

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



**Executive Summary Concerning the Results of an
Office of the Inspector General Investigation Into the
Office of Risk Management's Failure to Remit Life and
Federal Health Insurance Premiums to Vendors on Behalf
of District Disability Compensation Recipients**

2010-0348

INVESTIGATIVE SYNOPSIS

In response to allegations that the Office of Risk Management (ORM) failed to remit premiums to life and health insurance vendors from District employees who were receiving disability compensation¹, the D.C. Office of the Inspector General (OIG) conducted an investigation to review ORM's procedures to determine whether there was evidence to substantiate the allegations, and, if proven, why ORM failed to remit premiums to the life and health insurance vendors. The OIG investigation determined that ORM had, in fact, failed to remit premiums to Standard Insurance Company (Standard), the life insurance vendor, and the U.S. Office of Personnel Management (OPM), the entity which handled health insurance for all District disability compensation recipients participating in the Federal Employees' Health Benefits Program (FEHB).² The OIG investigation also determined that ORM failed to use any of the existing District payment processes to remit these payments. The OIG investigation was unable to determine any valid explanations as to why ORM had failed to remit these premium payments because of inconsistent and, at times, illogical, statements by ORM personnel.

OIG investigators interviewed current and former ORM personnel, including the former ORM Director, who had responsibility for administering the life and health insurance programs for District disability compensation recipients, and current and former employees of the D.C. Department of Human Resources (DCHR) and the D.C. Office of Finance and Resource Management (OFRM). In addition, OIG investigators reviewed the District's life insurance contract with Standard, various ORM summaries of life insurance premium deductions, District forms related to life insurance claims, and the District's Public Sector Workers' Compensation law (the Disability Compensation Amendment Act of 2010, D.C. Law 18-223).

¹ For purposes of this Report, District employees who were receiving disability compensation are referred to as disability compensations recipients.

² All District employees, both active and disability compensation recipients, who were hired before 1987, receive federal health insurance through the FEHB program administered by OPM.

Background

ORM manages the District's disability compensation program. When a District employee is injured and makes a disability compensation claim, that claim is made to ORM, which either approves or denies the claim. If the claim is approved, the District employee then receives disability compensation instead of a salary and is required to submit to ORM a paystub indicating the life and health insurance premiums that had been deducted from his/her paycheck when he/she was an active District employee. Once the person begins receiving disability compensation, ORM collects the life and health insurance premiums by deducting these amounts from the disability compensation recipient's payments.

On the other hand, DCHR handles life and health insurance premiums that are deducted from an active employee's salary, through the electronic PeopleSoft system (PeopleSoft). For active employees, PeopleSoft electronically transmits premiums to the appropriate life and health insurance vendors. Once a District employee receives disability compensation through ORM, DCHR has no further involvement with the disability compensation recipient's life and health insurance premiums. DCHR cannot view the recipient's information in PeopleSoft and it does not transmit the recipient's life and health insurance premiums to vendors.

The former ORM Director began working at ORM in November 2004 and left the agency in September 2010. The former ORM Director said that the disability compensation program used to be handled by the Department of Employment Services, then the D.C. Office of Personnel (now known as DCHR), and finally ORM. The former ORM Director said that at the start of her ORM tenure, disability compensation recipients and constituents complained of numerous issues, including not timely receiving disability compensation payments. The former ORM Director described the program as a mess with many problems. She told OIG investigators that her focus was on the problems and challenges of the disability compensation program. She said that there were issues with the vendors, lawsuits levied against the District government, and issues regarding the correct rate of pay for employees. The former ORM Director also said that the process of paying the District health insurance vendors, for example, was passed from one agency to another.

District Health Insurance

The OIG investigation revealed that ORM remitted the health insurance premiums to District health insurance vendors for disability compensation recipients who participated in the District's health insurance program. An ORM Program Analyst (Program Analyst One) explained that the process of paying invoices began when she received emails from insurance adjusters who identified disability compensation recipients and the premium amounts ORM should withhold for health insurance. After preparing the insurance invoices for the District health insurance vendors, Program Analyst One sent the invoices to OFRM for payment, along with a monthly chart that identified the employees whose health insurance deductions had been made by ORM. Program Analyst One also sent to the appropriate District health insurance vendors a list of the disability compensation recipients for whom ORM withheld deductions for health insurance.

