



## **2020 Premium Reconciliation Audit**

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**Prepared for  
The State Employee Health Plan  
State of Kansas**

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### **Executive Summary**

The State Employee Health Plan (SEHP) engaged Sagebrush Analytics to perform a premium reconciliation audit for calendar year 2020. The premium process is primarily automated, from employee benefit selection through to the paychecks and ACH deductions, although there are points in the process that require manual intervention. The goal of the project is to match employee benefit deduction to payroll deduction data to identify and help resolve any pattern billing discrepancies.

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 to develop and provide for the implementation and administration of a state health care benefits program. These benefits and plans are administered by the SEHP staff.

Effective July 1, 2020, the State of Kansas moved the SEHP and the State Self Insurance Fund (SSIF) from the Department of Health and Environment (KDHE) to the Department of Administration (KDOA). The new reporting structure was implemented to facilitate the alignment of the office with other employee-focused services and provide improved administrative efficiencies and support. Conducting period audits of benefits plans is the responsibility of SEHP. Additionally, SEHP is responsible for bringing recommendations to the HCC and with carrying out the operation of the SEHP according to HCC policy.

The audit of the 2020 calendar year transactions confirmed that the premium process appears to be working as intended for the majority of SEHP participants. The variance between expected premiums and actual deducted/invoiced premiums identified through the audit is not material.

### **Premium Process**

Employees select from a variety of health plans, including prescription, dental, vision, and voluntary benefits available through the SEHP. Each new hire must apply for coverage and provide required documentation within 31 days of employment. Existing employees select coverage during open enrollment in the Fall. Coverage is available to all active, full time and part time, employees and dependents, and eligibility begins 31 days after employment start date. Other, certain individuals may also be covered by the plans, including COBRA participants and retirees. Additionally, Non-State employer groups such as educational entities, cities, counties, townships, hospitals and other governmental employees are also eligible for coverage through SEHP.

Enrollment data, including new hires, terminations, and other changes, are recorded in the SEHP Membership Administration Portal (MAP). The data in MAP includes benefit elections for all plan participants, including active employees, University employees, and Non-State Public Employer Groups, and other individuals such as retirees. The MAP system calculates the semi-monthly premium deductions for all participants and discounts the employee premiums for reward credits earned through the HealthQuest wellness program when applicable. MAP produces a file, the Benefit Election Return File (BERF), that is transferred to the University and Central (Sharp) Payroll Systems to actualize the payroll deductions. Nearly 5 million payroll transactions are processed annually through the premium process.

A separate process is used to generate direct bill invoices to the Non-State Public Employer Groups, and other individuals such as retirees. The invoices are collected through Automated Clearing House (ACH) bank account deductions. Invoices are sent to approximately 140 groups, averaging approximately 9,000 direct bill participants on the 8<sup>th</sup> of each month.

Each University processes its own payroll file and sends the data to Central Payroll for recordkeeping purposes. SEHP administrative staff rely on the Universities to track any adjustments and to forward the information back to SEHP.

Payroll processing occurs semi-monthly and the payroll data files are called KPAY230 or KPAY208 for payroll and payroll adjustment files, respectively. For example, if the employee does not have a paycheck for some reason, such as unpaid leave, the unpaid premium would be recorded in the KPAY208 data. Payroll variance reports are generated by SEHP to identify discrepancies between planned and actual payroll deductions, and the reports are worked by SEHP staff.

Invoicing of the direct bills occurs monthly. ACH deductions occur at the beginning of each month. However, if the ACH deduction is unsuccessful, such as for a lack of funds, participants are contacted for new bank account information. A second attempt to draw the funds through the ACH process will be made on the 16<sup>th</sup> of the month. Following a failed second attempt to draw funds, the participant is terminated from the plan(s).

# Summary of Findings

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## Audit Methodology

### Available Data and Information

Electronic Files were obtained for the audit from SEHP. The following files were collected for calendar year 2020:

#### Exhibit 1 – Available Data

Available Data Files and Information
2020 Eligibility File
2020 Rate Sheet
Attribute File (premium discounts earned through HealthQuest wellness program)
Benefit Election Return File (BERF)
KPAY230 (payroll files)
KPAY208 (payroll adjustment files)
NSE and RETIREE Direct Bill Invoices
NACHA Files (ACH deductions for NSE & Retiree direct bills)

### Methodology for Testing Premiums

Testing was conducted for all premium deductions and invoiced premiums for calendar year 2020. Testing included premiums for medical, dental, and vision plans, and included employer, employee deductions, and direct bill premiums.

Sagebrush electronically joined the rate sheets to the eligibility file in order to calculate the total expected premium deductions for each participant for the entirety of 2020. The Attribute File was applied to the calculation in order to account for premium discounts resulting from participation in the HealthQuest wellness program. The expected premium calculation factored in coverage status such as plan and level of dependent coverage, including changes during the year. The expected premium was then compared to the actual deductions, including adjustments, using the KPAY files. Variances between employee and employer expected and actual premium deductions were noted.

Similarly, for direct bill participants, Sagebrush applied the rate sheets to eligibility information, including changes, to calculate and expected total premium for each participant. The expected 2020 premiums were compared to the compiled invoice files. Variances were noted. A comparison of invoiced files to the ACH (NACHA) files was conducted to ensure that invoiced premiums were deducted.

## Summary of Findings

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Detailed files listing the identified discrepancies have been provided to SEHP staff.

