



January 15, 2021

# WSSC Retiree Benefits Plan Audit

Project# 17-HRRB-003

A Report to:

**Commissioners:**

Chair, Howard A. Denis  
Vice Chair, Keith E. Bell  
Fausto R. Bayonet  
T. Eloise Foster  
Chris Lawson  
Sandra L. Thompson

**General Manager/CEO:**

Carla A. Reid

**Acting Corporate Secretary**

Julianne M. Montes De Oca, Esq.



Source: Bing

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COMMISSIONERS

Howard A. Denis, Chair  
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GENERAL MANAGER

Carla A. Reid

**TO:** CHAIR DENIS, VICE CHAIR BELL  
COMMISSIONER BAYONET, COMMISSIONER FOSTER,  
COMMISSIONER LAWSON, AND COMMISSIONER THOMPSON  
GENERAL MANAGER REID

**THRU:** ARTHUR A. ELKINS, INSPECTOR GENERAL <sup>DS</sup>  
OFFICE OF THE INSPECTOR GENERAL *AE*

**FROM:** MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT  
OFFICE OF THE INSPECTOR GENERAL *MB*

**DATE:** JANUARY 15, 2021

**SUBJECT:** OFFICE OF THE INSPECTOR GENERAL  
PERFORMANCE AUDIT OF WSSC's RETIREE BENEFITS PLAN

We have performed an audit of WSSC's Retiree Benefits Plan. The detailed report is attached for your review. The OIG conducted the audit in accordance with the International Professional Practice of Internal Auditing (*Standards*) and the Generally Accepted Government Auditing Standards (GAGAS), except for the peer review requirement. We have already discussed with management issues of concern and their action plans are included in this report.

We appreciate the assistance provided by WSSC Water's Human Resources Office and Departments of Finance and Information Technology, as well as its other personnel and the Maryland State Retirement System Office. We hope the information and recommendations presented in our report are helpful.

Attachment

cc: Acting Corporate Secretary, (J. Montes De Oca)  
DGM, Administration, (J. Beach)  
DGM, Strategy and Partnerships, (M. Johnson)  
Chief Financial Officer, (P. Colihan)  
Chief Information Officer, (C. Carter)  
Human Resources Acting Director, (D. Thomas)  
Acting Division Manager, Benefits, (R. Rodriguez)  
Retirement Division Manager, (R. Baker)  
OIG Supervisory Auditor, (J. Lewis)  
OIG Auditor, (D. Tok)



## Washington Suburban Sanitary Commission Office of the Inspector General

17-HRRB-003  
01/15/2021

# Quick Look



### Why the OIG Did This Audit

In accordance with the Fiscal Year 2019 audit plan, the Office of the Inspector General (OIG) conducted a performance audit of the Washington Suburban Sanitary Commission's (WSSC) Retiree Benefits Plan.

The WSSC Human Resources Office (HRO) administers enrollment and termination of benefits for employees, retirees, and their dependents under the WSSC Benefits Plan (WBP). Employees who retire normally, early, or with disabilities are eligible to continue participating in WSSC's benefit programs if they participated two years before retirement. The WSSC Finance Department collects insurance premiums from plan-participants and pays plan-expenses to insurers and claims administrators. To accumulate assets needed to sustain plan-expenses, WSSC established the Retiree Other Post-Employment Benefits Trust (OPEB) in July 2007.

### Strategic Alignment

This report addresses WSSC Strategic Priority: Spend Customer Dollars Wisely.

### OIG Contact Information

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## *Retiree Benefits Plan Administration Warrants Improvement*

### What the OIG Found

The audit's objective was to ascertain that WSSC administers its Retiree Benefits Plan according to the standard procedures, signed agreements, and pursuant to the requirements set forth in Section 17-205(c)(2) of the Insurance Article of the Maryland Annotated Code. Specifically, the audit was to determine whether the WSSC self-funded plans cover eligible retirees and their dependents. The audit reviewed plan-activities from April 2016 through March 2019.

Based on the audit work performed by the OIG, the following deficiencies in the administration of the Retiree Benefits Plan were noted, and recommendations for improvement made:

- WSSC does not verify eligibility for paid healthcare claims;
- WSSC discontinued verification of eligible retiree plan participants in 2016;
- There is no review confirming plan participants are paying their respective monthly premiums;
- A list of WSSC retiree benefits plan participants with a Maryland State pension system may be inaccurate;
- Two WSSC personnel management policies conflict; and
- WSSC Benefits Standard Procedures are not aligned with practice.