Program Analyst One identified an OFRM Financial Manager as a point-of-contact at OFRM and said that OFRM was responsible for sending a check to the different District health insurance companies.

OFRM personnel confirmed to OIG investigators that the health insurance providers for disability compensation recipients under the District's health insurance program were paid. Specifically, the OFRM Financial Manager explained that an ORM employee forwarded to OFRM monthly invoices for the health insurance providers. The OFRM Financial Manager then processed those invoices by forwarding them to the OFRM accounts payable department, which issued checks to the appropriate health insurance providers.

Federal Health Insurance

In contrast, the OIG investigation found that ORM failed to remit to OPM the District's contribution for health insurance premiums for all disability compensation recipients participating in FEHB. ORM Program Analyst One told OIG investigators that she did not prepare invoices for health insurance providers for disability compensation recipients with federal health insurance benefits as she did for those with District health benefits. Rather, she said, federal health insurance was processed using a federal electronic system through which ORM communicated with OPM. The federal electronic system is known as "CLER."

A former ORM Workers' Compensation Manager told OIG investigators that she recalled that ORM Program Analyst One raised concerns with the former ORM Workers' Compensation Manager) about the lack of invoices for the federal health insurance providers. Another ORM Program Analyst (Program Analyst Two), told OIG investigators that her duties included health and life insurance benefits until August 2008. ORM Program Analyst Two's point-of-contact at DCHR during that time was a DCHR Human Resources Specialist.³ ORM Program Analyst Two told OIG investigators that the former DCHR Human Resources Specialist had told her that payments for federal health insurance were made by DCHR, so she thought that they came out of one big fund for all of District government. Later, it was revealed that the payments were not being made.

The OFRM Financial Manager also told OIG investigators that she only received from ORM invoices for health insurance providers for District disability compensation recipients covered by the District's health insurance program, not FEHB. The OFRM Financial Manager said that she believed that health insurance premiums for District disability compensation recipients covered by FEHB were not paid, although she did not know why. She believed that an ORM employee was supposed to initiate payment electronically, but believes that the electronic payments never occurred.

Similarly, an OFRM Agency Fiscal Officer told OIG investigators that ORM did not pay OPM. She explained that although ORM took deductions from the disability compensation recipients'

³ Despite repeated requests by this Office for an interview, the former DCHR Human Resources Specialist, failed to honor those requests and keep the appointment for a telephone interview that was set for a mutually convenient time. Therefore, the former DCHR Human Resources Specialist, who is no longer a District government employee, was not interviewed in connection with this matter.

payments for federal health insurance and certified in CLER that these employees were still receiving disability compensation, ORM personnel did not submit any invoices to OFRM for payment to OPM.

The former ORM Director told OIG investigators that ORM handled payments to health insurance providers for disability compensation recipients covered by FEHB in the same manner as the District's health insurance program. The former ORM Director further explained that the only difference was that the process for payments under the FEHB program was computerized and the process for payments under the District's health insurance program was manual.

ORM employees other than the former ORM Director told OIG investigators that ORM was aware as early as 2005 that although they were collecting premiums for federal health insurance for District disability compensation recipients, they were not paying those premiums to OPM. Specifically, a former ORM Tort Liability Manager explained that ORM used CLER and could identify which disability compensation recipients had federal health insurance benefits and cross reference as necessary. The former ORM Tort Liability Manager said that 21 to 45 days after ORM submitted information in CLER, ORM received an error report, if appropriate, so it could rectify or reconcile any errors. She also explained that lists of disability compensation recipients with federal health insurance benefits were generated, but the lists only indicated which District disability compensation recipients were still on the rolls, not whether a payment had been made. Finally, the former ORM Tort Liability Manager told OIG investigators that she knew as early as 2005 that payments were not being made to vendors.

