



March 31, 2006

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER

DEBORAH GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCE MANAGEMENT

SUBJECT: Audit Report – Postal Service's Share of Health Insurance Premiums for Retired Employees (Report Number FT-AR-06-016)

This report presents results of our self-initiated audit of the U.S. Postal Service's share of health insurance premiums for retired Postal Service employees and their survivors (Project Number 05BM006FT001). We performed this work as part of our audit of the fiscal year (FY) 2005 Postal Service Financial Statements.

Background

The Postal Service provides health benefits to its career employees and retirees by participating in the Federal Employees Health Benefits Program, administered by the Office of Personnel Management's (OPM) Office of Retirement and Insurance Services. For retirees, the Postal Service's contribution is the same as the government's contribution for active federal employees. For FY 2005, the Postal Service's share of health insurance premiums for approximately 444,000 retirees¹ and their survivors totaled \$1.5 billion.

OPM provides the Postal Service with an electronic file supporting each monthly billing for the Postal Service's share of retirees' health insurance premiums. The Postal Service compares this file to its Employee Master File² to ensure that retirees were Postal Service employees, and produces an exception report that identifies those individuals not found in the Employee Master File. In August 2004, the Postal Service initiated discussions with OPM to address these exceptions. However, when we initiated our audit, no definite results were available.

¹ As of September 2005.

² The Postal Service's Employee Master File includes all pertinent information for each Postal Service employee, such as service computation date, pay level, health benefits code, and tax exemptions.

For the June 2005 billing, the exception report listed 807 individuals with employer health insurance premiums totaling \$138,100.

Objectives, Scope, and Methodology

The objectives of this portion of the audit were to determine whether internal controls over administration of the Postal Service's share of health insurance premiums paid for retirees and survivors were adequate, and to determine the accuracy of amounts paid to OPM for these health insurance premiums.

To accomplish our objectives, we reviewed OPM's June 2005 billing to the Postal Service and interviewed officials at OPM and the Postal Service. To ensure accuracy of the June 2005 billing, we added the employer's share of premiums for individuals on the exception report and those who matched the Employee Master File and compared the result to the billed amount. Further, we reviewed the exception report for unusual items, such as multiple billings and unusually early birth dates. We also reviewed supporting documentation for a statistical sample of retiree files for individuals on the exception report to determine whether the individuals were valid Postal Service retirees or survivors.

We conducted this audit from August 2005 through March 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with Postal Service and OPM management officials and included their comments where appropriate.

We relied on computer-generated retiree data from OPM. We performed limited testing of this data by tracing statistically sampled data to hard copy retiree files.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

Results

Internal controls over the administration of the Postal Service's share of health insurance premiums paid for retirees and survivors need improvement, and amounts paid to OPM for these premiums were not always accurate. OPM billed the Postal Service \$3,147,520 through August 2005 for the employer's share of health insurance premiums for 70 individuals who were not Postal Service retirees or survivors. Our calculation represents average annual payments covering June 1994 through

August 2005.³ This timeframe is the average duration of health benefits paid for the 70 individuals. Appendix A shows how this amount was calculated.

This occurred because the Postal Service does not have policies and procedures in place to continuously monitor the exception report of employees not on the Employee Master File. As a result, the Postal Service overpaid OPM by \$3,147,520 for 70 individuals who were not Postal Service employees or survivors.

OPM credited the November 2005 billing for the overpaid amount and discontinued billing for the individuals identified. We will report the overpayment of \$3,147,520 as questioned costs and the \$3,501,097 of future payments discontinued as funds put to better use in our *Semiannual Report to Congress*. See Appendix B for a schedule of future payments discontinued.

Recommendation

We recommend the vice president, controller, in coordination with the vice president, Employee Resource Management:

1. Establish and communicate policies and procedures to continuously monitor the accuracy of the Postal Service's share of health insurance premiums paid for retirees and survivors.

Management's Comments

Management agreed with the intent of the finding. They stated that policies and procedures are currently in place to monitor bills received from OPM on a regular basis, but enhancements will be made to closely monitor the exception report and work with OPM to resolve any differences. Subsequent to the receipt of the response, management stated they will implement the new enhancements immediately.

Management agreed with our \$3,147,520 of questioned costs but disagreed with our \$3,501,597 of funds put to better use because they stated they were already in the process of removing exceptions when our audit began. Management's comments, in their entirety, are included in Appendix C.

Evaluation of Management's Comments


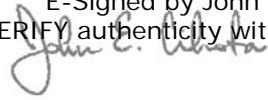
Management's comments are responsive to the finding and actions planned should correct the issue identified. We continue to believe our audit work resulted not only in the total questioned costs, but also the funds put to better use, based on our estimate of

³ OPM discontinued billing for these individuals effective September 2005. Accordingly, we updated our calculation from June through August 2005.

the amount of premiums overpaid. We will continue to monitor the newly implemented process during our future annual financial statements audit work.

The U.S. Postal Service Office of Inspector General (OIG) considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Siewert, director, Financial Statements, or me at (703) 248-2300.

E-Signed by John Cihota 
ERIFY authenticity with Approve!


