



Office of Inspector General

January 30, 2004
Report No. 04-007

FDIC-Sponsored Dental Insurance
Eligibility and Premium Payments

AUDIT REPORT



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DATE: January 30, 2004

TO: Arleas Upton Kea, Director
Division of Administration

FROM: Russell A. Rau
Assistant Inspector General for Audits

[Electronically produced version;
original signed by Russell A. Rau]

SUBJECT: *FDIC-Sponsored Dental Insurance Eligibility and Premium Payments*
(Report Number 04-007)

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) has completed an audit of FDIC-Sponsored Dental Insurance Eligibility and Premium Payments. The audit objective was to determine whether the FDIC's dental insurance eligibility records accurately reflect the current and prior FDIC employees entitled to dental insurance coverage under the FDIC policy.

We limited our audit procedures to performing computerized queries of dental plan participant data to avoid placing an undue burden on the FDIC staff responsible for the health benefits program just prior to the program's open season. As a result, we were unable to fully determine the cause of our finding, and our recommendations may not fully address weaknesses in the policies, procedures, or internal controls that contributed to the finding. Additional details on our objective, scope, and methodology are provided in Appendix I.

BACKGROUND

The FDIC provides a dental insurance plan for its current employees and retirees through Connecticut General Life Insurance Company (Connecticut General), a wholly owned subsidiary of CIGNA Corporation. The FDIC paid dental insurance premiums of \$7.1 million for calendar year 2002 and \$5.7 million from January through October 2003. As of August 2003, 5,466 current FDIC employees and 2,772 FDIC retirees were enrolled in the plan. The FDIC's contract with Connecticut General provides the rate structure shown in Table 1 for calendar years 2002 and 2003.

Table 1: Connecticut General Annual Dental Insurance Premiums
Calendar Years 2002 and 2003

| Coverage | Low Option | Standard Option | High Option |
|----------------------|------------|-----------------|-------------|
| Employee (Self-Only) | \$271 | \$413 | \$494 |
| Self & Family | \$731 | \$1,114 | \$1,334 |

Source: CIGNA HealthCare.

The FDIC's Division of Administration (DOA) is responsible for managing the dental plan as part of the Corporation's Flexible Cafeteria Benefits Program (Flex Plan). The FDIC contracted with Benefits Allocation Systems (BAS) in 2002 to implement and administer the Flex Plan. BAS processes enrollments; provides customer service; maintains dental insurance data for current employees, retirees, and their dependents; and prepares reports with enrollment statistics for the FDIC.

RESULTS OF AUDIT

Overall, for the period January 2002 through October 2003, the FDIC's dental insurance eligibility records accurately reflected the current and prior FDIC employees entitled to dental insurance coverage under FDIC policy. We noted, however, that certain discrepancies in BAS's database resulted in the FDIC overpaying dental insurance premiums by about \$110,295. We are recommending that the FDIC recover the overpayments and assess the adequacy of internal controls over eligibility records and premium payments.

FINDING AND RECOMMENDATIONS

DENTAL INSURANCE ELIGIBILITY RECORDS INCLUDE SOME INELIGIBLE INDIVIDUALS AND ERRORS

The BAS database for the FDIC's dental insurance plan includes individuals ineligible for dental plan coverage, some duplicate individuals, and other errors. Based on our limited audit procedures, we could not determine the specific cause for the discrepancies, although it appears that monitoring and verification procedures to detect inaccurate records could be improved. We estimated that the FDIC overpaid \$110,295 in dental insurance premiums as a result of eligibility and other errors that were not detected and resolved in the routine processing of the FDIC's dental insurance premium payments.

Dental Insurance Eligibility Requirements and Timing of Coverage

The FDIC documents dental plan eligibility in an annually prepared Summary Plan Description (SPD). The SPD describes who is covered, when coverage begins, benefit choices, covered expenses, plan limitations, and when coverage terminates for eligible employees and their dependents. In general, all FDIC employees and dependent family members are eligible for dental plan coverage. Coverage begins on the date of hire/appointment and ends on the last day of employment with the FDIC. Upon retirement from the FDIC, retirees and their dependents continue to be covered as long as the FDIC continues to provide the benefit.

