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STATEMENT OF
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MANAGEMENT STUDIES DIVISION
BEFORE THE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES

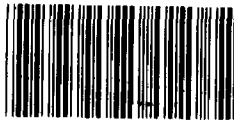
ON

[FEDERAL EMPLOYEES' HEALTH INSURANCE COSTS]

Madam Chair and Members of the Subcommittee:

We are here today at your request to discuss our report, entitled "Errors in Health Benefits Data Push Up Health Insurance Costs" which was issued to Director, the Office of Personnel Management in December 1979. The report deals with differences between the enrollment data on records of Federal agencies and those of insurance carriers. The data is used to determine (1) the coverage provided individual employees, (2) the employees' and the Government's share of insurance premiums paid to insurance carriers.

Our report points out that errors in the data can result in underpayments of premiums and overpayments of benefits-- two conditions that increase the employees' and Federal Government's share of program costs. The report sets the increased program costs for the errors we found at between \$2 and \$5 million annually. We also noted that errors can delay



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payments of claims, an undesirable condition not pursued as part of our review.

I would like at this time to summarize our position on the extent of errors noted, the underlying cause, and the actions required to maintain reasonably accurate data. Before I do that, however, Mr. Cronin will briefly explain the complexities and some of the relationships between the parties involved.

EXTENT OF ERRORS IN ENROLLMENT DATA

Enrollment data for about 3.3 million Federal employees is recorded on accounting records of about 80 Federal agencies and a similar number of insurance carriers. The error rate in such data varies by agency and carrier, with some agencies and carriers having much higher rates than others. Based on data available to us, we concluded that the error rate was at least 10 percent--but fortunately most of the errors do not adversely affect program costs.

As part of our study, we examined findings reported by the Federal contracting officer of the Office of Personnel Management, which negotiates contracts and premiums with each insurance carrier. OPM reported that the carriers had reported from 12,000 to nearly 100,000 more enrollees than Federal agencies were showing from 1970 to 1977. A 1976 test by OPM's program auditors showed the difference in the number of enrollees ranged from 0.2 to 35.5 percent for the

agency payroll offices and insurance carriers' records they tested. Our tests in several agencies also showed substantial variances.

A major study of health enrollment procedures by OPM auditors in September 1976, included a comparison of enrollment records of the Office of Personnel Management Civil Retirement payroll office with those of Blue Cross/Blue Shield. According to the report issued on the study, the annuity payroll office records showed about 489,399 enrollees paying for health insurance coverage with Blue Cross/Blue Shield--which represents about 25 percent of that carrier's total Federal enrollees. The auditors' match of the OPM's and the carriers' records showed an overall discrepancy rate of 10 percent. The auditors said that a majority of the discrepancies could be explained by the time lags in sending and posting data to carriers' records. However, the auditors found that many people shown as enrolled by the carrier, but not by the agency, did claim and receive benefits.

Another fact considered during our study was the results of a review by the then Department of Health, Education, and Welfare's internal auditors which compared records of Blue Cross/Blue Shield and those in HEW's payroll office. The auditors found over 10,000 discrepancies with an overall error rate of 13 percent. Fortunately only 3 percent affected benefit costs.

We basically duplicated the findings of the other auditors by comparing the enrollment data in the Department of Justice's records with records maintained by Blue Cross/Blue Shield and Aetna for Justice employees. We found the error rate to be about 14 percent between the records of Justice and Blue Cross/Blue Shield and about 25 percent between Justice and Aetna. We also verified that the percentage of the errors impacting on program costs was much lower.

There are several reasons why many of the errors in the data did not adversely affect program costs. Some of the more important ones are:

- Many errors relate to such things as misspelled names, erroneous control numbers, and duplicate enrollments under different control numbers. Such errors do not significantly increase program costs; they only complicate the payment process and make record comparisons time consuming.
- Many errors that could impact on program costs are detected by the employee or carrier and corrected before any adverse effect occurs.
- The employees seldom take advantage of situations where they could collect greater benefits than they are entitled to. Perhaps because they are unaware of the situation or because they are too honest to seek benefits to which they are not entitled.

UNDERLYING CAUSES FOR ERRORS

Since the health program began, enrollment data has been exchanged between Federal agencies and insurance carriers through manual procedures prescribed by the Civil Service Commission, the predecessor to the Office of Personnel Management. The procedures are conceptually sound; however, they are much too time consuming to deal with the high volume of data that must be exchanged, and actually invite errors of the types we found.

For example, we found employees in many personnel offices sometimes failed to complete required forms when employees changed plans, transferred, terminated, or retired. One particular form must be manually prepared and is the basic document used by agencies to record enrollment data in the agencies' and insurance carriers' records. We also noted many errors in the transmittal sheets forwarding the changes from the insurance carriers. These sheets also serve as a perpetual inventory report by plan and enrollment code.

At Justice, we found errors on 85 of 86 of the transmittal sheets we selected for review. In determining why so many errors were being made, we learned two things. One, the employees who prepared the transmittal sheets had not recently, if ever, read the instructions. Two, supervisors were routinely signing off on the forms without reviewing them. We noted that Blue Cross/Blue Shield did notify Justice and provide information on the errors we found in the data

forwarded by Justice. However, Justice rarely acted on the information because of the laborious efforts required. Blue Cross officials said most agencies do not respond to the error lists sent them.

The payroll offices we reviewed were also not reconciling their enrollment records with those of carriers, as required by Office of Personnel Management instructions. The payroll offices were receiving the necessary lists from many insurance carriers, but they did not reconcile them with their records because the manual procedures involved made them prohibitively expensive.

ACTIONS REQUIRED TO REDUCE ERRORS

We believe the errors in enrollment data would be significantly diminished, if not eliminated, if such data were exchanged between agencies and insurance carriers in machine-readable form. The mechanized approach would also reduce agency costs for exchanging data.

For example, in examining the operations at three agencies--one large, one medium, and one small--we estimated that the large and medium agencies could reduce their health enrollment administrative costs by 1 to 2 staff-years. We believe this reduction would apply to most Federal agencies since, for various reasons, the effort devoted to this job is not proportional to the number of employees.

The automated process would also reduce carriers' costs significantly. For example, Blue Cross/Blue Shield said it cost over \$600,000 in 1977 to enter enrollment data into machine-readable form, an effort which would no longer be necessary.

We recommended that the Director, Office of Personnel Management, adopt as policy the use of automated procedures to report health benefits enrollment data to carriers and to reconcile agency and carrier enrollment records, and accordingly direct subordinates to:

- Develop and arrange with carriers the use of a common identifying number for each enrollee (such as the social security number) to facilitate identifying enrollment data transmitted between carriers and Federal agencies.
- Have agencies and carriers develop a standard format for exchanging enrollment information.
- Require carriers to provide payroll offices with verification enrollment data in computer-readable form on claimants of the reporting period.
- Prepare instructions for agencies on automated reporting and reconciliation of enrollment data. The instructions should eliminate the manually prepared perpetual inventory record.

We would like to note that the Office of Personnel Management has concurred with our recommendations. It is now working with Blue Cross/Blue Shield and the Veterans Administration to develop a standard for the transmission of enrollment data in machine-readable form.

Madam Chair, this concludes my statement. We will now answer any questions you or other Members of the Subcommittee may have.