John E. Cihota
Deputy Assistant Inspector General
for Financial Operations

Attachments

cc: Richard J. Strasser, Jr.
Vincent H. DeVito, Jr.
Jon T. Stratton
Steven R. Phelps

APPENDIX A

CALCULATION OF OVERPAID HEALTH INSURANCE PREMIUMS

Self-Only Coverage:

Number of Cases	46
Times Number of Months Billed (June 1994 – August 2005)	135
Times Average Billed Rate* (June 1994 – August 2005)	<u>\$233.92</u>
Amount Overpaid for Self-Only Coverage	<u>\$1,452,643.20</u>

Family Coverage:

Number of Cases	24
Times Number of Months Billed (June 1994 – August 2005)	135
Times Average Billed Rate* (June 1994 – August 2005)	<u>\$523.11</u>

Amount Overpaid for Family Coverage	<u>\$1,694,876.40</u>
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Total – Self-Only and Family Coverage	<u>\$3,147,519.60</u>
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Rounded to Whole Dollars	<u>\$3,147,520</u>
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* Average Blue Cross/Blue Shield Rates (representative rates) over the billing period with interest established by the Bureau of Public Debt for the Civil Service Retirement System.

APPENDIX B. DISCOUNTED CASH FLOW CALCULATION OF PROJECTED OPM PAYMENTS

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
39 annuitants with > 10 yrs life expectancy Self coverage escalation rate = 9.67%/yr* CY 2005 est. annual billings = \$108,515 (based on June 2005 billing)		\$119,008	\$130,517	\$143,137	\$156,979	\$172,159	\$188,806	\$207,064	\$227,087	\$249,046	\$273,129
23 annuitants with > 10 yrs life expectancy Family coverage escalation rate = 8.89%/yr* CY 2005 est. annual billings = \$149,360 (based on June 2005 billing)		\$162,638	\$177,097	\$192,841	\$209,984	\$228,652	\$248,979	\$271,113	\$295,215	\$321,460	\$350,037
annuitants with < 10 years life expectancy Self coverage escalation rate = 9.67%/yr* (life expectancy based on IRS Publication 590, Individual Retirement Arrangements, for 2004 returns, Table I)	Life Expectancy	CY 2005 est. annual billings									
	9	\$3,408	\$3,738	\$4,099	\$4,496	\$4,930	\$5,407	\$5,930	\$6,503	\$7,132	\$7,822
	8	\$3,235	\$3,548	\$3,891	\$4,267	\$4,680	\$5,132	\$5,629	\$6,173	\$6,770	
	8	\$3,408	\$3,738	\$4,099	\$4,496	\$4,930	\$5,407	\$5,930	\$6,503	\$7,132	
	6	\$305	\$334	\$366	\$402	\$441	\$483	\$530			
	5	\$305	\$334	\$366	\$402	\$441	\$483				
	4	\$884	\$970	\$1,063	\$1,166						
	2	\$712	\$781	\$856							
annuitants with < 10 years life expectancy Family coverage escalation rate = 8.89%/yr*	Life Expectancy	CY 2005 est. annual billings									
	7	\$4,422	\$4,815	\$5,243	\$5,709	\$6,217	\$6,770	\$7,371	\$8,027		
Totals			\$299,903	\$327,598	\$356,915	\$389,880	\$424,493	\$463,175	\$505,383	\$543,336	\$578,328
Present value discounted at 6.25% USPS published cost of borrowing, 11/4/2005			\$299,903	\$311,257	\$322,197	\$334,399	\$345,925	\$358,620	\$371,782	\$379,764	\$384,058
Net Present Value											\$3,501,097

* Escalation (inflation) rates were calculated as the average increase in rates for 1983 - 2006

APPENDIX C. MANAGEMENT'S COMMENTS

LYNN MALCOLM
VICE PRESIDENT, CONTROLLER



March 31, 2006

DARRELL E. BENJAMIN, JR.
ACTING DEPUTY ASSISTANT INSPECTOR GENERAL

SUBJECT: Draft Audit Report—Postal Service's Share of Health Insurance Premiums for Retired Employees (Report Number FT-AR-06-DRAFT)

This is in response to the findings and recommendations in the above named audit report.

Recommendation

We recommend the Vice President, Controller, in coordination with the Vice President, Employee Resource Management

1. Establish and communicate policies and procedures to continuously monitor the accuracy of the Postal Service's share of health insurance premiums paid for retirees and survivors.

Response

The Postal Service agrees with the intent of this finding. Currently, there are policies and procedures in place within the accounting function under the Vice President, Controller to monitor the bills received from the Office of Personnel Management (OPM) on a regular basis. However, enhancements will be made to the policies and procedures to closely monitor the exception report on a regular basis and to work with OPM to resolve any differences. The Postal Service is committed to monitoring the accuracy of these billings and resolving any exceptions noted as quickly as possible.

We agree with your amount of \$3,147,520 as a questioned cost, but do not agree with the \$3,501,097 of funds put to better use. As noted in your report, the Postal Service had already initiated a process in August 2004 with OPM to begin resolving the exceptions listed on the report at the time your audit began. We appreciate the effort of the Office of Inspector General in helping to expedite the resolution of these exceptions.

We realize the Office of Inspector General (OIG) reviews each report and asserts appropriate exemptions under the Freedom of Information Act (FOIA). To assist the OIG in exercising its responsibilities, management asserts that we do not believe that any portion of this report is exempt from disclosure under FOIA.

A handwritten signature in cursive script that reads "Lynn Malcolm".
Lynn Malcolm

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