None of the ORM personnel interviewed by OIG investigators were able to explain why the payments for federal health insurance were not made. Although several ORM employees said that they believed the payments should have been made through CLER, none of them could explain why this was not done. Similarly, the one ORM employee, ORM Program Analyst Two, who told OIG investigators that she thought the payments for disability compensation recipients were included in the payments made by DCHR for active employees, could not provide any basis for this opinion other than to say she was told this by a DCHR employee. None of those interviewed said that they thought ORM transmitted funds to DCHR to cover such payments. Finally, none of those interviewed were able to explain why the invoice process used for the District's health insurance vendors was not used to remit payments to OPM for federal health insurance.

Life Insurance

With respect to life insurance, the investigation revealed that ORM failed to send premiums to Standard for disability compensation recipients who participated in the District's life insurance plan.

The former ORM Director said that although ORM collected life insurance premiums from disability compensation recipients, those premiums were never sent to Standard. She acknowledged that it did not make sense that ORM collected the life insurance premiums and did not make payments to Standard. The former ORM Director added, however, that no beneficiary ever was denied a life insurance claim. She described the District's life insurance contract with

Standard as a blanket contract that covers both active and disability compensation recipients. She thought that DCHR was paying life insurance premiums for both ORM recipients and active District employees. She added that when a disability compensation recipient passed away, information was provided to DCHR by ORM and Standard processed the insurance claim because the contract was a group policy.

The former ORM Director also indicated that the life insurance premiums ORM withheld from the checks of disability compensation recipients were placed in the "BG0 fund," which is dedicated to paying expenses for the disability compensation program. The money accumulated and remained in the BG0 fund for years. According to the former ORM Director, when the District began to encounter hard financial times, the District's Budget Review Team reduced the BG0 budget allocations by \$10 million each fiscal year (FY) beginning in FY 2008. The reason for the reduction was to fill a financial hole elsewhere in the District government, but the former ORM Director said that she did not know where the funds were used. At that time, the Budget Review Team was comprised of the City Administrator, the Budget Director, and OFRM and ORM officials. The former ORM Director explained that the BG0 account was comprised of budget allocations for the administration of the Disability Compensation Program, as well as money from old claims that were now closed, recoupment of overpayments by ORM, recovery of medical bills that had been overpaid, and any savings that dealt directly with the Disability Compensation Program. The former ORM Director stated that if the allocations to the BG0 budget had not been reduced, ORM would have had enough money to pay the outstanding amount owed to Standard for premiums that had been withheld but not transmitted.

The former DCHR Deputy Director said that when a disability compensation recipient passed away, ORM used the same forms as DCHR. She said that DCHR treated ORM like other independent agencies, and she was uncertain whether ORM even had the authority to deal directly with Standard. The former DCHR Deputy Director also said that there was no mechanism in place for Standard to accept life insurance premiums directly from ORM and she believed that ORM was trying to figure out how to appropriately forward the funds withheld.

The investigation revealed that the District has a group life insurance policy with Standard for life insurance for all District employees hired on or after October 1, 1987, who elect coverage. Active District employees elect life insurance in PeopleSoft. The premium amount is deducted from the employee's paycheck and grouped with the premiums deducted from the paychecks of other active District employees, and then transmitted to Standard. When an active District employee with life insurance dies, the beneficiary completes a Proof of Death Claim Form (Claim Form) and submits it to DCHR for processing. The Claim Form contains the District's Group Policy Number, pre-printed, and requires that a DCHR official certify as the Benefit Administrator the amount of the monthly premium paid for the insured and the last month the premium was paid. (A Claim Form is attached as Exhibit A). The Claim Form ultimately is submitted to Standard for payment of the beneficiary's claim.

