

STATE OF WEST VIRGINIA

SPECIAL REPORT

OF

**WEST VIRGINIA PUBLIC EMPLOYEES
INSURANCE AGENCY**

ELIGIBILITY OF PLAN MEMBERS

FOR THE PERIOD

JULY 1, 2002 - JUNE 30, 2004



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

SPECIAL REPORT OF
WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
ELIGIBILITY OF PLAN MEMBERS
FOR THE PERIOD
JULY 1, 2002 - JUNE 30, 2004

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Theodore L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd, E.



Area Code (304)
Phone: 347-4880
Fax: 347-4889

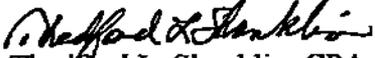
CHARLESTON, WEST VIRGINIA 25305-0610

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the West Virginia Public Employees Insurance Agency relating to the eligibility requirements of plan members.

Our examination covers the period July 1, 2002 through June 30, 2004. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,


Theodore L. Shanklin, CPA, Director
Legislative Post Audit Division

TLS/jda, ela

April 25, 2005

Auditors: Ethelbert Scott, Jr., CPA, Audit Manager
Jean A. Krebs, CPA
Noah E. Cochran, CPA
Neil M. McEachron, Jr., CPA
Trent W. Morton
Michelle Hodge

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

TABLE OF CONTENTS

Exit Conference 1

Administrative Officers and Staff 2

Introduction 4

Summary of Findings, Recommendations and Responses 7

General Remarks 15

Certificate of Director,
Legislative Post Audit Division 50

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

EXIT CONFERENCE

We held an exit conference on May 6, 2005 with the Chief Financial Officer and other representatives of the West Virginia Public Employees Insurance Agency and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 2004

Administration

Tom Susman Director
Twila Ruggieri Executive Assistant
Jean Tucker Administrative Secretary
R. Philip Shimer Deputy Director
Jerry Rouche' Executive Assistant to Director
Bernard Keith Huffman General Counsel
Gloria Long Member Services Administrator
Sandra Joseph, M.D. Medical Director
Felice Joseph, R.Ph. Pharmacy Benefits Administrator
Jason Haught, CPA Chief Financial Officer
Janice E. Long HMO and Communications Manager
Mark Sizer Information Services Manager
Philip Skeens Information Services Technician
Fayette Bowen Human Resources Director
Larry A. Stover Controller
Chip Myers Budget Officer

David Bailey Public Information Specialist
Tom Marchio Policy Specialist
Cynthia Kitchen Micrographics Technician

Benefits and Programs

Marie Terry Customer Service Supervisor
Diane S. Tittle Medical Claims Analyst
Bill Rainey Public Information Specialist
Nidia Henderson Wellness Program Manager / Special Projects
Sherra Barker Life Insurance
Gary Reed Supplemental Benefits Processor

Eligibility

Barbara Beane Eligibility Supervisor

Premium Accounts

Joseph L. Estep III Premium Accounts Supervisor

Finance Board Members

Tom Susman, Director Chairperson
Joseph Badgley Representing Interests of Education Employees
John D. Culler Representing Public-at-Large
John R. Ruddick Representing Public-at-Large with Financial Experience
James Schneider Representing Public Employees
Denise R. White Representing Public-at-Large with Financial Experience
Elaine Harris Representing Organized Labor

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

INTRODUCTION

The Public Employees Insurance Board was created by an Act of the First Extraordinary Session of the 1971 Legislature, by an amendment to Chapter 5 of the West Virginia Code, 1931, as amended, by adding a new article, designated as Article 16, Sections 1 through 16 known as the West Virginia Public Employees Insurance Act.

The Board was established to provide group hospital and surgical insurance, group major medical insurance and group life and accidental death insurance for all public employees. When the insurance program was originally established in 1971, participation was granted by the Legislature only to employees who worked regularly full-time in the service of the State. The 1972 Legislature granted participation privileges in the insurance program to full-time employees of county boards of education and Board of Regents. Again, in 1973, the Legislature granted participation privileges in the insurance program to include the following full-time employees of:

1. A county, city or town;
2. Any separate corporation or instrumentality established by one or more counties, cities or towns, as permitted by law;
3. Any corporation or instrumentality supported in the most part by counties, cities or towns;
4. Any public corporation charged by law with the performance of a governmental function and whose jurisdiction is coextensive with one or more counties, cities or towns;
5. Any agency or organization established by, or approved by, the former Department of Mental Health for the provision of community health or mental retardation services and which is supported in part by State, county or municipal funds; and
6. Any person who works regularly full-time in the service of a combined city-county health department created pursuant to Chapter 16, Article 2 of the West Virginia Code.

An Act of the 1988 Regular Session of the West Virginia Legislature changed the name of the spending unit to the "West Virginia Public Employees Insurance Agency" and made substantive changes to the program. The most dramatic change was one which allowed retiring employees to convert two days of accrued annual and sick leave for one month of paid insurance for single coverage and three days of accrued annual and sick leave for one month of paid insurance for family coverage. In the alternate, the employee may elect to apply the accrued annual and sick leave toward an increase in the employee's retirement benefits on the basis of two days of retirement service credit for each one day of accrued annual and sick leave.

Through the enactment of Chapter 7, of the 1990 Third Extraordinary Session of the West Virginia Legislature, the Public Employees Insurance Agency Finance Board was created. The Board was created to foster fiscal stability in the public employees' insurance program through the development of an annual financial plan to meet the Public Employees Insurance Agency's estimated total financial requirements. The Finance Board is required to submit the annual financial plan each year by January 1, preceding the fiscal year after conducting the required public hearings.

In addition, the 1990 Third Extraordinary Session of the West Virginia Legislature created the Public Employees Insurance Agency Advisory Board consisting of 15 members who were responsible for advising and making recommendations in terms of group hospital and surgical insurance, group major medical insurance and group life and accidental death insurance to the Director of the Public Employees Insurance Agency in reference to the administration and management of the spending unit. However, such recommendations and advice are not binding on the Director. The Public Employees Insurance Agency Advisory Board was terminated effective July 1, 1997 per Chapter 4, Article 10, Section 5(2) of the West Virginia Code, as amended.

Since the early 1990's, Public Employees Insurance Agency participants have been allowed to contract with Health Maintenance Organizations, (managed care plans) originally only two were licensed in West Virginia and operated in the northern panhandle region of the State. Public Employee Insurance Agency participants in that area were allowed to enroll in either of those organizations. In early 1995, the Public Employees Insurance Agency expanded significantly its use of managed health care services. Currently, there are four Health Maintenance Organizations serving the Public Employees Insurance Agency participants. There are currently approximately 20,000 participants enrolled in Health Maintenance Organizations.

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our special report, it became apparent to us, based on the observed noncompliance with the West Virginia Code, and other rules and regulations the West Virginia Public Employees Insurance Agency (PEIA) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code as amended.

Agency's Response

Agency did not respond. (See pages 15-17.)

Non-participating Employers Not Bill for Premiums

2. The PEIA discovered they had not invoiced certain Non-State, Non-Participating employers for the "employer-portion" of premiums due for 264 retirees. We estimate other PEIA plan participants were required to subsidize these 264 retirees a total of approximately \$8,918,000.00 due to the failure to bill these retirees' responsible former employers for the applicable employer-portion of the insurance premiums.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 22 and Chapter 14, Article 1, Section 18a of the West Virginia Code.

Agency's Response

PEIA acknowledges this issue but disagrees with the total impact reported. PEIA will comply with the report and re-examine the decision of the former Director to not pursue collection of the previously unbilled and unpaid employer premiums. (See pages 17-22.)