### Summary of Findings

#### Payroll Deduction Reconciliation

##### *Summary Payroll Deduction Variances*

The payroll deduction reconciliation is an analysis of the premium payroll deductions for all active employees. The following variances were identified by plan type.

#### **Exhibit 2 – Expected to Payroll Deduction Variance by Employee and Plan Type**

Premium Source	# of Subscribers with Variations	Absolute Variance
Medical Employer	417	\$285,318.50
Medical Employee	382	\$108,619.53
Dental Employer	115	\$4,926.98
Dental Employee	125	\$11,857.36
Vision Employee	173	\$5,134.71
<b>TOTAL</b>	<b>1,212</b>	<b>\$415,857.08</b>

The following table compares the total identified absolute variance to the actual total 2020 premium deductions for active employees. The resulting variance is 0.11% and is not material.

The net variance, \$63,497.92, compared to the actual total 2020 premium deductions for active employees is -0.02%.

## Summary of Findings

### Exhibit 3 – Absolute Variance to Total Payroll Deductions

Premiums Deducted	Total Variation from Expected Premiums	Variance as a % of Total Deductions
\$377,712,002	\$415,857.08	0.11%

#### *Observations – Data Entry Issue*

Sagebrush and SEHP worked together to review some of the types of identified potential discrepancies between expected premiums and actual deductions, including records with deductions  $\leq$  \$0, mid-month changes, and mid-month hires and terminations. The review highlighted an error type where a coverage change was entered into MAP as a termination on the 30<sup>th</sup> of the month with 31 days followed by new coverage on the first of the following month. The result if this type of data entry error is actual premium deductions were short by one day's premium.

It appears that this error type is a manual data entry error. Errors of this type could be reduced through training and/or adding a prompt or warning in MAP for entries on the 30<sup>th</sup> for months containing 31 days.

#### *Observations – Variance by Agency*

Six of more than 50 agencies were responsible for more than 50% of the variance.

### Exhibit 4 – Total Variance for All Plans Combined by Agency

State Agency	Absolute Employer Premium Variances	Absolute Employee Premium Variances	Total	% of Total	Cumulative % of Total
683	\$21,544.64	\$26,414.80	\$47,959.44	11.53%	11.53%
367	\$26,844.58	\$16,125.36	\$42,969.94	10.33%	21.87%
276	\$30,427.80	\$4,271.88	\$34,699.68	8.34%	30.21%
410	\$24,864.57	\$2,976.84	\$27,841.41	6.69%	36.90%
629	\$17,734.56	\$8,164.76	\$25,899.32	6.23%	43.13%
682	\$9,964.45	\$14,860.44	\$24,824.89	5.97%	49.10%
ALL OTHER	\$158,864.88	\$52,797.52	\$211,662.40	50.90%	100.00%
TOTAL	\$290,245.48	\$125,611.60	\$415,857.08	100.00%	

The study identified that six State agencies out of more than 50 total agencies were responsible for approximately one half of the total variance. Three of the six agencies (367, 682, and 683) were

## *Summary of Findings*

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also highlighted for comprising a significant percent of the total variance in the audit of calendar year 2019. However, the variation for these three agencies as a percent of total variation for all agencies decreased from the figures reported in 2019.

The total net variance for the six agencies is \$47,635.16, compared to the total net variance for all agencies of \$63,497.92. The total net variance for the six agencies is 75.02% of the total net variance for all agencies.



## Summary of Findings

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### Direct Bill Reconciliation

The direct bill reconciliation is an analysis of the premium invoices for all groups and individuals receiving direct bills for monthly premiums. The following variances were identified by plan type.

#### Exhibit 5 – Expected to Invoice Variance by Group/Individual and Plan Type

Premium Source	# of Groups/ Participants with Variations	Absolute Variance
Medical Employer	105	\$97,934.87
Medical Employee	10	\$7,285.06
Dental Employer	4	\$680.06
Dental Employee	6	\$341.78
Vision Employee	7	\$317.52
TOTAL	132	\$106,559.29

The following table compares the total identified absolute variance to the actual total 2020 premium invoices for direct bill groups and individuals. The resulting variance is 0.13% and is not material.

The net variance, -\$15,424.46, compared to the actual total 2020 premium deductions for direct bill groups and individuals is -0.02%.

#### Exhibit 6 – Absolute Variance to Total Invoices

Premiums Deducted	Total Variation from Expected Premiums	Variance as a % of Total Deductions
\$83,702,879	\$106,559.29	0.13%

## *Summary of Findings*

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### **Conclusion**

The project results indicate that premium process appears to function as intended. The variations between expected premiums and deducted/collected premiums are not material for both SOK employees as well as direct bill participants.

The audit highlighted a common data entry error that results in premium deductions being shorted by one day. The erroneous MAP entry may also result in a gap in plan coverage by one day. Specifically, the premium gap occurs when a coverage change was entered into MAP as a termination on the 30<sup>th</sup> of the month with 31 days followed by new coverage on the first of the following month. Errors of this type could be reduced through training and/or adding a prompt or warning in MAP for entries on the 30<sup>th</sup> for months containing 31 days.

The study also identified that six State agencies out of more than 50 total agencies were responsible for more than 50% of the total variance. Three of the six agencies (367, 682, and 683) were also highlighted for total variance in the audit of calendar year 2019. However, the total variation for these three agencies relative to the total variation for all agencies decreased significantly from the figures reported in 2019. The reduction could be attributable to an improved process or reporting for these agencies.