



*Review of Controls Over  
Health Benefit Elections*

**August 27, 2015**

**Reference Number: 2015-10-074**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

### REVIEW OF CONTROLS OVER HEALTH BENEFIT ELECTIONS

## Highlights

**Final Report issued on August 27, 2015**

Highlights of Reference Number: 2015-10-074 to the Chief, Agency-Wide Shared Services, and the Internal Revenue Service Human Capital Officer.

### IMPACT ON TAXPAYERS

The Federal Employees Health Benefits (FEHB) Program is the largest employee-sponsored group insurance program in the world, covering more than eight million Federal employees, former employees, family members, and former spouses. In Fiscal Year 2014, the IRS stated it made contributions of approximately \$605 million toward employee enrollments. Effective management of health benefit expenditures is important for the IRS to control costs.

### WHY TIGTA DID THE AUDIT

This audit was initiated based on a referral from TIGTA's Office of Investigations on potential control weaknesses related to adding and removing dependents from IRS employees' FEHB plans. The overall objective of this review was to assess IRS controls over the processing of employee Federal health benefit elections.

### WHAT TIGTA FOUND

TIGTA found that the IRS did not always obtain information to provide reasonable assurance that eligibility determinations are correctly made. However, the vast majority of employee health benefit elections were processed so they became effective in the correct pay period.

Based on two randomly selected samples of Election Forms, benefits generally went into effect timely. However, in both samples, TIGTA determined the IRS had processed Standard Forms 2809, *Health Benefits Election Form* (hereafter referred to as Election Forms), that did not include all information needed to support the requested action. For example, 23 percent

of paper Election Forms TIGTA reviewed that were submitted during the Open Season or by employees who were hired or first became eligible outside the Open Season did not include a response to questions about whether employees or their dependents were covered under another health plan. If covered by another FEHB plan, the employee would not be eligible for additional coverage under the FEHB Program. In addition, the IRS processed several Election Forms involving the addition of foster children or the addition of disabled children age 26 or over incapable of self-support because of a physical or mental disability that began before their 26<sup>th</sup> birthday without all required supporting documentation. As a result, the IRS did not have assurance that dependents were eligible for IRS-funded health benefits.

TIGTA also determined that IRS management does not have procedures in place to track requests for assistance on policy issues sent to the IRS Human Capital Office.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that IRS management implement program controls to: 1) provide reasonable assurance that complete and sufficient documentation is obtained from employees to support eligibility determinations and 2) develop procedures to track and monitor requests for support to the IRS Human Capital Office.

In their response, IRS management agreed with both recommendations and plans to take action to: 1) obtain required documentation from employees and update related procedures and 2) develop policies and procedures for requesting assistance about policy issues.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 27, 2015

**MEMORANDUM FOR** CHIEF, AGENCY-WIDE SHARED SERVICES  
INTERNAL REVENUE SERVICE HUMAN CAPITAL OFFICER

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Review of Controls Over Health Benefit Elections  
(Audit # 201410019)

This report presents the results of our review to assess Internal Revenue Service controls over the processing of employee Federal health benefit elections. This review is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Human Capital.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



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*Review of Controls Over Health Benefit Elections*

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*Abbreviations*

FEHB	Federal Employees Health Benefits
FY	Fiscal Year
IRS	Internal Revenue Service
OPM	Office of Personnel Management
QLE	Qualifying Life Event



## *Background*

The Federal Employees Health Benefits (FEHB) Program is the largest employee-sponsored group health insurance program in the world, covering more than eight million current and former Federal employees, family members, and former spouses. The Office of Personnel Management (OPM) has the overall responsibility for administering the FEHB Program. These administrative responsibilities include, but are not limited to, approving or disapproving health plan carriers for participation in the Program, negotiating benefits and rate changes with plan carriers, providing guidance to agencies, making final determination on the applicability of FEHB law to specific employees or groups of employees, and auditing health plan carrier operations.

The OPM has delegated to Federal employment offices the responsibility of administering their agencies' FEHB Program. Within the Internal Revenue Service (IRS), the Agency-Wide Shared Services organization is responsible for administering the FEHB Program. These responsibilities include, but are not limited to, ensuring that health benefit elections are properly completed, determining the eligibility or ineligibility of employees and family members to enroll in FEHB health plans, determining the effective dates for coverage, processing health benefit elections, and developing procedures to execute its responsibilities. According to the IRS, in Fiscal Year (FY) 2014, it contributed approximately \$605 million towards employee enrollments in FEHB health plans.

