier Letter No. 2003-34 allows FEHBP carriers to send a disenrollment letter to active employees after a fail count of three or more for the '160' error code, which occurs when a carrier reports an enrollment, but no Federal agency reports that enrollment. The Carrier Letter defines a fail count as the number of successive quarters that the same discrepancy is identified by CLER. The supervisor of the Retirement Benefits CLER Team instituted an informal policy of resolving discrepancies for large FEHBP carriers when the discrepancy was a fail count of five, and for smaller carriers with a fail count of three.

For our testing, we selected the Rural Carrier Benefit Plan for the third quarter of 2009 to review because we considered it to be a small carrier. Also, because of the number of discrepancies, we further narrowed our scope of the review to just error code '160.' The reason we selected error code '160' was because this error code can result in health claims being paid and no premiums collected. Our review revealed that there were 1,552 '160' code discrepancies reported for that

quarter. Further analysis revealed that 513 of the discrepancies had a fail count of three or less and 1,039 of the discrepancies had a fail count greater than three.

It is our opinion that this reflects a low rate for resolving discrepancies in a timely manner. We further believe the low rate of resolution is because of OPM's informal policy not to attempt to resolve discrepancies until after a fail count of three and to not involve the annuitant in the resolution process.

Our review further revealed that 696, or 45 percent, of the '160' code discrepancies had a fail count greater than eight, meaning the discrepancies had not been resolved for over two years. Also, nine discrepancies had a fail count of 30. These discrepancies had not been resolved in seven and one-half years. It is our opinion that resolving the '160' code discrepancies in a timely manner is crucial. The '160' code discrepancy is the main discrepancy that led to the 1 percent load for community-rated carriers.

While we realize there are differences between active employees and annuitants, our analysis showed that for active employees OPM resolved all types of errors ninety-six percent of the time within three quarters (fail count of three).

We believe that there are several reasons for the lower rate of resolving the discrepancies for annuitants. The most prevalent is OPM's informal policy not to attempt to resolve discrepancies until the discrepancy has occurred for three quarters. For active employees, attempts to resolve discrepancies begin immediately and if the discrepancy appears for three quarters, the FEHBP carrier solicits the help of the enrollee. This is done by having the carrier mail out the "Notice of Intent to Disenroll" letter. The assumption is made that if the enrollee is about to lose their health insurance coverage they will become very active in trying to resolve the discrepancy. Carrier Letter 2003-34 exempts annuitants from receiving the "Notice of Intent to Disenroll" letter. We believe that the policy should be the same for both active employees and annuitants.

It is our opinion that OPM is not resolving discrepancies for annuitants in a timely manner. The following are our recommendations:

**Recommendation 1:**

We recommend that for annuitants, OPM begin reconciliation efforts for discrepancies on the CLER Report after the first occurrence and not wait until the discrepancy appears three times for small carriers and five times for larger carriers. Waiting to resolve the discrepancy can result in premiums not being withheld from the annuitant's check.

**Recommendation 2:**

We recommend that OPM or the FEHBP carrier either mail the "Notice of Intent to Disenroll" letter after a fail count of three to the annuitants or develop a similar process to encourage prompt resolution. We believe this procedure is very beneficial in resolving discrepancies.

**Recommendation 3:**

We recommend that OPM should vigorously start resolving discrepancies with the oldest fail count. Seven and one-half years is entirely too long for a discrepancy to continue to appear. If there is some reason the error can not be resolved, OPM should develop a new code to cover these situations.

**One Percent Special Premium Loading for Community-Rated Carriers**

OPM amended the Standard Contract for the Federal Employees Health Benefits Program for contract year 1997. The amendment to the contract allowed a 1 percent special premium load for FEHBP community-rated carriers. The 1 percent load was the result of negotiations between OPM and the community-rated carriers. Its purpose was to account for unresolved enrollment discrepancies.

When CLER was implemented in June 2002, one of the major objectives was to resolve discrepancies to the point where OPM can remove the 1 percent load.

