

**Premium Reconciliation Audit**

**FINDINGS REPORT**

**State of Kansas**

**Audit Period: January 1, 2019 through December 31, 2019**

**Presented to**

**State Employee Health Plan**

**Presented by**



**CLAIM TECHNOLOGIES  
INCORPORATED**

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## INTRODUCTION

This **Findings Report** contains information, findings, and recommendations from CTI's State of Kansas (the State) premium reconciliation audit.

We based our audit findings on the data and information provided by the State. The validity of the findings was reliant upon the accuracy and completeness of that information. While performing the audit, CTI complied with all confidentiality, non-disclosure, and conflict of interest requirements and did not receive anything of value or any benefit of any kind other than compensation for audit services.

## BACKGROUND

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et. seq. to "develop and provide for the implementation and administration of a state health care benefits program...It may provide benefits for persons qualified to participate in the program for hospitalization, medical services, surgical services, non-medical remedial care and treatment rendered in accordance with a religious method of health and other health services."

The staff of the SEHP administers the health plans on behalf of the HCC for Active Eligible employees, COBRA participants, Direct Bill members, and Non State Public Employers such as educational entities, cities, counties, townships, local governmental entities, public hospitals and community health centers.

The SEHP Membership Administration Portal (MAP) allows all enrollment activities to be performed online. MAP records enrollment and benefit status of new hires, terminated employees, dependent additions and removals and status changes such as from full to part-time. MAP calculates the premiums to be drawn through payroll deduction. MAP also tracks reward credits earned through the wellness program.

The premium deduction calculations are contained in files sent to the Universities and Central Payroll (Sharp). The University and Sharp payroll systems deduct premiums from employees' paychecks for medical, dental and vision coverages and reports for the actual amounts deducted are sent to SEHP. SEHP reviews the files and instances where the payroll deductions do not match what was remitted to the Payroll systems. Payroll center variance reports are generated and used by SEHP to track premium shortfalls and to identify when they are resolved. Annualized, the number of transactions for the State payroll deduction premium process is in excess of 4.5 million.

For the Non State Public Employers and individuals that participate in SEHP, MAP records the enrollment and benefit status of new hires, terminated employees, dependent additions and removals and status changes such as from full to part-time, for example, and calculates the premiums to be invoiced. One invoice for premiums due is sent to the approximately 140 groups and one invoice is sent to approximately 12,000 retirees each month on the eighth day of the month, with adjustments for weekends and holidays.

Payments for Non State Public Employers and Direct Bill participants are remitted electronically by Automated Clearing House (ACH) and returns for non-payment are typically received within one to three days of the attempted ACH deduction. A second ACH will be attempted on day 16 of the month for any returns from the first file and for anyone without ACH information on file when the first ACH was sent. Any returns to the second ACH received for retirees and Non State Public Employers will be contacted for updated ACH information or explanation and the invoices are marked as unpaid. If payment isn't remitted,

unpaid Direct Bill members and Non State Public Employers are terminated effective the last date the coverage was paid through.

## AUDIT OBJECTIVES

The objectives of CTI’s audit were to:

- Reconcile premiums received with the number of covered members;
- Compare the members receiving coverage with those for which SEHP received premium payments from the employer and member;
- Quantify the discrepancies between the total premiums that should have been received based on enrollment data, premium rates, and reward data in the attribute file versus the total amount of premiums remitted; and
- Provide detail of the discrepancies identified.

## AUDIT SCOPE

CTI audited SEHP’s premium process for the period of January 1, 2019 through December 31, 2019. Premium reconciliation was performed for the medical, vision, and dental plans for:

- Active Eligible Employees who pay their premiums through Payroll Deduction; and
- Non State Public Employers and Direct Bill participants who pay their premiums through monthly ACH Deductions.

## AUDIT METHODOLOGY

To reconcile the premiums for Payroll Deductions for the medical, vision, and dental plans for Active Eligible Employees, the SEHP data team provided the following files listed in the following table.

File Name	Contents
KPay230	Payroll premium deductions
Eligibility	Participants’ plan and coverage levels
Premium	Medical, dental and vision plans premium rates
Attribute	Wellness program reward data
Adjustments	2017 – 2019 deduction adjustments
KPay208	Unresolved or recycled adjustments

For the Direct Bill reconciliation, SEHP provided a file of direct bills and combined invoices for:

- Non State Public Employers; and
- Direct Bill Participants.