***According to the IRS, it made contributions of approximately \$605 million toward employee enrollments in FEHB plans in FY 2014.***

Employees who are eligible to enroll in FEHB health plans must complete a Standard Form 2809, *Health Benefits Election Form* (hereafter referred to as the Election Form). The Election Form is also used to waive coverage, cancel enrollment, change the type of enrollment, or change to another health plan. Eligible employees may enroll, cancel, and make changes to health plans during the Open Season.<sup>1</sup> In addition, eligible employees who are hired or first become eligible outside the Open Season are provided an initial opportunity to enroll. After the Open Season or the initial opportunity period, unless an employee experiences a Qualifying Life Event (QLE),<sup>2</sup> they are not allowed to enroll, change, or cancel their enrollment until the next Open Season.

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<sup>1</sup> Employees may enroll or change health plans during the annual Open Season held from the Monday of the second full work week in November through the Monday of the second full work week in December.

<sup>2</sup> A QLE includes outside Open Season changes in family status resulting in an increase or decrease in the number of eligible dependents, changes in employment status, or when an employee is restored to a civilian position after serving in the uniformed service.



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## *Review of Controls Over Health Benefit Elections*

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Employees may submit Election Forms electronically or by paper. Employees must submit a paper Election Form for manual processing when making changes for specific QLEs. In addition, documentation is required to be submitted for certain changes in family status that result in the increase or decrease in the number of eligible family members. These QLEs include adding: 1) a foster child; 2) a child age 26 or over incapable of self-support because of a physical or mental disability that began before his or her 26<sup>th</sup> birthday; 3) a child as a result of a court order; and 4) a stepchild in a same-sex domestic partnership.

Submissions of the paper Election Forms and any required supporting documentation must be sent to the Ogden, Utah, Payroll Center for processing. This process involves controlling the election on the Insurance Database, assigning it to a human resources assistant to determine whether the employee is eligible to enroll or make changes to his or her FEHB health plan, and verifying the employee has provided the required documentation. To make this determination, human resources assistants must ensure that the information on the Election Forms is complete and accurate. If not, they must obtain the needed information from the employees. When the Election Forms are complete and accurate, the human resources assistants enter the information for posting to the National Finance Center's<sup>3</sup> Payroll/Personnel Corporate Database.

We initiated this review based on a referral from the Treasury Inspector General for Tax Administration's Office of Investigations on potential control weaknesses related to adding and removing dependents from IRS employees' FEHB plans. This review was performed with information obtained from the IRS Employee Support Services Division office located in Ogden, Utah, and the IRS Human Capital Office located in Washington, D.C., during the period June 2014 through June 2015. Although we assessed the potential risks of adding ineligible dependents to health care plans, testing of transactions was not performed for electronic Election Form submissions because these health elections are processed through the Employee Personal Page (a web-based system operated and maintained Governmentwide by the U.S. Department of Agriculture's National Finance Center). We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> The National Finance Center is a U.S. Department of Agriculture operation that provides payroll, personnel, administrative payments, accounts receivable, property management, budget, and accounting activities for its own agency as well as for more than 170 other Federal Government agencies, including the IRS.



## *Results of Review*

### ***Human Resources Assistants Generally Ensured That Health Benefit Elections Became Effective Timely***

The vast majority of IRS employee health benefit elections to enroll in, or change, health plan coverage were processed so they became effective timely. Election Forms state that, except for Open Season,<sup>4</sup> most changes in enrollment should become effective on the first day of the pay period after Election Forms are received<sup>5</sup> and that follows a pay period during any part of which the employee is in pay status.

In FY 2014, the IRS processed 2,373 paper Election Forms during Open Season and by employees who were hired or first became eligible outside the Open Season, as well as 645 paper Election Forms submitted as a result of a QLE for a change in family status. From each population, we selected a random statistical sample<sup>6</sup> and determined:

- 99 (100 percent) of 99<sup>7</sup> paper Election Forms submitted during Open Season or by employees who were hired or first became eligible outside the Open Season went into effect timely.
- 63 (98 percent) of 64<sup>8</sup> paper Election Forms submitted as a result of a QLE for a change in family status went into effect timely.

