

GAO

Report to the Associate Director,  
Retirement and Insurance Group, Office  
of Personnel Management

December 1988

# FEDERAL COMPENSATION

## Recovery of Improper Health Benefits Charges Needed





United States  
General Accounting Office  
Washington, D.C. 20548

**B-231323**

General Government Division

December 13, 1988

Ms. Jean M. Barber  
Associate Director, Retirement  
and Insurance Group  
Office of Personnel Management

Dear Ms. Barber:

We are reviewing certain aspects of the Federal Employees Health Benefits Program (FEHBP) at the request of the Chairman, Committee on Post Office and Civil Service, House of Representatives. One objective of our review is to determine the reasonableness of the administrative costs charged FEHBP by carriers basing their premiums on claims experience. To help achieve this, we are reviewing the annual accounting statements submitted by the carriers to the Office of Personnel Management (OPM). We have also been interviewing responsible OPM officials and reviewing applicable regulations.

During our review of the accounting statements submitted by one carrier, the Aetna Life Insurance Company, for calendar years 1982 through 1987, we found that the program was improperly charged about \$7.2 million for federal income taxes on Aetna's service charge (profit). The Federal Acquisition Regulation in 48 CFR 31.205-41(b)(1) provides that federal income taxes are not an allowable cost. However, Aetna's annual accounting statements for FEHBP and the Retired Federal Employees Health Benefits Program (RFEHBP) for calendar years 1982 through 1987 show Aetna charged the programs for federal income taxes on the carrier's service charge. The charge was made by reducing the investment income the programs earned on reserves held by Aetna. The amounts charged each year are shown in table 1.

**Table 1: Amounts Charged the Programs for Federal Income Taxes on Aetna's Service Charge**

Year	FEHBP	RFEHBP	Total
1982	\$86,970	\$1,381	<b>\$88,351</b>
1983	695,520	1,504	<b>697,024</b>
1984	1,508,480	3,088	<b>1,511,568</b>
1985	1,655,825	3,074	<b>1,658,899</b>
1986	1,529,247	3,110	<b>1,532,357</b>
1987	1,683,333	3,255	<b>1,686,588</b>
<b>Total</b>	<b>\$7,159,375</b>	<b>\$15,412</b>	<b>\$7,174,787</b>

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We have discussed the propriety of these charges with responsible OPM officials. They said that federal income taxes on the service charge are not an allowable cost and this matter would be brought to Aetna's attention during the next OPM audit.

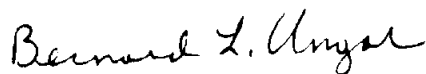
We are bringing this matter to your attention now because addressing this issue through the audit process may delay its resolution for over a year. OPM will only audit Aetna in fiscal year 1989 if there is time left out of that which is reserved for unanticipated audits. The delay in recovering the improper charges would result in the health programs losing investment income that could be earned on over \$7 million. In the meantime, Aetna would continue to have the interest-free use of program funds and, if the matter is not brought to its attention, could reduce the investment income credited to the programs again in 1988.

In order to hold the loss of investment income to a minimum, we believe that OPM should expedite its resolution of this matter. Therefore, we recommend that you take action to recover these improper charges now rather than waiting until the next scheduled audit.

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We would appreciate being advised within 30 days of any action you take on this matter. We are sending copies of this report to selected congressional committees and others who may have an interest in this matter. If you would like to discuss this matter further, please contact Mr. Thomas Eickmeyer of my staff on 275-8100.

Sincerely yours,



Bernard L. Ungar  
Associate Director