Using the eligibility, premium, and attribute files, we calculated the 2019 premium for each employee’s covered months based on coverage level (e.g. member only, member and children, member and spouse, member and family) and program code (plan) and wellness program premium discounts.

The next step was to calculate the employee premiums and employer contributions. For premiums withheld twice per month (medical and dental) CTI identified nine unique situations that affected how the premium was calculated for each month of the year:

- 1) Coverage was active from the first day of the month through the last day of the month;
- 2) Coverage was active after the first day of the month and continued through the last day of the month (enrollment occurred within the first 14 days of the month);
- 3) Coverage was active after the first day of the month and continued through the last day of the month (enrollment occurred after day 14 of the month);
- 4) Coverage was active on the first day of the month but terminated before the end of the month (termination occurred within the first 14 days of the month);
- 5) Coverage was active on the first day of the month but terminated before the end of the month (termination occurred after day 14 of the month);
- 6) Coverage was active after the first day of the month and terminated before the end of the same month (enrollment and termination both occurred within the first 14 days of the month);
- 7) Coverage was active after the first day of the month and terminated before the end of the same month (enrollment and termination both occurred after the 14th day of the month);
- 8) Coverage was active after the first day of the month and terminated before the end of the same month (enrollment occurred within the first 14 days of the month and termination occurred after day 14 of the month); and
- 9) Coverage was not active for the month.

For premiums billed once per month (direct bills/combined invoices, and vision), CTI identified five unique situations that affected how the premium was calculated for each month of the year:

- 1) Coverage was active from the first day of the month through the last day of the month;
- 2) Coverage was active after the first day of the month and continued through the last day of the month;
- 3) Coverage was active on the first day of the month but terminated before the end of the month;
- 4) Coverage was active after the first day of the month and terminated before the end of the same month; and
- 5) Coverage was not active for the month.

After calculation of the rates for the participants in the Active Eligible Employee group, we compared the rates to the KPay payroll deduction files. We also referenced the KPay208 file of recycled adjustments to mark 2018 adjustments processed in 2019 as well as adjustments processed in January 2020 or later for calendar year 2019.

For the Direct Bill group, we compared the calculated rates to the rates contained in the combined invoice and direct bill files.

## FINDINGS

### Payroll Deduction Reconciliation

The Payroll Deduction Group includes all Active Eligible Employees. For this group, we compared the calculated monthly premiums based on the eligibility, premium rate and attribute files to the monthly premiums withheld for the medical, dental and vision plans. The count of variances between what was billed and what was deducted was 1,476 with the total of absolute value of \$198,898.76 as shown in the following table of variances by plan and premium source.

Payroll Deduction Variance Summary		
Premium Source	Deduction Lines	Absolute Variance
Medical Employer	425	\$138,752.41
Medical Employee	351	\$48,846.62
Dental Employer	286	\$4,984.75
Dental Employee	286	\$5,212.90
Vision Employee	128	\$1,102.08
<b>TOTAL</b>	<b>1,476</b>	<b>\$198,898.76</b>

As a percentage of the premiums payroll deducted in 2019, the variances represent .0564% of the total as shown in the following table.

Absolute Variances as a Percentage of Premiums Deducted		
Premiums Deducted	Variances	Variances as Percentage of Total Deductions
\$352,485,562	\$198,898.76	.0564%

We tested samples of the payroll deducted employer and employee premium variances and found them to be attributed to:

- Adjustment errors;
- Extra half or full month premiums withheld;
- Data entry errors; and
- Incorrect prorated premiums.

Analysis of the variances by State Agency Code revealed three agencies accounted for 90% of the total based on absolute dollars as shown in the following table.

State Agency	Absolute Premium Variances
683	\$86,383.54
682	\$64,381.83
367	\$27,286.39
296	\$3,722.67
385	\$3,590.29

State Agency	Absolute Premium Variances
All Others	\$13,534.04
<b>TOTAL</b>	<b>\$198,898.76</b>

Analysis of the variances by State Agency Code revealed the top three agencies listed in the previous table accounted for 94% of the medical employer and 87% of the medical employee absolute dollar premium variances.

Medical Plan		
State Agency	Absolute Employer Premium Variances	Absolute Employee Premium Variances
683	\$19,093.33	\$61,443.55
682	\$14,399.93	\$46,421.28
367	\$12,641.41	\$13,378.13
All Others	\$2,711.95	\$17,509.44
<b>TOTAL</b>	<b>\$48,846.62</b>	<b>138,752.40</b>

Analysis of the variances by State Agency Code revealed the same three agencies listed above in the medical variance table accounted for 96% of the dental employer and 93% of the dental employee absolute dollar premium variances.