As a result, employees and their dependents generally received health insurance coverage for the effective date of the change in the pay period after they submitted Election Forms.

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<sup>4</sup> Open Season changes become effective the first day of the first full pay period in January.

<sup>5</sup> The effective date of health insurance coverage can vary. The effective date may be the first pay period after the Election Form was submitted, in the future, or at an earlier date. For example, coverage for the birth of a child may be effective the pay period the child was born, which could pre-date when the Election Form was submitted.

<sup>6</sup> See Appendix I for further detail on our sampling methodology.

<sup>7</sup> Although we randomly selected 100 Election Forms from the IRS Insurance Database, one Election Form could not be located for review.

<sup>8</sup> As detailed later in our report, the IRS Insurance Database did not differentiate between closures of Election Forms submitted for changes to employees' elections that required eligibility determinations by the IRS and those submitted solely to update records of FEHB health plan carriers. Only 64 of the 100 randomly selected Election Forms pertained to employees' elections that required eligibility determinations.





## ***Controls Did Not Provide Reasonable Assurance That Benefit Elections and Other Activities Were Adequately Documented***

While a vast majority of employee health benefit elections we reviewed were processed so they became effective in the correct pay period, controls over the FEHB Program could be strengthened. We determined that:

- Some Election Forms were processed without all information needed to make an eligibility determination.
- The Insurance Database did not differentiate between Election Forms that require an eligibility determination and Election Forms submitted for information purposes only.
- The IRS did not have a process in place to timely resolve requests for assistance on policy issues made to the IRS Human Capital Office.

### **A significant number of paper Election Forms processed by the IRS did not include all information needed to make an eligibility decision**

IRS human resources assistants review Election Forms to determine if they are complete and if employee eligibility requirements are met. However, we determined that the IRS processed a significant number of paper Election Forms that did not include all information needed to make an eligibility decision. Specifically, the IRS processed Election Forms without:

- Verifying the form was complete.
- Indicating in the Remarks section the specific event to support an election.
- Verifying that sufficient documentation was included to support the addition of foster children or disabled children age 26 or over who are incapable of self-support because of a physical or mental disability that began before their 26<sup>th</sup> birthday.

Processing incomplete Election Forms and Election Forms without sufficient supporting documentation increases the risk that IRS employees and dependents are receiving and retaining FEHB health benefits to which they are not entitled. This could result in increased costs to both the IRS and employees through increased premiums. For example, if the enrollment of an ineligible dependent results in a change from a self only to a self and family FEHB plan, IRS costs of employee coverage in the FEHB Program will increase. In addition, if neither the plan carrier nor the IRS identifies the dependents as ineligible, plan carriers could pass on additional costs in the form of increased premiums.

### **Incomplete Election Forms were processed in which the employees did not indicate whether they or their dependents were covered by other health plans**


OPM guidance states Election Forms must be reviewed to determine whether employees and dependents are already covered under another health plan. For example, as shown in Figure 1,



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Question 9 on the Election Form provides checkboxes for whether an employee is or is not covered under another health plan.

**Figure 1: Excerpt From the Election Form**

 Federal Employees Health Benefits Program

Form Approved:  
OMB No. 3206-0160

### Health Benefits Election Form

**Part A - Enrollee and Family Member Information (for additional family members use a separate sheet and attach)**

1. Enrollee name (last, first, middle initial)	2. Social Security Number	3. Date of birth (mm/dd/yyyy)	4. Sex <input type="checkbox"/> M <input type="checkbox"/> F	5. Are you married? <input type="checkbox"/> Yes <input type="checkbox"/> No
6. Home mailing address (including ZIP Code)	7. If you are covered by Medicare, check all that apply. <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> D		8. Medicare Claim Number	
10. Indicate the type(s) of other insurance: <input type="checkbox"/> TRICARE <input type="checkbox"/> Other Name of other insurance: _____ Policy Number: _____			9. Are you covered by insurance other than Medicare? <input type="checkbox"/> Yes, indicate in item 10 below. <input type="checkbox"/> No	

FEHB An FEHB self and family enrollment covers all eligible family members. No person may be covered under more than one FEHB enrollment. See instructions for item 10 on page 1.

Source: Excerpt from the Election Form obtained from the OPM website.