Types of Eligibility and Payment Exceptions Identified

Premiums Paid for Deceased Retirees: We determined that the FDIC continued to pay dental insurance premiums for 53 deceased FDIC retirees after notifications of death had been recorded with the Social Security Administration (SSA).¹ Using the retiree enrollment data from the FDIC biweekly pay period number 15, we matched the retirees' social security numbers with the SSA's Death Master File of inactivated social security numbers. The results identified 53 deceased FDIC retirees as active dental plan participants during pay period number 15. Dates of death for the retirees ranged from 1992 to 2003 (see Table 2).

Table 2: Deceased Retirees Carried as Dental Plan Participants as of August 9, 2003

| Year | 2003 | 2002 | 2001 | 2000 | 1999 | 1997 | 1996 | 1995 | 1994 | 1992 |
|-------------------|------|------|------|------|------|------|------|------|------|------|
| Deceased Retirees | 11 | 14 | 9 | 4 | 3 | 3 | 2 | 3 | 3 | 1 |

Source: The 53 deceased retirees are shown by the year of death recorded in the SSA Death Master File.

We estimated that the FDIC overpaid \$91,404 in dental insurance premiums for the 53 deceased retirees. We calculated the estimated overpayment by applying the 1992-2003 premium rates to the

¹ The Death Master File from the Social Security Administration (SSA) contains over 75 million records of deaths that have been reported to the SSA. The file is used by leading financial and credit firms as well as government agencies to match records and prevent identity fraud and to comply with the USA PATRIOT Act, Pub. L. No. 107-56 (2001).

number of billing periods between the date of death and October 31, 2003. Table 3 shows the breakdown by year of the overpayments.

Table 3: Overpayments for Premiums for Deceased FDIC Retirees

| Period | Estimated Premium Overpayments |
|-----------------------------|--------------------------------|
| January 2002 - October 2003 | \$58,285 |
| 2001 | \$8,784 |
| 2000 | \$6,186 |
| 1999 | \$5,227 |
| Pre-1999 | \$12,922 |
| Total | \$91,404 |

Source: SSA Death Master File and applicable premium rates provided by the FDIC DOA.

The DOA indicated that claims against FDIC-provided life insurance triggered the removal of retirees from the FDIC dental insurance coverage. Conceptually, DOA's underlying assumption is that beneficiaries will file life insurance claims with the FDIC for deceased FDIC retirees and that once deaths have been verified through processing the claims, the deceased participants can be removed from dental insurance eligibility. Although we did not extensively review the controls used to monitor eligibility, we noted that 32 of the 53 deceased retired employees had FDIC life insurance and that claims had been filed for 11 of the 32 retirees. None of the 11 retirees had been removed from the dental plan eligibility records or premium billing invoices. Life insurance claims were not filed for the remaining 21 retirees. Table 4 shows the dates of death and the dates of life insurance claims made for the 11 deceased retirees.

Table 4: Retirees' Dates of Death and Dates of Life Insurance Claims

| Date of Death | Date of Life Insurance Claim |
|----------------------|-------------------------------------|
| February 1994 | April 1994 |
| October 1994 | February 1995 |
| July 1995 | September 1995 |
| September 1996 | November 1996 |
| November 1996 | March 1997 |
| July 1997 | August 1997 |
| July 2002 | September 2002 |
| August 2002 | September 2002 |
| December 2002 | March 2003 |
| January 2002 | May 2002 |
| July 2003 | August 2003 |

Source: The FDIC's third-party administrator, BAS, contacted the FDIC's life insurance company, Met Life, to obtain life insurance claim information. We obtained dates of death from the SSA Death Master File.

