UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

JAN 25 1972

Dear Mr. Ruddock:

Our review of the Indemnity Benefit Plan of the Federal Employees Health Benefits Program revealed certain errors and questionable practices in addition to the matters discussed in our draft report to the Congress, which was previously forwarded to the Chairman of the Commission for comments on December 13, 1971. These additional errors and questionable practices involved (1) charges to the Plan by the Aetna Life Insurance Company (Aetna) for administrative expenses in 1969 and (2) Aetna's credits to the Plan in 1969 for interest income applicable to the Plan's Deposit Fund.

## ADMINISTRATIVE EXPENSES

### Indirect printing costs

We found that Aetna had incorrectly coded certain printing invoices, resulting in an overstatement of about $21,000 in charges to the Plan for indirect printing costs for 1969. After we brought this matter to their attention, Aetna officials reduced the 1970 charges to the Plan to correct for the 1969 overstatement. Aetna also reviewed and adjusted its 1970 indirect printing charges, and an Aetna official informed us that Aetna would review the 1968 indirect printing charges.

We did not review the propriety of the adjustments made by Aetna relating to the 1970 charges. The Commission may, therefore, wish to examine Aetna's adjustments to determine their propriety and review Aetna's indirect printing charges for prior years.

### Payroll taxes

We found that, due to an administrative error, Aetna's charges to the Plan for 1969 payroll taxes were overstated by about $4,400. We discussed this matter with Aetna officials and noted that they had taken corrective action with respect to the overcharge.

715314

Group Division's indirect costs

Starting in 1967 Aetna and the Commission agreed to use a fixed rate of 44 percent of direct salaries for charging the indirect expenses of Aetna's Group Division. This rate was determined by averaging the actual overhead rates used in three previous years. The Group Division's indirect expenses charged to the Plan for 1969 amounted to about $97,000 excluding prior years' adjustments.

While our review indicated that the 1969 charges to the Plan for Group Division indirect expenses were reasonable, we believe that charges for indirect expenses based on a fixed percentage of direct salaries might not be equitable in future contract periods. Over a period of years, with changes in the relationship between indirect expenses and direct salaries, the use of a fixed rate could result in either undercharges or overcharges to the Plan. An official of Aetna agreed that a potential inequity could develop as a result of changes in cost relationships. The Commission may wish to review the reasonableness of the agreed upon fixed rate in its future audits of the Plan.

DEPOSIT FUND INTEREST INCOME

The Commission's contract requires Aetna to credit the Plan with interest on the Plan's Deposit Fund.

We noted that, in computing the interest income on the Deposit Fund for 1969, Aetna had used a negative Deposit Fund balance for part of the year. The contract provided, however, that the balances used could not be less than zero. As a result, we estimate that the investment income credited to the Plan for 1969 was understated by about $5,800.

We discussed this matter with Aetna officials who subsequently advised us that a portion of the understatement had been corrected on the accounting statement submitted to the Commission for 1970 and that the remaining portion of the understatement would be corrected on the accounting statement for 1971. The Commission may wish to review Aetna's adjustments to verify their propriety.

- - - -