After CLER was implemented, the NFC produced a quarterly report called CLER Production Recap. The report listed the total records processed by each carrier and the number of records in error. The report also gave the error rate of each carrier, and the overall error rate. Because our main focus is on the error rate for community-rated carriers, we had the NFC modify the report to only include community-rated carriers. We had this done for the period starting with the second quarter of 2002 through the first quarter of 2010. For the second quarter of 2002, the reported error rate was approximately 23 percent for community-rated carriers. As of March 31, 2010 the error rate was approximately four percent (See Attachment 1). The report clearly shows that CLER is achieving its objective of identifying and resolving discrepancies. When the second quarter of 2002 is compared to the first quarter of 2010, there is an 82 percent reduction in the error rate ( $23 - 4 = 19 / 23 = .82$ ). Even though the error rate has dropped significantly, OPM has not renegotiated the 1 percent load.

Based on our inquiries, it appears that OPM has not formally analyzed the impact of CLER on FEHBP community-rated carrier's enrollment discrepancies. This corresponds to OPM not revisiting the possibility of renegotiating the special premium load since it was implemented in June 1997. As a result of not renegotiating the special premium load, OPM runs the risk of paying a cost which is no longer reasonable.

For calendar year 2008, the total premiums paid to FEHBP community-rated carriers were approximately \$6.8 billion. Applying the 1 percent special load to the premium dollars results in approximately \$68 million paid to the carriers. If the special premium load was renegotiated to, for example, one-half of 1 percent, OPM could save approximately \$34 million per year, or \$340 million over 10 years.

**Recommendation 4:**

We recommend that OPM reenter negotiations with the FEHBP carriers to reduce the 1 percent load based on the reduction in enrollment discrepancies.

**Recommendation 5:**

We recommend that the reduction in rate start with contract year 2012. The cost savings for 2012 of reducing the special premium load to one-half of 1 percent would be approximately \$34 million.

**Retirement and Benefits' Response:**

Currently, OPM's Insurance Operations (IO) is conducting an enrollment and premium information pilot, operating independently from CLER. By using the Enterprise Human Resources Integration data, the IO will be able to transmit premium data to carriers at the individual enrollee level every pay period. We were told that this effort will be fully operational across most agencies and carriers in 2011.

Through our evaluation of this information, the IO should be able to give the FEHBP carriers enrollment associated with collected premiums. This information would eliminate the need for the 1 percent rate loading for community-rated plans. Taking this action in 2011 will allow OPM to give adequate notice to the carriers prior to 2012 contract rate negotiations, and will also allow adjustments for income shortfall.

The Insurance Operations agrees with the factual nature of the Inspector General's finding and agrees that reducing the 1 percent load to rates of FEHBP community-rated carriers is appropriate (See Attachment 2).

**OIG Comment:**

The OIG evaluated the Insurance Operations' response to our Notification of Findings and Recommendations. We concur with their position to eliminate the 1 percent load by using the Enterprise Human Resources Integration data. Also, it is our opinion that if for some reason there is a delay in initiating the new policy, OPM should begin negotiations with the FEHBP carriers to reduce the load starting with contract year 2012, to reflect the reduction in enrollment discrepancies.

Please contact me if you have any questions regarding this review, or someone from your staff may wish to contact Michael R. Esser, Assistant Inspector General for Audits, at [REDACTED], or [REDACTED], Special Assistant to the Assistant Inspector General for Audits, at [REDACTED] 0.