Duplicate Premium Payments for Current Plan Participants: We determined that the FDIC made duplicate premium payments for 14 dental plan participants. Our computer matching procedures showed that the participants were reflected twice on Connecticut General premium statements for calendar years 2002 and 2003. The errors apparently occurred during the manual input of data. We notified BAS of the duplicate records and, with BAS's assistance, we determined that the FDIC overpaid \$10,991 in duplicate premiums.

BAS Processing Errors for Current Employees: BAS processing errors resulted in the FDIC overpaying \$7,900 for calendar year 2003 premiums. These errors occurred because BAS did not correctly modify eligibility records in response to the FDIC notifications to terminate coverage for eight employees because of separation from the FDIC.

Conclusion and Recommendations

Through a combination of eligibility and other errors, the FDIC's premium payments to Connecticut General for the period 1992 through October 2003 included overpayments totaling approximately \$110,295. As discussed earlier, our limited audit procedures prevented us from determining specific causes for these errors. However, it appears that DOA procedures for ensuring the accuracy of dental plan eligibility records can be improved. Further, review of the internal controls associated with administering the dental insurance premiums may be helpful in identifying methods for preventing inaccurate records and payments. Accordingly, we recommend that the Director, Division of Administration:

- (1) Disallow the estimated \$91,404 in questioned dental insurance premium payments for deceased FDIC retirees.
- (2) Disallow the \$10,991 in questioned duplicate dental insurance premium payments.

- (3) Disallow the \$7,900 in questioned overpayments for plan participants who separated from the FDIC.
- (4) Review dental insurance administration procedures and determine where improvements to internal controls can be established and implemented for ensuring accurate records and premium payments. Such controls could include periodically matching and reconciling eligibility records and appropriate personnel-related databases.

CORPORATION COMMENTS AND OIG EVALUATION

On January 28, 2004, we received the DOA Director's written response, dated January 9, 2004, to the draft report. The response is presented in Appendix II to this report. DOA management concurred with the recommendations and researched the estimated overpayments. DOA reported that the actual overpayments varied from our estimates, and we have modified the amounts originally contained in our draft report to reflect the actual amounts. In response to our results, DOA has already taken several corrective actions and plans to complete others by March 31, 2004. The following summarizes management's responses to our recommendations.

Recommendation 1: Disallow the estimated \$91,404 in questioned dental insurance premium payments for deceased retirees.

DOA concurred with this recommendation. DOA determined that the actual overpayment for the period January 2002 through October 2003 was \$58,285, \$3,660 less than the \$61,945 estimated in our draft report. DOA's revised calculations show the total amount overpaid for deceased retirees to be \$91,404; \$58,285 related to January 2002 through October 2003 and \$33,119 related to dates preceding January 2002. BAS terminated coverage retroactive to the date of death or January 1, 2002, whichever is later, for each deceased retiree, and recovered the \$58,285 from CIGNA. The remaining \$33,119 will be reviewed by DOA's Acquisition Services Branch to determine whether the costs are allowable. Once a decision is made, DOA will either disallow and pursue recovery of any amounts not authorized under the contract or not pursue the amounts questioned if the costs are deemed allowable. DOA's review and recovery should be completed by March 31, 2004.

Management's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions have been completed and are effective.

Recommendation 2: Disallow the \$10,991 in questioned duplicate dental insurance premiums payments.

DOA concurred with this recommendation and determined that the actual overpayment was \$10,991; \$159 less than the \$11,150 estimated in our draft report. DOA's recovery of the overpaid amount should be completed by February 27, 2004.

Management's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions have been completed and are effective.

Recommendation 3: Disallow the \$7,900 in questioned overpayments for plan participants who separated from the FDIC.

DOA concurred with this recommendation. This overpayment resulted from an error in BAS's programming that occurred in 2001. DOA stated that it had recovered the \$7,900 from CIGNA, \$826 more than the \$7,074 estimated in our draft report. The OIG has not yet confirmed this recovery.

Management's action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions has been completed and is effective.

Recommendation 4: Review dental insurance administration procedures and determine where improvements to internal controls can be established and implemented for ensuring accurate records and premium payments. Such controls could include periodically matching and reconciling eligibility records and appropriate personnel-related databases.