ORM and DCHR personnel explained to investigators that when a disability compensation recipient who paid life insurance premiums dies, the recipient's beneficiary is provided with the same Claim Form to complete as an active employee. The Claim Form contains the same pre-printed Group Policy Number used for an active employee. The beneficiary submits the

completed form to ORM, which then submits the form to DCHR for further processing. As with an active District employee who dies, a DCHR official certifies as the Benefit Administrator the amount of the monthly premium paid for the insured and the last month the premium was paid. DCHR ultimately submits the form to Standard for payment of the beneficiary's claim.

Standard Insurance Company

The Claim Form is a Standard insurance form accompanied by instructions from Standard. (A copy of the Standard instruction form is attached as Exhibit B). The instruction form states that all required forms must be completed and submitted to Standard for review. The Claim Form requires information about the amount of monthly premium paid for the insured and the last month the premium was paid. Standard personnel told OIG investigators that this information refers to premiums paid to Standard, not to ORM, DCHR, or any other entity. In the case of active District employees, when DCHR certifies the premium information, the agency is certifying that the premiums were paid to Standard. In the case of disability compensation recipients, by submitting the same Claim Form to DCHR for processing, ORM is representing to DCHR that the premiums have been paid to Standard. DCHR certifies the form and submits it to Standard for payment of the beneficiary's claim based on ORM's representations on the Claim Form.

A review of the initial District contract with Standard, effective March 1, 2001, reveals that Amendment No. 3 to Policy Number 641332-A specifically lists disability compensation recipients as eligible members. Similarly, the District contract with Standard that became effective September 1, 2006, (Policy Number 641332-B), also includes disability compensation recipients as eligible members. Although neither contract specifically delineates how the premiums collected for disability compensation recipients were to be remitted to Standard, it is clear from the contracts that the District was responsible for collecting the premiums for active employees, retirees, and disability compensation recipients, and sending them to Standard.

Standard personnel explained that the District's life insurance account is self-administered regarding eligibility, enrollment, and premium administration, consistent with industry standard for policies of this size. Therefore, the District is responsible for administering the premiums for its employees. Consequently, Standard does not receive or obtain a monthly roster and cannot determine whether a particular individual is covered by the District's group life insurance policy. Instead, on a monthly basis, the District provides to Standard, at an aggregate level, the total life volume, the total benefit volume, and the total premiums due. Regarding the Claim Form, Standard personnel explained that District personnel complete the Claim Form when an individual dies and submit it to Standard with the appropriate documents attached. An authorized District representative must certify the date through which the premiums were last paid. Standard relies on the District's certification on the form that the premiums were paid to Standard.

Standard personnel told OIG investigators that Standard was unaware that premiums for disability compensation recipients were not being sent to Standard until the District raised the

issue. According to Standard personnel, because of normal variances that occur when employees enter and leave District government, it is not always obvious if a premium is collected, but not remitted, to Standard.

None of the ORM personnel interviewed were able to provide a valid explanation as to why the life insurance premiums deducted from disability compensation recipients were not remitted to Standard.

ORM Attempts to Transfer Benefits Administration Duties to DCHR

In interviews with OIG investigators, ORM personnel discussed attempts to transfer health and life benefits administration duties to DCHR. They described meetings with DCHR personnel where such discussions took place. DCHR personnel however, told OIG investigators that although they recalled that ORM had raised this issue, they did not recall nearly as many nor as detailed discussions as described by ORM personnel. Although ORM's desire to transfer this function to DCHR does not explain or excuse its failure to remit appropriate life and health insurance premiums to Standard or OPM, it is clear that ORM officials thought DCHR was the more appropriate District agency to handle health and life insurance administration because of its role in administering such benefits for active employees.

The former ORM Director said that as early as 2005, she questioned whether ORM should be responsible for managing benefits for disability compensation recipients because ORM personnel were not benefits experts. The former ORM Director said that at various times between 2005 and 2010, she had discussions with DCHR personnel, including two former Directors, during which she expressed the view that DCHR should manage benefits for disability compensation recipients. She explained that because administration of benefits was a normal part of DCHR's function, it never made sense to have ORM administer benefits for disability compensation recipients. The former ORM Director told OIG investigators that ORM was not trying to "pass the buck," but she simply believed that DCHR was better suited to handle this function.