Attachments

cc: Christine Griffin  
Deputy Director

Elizabeth A. Montoya  
Chief of Staff

[REDACTED]  
Director, Executive Secretariat and Ombudsman

William B. Zielinski  
Associate Director, Retirement Services

John O'Brien  
Director, Healthcare and Insurance

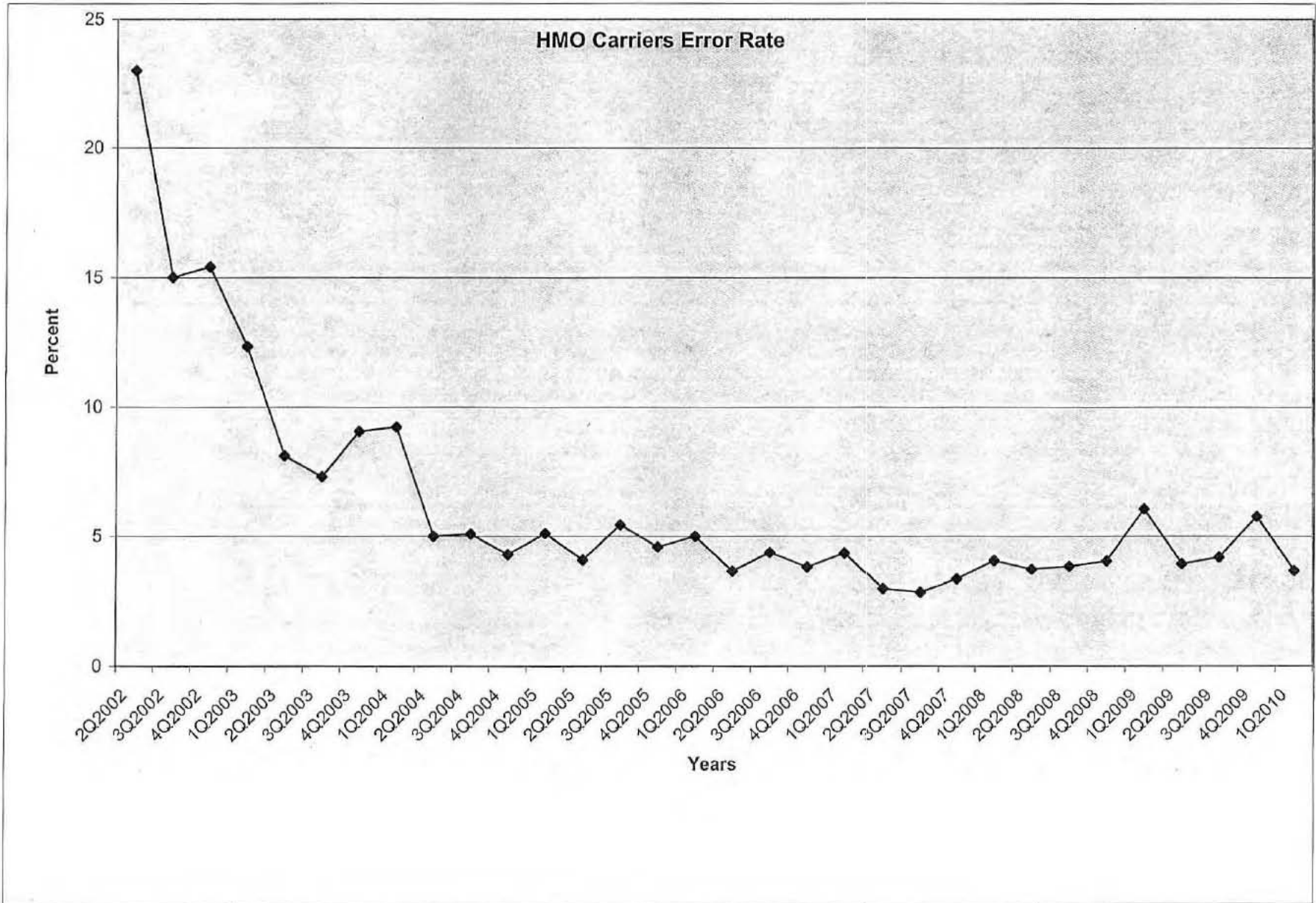
[REDACTED]  
Assistant Director for Federal Employee Insurance Operations

[REDACTED]  
Director, Internal Oversight and Compliance

[REDACTED]  
Deputy Director, Internal Oversight and Compliance

[REDACTED]  
Associate Director Employee Services and  
Chief Human Capital Officer

[REDACTED]  
Director, Planning and Policy Analysis







## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Retirement and  
Benefits

July 21, 2010

MEMORANDUM FOR: [REDACTED]  
Deputy Assistant Inspector General

THROUGH: William Zielinski *William Zielinski*  
Associate Director for Retirement and Benefits

FROM: [REDACTED] [REDACTED]  
(Acting) Deputy Associate Director, Insurance Operations

DATE: July 21, 2010

SUBJECT: RESPONSE TO IG FINDING ON FEHB 1% LOADING

This is in response to your notification and finding on Special Premium Load for Community-Rated Carriers.

Currently Insurance Operations (IO) is conducting an enrollment and premium information pilot, operating independently from Centralized enrollment clearing house (CLER). By using Enterprise Human Resources Integration (EHRI) data, IO will be able to transmit premium data to carriers at the individual enrollee level every pay period. This effort will be fully operational across most agencies and carriers in 2011. Through our evaluation of this information, IO should be able to give Health Plans enrollment associated with collected premium. This information would eliminate the need for the 1% rate loading for community rated plans. Taking this action in 2011 will allow us to give adequate advance notice to the carriers prior to 2012 contract and rate negotiations, and will also allow adjustments for income shortfall.