DOA concurred with this recommendation. DOA is revising its procedures related to the payments of dental premiums and establishing additional controls to ensure the accuracy of dental insurance records, all of which should be completed by March 31, 2004. Such controls include:

- matching SSA death information to enrollment files electronically,
- sweeping enrollment files to prevent duplicate social security numbers,
- instituting system controls to prevent duplicate entries, and
- documenting quality control procedures.

Management's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions have been completed and are effective.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether the FDIC's dental insurance eligibility records accurately reflect the current and prior FDIC employees entitled to dental insurance coverage under FDIC policy. In fulfilling our objective, we gained an understanding of the Corporation's policies and procedures for (1) monitoring eligibility and (2) ensuring the accuracy of premium payments to Connecticut General. We limited our audit procedures to performing data matches to identify eligibility and enrollment discrepancies. Throughout the audit, we provided interim audit conclusions to enable the FDIC to initiate corrective actions, where applicable. Our audit results take into consideration any such FDIC actions on audit findings through October 2003.

The scope of our work covered dental plan activity from January 2002 through October 2003. To test the accuracy of dental plan eligibility records, we chose pay period 15, the most recent 2003 FDIC biweekly payroll period for which payroll processing had been completed, including corrections and modifications. Pay period 15 covered July 27 through August 9, 2003. As of August 2003, 5,466 current FDIC employees and 2,772 FDIC retirees were enrolled in the plan. Our computerized queries identified enrollment discrepancies as of pay period 15 and included discrepancies carried from prior pay periods. Therefore, we did not test the preceding 14 pay periods in calendar year 2003 or the 26 pay periods in calendar year 2002.

Details on our audit scope and methodology follow:

- Deceased Retirees. We obtained the Death Master File from the Social Security Administration to use as a source of inactivated social security numbers due to deaths. The SSA Death Master File provides death certificate issuance dates and death verifications by the deceased persons' families. We used computerized matching procedures to compare the FDIC database of retirees shown as active participants in the dental plan to the SSA's database of inactivated social security numbers.
- Duplicate Premium Payments. We used computerized matching procedures to identify Connecticut General premium payments that were paid twice. BAS provided the data that the FDIC used for premium statement purposes. We queried that database for the social security numbers occurring more than once for current FDIC employees and retirees.
- BAS Processing Errors. We generated a computerized query that identified any FDIC current employee participating in the dental plan, but for whom no payroll activity occurred in pay period 15. The payroll activity was retrieved from the FDIC's Payroll Bridge file,² which is a compilation of FDIC payroll transactions processed through the National Finance Center³ each pay period. Our query compared the Payroll Bridge file data to the Connecticut General premium statement for pay period 15. We contacted BAS about resultant discrepancies and, together with BAS, reviewed processing errors requiring corrections to the FDIC's prior billings.

² The Payroll Bridge file contains all payroll data for the Corporation that has been annotated and converted to a format that is compatible with the general ledger system.

³ The U. S. Department of Agriculture's National Finance Center provides personnel and payroll services for the FDIC.

BAS determined the questioned cost of \$7,900 by identifying the related processing errors and making the necessary corrections.

We reviewed applicable laws and regulations and concluded that the FDIC's dental plan eligibility rules are not inconsistent with the requirements of 5 U.S.C. §§ 8901 (note) and 8914 and subpart C of 5 C.F.R. § 890 pertaining to the Federal Employees Health Benefits Program. We gained an understanding of the internal control activities used by the FDIC to monitor dental insurance eligibility records. Additionally, our audit procedures detected no fraudulent or illegal acts. Further, we did not assess whether the Corporation established performance measures related to administration of the dental insurance plan because doing so was not material to our audit objective.

We performed our audit from August 26, 2003 through October 31, 2003 in accordance with generally accepted government auditing standards.