The OIG recommends that WSSC correct the identified internal control deficiencies by establishing or updating Standard Procedures to monitor plan-participants' eligibility and the accuracy of:

- Paid healthcare-claims;
- Selected insurance coverage plans;
- Insurance premiums deducted from retirees' paychecks monthly;
- The list of WSSC retiree benefits plan participants that is maintained for the Maryland State pensioners; and
- Alignment of WSSC personnel management policies and procedures with practice.

WSSC management has agreed to implement the OIG's recommendations and provided corrective action plans with anticipated due dates.



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OG – 20161222-00019216

**Performance Audit of WSSC's Retiree Benefits Plan****January 15, 2021****Page 1****EXECUTIVE SUMMARY****Background**

In accordance with its approved Fiscal Year (FY) 2019 audit plan, the Office of the Inspector General (OIG) conducted a performance audit of the Washington Suburban Sanitary Commission (WSSC) Retiree Benefits Plan. The OIG conducted the audit in accordance with the International Professional Practice of Internal Auditing (*Standards*) and the Generally Accepted Government Auditing Standards (GAGAS), except for the peer review requirement.

The WSSC Human Resources Office (HRO) collectively administers enrollment and termination of benefits for employees, retirees, and dependents under the WSSC Benefits Plan<sup>1</sup> (WBP). Employees who retire normally, early, or with disabilities are eligible to continue to participate in the following benefit programs: (a) Hospitalization and Medical Insurance, (b) Dental Insurance, and (c) Life Insurance. The WSSC Finance Department collects insurance premiums from plan-participants, and also pays plan-expenses to insurers and claims administrators<sup>2</sup>. To accumulate assets needed to sustain plan-expenses, WSSC established the Retiree Other Post-Employment Benefits Trust (OPEB) in July 2007.

Before July 1, 1978, WSSC offered retirees an option to stay with the Maryland State Retirement Pension Plan (MSRPP) or to transfer to the WBP. At that time, WSSC also extended to MSRPP pensioners and their beneficiaries a one-time opportunity to enroll into the WSSC Retiree Benefits Plan<sup>3</sup> (WRBP). The WBP records categorized and referenced MSRPP pensioners as “*Active State Retirees*.”

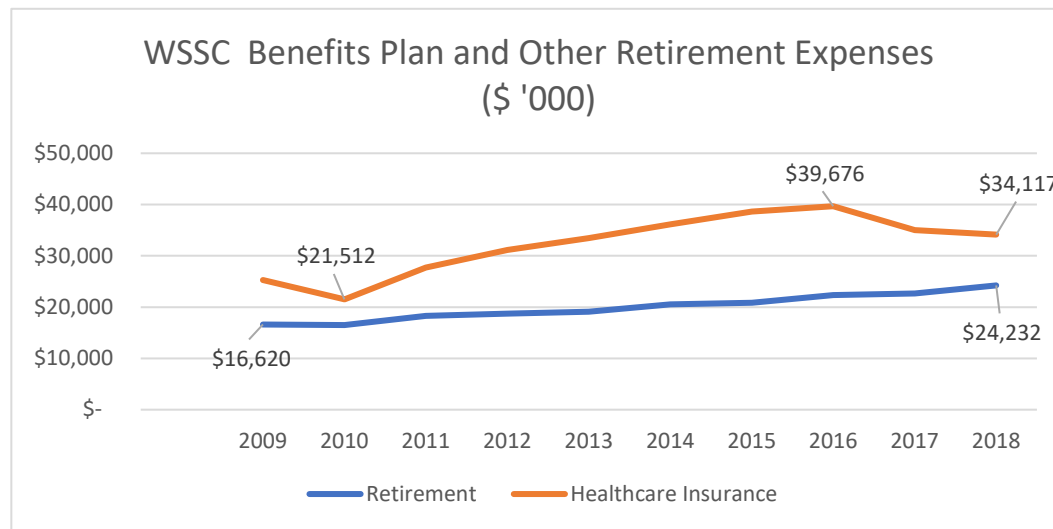
Since its commencement, the WRBP has undergone audits. Specifically, in 2011 the internal auditor conducted an audit that focused on the HRO Benefits Division (HRBD), formerly the Benefits Group. While that audit excluded the retirement benefits programs, it did result in a management corrective action plan related to reviewing invoices from insurance carriers regularly.<sup>4</sup> Management implemented the corrective action plan in 2016. After management implemented its corrective action plan, the plan-expenses started a downtrend. The OIG compiled data that showed the historical relationship between the WBP (Healthcare Insurance) and Other Retirement expenses (Retirement). The graph below depicts two perspectives related to the Healthcare Insurance; a) the cost outpaced other retirement expenses for the ten years ended June 30, 2018, and b) the costs started a downtrend in 2016.