The former ORM Director said that during the earlier discussions on this issue, the District was implementing PeopleSoft to manage the salaries and benefits for active District employees. The former ORM Director told OIG investigators that she recalls discussions with DCHR personnel during which they requested that ORM wait to transfer management of benefits for disability compensation recipients until PeopleSoft had been implemented fully. The former ORM Director acknowledged, however, that despite these conversations and ORM's hope that responsibility for managing benefits for disability compensation recipients ultimately would be transferred to DCHR, she knew that ORM was responsible for administering these benefits until such a transfer occurred.

The former ORM Director stated that the last time she discussed the potential transfer of responsibility for administering these benefits was just before she left ORM in September 2010. The former ORM Director recalled conversations about transferring this function in 2009 and 2010. She said that DCHR personnel discussed assuming this responsibility but indicated that there were glitches, including potential resource and staffing issues. When asked whether ORM ever considered hiring someone to administer ORM recipients' benefits, the former ORM

Director replied that ORM could not afford to hire a person to perform human resources functions. The former ORM Director also said that it always appeared that the transition would take place at some point.

With respect to the meetings between DCHR and ORM regarding transferring the administration of benefits for disability compensation recipients, the former DCHR Deputy Director told OIG investigators that she recalled the issue arising at a meeting that may have occurred in spring 2008. The former DCHR Deputy Director explained that the subject of the meeting addressed an unrelated issue, but she recalls the former ORM Director raising the concern to DCHR that PeopleSoft did not capture an employee's benefits once that employee began receiving disability compensation. The former DCHR Deputy Director remembered that the former ORM Director said that ORM should not be in the business of collecting the health insurance premiums for disability compensation recipients. At the same meeting, the DCHR Associate Director for Benefits and Retirement Administration (DCHR Associate Director) raised the concern that DCHR did not know which District government employees were receiving disability compensation because there was no designation in PeopleSoft. The former DCHR Deputy Director said that ORM and DCHR officials in attendance at the meeting agreed that DCHR should have responsibility for administering the benefits for disability compensation recipients. A final decision, however, was not made at this meeting. The former DCHR Deputy Director recalled that the DCHR Associate Director was reluctant to take this responsibility from ORM and DCHR's primary concern was how ORM was going to transfer the funds collected to DCHR. The former DCHR Deputy Director also said that the discussion at this meeting focused on benefits generally and not necessarily life insurance.

The DCHR Associate Director, however, told OIG investigators that she did not recall any meetings prior to 2010 at which officials discussed transferring or shifting from ORM to DCHR the responsibility for taking deductions and paying service providers. She added that any prior discussions between DCHR and ORM officials only would have been about DCHR having the ability to capture and review in PeopleSoft the benefits elections for disability compensation recipients. The DCHR Associate Director explained that ORM still would have been responsible for collecting the money withheld for life and health insurance premiums because DCHR would not have access to information regarding benefits for disability compensation recipients. The DCHR Associate Director said she recalled having a conversation in 2009 with the former ORM Workers' Compensation Manager regarding shifting the benefits function from ORM to DCHR, but this issue was secondary to the primary purpose of the meeting.

Settlement Agreement

In late November 2010, the D.C. Office of the Attorney General (OAG) initiated settlement discussions with Standard and OPM to pay the outstanding premiums owed for life and health insurance, respectively. On December 7, 2010, the District reached an agreement to pay Standard \$2,108,146.53, to settle all premiums owed for FYs 2001 through 2010.

On January 5, 2011, ORM notified the OIG that the District paid OPM \$11,190,814.73, in full satisfaction for outstanding premiums for the period July 2005 through September 2010. The amount owed to OPM for the fourth quarter of calendar year 2010 was still being calculated.

On February 15, 2011, OPM notified the District it had overpaid by 75 percent. OPM explained that the District is only responsible for paying 25 percent of the premiums for disability compensation recipients who obtain their health benefits through FEHB, as the federal government pays 75 percent. ORM and OPM are working to resolve the overpayment issue, as well as to determine the amount owed by the District to OPM for the fourth quarter of calendar year 2010.