We determined the IRS processed Election Forms that were incomplete because there were no responses to questions regarding coverage under other health benefit plans.

- 23 (23 percent) of 99 paper Election Forms submitted during Open Season or by employees who were hired or first became eligible outside the Open Season did not include a response to questions about whether employees or their dependents were covered under another health plan.
- 10 (16 percent) of 64 paper Election Forms submitted as a result of a QLE for a change in family status did not include a response to questions about whether employees or their dependents were covered under another health plan.

IRS management stated that, when Election Forms are received without a response to questions about enrollment in other health plans, they consider the responses to the questions to be “No.” IRS management also stated that it is their understanding that this was consistent with how electronic Election Forms are processed by the U.S. Department of Agriculture’s National Finance Center. Because the OPM has overall responsibility for administering the FEHB Program, we contacted OPM officials for guidance. The OPM responded that Election Forms received without a response to a question about other health plan coverage are incomplete and should be returned to the employee. The OPM also stated that this information is required for both electronic and paper Election Forms. It is important for the IRS to obtain an answer to these questions because, if an employee is covered by another FEHB plan, the employee would not be eligible for additional coverage under the FEHB Program. In addition, if an employee is covered by another health plan outside the FEHB Program, the health plan providers would need this information for proper coordination of benefits.



**Election Forms submitted as a result of a change in family status were processed without indicating in the Remarks section information needed to support an election**

The FEHB Program Handbook states that Federal agencies must use the Remarks section to “give information needed to support any action that is not apparent from the completed Form.” However, we determined that the Remarks section was not always used in the random sample of Election Forms submitted as a result of a QLE for a change in family status. Seven (11 percent) of 64 Election Forms reviewed did not include information identifying the specific event, *e.g.*, marriage, addition of foster child, *etc.*, responsible for a change in family status.

Employees are required to identify the QLE that permits them to change their enrollment outside of Open Season. This is accomplished by identifying the QLE using an event code on the Election Form submitted to make the change. However, the event code for a change in family status combines several different types of family changes (Event Code 1C as shown in Figure 2). Without identifying in the Remarks section of the Election Form the specific event, *e.g.*, adding a foster child, which allowed an employee to enroll or change health plan coverage, the requirements that should be used to verify the employees and dependents eligibility cannot be determined.

**Figure 2: Excerpt From the Election Form (Event Code 1C)**

<i>Event Code</i>	<i>Event</i>
1C	Change in family status that results in increase or decrease in number of eligible family members, for example: <ul style="list-style-type: none"> <li>• Marriage, divorce, annulment</li> <li>• Birth, adoption, acquiring foster child or stepchild, issuance of court order requiring employee to provide coverage for child</li> <li>• Last child loses coverage, for example, child reaches age 26, disabled child becomes capable of self-support, child acquires other coverage by court order</li> <li>• Death of spouse or dependent</li> </ul>

Source: Excerpts from the Election Form obtained from the OPM website.

**Certain Election Forms were processed without sufficient documentation to support the addition to a health plan of foster children or disabled children age 26 or over who are incapable of self-support**

The OPM requires employees to submit paper Election Forms and supporting documentation necessary to determine a dependent’s eligibility to enroll in an FEHB health plan when adding foster children and disabled children age 26 or over who are incapable of self-support because of a physical or mental disability that began before their 26<sup>th</sup> birthday. The OPM requires



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employees to provide documentation verifying they are the foster child's primary source of financial support and a medical certificate documenting the disabled child's current and future status of the disability, clinical findings, planned rehabilitation programs, *etc.* We determined that five of 10 Election Forms seeking to add a foster child or disabled child age 26 or over from our random sample of 100 paper Election Forms submitted for a change in family status did not include all required supporting documentation. In these instances, IRS officials did not ensure that all of the required documentation was included in the case files. As a result, the IRS did not always have assurance that dependents were eligible to receive funded benefits.