Premiums Receivable

3. We noted employers were generally paying only the current portion of the invoice amount billed and were not paying past due amounts, we believe the collection of the premiums receivable are very doubtful. Also, the aging method of the receivables makes collection of old balances very difficult, since the aging method can not produce a true aging of the accounts.

Auditor's Recommendation

We recommend the PEIA comply with Section III of the West Virginia Public Employees Insurance Agency Plan Document. We also recommend the PEIA ensure the new benefits computer system produces aging reports that permit the PEIA to effectively manage outstanding receivables balances.

Agency's Response

PEIA is confident that nearly all premiums are in fact collectible and will be collected. PEIA now utilizes a collection agency via statewide contract and will not hesitate to utilize this service when necessary. (See pages 22-25.)

Ineligible Retirees and Improper Billings Based on Inaccurate Service Years

4. Our review of PEIA eligibility records revealed two retirees had less than five years of service which based on State law would make them ineligible for insurance coverage.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 2(8), Chapter 5, Article 10, Section 20 and Chapter 18, Article 7A, Section 25 of the West Virginia Code, as amended. We also recommend the PEIA strengthen internal controls to ensure only eligible retirees receive coverage and years of service are correctly entered into the Employee Insurance Administration System (EIAS).

Agency's Response

PEIA agrees with this issue and will comply with the recommendation. (See pages 25-28.)

Applicants Not Required to Certify Enrollment Forms

5. Individuals who are applying for health insurance coverage with the PEIA are not required to certify the information being provided by them on the enrollment forms.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Sections 3(c) of the West Virginia Code, as amended.

Agency's Response

As of November 2004, applicable PEIA forms were revised to include certification language. (See pages 28-30.)

Retirees' Enrollment Forms Not Signed or Notarized

6. We noted the retiree enrollment form used by the PEIA does not require a notarized agency's chief administrative officer or designee's signature in noncompliance with Legislative Rule Title 151, Series 1, Section 12.3.

Auditor's Recommendation

We recommend the PEIA comply with Legislative Rule Title 151, Series 1, Section 12.3.

Agency's Response

PEIA concurs with this issue. (See pages 30 and 31.)

No Verification of Retiree's Years of Service

7. We noted there was no CPRB stamp or signature on 36% of the retirement enrollment forms tested to indicate the Consolidated Public Retirement Board verified the years of service on the form.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code and follow its' internal control policies in regard to obtaining CPRB's verification of retiree's years of service by requiring verification in all instances.

Agency's Response

PEIA concurs with this issue. (See pages 31 and 32.)

Incorrect Monthly Premiums

8. We noted two of 50 policyholders selected for testing were billed incorrect premiums totaling \$1,432.00.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, and Chapter 5, Article 16, Section 5 of the West Virginia Code, as amended.

Agency's Response

PEIA concurs with this issue. (See pages 32-34.)

Reconciliations Not Performed Timely

9. The PEIA does not reconcile differences between premiums remitted to them by participating agencies and PEIA's invoices generated from EIAS at the time of receipt of the premiums by requiring the participating employers to return the adjusted invoice with their payment.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, and we also recommend the PEIA reconcile premiums with invoices at the time of receipt.

Agency's Response

PEIA agrees with the intentions of this issue but must maintain current policy. PEIA also requires agencies to submit properly executed eligibility documentation to effect the necessary change. (See pages 34-36.)

Erroneous Credits

10. A report dated November 4, 1998 was generated by SDC showing the total of erroneous credits had increased from \$2,854,507.92 as of September 21, 1998 to \$3,394,520.94 as of

the end of October 31, 1998. The PEIA was never able to correct \$155,639.93 of the erroneous credits.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended.

Agency's Response

PEIA is aware of the discrepant issues and will attempt to comply with the recommendation through account reconciliations currently underway. (See pages 36-38.)

Revenue Refunds Issued Incorrectly

11. We noted several instances where PEIA incorrectly issued revenue refunds to agencies or policyholders totaling \$2,210.91.

Auditor's Recommendation

We recommend the PEIA comply with Legislative Rule, Title 151-1-9 and accurately calculate revenue refunds.

Agency's Response

PEIA concurs with this issue and will comply with the recommendation. (See pages 38 and 39.)

Incorrect Retroactive Credits

12. We noted five of the 20 retroactive credits we tested were found to have been incorrectly calculated resulting in the accounts receivable records being understated by \$1,185.68 during our audit period.

Auditor's Recommendation

We recommend the PEIA comply with the West Virginia Employees Insurance Agency Plan Document and with Title 151, Series 1 of the Legislative Rules, Public Employees Insurance Act.

Agency's Response

PEIA concurs with the issue and will attempt to comply with recommendation with more scrutiny applied to the data entry. (See pages 40-42.)

Misclassified Premiums

13. We noted the PEIA did not classify premium receipts by the proper revenue source code during our audit period.

Auditor's Recommendation

We recommend the PEIA use the appropriate revenue source codes for classifying insurance receipts as provided for in the Expenditure Schedule Instructions issued annually by the West Virginia Department of Administration.

Agency's Response

PEIA concurs with this issue and will comply with the recommendation. (See pages 42-44.)

Premiums Deposited into Wrong Accounts

14. We noted the PEIA deposited \$6,037.94 into incorrect accounts during fiscal year 2004.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 18(f) of the West Virginia Code, as amended, as well as, the Premium Accounts Billing and Receipts Procedures to ensure deposits are made to the correct accounts.

Agency's Response

PEIA concurs with this issue and will comply with the recommendation. (See pages 44-46.)

Manual Debit/Credits Erroneously Issued

15. We noted several instances where PEIA staff either incorrectly issued manual debits/credits to policyholder accounts or proper supervisory approval for the manual debits/credits was not obtained.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, and the provisions of the West Virginia Public Employees Insurance Agency Plan Document.

Agency's Response

PEIA concurs and will increase scrutiny of the manual adjustment process. (See pages 46-49.)

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

ELIGIBILITY OF PLAN MEMBERS

GENERAL REMARKS

INTRODUCTION

We have completed an examination of the accounts of the West Virginia Public Employees Insurance Agency relating to the eligibility requirements of plan members. The examination covers the period July 1, 2002 through June 30, 2004.

COMPLIANCE MATTERS

Chapter 5, Article 16 of the West Virginia Code, as amended, generally governs the West Virginia Public Employees Insurance Agency. We tested applicable sections of the above plus other applicable chapters, articles and sections of the West Virginia Code as they pertain to the findings listed below.

Lack of Effective System of Internal Controls

During the course of our special report, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the Public Employees Insurance Agency did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, states in part:

“The head of each agency shall: . . . (b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . . .”

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our audit of the Public Employees Insurance Agency we found the following noncompliance with State laws or other rules and regulations: (1) the PEIA discovered they had not invoiced certain Non-State , Non-Participating employers for the “employer-portion” of premiums due for 264 retirees. (2) The PEIA may have approximately \$15,000,000.00 of uncollectible premiums recorded in the accounting records. (3) Our review of PEIA eligibility records revealed some retirees had less than five years of service which based on State law would make them ineligible for insurance coverage. (4) Individuals who are applying for health insurance coverage with the PEIA are not required to certify the information being provided by them on the enrollment forms. (5) The retiree enrollment form used by the PEIA does not require a notarized agency’s chief administrative officer or designee’s signature in noncompliance with Legislative Rule Title 151, Series 1, Section 12.3. (6) We noted there was no CPRB stamp or signature on 36% of the retirement enrollment forms tested to indicate the Consolidated Public Retirement Board verified the years of service noted on the form. (7) We noted two of 50 policyholders selected for testing were billed incorrect premiums totaling \$1,432.00. (8) The PEIA does not reconcile differences between premiums remitted to them by participating agencies and PEIA’s invoice generated from EIAS at the time of receipt of the premiums by requiring the participating employers to return the adjusted invoice with their payment. (9) A report dated November 4, 1998 was generated by SDC showing the total of erroneous credits had increased from \$2,854,507.92 as of September 21, 1998 to \$3,394,520.94 as of the end of October 31, 1998. (10) We noted several instances where PEIA

incorrectly issued revenue refunds to agencies or policyholders totaling \$2,210.91. (11) Five of the 20 retroactive credits we tested were found to have been incorrectly calculated resulting in the accounts receivable records being understated by \$1,185.68 during our audit period. (12) The PEIA did not classify premium receipts by the proper revenue source code during our audit period. (13) We determined \$6,037.94 was deposited to incorrect accounts during fiscal year 2004. (14) We noted several instances where PEIA staff either incorrectly issued manual debits/credits to policyholder accounts or proper supervisory approval for the manual debits/credits was not obtained.