Going Forward

Standard personnel stated that, for the future, they will validate the District's process for tracking premium payments and deductions. This is intended to ensure that if and when Standard ever requires proof of premium payments and deductions from the District, the District is able to do so.

In terms of the administration of benefits for disability compensation recipients, OIG investigators interviewed the Director of the Office of Pay and Retirement Services (OPRS Director). The OPRS Director said that OPRS has a role regarding life and health insurance for active District employees, but no role regarding disability compensation recipients. As with DCHR, OPRS does not have access to the deductions in PeopleSoft for disability compensation recipients. OPRS is now being asked to take over ORM's payroll. Although OPRS may be willing to assume that responsibility, it has a number of standards and requirements that have to be met first, such as ensuring that taxable and non-taxable funds not be commingled. OPRS currently is working on this matter, but anticipates that any transfer of these functions will not occur before spring 2011.

ANALYSIS AND CONCLUSIONS

The OIG investigation revealed that ORM had procedures in place to ensure that ORM correctly deducted premiums and paid District health insurance vendors for disability compensation recipients with District health insurance. No such procedures, however, were implemented or followed by ORM to pay Standard or OPM the premiums for life and federal health benefits, respectively, for disability compensation recipients. Accordingly, the OIG investigation determined that ORM failed to remit to OPM the District's portion of the health insurance premiums for disability compensation recipients with federal health insurance benefits. Similarly, the OIG investigation revealed that ORM failed to remit to Standard the life insurance premiums collected from disability compensation recipients.

Further, even though the former ORM Director said she thought that DCHR was paying the life insurance premiums for disability compensation recipients, ORM took no action to ensure or verify that this was happening. ORM officials also knew that ORM did not transmit to DCHR any funds to compensate it for these life insurance payments. As a result, ORM misrepresented to both DCHR and Standard that the premiums had been transmitted to Standard when the agency certified on Claim Forms that premiums had been paid.

Similarly, despite the comment from the former ORM Director that she thought OPM was being paid electronically for disability compensation recipients with federal health insurance, other ORM personnel knew that this was not happening. Further, ORM took no steps to ensure or verify that these payments were being made.

Moreover, when DCHR began using PeopleSoft to administer the payment of benefits relating to active District employees, ORM and DCHR personnel knew that the benefits for disability compensation recipients were not being administered through PeopleSoft. In conversations between DCHR and ORM personnel regarding the possibility of transferring from ORM to DCHR the functions relating to the administration of benefits for District disability compensation recipients, the former DCHR Deputy Director and the former ORM Director discussed the need to implement a mechanism for transmitting the collected premiums from ORM to DCHR. Therefore, it is clear that both agencies knew that until the transfer from ORM to DCHR took place, ORM was responsible for collecting *and remitting* the life and health insurance premiums for disability compensation recipients.

ORM, an agency of the District clearly failed to properly administer the remittance of life and federal health insurance premiums collected from disability compensation recipients. Although responsibility for this failure falls largely on ORM, the Office of the City Administrator (OCA), which oversees the day-to-day operations of District government agencies, also must bear responsibility for failing to ensure that premiums collected from disability compensation recipients properly were remitted to the appropriate vendors. Finally, OCA also failed to detect, for years, that the premiums collected had not been remitted.

RECOMMENDATIONS

The OIG recommends the following:

- ◆ OCA should implement appropriate procedures for the administration of benefits for District employees receiving disability compensation by either:
 - Transferring these responsibilities from ORM to another District agency better suited to properly administer such benefits; or
 - Providing ORM with appropriately trained human resources benefits personnel who have the required knowledge and skills to properly administer such benefits.
- ◆ OCA should ensure that the District agency that will be administering benefits for District employees receiving disability compensation from this time forward maintain internal records that document the remittance of collected premiums.
- ◆ Any systems set up for the administration of such benefits should have appropriate checks and balances to ensure that both the collection and remittance of premiums are appropriately handled.

April 12, 2011