### **Election Forms submitted to change an election and those submitted to provide information only are recorded identically**

We determined that the IRS Insurance Database used to manage the inventory of Election Forms does not differentiate between closures of Election Forms submitted by employees to initiate changes to their health care elections that require the IRS to make eligibility determinations and Election Forms submitted solely to update records of FEHB health plan carriers. Our review of a random sample of 100 paper Election Forms submitted as a result of a QLE for a change in family status showed that 36 (36 percent) Forms submitted for informational purpose were closed as requiring an eligibility determination.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>9</sup> requires agencies to design control activities so that all transactions are completely and accurately recorded. IRS management informed us that the IRS controls health benefit elections requiring a determination and those submitted for information purposes in the same manner because they both require the use of resources. Although Informational Forms are not always required to be submitted to the IRS and no eligibility determination is verified, human resources assistants perform research to ensure that employees are in pay status and must transmit the information to health plan carriers. According to the IRS, in many instances, health plan carriers will not accept the information directly from the employee.

The identical recording of two different types of transactions does not provide management with accurate information regarding the number of health benefit enrollments or changes to existing enrollments. This information is essential to effectively manage the processing of employees' Election Forms.

We discussed this issue with IRS management during the audit. Subsequently, personnel in the Ogden Payroll Center took action to modify the inventory database to differentiate between Election Forms that require an eligibility determination and Election Forms submitted for informational purposes to ensure that IRS management has accurate information to evaluate program performance.

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<sup>9</sup> Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).



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### **No procedures are in place to request assistance on policy issues from the IRS Human Capital Office**

When determining employee eligibility for health benefits, human resources assistants occasionally encounter issues that require clarification on policy issues or interpretation of new rules and regulations. To request assistance, an e-mail is prepared detailing the issue(s) and providing all research conducted. The e-mail is forwarded to the IRS Human Capital Office which will respond by e-mail. However, this process has not been documented, and there is no detailed or official guidance that establishes timeliness standards for responding to these requests. While IRS management could not provide us with information on how many requests had been made because the IRS does not track the requests and individual human resources assistants send their own requests, IRS management was able to provide examples of the requests. IRS management informed us that they have experienced delays in receiving the guidance needed to ensure that eligibility determinations are made timely.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that, "Management should internally communicate the necessary quality information to achieve the entity's objectives." To do so, "Management periodically evaluates the entity's methods of communication so that the organization has the appropriate tools to communicate quality information throughout the entity on a timely basis." While the process used by the Ogden Payroll Center to request assistance from the IRS Human Capital Office has existed for some time, management has never created a control to detail the format and information required to be included in a request, to track and monitor requests, or to establish time standards for responding to the requests.

### ***Recommendations***

The Chief, Agency-Wide Shared Services, should implement improved controls that:

**Recommendation 1:** Provide reasonable assurance that complete and sufficient documentation is obtained from employees to support eligibility determinations.

**Management's Response:** The IRS agreed with this recommendation and updated the related desk procedures for Standard Form 2809 and QLEs. In addition, the IRS created a form letter for employees to give to the physician to complete and sign when they are requesting to keep a child over the age of 26 on their FEHB plan due to the child being incapable of self-support.

The Chief, Agency-Wide Shared Services, and the IRS Human Capital Officer should:

**Recommendation 2:** Establish procedures documenting the process between the Ogden Payroll Center and the IRS Human Capital Office for requesting assistance on policy issues. At a minimum, these procedures should include the format and information required to be included



in requests, a method to track and monitor requests, and time standards for responding to requests.

**Management's Response:** The IRS agreed with this recommendation. The Agency-Wide Shared Services Chief and the IRS Human Capital Officer will review current practices in their respective areas and develop policies and/or procedures to request assistance with policy issues.

### ***The Federal Employees Health Benefits Program Is at Risk of Providing Benefits to Ineligible Family Members***

As previously discussed, agencies are required to obtain supporting documentation for certain benefit elections, *e.g.*, the addition of foster children and disabled children age 26 and over incapable of self-support because of a physical or mental disability that began before their 26<sup>th</sup> birthday. However, the OPM does not require agencies to obtain documentation substantiating the addition of other eligible family members to FEHB enrollments, even though agencies and FEHB carriers are responsible for determining family member eligibility. In fact, employees are generally allowed to self-certify that dependents are eligible to receive benefits as part of the FEHB Program whether using the paper Election Form or the electronic system.<sup>10</sup> As a result, the FEHB Program is at risk of providing benefits to ineligible family members because documentation verifying their eligibility for coverage is not required.