Dental Plan		
State Agency	Absolute Employer Premium Variances	Absolute Employee Premium Variances
683	\$2,858.15	\$2,487.37
682	\$1,379.81	\$1,744.04
367	\$784.02	\$387.81
All Others	\$190.92	\$365.53
<b>TOTAL</b>	<b>\$5,212.90</b>	<b>\$4,984.75</b>

Analysis of the variances by State Agency Code revealed the same three agencies in the three preceding tables accounted for 94% of the total vision premium variances.

Vision Plan	
State Agency	Absolute Vision Employee Premium Variances
683	\$501.14
682	\$436.77
367	\$95.02
All Others	\$69.15
<b>Total</b>	<b>\$1,102.08</b>

## Direct Bill Reconciliation

The Direct Bill group includes all Non State Public Employers and Direct Bill participants. For the Direct Bill reconciliation, we compared the calculated annual premium to the annual premium invoiced for the health, dental and vision plan for the Non State Public Employers and Direct Bill participants. The count of variances between what was billed and what was deducted was 203 with the absolute value of \$31,506 as shown in the following table of variances by plan and premium source.

Direct Bill Variance Summary		
Premium Source	Deduction Lines	Absolute Variance
Medical Employer	170	\$24,536.73
Medical Employee	13	\$6,037.60
Dental Employer	2	\$296.20
Dental Employee	10	\$479.86
Vision Employee	8	\$155.84
<b>TOTAL</b>	<b>203</b>	<b>\$31,506.23</b>

As a percentage of the premiums remitted through ACH in 2019, the variances represent .0320% of the total as shown in the following table.

Absolute Variances as a Percentage of Premiums Billed		
Premiums Billed	Variances	Variances as Percentage of Premiums Remitted
\$98,556,418	\$31,506.23	0.0320%

We tested samples of the Direct Bill employer and employee premium variances and found the following:

- Adjustments to the medical employer premium (ER) almost every month that appear to be amounts that should have been offset by HSA and HRA rewards; and
- Several bills that appeared to be double billed.

## RECOMMENDATIONS

It is our opinion that the premium process works as it is intended for the vast majority of participants covered by the SEHP's medical, dental and vision plans. Identification of variances among the premium amounts billed for the Payroll Deduction (Active Eligible Employees) and Direct Bill (Non State Public Employers and Direct Bill participants) groups represent a small percentage of the total dollars deducted and billed as shown in the table below with the net dollars.

Group	Net Dollars to Absolute Variance	Net Dollars
Payroll Deduction	.0564%	\$137,427.54
Direct Bill	.0320%	\$23,675.67

We offer the following recommendations to improve the premium process and reconciliations going forward.

- Analysis of the 2019 premium deduction variances by agency code identified three that accounted for 90% of the total based on absolute dollars. These same three agencies (682, 367 and 683) accounted for 81 percent of the premium deduction variances in the 2018 reconciliation. On a positive note, the totals of the absolute premium variances of these three agencies decreased from \$325,539 in 2018 to \$178,052 in 2019. We again recommend continued discussions with these agencies to identify the root causes of the variances, an agreed-upon time limit to resolve variances and discussions of process improvements to implement to decrease the incidence of variances between premiums and deductions going forward.
- Manual adjustments have a high probability of human error by their nature. While it is impossible to eliminate manual adjustments entirely, we recommend a quality control process to verify accuracy as soon after entry as possible to identify and correct errors before the next payroll cycle.
- We found variances related to HealthQuest program rewards. The rewards are uploaded from a file and variances result from manual adjustments. This may be a suitable area in which to pilot test a quality control process of the accuracy of manual adjustments.
- From the data provided, several direct bills appeared to be double billed and we recommend investigation to identify if that was actually the case or an issue with the data provided for the reconciliation.

Detail on each of the identified payroll deduction premium variances was provided to the SEHP team for review. The SEHP team verified the causes of many of the variances that included manual adjustment errors, unprocessed Regents' refunds, incorrect payroll dates entered for HealthQuest rewards, HealthQuest dollars awarded after employment termination and HSA adjustments.

Detail on each of the Direct Bill group premium variances identified was also provided to the SEHP team. The SEHP team identified the causes of many of the variances that included no offset of HSA/HRA REW rows and manual adjustment errors.

We consider it a privilege to have worked for, and with, the State Employee Health Plan team throughout this audit. Thank you for choosing CTI.



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