CORPORATION COMMENTS



FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Administration

DATE: January 9, 2004

MEMORANDUM TO: Stephen M. Beard
Deputy Assistant Inspector General for Audits

FROM: Arleas Upton Kea, Director
Division of Administration [Electronically produced version;
original signed by Glen V. Bjorklund for
Arleas Upton Kea]

SUBJECT: Draft Report Entitled, *FDIC-Sponsored Dental Insurance Eligibility
and Premium Payments* (Assignment Number 2003-053)

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) report. We appreciate the review performed by the OIG and its recommendations to address certain premium payments issues identified as a result of the review. In the OIG report there are a total of four recommendations. We have evaluated each recommendation and have provided a detailed response to include planned corrective actions and expected completion dates as appropriate.

MANAGEMENT DECISION

Finding: Dental Insurance Eligibility Records Include Some Ineligible Individuals and Errors

Condition: Premiums paid for deceased retirees.

Recommendation: We recommend that the Director, Division of Administration:

(1) Disallow the estimated \$95,064 in questioned dental insurance premium payments for deceased retirees.

Management Response: DOA concurs with this recommendation. We agree that certain dental insurance premiums were paid for deceased retirees in error. However, based on our calculations, the actual amount of the overpayment for the period January 2002 through October 2003 is \$58,284.92, \$3,660.08 less than the \$61,945 estimate in the OIG's Draft Report. Therefore, the total amount overpaid for deceased retirees should be reduced to \$91,403.92; this includes the OIG's estimate of \$33,119 overpaid for deceased retirees for the period prior to January 2002. Benefit Allocation Systems, Inc. (BAS), the FDIC's third party administrator since January 2002 for FDIC Choice has terminated coverage retroactive to the date of death or January 1, 2002, whichever is later, for each deceased retiree and recovered the \$58,284.92 from CIGNA. The remaining estimate of \$33,119 will be reviewed by DOA's Acquisition Services Branch to determine whether the costs are allowable. That review may include conferring with FDIC's Legal Division as necessary. Once a decision is made, we will either disallow and

pursue recovery of any amounts not authorized under the contract or not pursue the amounts questioned if the costs are deemed allowable. Our review and recovery of any amounts should be complete by March 31, 2004.

Condition: Duplicate premium payments for current plan participants.

Recommendation: We recommend that the Director, Division of Administration:

(2) Disallow the \$11,150 in questioned duplicate dental insurance premiums payments.

Management Response: DOA concurs with this finding. We agree that there were duplicate premium payments made in error to Cigna for 14 plan participants (11 active employees and 3 retirees). Based on our calculations, the actual amount of the overpayment for the period January 2002 through October 2003 is \$10,991.40, slightly less than the \$11,150 estimate in the OIG's Draft Report. To date, BAS recovered \$1,916.08 in pay periods 22 and 23. BAS will credit the remaining \$9,075.32 on the invoice for pay period 2. Further, BAS has developed new programs to sweep and prevent these duplicate entries from occurring in the future. See our response to recommendation 4.

(3) Disallow the \$7,074 in questioned overpayments for plan participants who separated from the FDIC.

Management Response: DOA concurs with this finding. This overpayment resulted from an error in BAS's programming that occurred in 2001. The error was corrected, but some of the erroneous premiums that resulted were not recognized at that time. In pay periods 21 and 22 of 2003, BAS recovered from CIGNA \$7,899.78 (not \$7,074) that was erroneously paid for FDIC employees who had separated from service.

Condition: BAS processing errors for current employees.

Recommendation: We recommend that the Director, Division of Administration:

(4) Review dental insurance administration procedures and determine where improvements to internal controls can be established and implemented for ensuring accurate records and premium payments. Such controls could include periodically matching and reconciling eligibility records and appropriate personnel-related databases.