The IRS generally relies on FEHB carriers to identify dependents who are not eligible for coverage. According to the IRS, should an FEHB carrier question the eligibility of a dependent, the carrier will attempt to contact the employee to resolve the issue. If the FEHB carrier cannot resolve the issue with the employee, it will contact the IRS. In turn, the IRS will contact the employee and request supporting documentation. The IRS also can question discrepancies when reviewing Election Forms and ask employees to provide documentation and information necessary to process elections.

According to the OPM, industry experts estimate that up to 10 percent of health claim benefits paid from private employer plans are incurred by family members who are not eligible for coverage. The OPM estimates that the FEHB Program provides approximately \$23 billion in benefits annually for those covered under Self and Family Plans. Each percent paid in error would translate to approximately \$230 million.

During the audit, we noted that the OPM had reported these concerns to Congress. Specifically, the OPM reported<sup>11</sup> that, "The extent of ineligible family members covered under FEHB Self and Family enrollments is currently unknown. In addition, there is no centralized FEHB enrollment

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<sup>10</sup> Electronic submissions are processed through the Employee Personal Page (a web-based system operated and maintained Governmentwide by the U.S. Department of Agriculture's National Finance Center).

<sup>11</sup> OPM, *Congressional Budget Justification Performance Budget Fiscal Year 2016* (Feb. 2015).



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database of eligible enrollees and family members, in part, because current enrollment systems do not require the input of family member dependent information.” To address this concern, the OPM reports that it will conduct a family member eligibility audit to determine if an audit of the entire FEHB population is necessary. If it performs a full audit, the OPM plans to provide recommendations on policies and procedures for agencies and FEHB carriers to follow in verifying family member eligibility. As the OPM is leading this effort Governmentwide, we are not making any recommendations to the IRS in this area.



## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to assess IRS controls over the processing of employee Federal health benefit elections.<sup>1</sup> To accomplish this objective, we:

- I. Determined whether the IRS's controls were adequate to timely verify employee and dependent eligibility to participate in the FEHB Program and enroll in its health plans.
  - A. Determined whether the IRS's guidance complied with OPM's FEHB Program policies and procedures used to assist Federal agencies in developing their guidance.
  - B. Determined whether controls were adequate to provide reasonable assurance that employee paper elections submitted to the IRS were timely verified, the information was complete, the eligibility determination was correct, and employees were timely enrolled in FEHB health plans.
    1. Selected a random statistical sample of 100 Standard Forms 2809, *Health Benefits Election Form*, (hereafter referred to as Election Forms) from a population of 2,373 FY 2014 paper Election Forms in the IRS Insurance Database that were submitted during the Open Season or when an employee first became eligible outside the Open Season. Election Forms were randomly selected so that each Election Form had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results. We relied on our contract statistician to verify our sampling methods. We calculated our sample size using a 95 percent confidence interval, 5.8 percent precision, and 10 percent estimated error rate as adjusted by the contract statistician.
    2. Selected a random statistical sample of 100 Election Forms from a population of 645 FY 2014 paper Election Forms in the IRS Insurance Database that were submitted as a result of a QLE for a change in family status. Election Forms were randomly selected so that each Election Form had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results. We relied on our contract statistician to verify our sampling methods. We calculated our sample size using a 95 percent confidence interval, 5.6 percent

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<sup>1</sup> Except for assessing the potential risks of adding ineligible dependents to health care plans, testing of transactions was not performed for electronic Election Form submissions because these health elections are processed through the Employee Personal Page (a web-based system operated and maintained Governmentwide by the U.S. Department of Agriculture's National Finance Center).





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precision, and 10 percent estimated error rate as adjusted by the contract statistician.

3. Reviewed the statistical samples of Election Forms from Steps I.B.1. and I.B.2. to determine if Election Forms were complete, employee eligibility requirements were met, and elections were timely effected.
- C. Determined the risk of adding certain dependents to FEHB health plans without substantiation, *e.g.*, marriage or birth certificate, by paper or electronic submission of Election Forms. This includes paper submissions to the IRS and electronic submissions processed through the Employee Personal Page.

### **Data validation methodology**

During this review, we relied on data extracted from the IRS's Insurance Database<sup>2</sup> from FY 2011 through FY 2014. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of the extract and verified that the data were the same as the data captured in the National Finance Center's Payroll/Personnel systems.<sup>3</sup> Based on the results of our testing, we believe that the data used in our review were sufficiently reliable for the purposes of this report.