We believe if the PEIA would have had an effective system of internal controls in place, management would have been aware of the above noncompliance areas of State laws, rules, and regulations at an earlier date and would have been able to take corrective action in a more timely fashion. We recommend the PEIA comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish an effective system of internal controls.

Non-Participating Employers Not Billed for Premiums

During May 2003, the PEIA discovered that they had not invoiced certain Non-State, Non-Participating employers for the "employer-portion" of premiums due for 264 retirees. Based on our projections of claims data, uncharged employer-portions of insurance premiums and the amounts of premiums which were actually remitted to PEIA, we estimate other PEIA plan participants were required to subsidize these 264 retirees a total of approximately \$8,918,000.00 due to the failure to bill these retirees' responsible former employers for the applicable employer-portion of the insurance premiums.

In order to determine the complete and full financial effect on the PEIA program, we decided to quantify the unbilled insurance premiums plus the amount of claims paid on behalf of

these retirees and we asked PEIA staff to supply us with an itemized list showing the names of the 264 identified retirees; however, they were unable to provide us a complete list at the time of our inquiry. But, PEIA was able to eventually provide us with sufficient information to allow us to identify 159 of the 264 retirees.

We then asked the PEIA to ascertain the total amount of medical and prescription claims paid on behalf of these 159 identified retirees between the latter of July 1, 1996 or the effective date of the retirement of the respective retirees through the end of the month prior to the commencement of PEIA's billing to their former employer. We also asked the PEIA to ascertain the total amount of the "retiree-portion" of insurance premiums which each of these 159 retirees paid in the same time frame. Information supplied by PEIA shows these 159 retirees paid a total of \$429,089.68 in retiree insurance premiums during this period while PEIA paid medical claims totaling \$1,101,525.46 and prescription claims totaling \$693,585.35 on their behalf. In regard to the unbilled portions of employer-premiums noted above, the PEIA has decided not to initiate collection efforts because the error was made by the PEIA. In a June 3, 2003 memorandum, the PEIA Controller estimated this error resulted in approximately \$950,000 per year of premiums not invoiced. However, the PEIA could not provide the supporting documentation for this yearly amount nor a grand total of all unbilled premiums which became collectible when the 1996 law came into effect. Based on PEIA's single-year estimate of \$950,000 in the June 3, 2003 memorandum, we project the unbilled premiums could total as much as \$6,650,000 (7 years x \$950,000).

When the total amount of retiree premiums, as well as, health and insurance claims for the identified 159 retirees is projected over a population of 264 retirees, the amount of medical claims becomes \$1,828,947.93 and the amount of prescription claims becomes \$1,151,613.41 or a

total of \$2,980,561.34 for all claims. Meanwhile, the amount of unbilled, unpaid employer premiums remains \$6,650,000.00. Therefore, the total amount of subsidization required for these 264 retirees would consist of the \$2,980,561.34 in projected insurance claims, plus the \$6,650,000.00 in foregone employer premiums; however, this amount must be reduced by the retiree-share of premiums which is projected to total \$712,450.34. As a result, the total amount of subsidization provided to these 264 retirees was estimated at \$8,918,111.00.

Chapter 5, Article 16, Section 22 of the West Virginia Code, as amended, states in part:

“. . . Any employer, whether the employer participates in the public employees insurance agency insurance program as a group or not, which has retired employees, their dependents or surviving dependents of deceased retired employees who participate in the public employees insurance agency insurance program as authorized by this article, shall pay to the agency the same contribution toward the cost of coverage for its retired employees, their dependents or surviving dependents of deceased retired employees as the state of West Virginia, its boards, agencies, commissions, departments, institutions, spending units or a county board of education pay for their retired employees, their dependents and surviving dependents of deceased retired employees, as determined by the finance board: Provided, That after the thirtieth day of June, one thousand nine hundred ninety-six, an employer is only required to pay a contribution toward the cost of coverage for its retired employees, their dependents or the surviving dependents of deceased retired employees who elect coverage when the retired employee participated in the plan as an active employee of the employer for at least five years. . . .”

We asked for a list detailing the non-participating agencies who had not previously been billed premiums. In response, the PEIA provided us copies of memorandums addressed to “Agency Head Non-Participating Agencies” with attached participant information. Secondly, we were also provided the earlier mentioned June 3, 2003 memorandum from PEIA’s Controller which explained the results of PEIA’s review as follows,

“ . . . The file from IS&C was loaded into my database and I ran a query to compare the local agencies retirees per CPRB, who were having PEIA health insurance withheld from their retirement annuity to the EIAS Non-Par Billing for the month of April 2003. The results of this query were about 1,600 policyholders, retirees from local governments who were not being billed to any non-par entity. No logic was available in my database to determine which of the 1,607 belonged to PEIA active agencies and which belonged to Non-participating agencies. I printed the 40-page query results and gave the report to Joe Estep. Joe has interrupted his normally busy schedule and spent the better part of the last two weeks investigating the 1,600 policyholders listed on the query result. His preliminary findings are as follows:

A) Two hundred sixty-four (264) policies on the list that should have been billed to various non-par agencies were not. The annual premium associated with failure to bill these non-par agencies (based on EIAS average premium) is approximately \$950,000 per year.

B) Of the 264, we will not be able to bill the 21 policies, which will be removed from the non-par status when the City of Parkersburg rejoins PEIA for its active employees.

C) Twenty-two (22) new non-par agency accounts need to be set up by eligibility to accommodate retirees from agencies that do not use PEIA as coverage for their active employees.

D) Six (6) old non-par agencies need to be reactivated I order for us to bill them for their retirees. Someone in eligibility had closed this accounts.

It is the responsibility of eligibility and to maintain the correct eligibility data in the EIAS system in order for the system to properly complete the premium billing”

PEIA’s Chief Financial Officer told us that the PEIA’s former Director decided that because the PEIA had made the error and failed to timely bill the employers that no collection efforts would be implemented with respect to the unbilled premiums due from the identified employers in the prior years. He also told us that no written explanation outlining the former PEIA Director’s

rationale in not pursuing collection of the unbilled, unpaid employer premiums exists. We were not provided any evidence the Attorney General's Office concurred with this decision. We believe the PEIA should re-examine its decision to not pursue collection of the previously unbilled and unpaid employer premiums and make use of the collection resources provided in Chapter 14, Article 1, Section 18a of the West Virginia Code, if necessary, in an attempt to collect these monies due the State from the Non-State, Non-Participating employers. Specifically, Chapter 14, Article 1, Section 18a of the West Virginia Code states,

“Any account, claim or debt that an agency of this State is not able to collect within three months after trying with due diligence to do so may be referred to the commissioner of finance and administration for consignment by the commissioner to a responsible licensed and bonded debt collection agency or similar other responsible agent for collection. The commissioner shall not handle or consign any such account, claim or debt unless he is satisfied that the referring agency has made a diligent effort to collect the debt on its own; that the account or claim is justly, properly and clearly due the State; and that the collection of such debt would not impose an undue, unjust, unfair or unreasonable hardship or burden upon the health or general welfare of the party owing the debt. In any such case of undue, unjust, unfair or unreasonable hardship or burden, the commissioner may, in his discretion, and with the review and approval of the attorney general, compromise, settle or dismiss the debt or claim....” (Emphasis added)

We further noted the PEIA did not begin to invoice all of these employers for the “current” premiums at the same time once the error was detected by the PEIA. Instead, the PEIA began notifying individual employers that premiums would be billed, and subsequently invoicing them for the current amounts due, at various times throughout fiscal year 2004. We have been unable to determine why all of the non-participating employers did not begin to be invoiced at the time the error was identified by the PEIA in May 2003.