Insurance Operations agrees the factual nature of the Inspector General's finding.

Insurance Operations agrees that reducing the 1% load to rates of FEHB community-rated carriers is appropriate.

CC: [REDACTED]

**OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS**

**Review of the Payroll Function Related to the Federal Employees Health Benefits  
Program Enrollment Transactions for Annuitants**

**Notification of Findings and Recommendations (NFR)**

**General Information:**

We have identified the following issue as a potential finding for inclusion in a draft report. We encourage you to provide us with any additional information that may be relevant to ensure that the finding presented provides an accurate and fair presentation of the issue. If you have any questions, concerns, have additional information for our review, or need additional time to respond to this NFR please contact Charles E. Gibbons on 606-4720 or [charles.gibbons@opm.gov](mailto:charles.gibbons@opm.gov) or Jeff Cole, Deputy Assistant Inspector General for Audits at 606-1200 or [jeff.cole@opm.gov](mailto:jeff.cole@opm.gov).

Issued to: [REDACTED], Acting Associate Director  
Retirement & Benefits

Approved by: [REDACTED]

NFR number: 1

Date NFR Issued:

Subject: Special Premium Load for Community-Rated Carriers

W/P Reference(s):

**Background:**

OPM amended the Standard Contract for the Federal Employees Health Benefits Program (FEHBP) for contract year 1997. The amendment to the contract allowed a one percent special premium load for community-rated carriers. The one percent load was the result of negotiations between OPM and the community-rated carriers to account for unresolved enrollment discrepancies.

To help resolve enrollment discrepancies OPM implemented the Centralized Enrollment Reconciliation Clearinghouse (CLER). The purpose of CLER is to facilitate enrollment reconciliation between Federal payroll offices and health plans to identify and resolve discrepancies. CLER was implemented June 2002.

One of the major objectives of CLER was to resolve discrepancies to the point where OPM can remove the one percent load.

**Condition:**

When CLER was implemented in June 2002, the National Finance Center (NFC) produced a quarterly report called the CLER Production Recap. The report listed the total records processed by each carrier and the number of records in error. The report also gave the error rate for each carrier, and the overall error rate. Because our main focus is on the error rate for community-rated carriers, we had the NFC modify the report to only include community-rated carriers. We had this done for the period starting with the second quarter 2002 through the first quarter 2010. For the second quarter 2002, the reported error rate was approximately 23 percent for community-rated carriers. As of March 31, 2010 the error rate was approximately 4 percent (see attached graph). The reports clearly show that CLER is achieving its objective of identifying and resolving discrepancies. When the second quarter 2002 is compared to the first quarter 2010, there is an 82 percent reduction in the error rate ( $23-4=19/23=.82$ ). Even though the error rate has dropped significantly, OPM has not renegotiated the one percent load.

**Criteria:**

FAR 31.201-3 Determining Reasonableness: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business."

**Cause:**

Base on our inquiries, it appears that OPM has not formally analyzed the impact of CLER on community-rated carriers' enrollment discrepancies. This corresponds to OPM not revisiting renegotiating the special premium load since its was implemented in June 1997.

**Effect:**

As a result of not renegotiating the special premium load, OPM runs the risk of paying a cost which is no longer reasonable.

For calendar year 2008, the total premiums paid to community-rated carriers were \$6.8 billion. Applying the one percent special premium load to the premium dollars results in \$68 million being paid to the carriers. If the special premium load was renegotiated to half percent, OPM could save approximately \$34 million per year, or \$340 million over 10 years.

**Recommendation 1:**

We recommend that OPM consider reentering negotiations with the carriers to reduce the one percent load based on the reduction in enrollment discrepancies.

Please indicate your response in the space provided below or as an attachment and return to us no later than June 14, 2010. Your written response will be considered when preparing the draft audit report.

**Auditee Response:**

- Management concurs with the factual accuracy of the finding.
- Management does not concur with the factual accuracy of this finding.

**Additional Comments:**

William Zielinski  
Signature of Agency Official

Associate Director - Retirement & Benefits  
Title of Agency Official

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