Management Response: DOA concurs with this finding. In reviewing the results of your audit and the current procedures surrounding the payment of dental premiums to CIGNA, we have taken the following actions:

- BAS has instituted a new quality control procedure to identify deceased retirees and recover any erroneous premiums. Specifically, BAS has obtained the Social Security Administration's (SSA) death files on CD-ROM to match against the FDIC Choice enrollment file. The SSA file is the same file used by the auditors during this review. This will ensure that any deceased retirees still on the dental rolls will be purged. BAS will conduct this match semi-annually with an updated CD-ROM from SSA each time. The initial matching of the SSA death files to the FDIC Choice enrollment file will be

complete by January 30, 2004. The semi-annual review will limit the possible payment of dental premiums for deceased retirees to no more than 6 months, with an automatic adjustment in the CIGNA premiums to recover these monies on a semi-annual basis.

- Further, BAS has developed a new program to sweep (on a daily basis) the FDIC's MyEnroll files to uncover any duplicate SSN's and make corrections, as well as any duplicate coverages on individual FDIC employees. The program will be implemented by January 30, 2004.
- In addition, the Human Resources Branch will perform a review of the dental billing record for any duplicate entries once every year. This review will be done for the last pay period in June to be complete by July 15 of that year.
- BAS also has developed a new program that will prevent duplicate entries for new hires, which accounts for the majority of such mistakes. If an FDIC employee tries to add a new employee to MyEnroll that is a duplicate record, the system will warn the user that there is already an active record for the employee and give them the opportunity to abort the transaction. The program will be implemented by January 30, 2004.
- FDIC has initiated a new quality control procedure by sending BAS a portion of the pay period file every 2 weeks to ensure separated employees are dropped from MyEnroll and for other audit purposes, such as checking for tour of duty, correct class code, and correct pay plan. This new procedure was implemented as of the end of December 2003.
- While these new controls are effective as of the end of the year or will be as of the end of January 2004, BAS, to better manage the new workload, is filling a new position that will be responsible for auditing the daily and biweekly reports and transmissions to NFC, DOF and the insurance carriers. The incumbent also will conduct the daily reconciliations with NFC and develop audit procedures and accounting checks and balances to ensure that all records are accurate.
- DOA will work with BAS, NFC and DOF to document quality control procedures, including any procedures for identifying duplicate payments, and to automate (to the extent practicable) the auditing and correction processes used in administering all of the FDIC Choice plans by the end of March 2004.

If you have any questions regarding the response, our point of contact for this matter is Andrew Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

cc: Glen Bjorklund, DOA
 Ann Bridges-Steely, DOA ASB
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 Paul K. Sherman, DOA MSB
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MANAGEMENT RESPONSES TO RECOMMENDATIONS

This table presents the management responses that have been made on recommendations in our report and the status of recommendations as of the date of report issuance. The information in this table is based on management’s written response to our report.

| Rec. Number | Corrective Action: <u>Taken or Planned/Status</u> | Expected Completion Date | Monetary Benefits | Resolved ^a : Yes or No | Dispositioned ^b : Yes or No | Open or Closed ^c |
|-------------|---|--------------------------|-------------------|-----------------------------------|--|-----------------------------|
| 1 | DOA disallowed the estimated \$91,404 in dental insurance premium payments for deceased FDIC retirees and will make a determination on allowability of payments. | March 31, 2004 | \$91,404 | Yes | No | Open |
| 2 | DOA disallowed the \$10,991 in duplicate dental insurance premiums payments and will seek recovery of that amount. | February 27, 2004 | \$10,991 | Yes | No | Open |
| 3 | DOA stated that it had recovered the \$7,900 in overpayments for plan participants who separated from the FDIC. | December 22, 2003 | \$7,900 | Yes | No | Open |
| 4 | DOA is in the process of reviewing and implementing a number of measures to improve dental insurance administration procedures and is implementing improvements to internal controls to ensure accurate records and premium payments. | March 31, 2004 | None | Yes | No | Open |

^a Resolved – (1) Management concurs with the recommendation and the planned corrective action is consistent with the recommendation.
 (2) Management does not concur with the recommendation but planned alternative action is acceptable to the OIG.
 (3) Management agrees to the OIG monetary benefits or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Dispositioned – The agreed-to corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

^c Once the OIG dispositions the recommendation, it can then be closed.