We recommend the PEIA comply with Chapter 5, Article 16, Section 22 and Chapter 14, Article 1, Section 18a of the West Virginia Code.

Agency's Response

PEIA acknowledges this issue but disagrees with the total impact reported. It is PEIA's interpretation of §5-16-22 that the retiree may not be terminated if they are eligible and paying their share of the premium. For that reason, the medical and prescription drug claims incurred on the retirees' behalf would have happened regardless. Therefore, the actual loss is the \$6,650,000 in uncollected premiums. While we do not wish to minimize this issue, it is PEIA's contention the impact is smaller than the report concludes.

To prevent reoccurrence, PEIA has instructed eligibility personnel that no retiree enrollment may occur without a last known employer included on the enrollment form if the system does not already entail such information. To confirm effectiveness of control, PEIA prepares a monthly report of all survivors and retirees that do not have an affiliation with a previous employer.

PEIA will comply with the report and re-examine the decision of the former Director to not pursue collection of the previously unbilled and unpaid employer premiums.

Premiums Receivable

The PEIA's premiums receivable balance on July 1, 2002 was \$15,610,201.12. For the period July 1, 2002 through June 30, 2004 the PEIA billed employers \$1,106,041,651.15 in premiums and received \$1,106,059,247.48 in premium payments. As a result, on June 30, 2004 the premiums receivable balance was \$15,592,604.79, which means during our audit period the total premiums receivable balance decreased by only \$17,596.33. Because we noted employers were

generally paying only the current portion of the invoice amount billed and were not paying past due amounts, we believe the collection of the premiums receivable are very doubtful.

Under the PEIA's billing process, employers receive an invoice for the current month, along with past due amounts. The billing statement is returned with the payment, and as shown above employers are paying the current amounts. Once a payment is received the EIAS computer system credits the payment to the oldest amount in the system. This causes the receivable balance to appear as current when in fact the payment is for the current portion owed.

Section III of the West Virginia Public Employees Insurance Agency Plan Document states in part:

“ . . . All premium payments shall be made payable to the Public Employees Insurance Agency and shall be sent to the PEIA's Premium Accounts Section. The full premium payment for policyholders is due by the 25th day of the month for which coverage is in effect (i.e. for coverage for February, payment must be made by February 25th). . . .”

Section III also states:

“ . . . **Failure to Pay Premiums.** Failure of an employer or policyholder to pay the monthly premium by the 25th of the month may result in cancellation of the policyholder's participation in the Plan retroactive to the last day of the month for which the premium was received. . . .” (Underline added)

In accordance with Section III of the PEIA Plan Document, the failure of an employer or employee to submit payment by the 25th of the month could have resulted in the cancellation of policyholders participation in the Plan. However, the PEIA did not cancel the insurance coverage for any policyholders. Therefore, all accounts not paid by policyholders are being subsidized by policyholders, who have kept their payments current through higher premium costs. Also, the aging

method of the receivables makes trying to collect old account balances very difficult, since the aging method can not produce a true aging of the accounts.

We recommend the PEIA comply with Section III of the West Virginia Public Employees Insurance Agency Plan Document. We also recommend the PEIA ensure the new benefits computer system produces aging reports that permit the PEIA to effectively manage outstanding receivables balances.

Agency's Response

Due to the ever-increasing employee premiums from the 80/20 law and inflation of costs, many agencies have chosen unilaterally over the years to begin remitting payments twice a month concurrent with their payroll and employees withholding. By considering only the Posting report that cuts off at months end, a sizeable amount of premium remittances that generally get posted shortly after the month's end payroll may not be taken into consideration.

These agencies include, but are not limited to WVU, Fairmont State, Dept. of Transportation and the Dept. of Health and Human Resources. For example, the April 29, 2005 payroll remittance was \$4.4 million. Additionally, another large account for which PEIA receives payment after the end of the month is the retiree withholdings from the Consolidated Public Retirement Board which runs approximately \$3 million per month.

Also, there are instances where agencies fall behind on their payments. There were a few accounts during the audit period that were 2 and 3 months in arrears. A review of the premium accounts that make up approximately \$15.5 million of the total premium receivable of 15.6 million at June 30, 2004 was completed.

The end of month agency balance due for the month of June 2004, February 2005 and March 2005 were compared and the lowest end of month was chosen. The lowest balance

during this period represented two or more times the June 2004 premiums for 5 of the 775 agency accounts. These five accounts had a collectible balance of approximately \$231,000 of the total end of June 2004 balance of \$15.6 million. Repayment plans have been agreed to by three of these agencies, one account has been turned over to the Attorney General for collection and PEIA is pursuing collection efforts on the final account. Of the 770 remaining agency accounts, 571 had a zero or negative balance at the end of one or more of the three months referred to above.

PEIA also now utilizes collection letters for overdue balances. These have reduced from over 1,000 per month to less than 150 through better management of past due accounts with the new collection system. Terminations are now done automatically for direct pay accounts. Any account that is 60 days late is now terminated automatically. This replaces the manual procedure and reduces errors. Further, many direct pay retirees now have their premium remitted through direct draft from their checking account. This has reduced payment delinquency.

PEIA is confident that nearly all premiums are in fact collectible and will be collected. PEIA now utilizes a collection agency via statewide contract and will not hesitate to utilize this service when necessary.

Ineligible Retirees and Improper Billings
Based on Inaccurate Service Years

Our initial review revealed PEIA's eligibility records reflected some retirees had less than five years of service which based on State law would make them ineligible for insurance coverage. In order to determine whether ineligible retirees were being provided health insurance coverage, we asked the PEIA to provide us with a report from the Employee Insurance Administration System (EIAS) that would extract all retirees with less than five years of service and

we were subsequently provided a listing of 25 accounts. With respect to these accounts, we noted two retirees who were not eligible under State law for coverage but were in fact receiving insurance coverage; 18 retirees who had inaccurate years of service reflected in the EIAS which resulted in PEIA billing for and receiving overpayments of premiums from one retiree and two employers totaling approximately \$50,000; four accounts where the beneficiary of coverage was a surviving dependent therefore "years of service" are not applicable; and, one retiree who in fact elected not to receive coverage from PEIA.

Chapter 5, Article 16, Section 2(8) of the West Virginia Code, states in part,

"The following words and phrases as used in this article, unless a different meaning is clearly indicated by the context, have the following meanings: . . . "Retired employee" means an employee of the state who retired after the twenty-ninth day of April, one thousand nine hundred seventy-one, and an employee of the university of West Virginia board of trustees or the board of directors of the state college system or a county board of education who retires on or after the twenty-first day of April, one thousand nine hundred seventy-two, and all additional eligible employees who retire on or after the effective date of this article, meet the minimum eligibility requirements for their respective state retirement system and whose last employer immediately prior to retirement under the state retirement system is a participating employer: Provided, That for the purposes of this article, the employees who are not covered by a state retirement system shall, in the case of education employees, meet the minimum eligibility requirements of the state teachers retirement system and in all other cases, meet the minimum eligibility requirements of the public employees retirement system. . . ."