### **Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the policies and procedures for processing IRS employee health benefit elections to enroll or make changes to FEHB health plans and inventory controls for FEHB elections. We evaluated these controls by reviewing procedures, analyzing sampled employee health benefit elections, and assessing the risks of adding certain dependents to FEHB health plans without substantiation.

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<sup>2</sup> The Insurance Database is used by the IRS to control and process employee paper Election Forms. We requested a copy of the Insurance Database, along with all the data and records from October 1, 2010, through October 6, 2014. FEHB health benefit elections from this period also include elections received earlier with data entries during this period.

<sup>3</sup> The National Finance Center maintains the programs which make up the Payroll/Personnel systems.



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**Appendix II**

*Major Contributors to This Report*

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**Appendix III**

*Report Distribution List*

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**Appendix IV**

*Management's Response to the Draft Report*

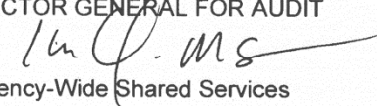


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WASHINGTON, D.C. 20224

August 12, 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin Q. McIver   
Acting Chief, Agency-Wide Shared Services

SUBJECT: Draft Audit Report - Review of Controls over Health Benefit  
Elections (Audit #201410019)

Thank you for the opportunity to respond to the subject draft audit report. We are committed to ensuring that Internal Revenue Service procedures over the processing of employee Federal health benefit elections are correct and effective.

We agree with both recommendations and will develop and implement corrective actions detailed in our attached response. Please note that one of the proposed corrective actions has already been implemented.

If there are technical questions, a member of your staff may contact James O'Reilly, Acting Director, Employee Support Services, at (860) 756-4540. For matters concerning audit procedural follow-up, please contact Pat Alvarado, Resource and Operations Management, Agency-Wide Shared Services, at (202) 317-3272 or Steven Scheer, Resource and Operations Management, Agency-Wide Shared Services, at (901) 546-4515.

Attachment



## *Review of Controls Over Health Benefit Elections*

### Attachment

The Chief, Agency-Wide Shared Services, should implement improved controls that:

#### **RECOMMENDATION 1:**

Provide reasonable assurance that complete and sufficient documentation is obtained from employees to support eligibility determinations.

#### **CORRECTIVE ACTION:**

We agree with this recommendation. The Chief, Agency-Wide Shared Services (AWSS) has:

- Updated the desk procedures stating the SF-2809 must have Box 9 - Additional Insurance Information, completed by the employee. If the box is not completed, the SF-2809 will be returned to the employee for completion.
- Updated the desk procedures requiring the Human Resource Assistant (HRA) to complete the Remarks section of what event occurred for the employee to utilize (Qualifying Life Event) QLE 1C – Change in Family status.
- Added additional options in the database to document SF-2809's that need to be processed versus SF-2809's submitted for information only.
- Created a form letter for employees to give to the physician to complete and sign, when they are requesting to keep a child over the age of 26 on their FEHB plan due to the child being incapable of self-support.

#### **IMPLEMENTATION DATE:**

Completed

#### **RESPONSIBLE OFFICIAL:**

Acting Director, Employee Support Services, Agency-Wide Shared Services

#### **CORRECTIVE ACTION MONITORING PLAN:**

N/A



## *Review of Controls Over Health Benefit Elections*

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The Chief, Agency-Wide Shared Services, and the IRS Human Capital Officer should:

**RECOMMENDATION 2:**

Establish procedures documenting the process between the Ogden Payroll Center and the IRS Human Capital Office for requesting assistance on policy issues. At a minimum, these procedures should include the format and information required to be included in requests, a method to track and monitor requests, and time standards for responding to requests.

**CORRECTIVE ACTION:**

We agree with this recommendation. The AWSS Chief and the IRS Human Capital Officer will review current practices in their respective areas and develop policies and/or procedures to request assistance with policy issues.

**IMPLEMENTATION DATE:**

November 30, 2015.

**RESPONSIBLE OFFICIAL:**

Acting Director, Employee Support Services  
IRS Human Capital Officer

**CORRECTIVE ACTION MONITORING PLAN:**

Employee Support Services, AWSS, will enter accepted corrective actions into Joint Audit Management Enterprise System. These corrective actions are monitored on a monthly basis until completion.