Chapter 5, Article 10, Section 20 of the West Virginia Code, as amended, states in part:

". . . on and after the first day of June, one thousand nine hundred eighty-six, any person who becomes a new member of this retirement system shall, in qualifying for retirement hereunder, have five or more years of service, all of which years shall be actual, contributory ones...."

Chapter 18, Article 7A, Section 25 of the West Virginia Code, as amended, states

in part:

“Any member who has attained the age of sixty years or who has had thirty-five years of total service as a teacher in West Virginia, regardless of age, shall be eligible for an annuity. No new entrant nor present member shall be eligible for an annuity, however, if either has less than five years of service to his or her credit. . . .”

We asked PEIA to research the 25 individuals on the report and PEIA identified two retirees who were not eligible to receive any coverage because they did not meet the eligibility requirements of five years of service. One employee retired effective February 1, 2003 and paid \$6,362.73 in premiums through June 30, 2004. The second retiree received coverage during our entire audit period and paid \$10,701.52 in premiums. We asked PEIA for detailed claims payment data made on behalf of these two individuals; however, PEIA never provided us with this information. Therefore, we are unable to determine the amount of claims paid for these two retirees during the periods of coverage noted above.

The PEIA also noted 18 accounts had inaccurate or no years of service entered into EIAS. Although premiums are based on years of service; the PEIA told us and we verified that the service year errors affected premium billings for only three of the 18 accounts. Of these three individuals, two retirees' premiums were over paid by their respective employers who were submitting premiums to the PEIA because of retiree's annual and sick leave conversion. The amounts of the overpayments are as follows:

<u>Retiree/Employer</u>	<u>Period</u>	<u>Amount Overpaid</u>
Retiree #1	09/01 - 07/04	\$14,127.02
State Tax Department (Retiree #2)	01/03 - 07/04	8,323.00
Cabell County Board of Education (Retiree #3)	07/99 - 07/04	<u>28,704.56</u>
Total		<u>\$51,154.58</u>

To resolve the items noted above, the PEIA told us that years of service errors were corrected for these three accounts, a refund was issued to the retiree, and the two employer accounts received credits for the overpayments. However, as of March 23, 2004, the two ineligible retirees' coverage had not yet been terminated.

We recommend the PEIA comply with Chapter 5, Article 16, Section 2(8), Chapter 5, Article 10, Section 20 and Chapter 18, Article 7A, Section 25 of the West Virginia Code, as amended. We also recommend PEIA strengthen internal controls to ensure only eligible retirees receive coverage and years of service are correctly entered into ELAS.

Agency's Response

PEIA agrees with this issue and will comply with the recommendation. PEIA now produces a monthly report of 0-5 years of service retirees to verify or correct all information pertaining to the respective retirees.

Applicants Not Required to Certify Enrollment Forms

We noted that individuals who are applying for health insurance coverage with the PEIA are not required to certify the information being provided by them is both complete and accurate. In an effort to prevent false information from being provided to the PEIA, we believe

applicants should be required to certify the accuracy of information provided by them on enrollment forms. Information from enrollment forms determine the benefits the applicant will receive; therefore, these forms are the source documents for coverage. Although the applicant must sign the form indicating benefits have been explained to them, along with a formal acceptance of coverage and an authorization for release of medical information to process claims – the applicant does not certify the information provided by them is both true and correct. Also, the enrollment forms do not explain the illegality and consequences of providing false information in an attempt to secure health insurance benefits to applicants who are not entitled to such coverage.

The Director of PEIA is responsible for eligibility determinations as follows in Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, which states in part:

“...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director’s ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subrogation, or any other actions which would serve to implement the plan or plans designed by the finance board. . . .”

We believe the forms should be revised to help ensure accurate information is received from the applicant. A certification and explanation of consequences for providing false information may deter applicants from attempting to obtain coverage when they are not in fact eligible for such coverage.

We recommend the PEIA comply with Chapter 5, Article 16, Sections 3(c) of the West Virginia Code, as amended.

Agency's Response

As of November 2004, applicable PEIA forms were revised to include certification language.

Retirees' Enrollment Forms Not Signed or Notarized

The retiree enrollment form used by PEIA does not require a notarized agency's chief administrative officer or designee's signature in noncompliance with Legislative Rule Title 151, Series 1, Section 12.3 which states in part,

"12.3a. For each employee retiring pursuant to this section, the employee's agency shall provide the following information on the employee's enrollment cards:

12.3a.1. The number of accumulated unpaid sick and/or annual leave days to be credited to earned extended insurance coverage; . . .

12.3b. The said employee's enrollment card shall be signed by the following persons:

12.3b1. The employee's payroll clerk;

12.3b2. The employee; and

12.3b3. **The agency's chief administrative officer or designee. This signature shall be notarized.** (Emphasis added)

We believe notarized signatures by agencies' chief administrative officers helps ensure the amount of leave time used to earn extended insurance coverage and other information has been correctly reported by the agency.

We recommend the PEIA comply with Legislative Rule Title 151, Series 1, Section 12.3.

Agency's Response

PEIA concurs with this issue and will evaluate the current rules and processes to achieve compliance.

No Verification of Retirees' Years of Service

The PEIA calculates retirees' insurance premiums and determines retirees' eligibility based on the retiree's years of service as verified by the Consolidated Public Retirement Board (CPRB). The CPRB stamps or signs retiree enrollment forms to indicate the Board's verification of years of service noted on the form. We noted no CPRB stamp or signature on 18 of the 50 forms (36%) selected for testing. Therefore, the PEIA is not complying with its own internal control policy to have years of service verified by the CPRB.

The Director of PEIA is responsible for eligibility determinations through enactment of Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, which states in part:

“...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director's ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subrogation, or any other actions which would serve to implement the plan or plans designed by the finance board. . . .”

Because a retiree's insurance premium is dependent upon years of services and retirees are required to have five years of service under State law to be eligible for insurance coverage, any lack of verifications of years of service could result in incorrect insurance premium

amounts being assessed and/or ineligible retirees receiving PEIA coverage. We believe the PEIA should strengthen internal controls by monitoring its staff's compliance with its own policy designed to govern the verification process

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code and follow its internal control policies in regard to obtaining CPRB's verification of retiree's years of service by requiring verification in all instances.

Agency's Response

PEIA concurs with this issue and will comply with the recommendation. No retiree enrollments are permitted without said verification.

Incorrect Monthly Premiums

During our test of premiums, we noted two of 50 policyholders selected for testing were billed incorrect premiums totaling \$1,432.00. Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, states in part:

“...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director's ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subrogation, or any other actions which would serve to implement the plan or plans designed by the finance board. . . .”

Also, Chapter 5, Article 16, Section 5 of the West Virginia Code, as amended, states in part:

“(c) All financial plans required by this section shall establish:

- (1) Maximum levels of reimbursement which the public employees insurance agency makes to categories of health care providers;
- (2) Any necessary cost containment measures for implementation by the director;
- (3) The levels of premium costs to participating employers; and
- (4) The types and levels of cost to participating employees and retired employees. . . .” (Emphasis added)**

Our test revealed that data entry errors into EIAS resulted in incorrect premiums being charged for two policyholders - a retiree and an active employee. The retiree’s employer was overcharged \$1,392.00 during fiscal year 2003 because her premium was based on a non-medicare dependent category instead of the correct medicare dependent category. The employer paid the premiums because the retiree was using annual and sick leave conversion to extend her coverage. The active employee was overcharged a total of \$40 for May and June 2003. The monthly premium for this employee was calculated based on a tobacco-user premium category, however, the policyholder had signed the tobacco-free affidavit. The difference between the two premium categories was \$20. The PEIA corrected both premiums beginning July 1, 2003. The details regarding these overcharges are shown below:

<u>Policyholder</u>	<u>Audited Monthly Premium</u>	<u>PEIA Monthly Premium</u>	<u>Monthly Over/(Under) Difference</u>	<u>Number of Months Billed</u>	<u>Total Difference</u>
Retiree	\$220.00	\$336.00	\$116.00	12	\$1,392.00
Active Employee	94.00	114.00	<u>20.00</u>	2	<u>40.00</u>
			<u>\$136.00</u>		<u>\$1,432.00</u>

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, and Chapter 5, Article 16, Section 5 of the West Virginia Code, as amended.

Agency's Response

PEIA concurs with this issue and will attempt to fully comply with the recommendation. Although user error risk will never be eliminated with such complex eligibility rules and laws, PEIA does hope to implement system edits in the new system that will disallow many data entry errors.

Reconciliations Not Performed Timely

Currently, the PEIA does not reconcile differences between premiums remitted to them by participating agencies and PEIA's invoice generated from EIAS at the time of receipt of the premiums by requiring the participating employers to return the adjusted invoice with their payment.

In the Benefits Coordinator Training Manual, the PEIA instructs non-state agencies and county boards of education to review the invoice, mark-off employees no longer participating; add new employees or any changes in coverages for current employees directly on the invoice and submit the recalculated amount due to the PEIA. However, the PEIA does not require the agencies to submit the adjusted invoice with their payment. Secondly, state agencies, colleges and universities were instructed to reconcile a discrepancy report. However, the reconciliation is not forwarded to the PEIA. The Director of PEIA is responsible for PEIA's administration and we believe the Director should implement an internal control system that ensures accurate accounting for premiums from participants as required by Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, which states in part:

“...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director’s ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subrogation, or any other actions which would serve to implement the plan or plans designed by the finance board. . . .”

We believe the PEIA should reconcile differences between premiums remitted to them by participating agencies and PEIA’s invoice generated from EIAS at the time of receipt of the premiums by requiring the participating employers to return the adjusted invoice with their payment. We believe timely reconciliations of amounts remitted by the employers to the EIAS system using the invoice as adjusted by employers would reduce the possibility of errors and produce a less cumbersome adjustment process currently in place at the PEIA.

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code as amended, and also recommend the PEIA reconcile premiums with invoices at the time of receipt by requiring employers to return adjusted invoices with payments.

Agency’s Response

PEIA agrees with the intentions of this issue but must maintain current policy. PEIA does instruct agencies on how to determine correct remittance using the invoice by making adjustments due to transactions such as terminations, policyholder type changes, etc., affecting the total remittance due.

However, PEIA also requires agencies to submit properly executed eligibility documentation to effect the necessary change. Until such documents are received from the entity instructing PEIA on the proper handling of the eligibility transaction, PEIA does not implement change to the eligibility records. PEIA is of the opinion that current eligibility records are correct until documentation is received from the entity.

The discrepancy report is used as a tool to advise employers what the differences are between our billing and their withholding. PEIA has no access to the various agency payroll records and therefore cannot know what coverage should be in force. The agencies are instructed to submit the necessary properly executed documentation to correct said discrepancy.

PEIA now submits additional information with the invoices each month to assist the benefit coordinators in their process. This information entails any changes to policyholders' tobacco status and any changes in premiums from one billing to the next. Premium withholdings are now more accurate due to this. This has helped to greatly reduce the size of the discrepancy report.

It is PEIA's opinion that all information retained on PEIA's database is correct until the agency responsible for the employee's eligibility and premium remittance properly report the change to PEIA. This is the control mechanism that PEIA has implemented over the past 3 plan years. With the implementation of the 60 day retroactive limit, it has been quite effective.

Erroneous Credits

As noted in our previous special report of PEIA, the EIAS erroneously generated retroactive credits in the accounts receivable balances totaling \$2,854,507.92. This amount was obtained from a September 21, 1998 customized report prepared for PEIA by Standard Data

Corporation (SDC), the author of EIAS. According to the Supervisor of the Premium Accounts Section (Accounts Receivable), it was not until November 1, 1998 that SDC successfully debugged EIAS to prevent it from generating additional erroneous credits. A report dated November 4, 1998 was generated by SDC showing the total of erroneous credits had increased from \$2,854,507.92 as of September 21, 1998 to \$3,394,520.94 as of the end of October 31, 1998.

The Accounts Receivable Supervisor stated that SDC also wrote a program that was intended to reverse all of the erroneous credits that were included on the November 4, 1998 report. After implementation of the program, SDC provided PEIA with a report dated November 12, 1998 that detailed which accounts were supposed to have been automatically corrected by the program. However, this report indicated that only \$3,238,880.31 of the \$3,394,520.94 of erroneous credits were actually corrected. As a result, PEIA was left with the task of reconciling the difference of \$155,639.93 which was apparently not corrected by the SDC program. The Accounts Receivable Supervisor explained that because of the many programming glitches that have been identified in EIAS since its inception, PEIA management was not totally confident in the \$3,394,520.94 figure initially provided to them by SDC and, therefore, Premium Accounts staff never formally attempted to reconcile the remaining \$155, 639.93 difference.

Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, states in part:

“...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director’s ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative

contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subordination, or any other actions which would serve to implement the plan or plans designed by the finance board. . . .”

The Accounts Receivable Supervisor stated that extensive analysis of the Accounts Receivable ledgers would be required in order to determine how much of the \$155,639.93 was still outstanding on the Accounts Receivable ledgers. He also believes that many of the negative balances that appear on the monthly aging-of-receivable reports may be credits that were previously identified by SDC that PEIA has not yet manually corrected.

We recommend the PEIA comply with Chapter 5, Article 16, Sections 3 (c) of the West Virginia Code, as amended.

Agency’s Response

PEIA is aware of the discrepant issues and will attempt to comply with the recommendation through account reconciliations currently underway. This process will eventually resolve any discrepancies noted.

Revenue Refunds Issued Incorrectly

We noted several instances where PEIA incorrectly issued revenue refunds to agencies or policyholders totaling \$2,210.91. The PEIA issues revenue refunds when errors are identified by them in accordance with Legislative Rule 151-1-9 which states in part,

“9.1 Agency error. – Where the error occurred on the part of the participating agency:

9.1a. A refund due with incurred date within the current fiscal year shall be refunded during that current fiscal year from current fiscal year funds.

9.1b. A refund due with incurred date in an immediately previous fiscal year and received up to and including July 31 of the current fiscal year shall be made and considered as refund out of said immediately past fiscal year funds.

9.1c. A refund due with incurred date in an immediately previous fiscal year and received after July 31 of the current fiscal year shall be submitted to the court of claims by the participating agency.

9.2. Board error. – Where the error occurred on the part of the Public Employees Insurance Board, refunds shall be made without regard to time lapsed.”

The details of the incorrect revenue refunds identified by us were as follows:

1. The PEIA overpaid \$512 in a refund to a Non-State agency. In July 2002, the PEIA issued a refund to an agency to correct a premium error charged for an employee during an eight month period between August 1, 2001 through March 31, 2002. However, the PEIA miscalculated the refund by one month and paid the agency for nine months of premiums. We brought the error to PEIA’s attention and the agency’s account was adjusted for the overpayment.
2. The PEIA overcharged premiums to an employer and it’s retiree during our audit period which resulted in refunds issued by the PEIA to the retiree totaling \$4,608; however, the refund was miscalculated and the retiree was due an additional \$47.22. The retiree was using annual and sick leave conversion to pay for 50% of his premium; hence, the employer was paying for a portion of the retiree’s premium. We also noted a refund was not issued to the employer, a state agency totaling \$2,674.99. We brought the error to PEIA’s attention and the Premium Accounts Supervisor issued a credit in August 2004 to correct the State agency’s balance.

We recommend the PEIA comply with Legislative Rule, Title 151-1-9 and accurately calculate revenue refunds.

Agency’s Response

PEIA concurs with this issue and will comply with the recommendation. All refunds require recalculation by a senior premium accounts employee before approval with large refunds requiring the Supervisor’s approval. This process will be re-evaluated to determine if a second level review may be warranted.

Incorrect Retroactive Credits

Five of the 20 retroactive credits tested by us were found to have been incorrectly calculated resulting in the accounts receivable records being understated by \$1,185.68 during our audit period. The West Virginia Public Employees Insurance Agency Plan Document filed with the West Virginia Secretary of State's Office on July 3, 2002, states in part:

“Where a refund is requested due to the termination of an employee's coverage and the failure of the employer to timely submit the termination information to PEIA, the PEIA is not obligated to refund more than two (2) months premium. If such employee has incurred health care claims between the date intended for termination by the employer and the date the employer notifies PEIA of the termination, no refund is due. . .”

A retroactive credit is an automated reduction in an employer's accounts receivable balance due to the timing difference between the effective date of a change in an employee's coverage as recognized by an agency and the date that PEIA is notified of this change. To further explain, PEIA will continue to invoice an agency for the premiums of an employee until PEIA receives notification that a change in an employee's coverage is needed due to termination of employment, marriage, birth of a child, etc. Once PEIA receives notification, a retroactive credit is issued to the agency for the months the agency was invoiced for the employee's coverage when in fact the employee's coverage status had changed. Generally, if PEIA is notified in the same month as the effective date of a termination or change in status, a retroactive credit will not be issued since PEIA can terminate the employee's coverage in the ELAS before the next month's invoicing. However, if PEIA is not notified until a month subsequent to the termination, then a retroactive credit will generally be due the agency.

The EIAS calculates a credit based upon the dates entered into the system by the eligibility personnel from a policyholder's termination form. We noted that with respect to four of the five credits issued, the errors were caused by incorrect dates being entered into the EIAS system; the fifth error was caused by an improper termination. The PEIA was notified by the West Virginia Department of Health and Human Resources, Division of Vital Statistics, via computer files, of a death of dependent. In error, the PEIA terminated the policyholder's coverage instead of terminating the dependent's coverage. The results of our testing are as follows:

<u>Policyholder</u>	<u>Audited Retroactive Credit</u>	<u>Agency Retroactive Credit</u>	<u>Difference Over/(Under)</u>	<u>Reason for Credit</u>
#1	\$ 664.46	\$ 0.00	\$ 664.46	Data Entry Error
#2	0.00	643.00	(643.00)	Data Entry Error
#3	695.44	993.16	(297.72)	Data Entry Error
#4	662.00	970.00	(308.00)	Data Entry Error
#5	<u>19.70</u>	<u>621.12</u>	<u>(\$601.42)</u>	Improperly Terminated
Totals	<u>\$2,041.60</u>	<u>\$3,227.28</u>	<u>(\$1,185.68)</u>	

Finally, we noted the PEIA's 60-day policy instructs eligibility personnel who are entering a termination into the EIAS to use the date a "Policyholder Termination Of Coverage Form" was received by PEIA instead of the actual date of termination (i.e., last date on an agency's payroll) as reported by agency benefit coordinators. The policy provides for the "receipt of form date" to be entered into the EIAS system so an automated calculation of a credit is performed. However, we believe the date entered for calculation purposes permits coverage to be extended to terminated employees in some instances, and accordingly, the possibility exists for claims to be paid on behalf of policyholders who are actually no longer eligible to participate in the PEIA plan.

Title 151, Series 1, Section 5 of the Legislative Rules, Public Employees Insurance

Act states, in part:

“ . . . Voluntary termination. – If an employee resigns voluntarily, coverage terminates at the end of the month in which the employee last appears on the payroll. . . .”

We recommend the PEIA comply with the refund policy as set forth in the West Virginia Public Employees Insurance Agency Plan Document, as well as comply, with Title 151, Series 1 of the Legislative Rules, Public Employees Insurance Act. We further recommend the PEIA strengthen internal controls over the recording of eligibility information in the EIAS system.

Agency's Response

PEIA concurs with the issue and will attempt to comply with recommendation with more scrutiny applied to the data entry. PEIA does not agree that the 60 day policy and the use of the forms date extend the eligibility of a terminated employee/policyholder. Until proper notification is submitted by that employer, the employee is eligible. Failure to enforce said rule will result in subsidization of these late terminated policyholders by the agency's whose benefit coordinators timely remit the necessary termination forms.

Additionally, failure to enforce will result in more losses to the plan since premiums will not be collected to offset possible utilization of services and more costs will be incurred to collect either the premiums from the employee or claims paid on behalf of the employee from the providers.

Misclassified Premiums

The PEIA did not classify premium receipts by the proper revenue source code during our audit period. The PEIA generally classified the receipt of insurance premiums as “other

collections”, instead of using the codes designated for employee and employer premiums. The Department of Administration’s Expenditure Schedule Instructions for Fiscal Year 2004, as amended, and issued annually by the Department of Administration, defines Revenue Source Code 696 as:

“696 - Other Collections, Fees, Licenses and Income: Miscellaneous collections, fees, licenses and income. (Not for collection of State imposed taxes - Use Revenue Source 878.)
Note: Do not use this revenue source if another revenue source is appropriate and defines the type of revenue collection you are recording.”

These instructions also define Revenue Source Codes 661 and 662, respectively as:

“661 - Employee Premium Contributions: Premiums paid by employees.”

“662 - Employer Premium Contributions: Premiums paid by employers.”

PEIA’s Budget Officer told us that at some time in the past he believes the State Auditor’s Office had advised PEIA to use Revenue Source Code 696 for recording incoming employee and employer premium receipts. We asked for written clarification from the State Auditor’s Office to determine why this advice would have been given to PEIA. The Director of Accounting for the State Auditor’s Office responded in an email message to PEIA’s Budget Officer on May 21, 2004. We were provided a copy of the electronic message which stated:

“Pursuant to our conversations regarding the appropriate revenue source code for PEIA insurance premiums, the State Auditor’s Office will change the financial codes on the newly created “On State Deposit” effective July 1, 2004 in order to more accurately record the employee and employer premium contributions that are processed through the EPICS Payroll System. It is my understanding that will account for approximately 75-80 percent of the premium revenues being recorded. These revenues will be recorded in the either 661

“Employee Premium Contribution” or 662 “Employer Premium Contribution” revenue classes based upon the designated type code utilized within EPICS.

As for contributions not processed through EPICS (i.e. retirees’ elective contributions and/or non state agency participants) we would encourage you to look at possible modification to your billing system that will enable you to make the appropriate determination between employee and employer.”

We believe the Expenditure Schedule Instructions of the Department of Administration and the interpretation provided to PEIA by the State Auditor’s Office both indicate that PEIA should use revenue source codes 661 and 662 for classifying its premium receipts. The monthly line-item reports generated by the State Auditor’s Office show that PEIA classified receipts using revenue source code “696 - Miscellaneous” in the amounts of \$619,360,150.33 and \$524,973,917.60 during the fiscal years ended June 30, 2004 and June 30, 2003, respectively. Because PEIA did not use the proper revenue source codes, we could not determine the amount of the receipts that were for the employer premium contributions and the employee contributions.

We recommend the PEIA use the appropriate revenue source codes for classifying insurance receipts as provided for in the Expenditure Schedule Instructions issued annually by the West Virginia Department of Administration.

Agency’s Response

PEIA concurs with this issue and will comply with the recommendation

Premiums Deposited into Wrong Accounts

We determined that \$6,037.94 was deposited to incorrect accounts during fiscal year 2004. Chapter 5, Article 16, Section 18(f) of the West Virginia Code, as amended, states in part:

“. . . All moneys received by the public employees insurance agency shall be deposited in a special fund or funds as are

necessary in the state treasury and the treasurer of the state is custodian of the fund or funds and shall administer the fund or funds in accordance with the provisions of this article or as the director may from time to time direct. The treasurer shall pay all warrants issued by the state auditor against the fund or funds as the director may direct in accordance with the provisions of this article. All funds received by the agency, including, but not limited to, basic insurance premiums, administrative expenses and optional life insurance premiums, shall be deposited in the West Virginia consolidated investment pool with the West Virginia investment management board, with the interest income a proper credit to all such funds. . . .” (Emphasis added)

PEIA Premium Accounts Billing and Receipts Procedures states in part:

“. . . WV PEIA Premium Accounts is responsible for the processing of the premiums received monthly. A standard procedure is established to ensure that accounts are correct and accurately reflect the billing to the agency or individual and to record those payments made. . . .”

Each month, agencies submit their premium payments for the combined costs of basic health and basic life insurances, optional life and dependent life insurances, and administrative fees. The agency allocates the payment between the different insurances/administrative fees on the statement and the statement is then returned to PEIA with the payment. Based on the agency’s allocation, the PEIA deposits the premiums into three accounts administered by PEIA: the Basic Insurance Premium Account, the Administrative Expense Account or the Optional Life Insurance Premium Account. In instances where the statement submitted by the agencies’ benefit coordinator does not clearly indicate the apportionment, PEIA’s policy is to either review the invoice or to contact the benefit coordinator of the submitting agency for clarification.

Of the 50 deposits tested, we determined the PEIA did not apply the premium payments to the correct accounts in four instances as follows:

<u>Remitting Agency Account #</u>	<u>Month/Year</u>	<u>Actual Account Deposit</u>	<u>Proper Account Deposit</u>	<u>Amount</u>
806079911	April 2004	Basic Insurance Premium Account	Optional Life Insurance Premium Account	\$ 311.93
806079911	April 2004	Administrative Expense Account	Optional Life Insurance Premium Account	5,631.13
833300001	December 2003	Basic Insurance Premium Account	Administrative Expense Account	50.00
833300001	December 2003	Basic Insurance Premium Account	Optional Life Insurance Premium Account	44.88
			Total	<u>\$6,037.94</u>

We recommend the PEIA comply with Chapter 5, Article 16, Section 18(f) of the West Virginia Code, as amended, as well as, the Premium Accounts Billing and Receipts Procedures to ensure deposits are made to the correct accounts.

Agency's Response

PEIA concurs with this issue and will comply with the recommendation.

Manual Debit/Credits Erroneously Issued

We noted several instances where PEIA staff either incorrectly issued manual debits/credits to policyholder accounts or proper supervisory approval for the manual debits/credits was not obtained. When PEIA determines that a policyholder's premium account balance requires adjustment due to an error in the account, PEIA's Premium Accounts staff enters a correcting debit or credit to the account within the EIAS. These debits or credits are manually entered in the policyholder account by PEIA staff rather than an automatic debit credit issued by the EIAS system. These "manual" debits/credits are subsequently logged into a Debit/Credit log sheet by PEIA staff for later review and approval by the Accounts Receivable Supervisor. The instances noted are as follows:

1. Delinquent Accounts Not Terminated Timely

The PEIA terminated two COBRA accounts by applying a total of \$6,019.36 in credits to bring their account balances to zero. We also noted no supervisory approval for one of the credits. The PEIA permitted these two participants to remain eligible and accumulate \$2,509.76 and \$3,509.60 of unpaid premiums over a five and six month period, respectively. The PEIA policy terminates accounts for non-payment of premiums after 30 days past the due date; however, the PEIA did not enforce this policy. We believe the PEIA should not have applied these credits to write-off the accounts and implemented the collection efforts provided for in Chapter 14, Article 1, Section 1 of the West Virginia Code which states,

“The auditor, commissioner of finance and administration and any other officer or body authorized by law shall cause appropriate proceedings, in the manner provided for in this article, to be instituted and prosecuted to enforce payment of any debt or liability due the State.”

2. No Supervisory Approval

One manual debit credit totaling \$3,425.84 and one manual credit totaling \$2.70 issued by the premium account staff did not have proper supervisory approval. The manual debit/credit issued either was not logged within the Debit/Credit Log Sheet or the Debit/Credit Log Sheet did not have the supervisor's initials to indicate approval of the manual debit/credit.

3. Error in Calculation of Credit

The PEIA miscalculated a credit to correct a mistake in premiums billed to a policyholder. The policyholder was charged for both Plan A and Plan B insurance coverage for four months when only Plan B coverage applied. The PEIA calculated a credit for three months instead of the correct four months; therefore, the policyholder was due one month's premium or \$813.00. We also noted no supervisory approval for the credit.

4. Duplicate Credits - Automated and Manual

PEIA attempted to correct a participating agency's account which had been over-billed an amount of \$200.00 for administrative fees.

To correct the problem, PEIA employees issued a manual credit of \$200.00 to the account, \$40.00 for each of the participating agency's five employees. However, PEIA's computer system, ELAS, had also automatically issued a credit of \$40.00 to the participating agency's account for one of the five employees resulting in the account's balance due being understated by \$40.00.

Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, states in

part:

"...The director is responsible for the administration and management of the public employees insurance agency as provided for in this article and in connection with his or her responsibility may make all rules necessary to effectuate the provisions of this article. Nothing in section four or five of this article limits the director's ability to manage on a day-to-day basis the group insurance plans required or authorized by this article, including, but not limited to, administrative contracting, studies, analyses and audits, eligibility determinations, utilization management provisions and incentives, provider negotiations, provider contracting and payment, designation of covered and noncovered services, offering of additional coverage options of cost containment incentives, pursuit of coordination of benefits and subornation, or any other actions which would serve to implement the plan or plans designed by the finance board. . . ."

Section III of the West Virginia Public Employees Insurance Agency Plan Document

for Fiscal Year 2003 and Fiscal Year 2004, states in part:

". . . All premiums shall be made payable to the Public Employees Insurance Agency and shall be sent to the PEIA's Premium Accounts Section. The full premium payment for policyholders is due by the 25th day of the month for which coverage is in effect (i.e. for coverage for February, payment must be made by February 25th)...." (Emphasis added)

Section III further states:

". . . Failure to Pay Premiums. Failure of an employer or policyholder to pay the monthly premium by the 25th of the month may result in cancellation of the policyholder's participation in the Plan retroactive to the last day of the month for which the premium was received. . . ." (Emphasis added)

We believe the PEIA should strengthen internal controls to ensure manual debits and credits have supervisory approval in all cases. Secondly, we believe the PEIA should implement the provisions of their policy and terminate COBRA participants for non-payment of premiums.

We recommend the PEIA comply with Chapter 5, Article 16, Section 3(c) of the West Virginia Code, as amended, and the provisions of the West Virginia Public Employees Insurance Agency Plan Document.

Agency's Response

PEIA concurs and will increase scrutiny of the manual adjustment process.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the special report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 13th day of June 2005.



Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the West Virginia Public Employees Insurance Agency; Governor; Attorney General; State Auditor; and, Director of Finance, Department of Administration.