<sup>1</sup> WBP collectively refers to healthcare and life insurance plans administered by the Human Resources Office for employees, retirees, and their dependents.

<sup>2</sup> A Claims Administrator is a company (including its affiliates) that provides certain claim administration services for the WBP.

<sup>3</sup> WSSC Retiree Benefits Plan consists of the retiree's life insurance and medical benefit plans maintained by the Commission.

<sup>4</sup> See Recommendation No. 28, WSSC Human Resources Regulatory Compliance Audit (HR Audit Phase I) (Oct.13, 2011); see also WSSC Management Action Plan No. 2.



**Data Source:** The WSSC Annual Audited Financial Statements.

## Objective

The audit's objective was to ascertain whether WSSC administers its Retiree Benefits Plan according to its Standard Procedures, signed agreements, and requirements set forth in § 17-205(c)(2) of the Insurance Article of the Annotated Code of Maryland<sup>5</sup>. Specifically, the audit was conducted to determine if WSSC's self-funded benefit plans cover only eligible retirees and their dependents, and if the associated internal controls ensure that:

- WSSC's objectives are achieved; and
- Records are complete and accurate.

## Scope

OIG limited the scope of the audit to self-funded healthcare and life benefits offered to WSSC retirees based on risk assessment results that determined areas of vulnerability in the Retiree Benefits Plan. The risk assessment showed that the WSSC self-funded healthcare plan covered eighty-two percent (82%) of the retirees. Access to relevant records imposed additional audit limitations. Specifically, while insurance subscriber invoices from April 2016 through March 2019 were accessible to OIG auditors for review and to verify the coverage of the self-funded healthcare plan, vendor-invoices prior to April 2016 were not available.

The OIG also limited the scope of the audit to avoid duplication of ongoing and recent audits related to retiree benefits by third-party and external auditors. To that extent, the OIG excluded from this audit the Dependent Eligibility review that includes WSSC retirees below 65 years of age, and activities related to the administration of the OPEB Trust. As such, the scope of this audit is limited to self-funded healthcare and life benefits offered to WSSC retirees.

<sup>5</sup> Md. Code Ann., Ins. Art. § 17-205(c)(2), holds that a policy issued to insure employees of a public employer may provide that the term "employee" includes: (i) a retired employee; and (ii) an elected or appointed official.



## Conclusion

WSSC administers the Retiree Benefits Plan according to its Standard Procedures, signed agreements, and statutory requirements set forth in the Maryland Annotated Code. Based on the audit work performed by the OIG, the following deficiencies in the administration of the Retiree Benefits Plan were noted and could be improved:

- WSSC does not verify plan-participants' eligibility for total paid healthcare claims. Consequently, WSSC does not know if claims are being paid on ineligible participants and may not detect and correct control deficiencies promptly;
- WSSC discontinued the verification of carrier invoices against the HRO system of record for accuracy and eligibility of plan-participants in 2016. Performing consistent reconciliations and reviewing the results may prompt WSSC to detect input errors, irregularities, and omissions promptly.
- There is no review to confirm that plan-participants are paying their respective monthly premiums. As a result, there is a likelihood that significant fraud may go undetected.
- A list of WRBP participants with a State of Maryland pension may be inaccurate because WSSC does not regularly verify said list's accuracy. Verifying the list's accuracy may enable WSSC to find and correct input errors, irregularities, and omissions.
- Two WSSC personnel management policies conflict. As a result, there may be retirees who stopped paying the insurance premiums with an understanding that WSSC will not cover them beyond the age of 70.
- Some policies under WSSC's Benefits Standard Procedures do not align with practice. Updating the identified policies will assist in aligning strategy with practice.

## OBSERVATIONS, MANAGEMENT RESPONSES, AND ACTION PLANS

### Observation 1: Participant's Eligibility for Paid Healthcare Claims is not Verified

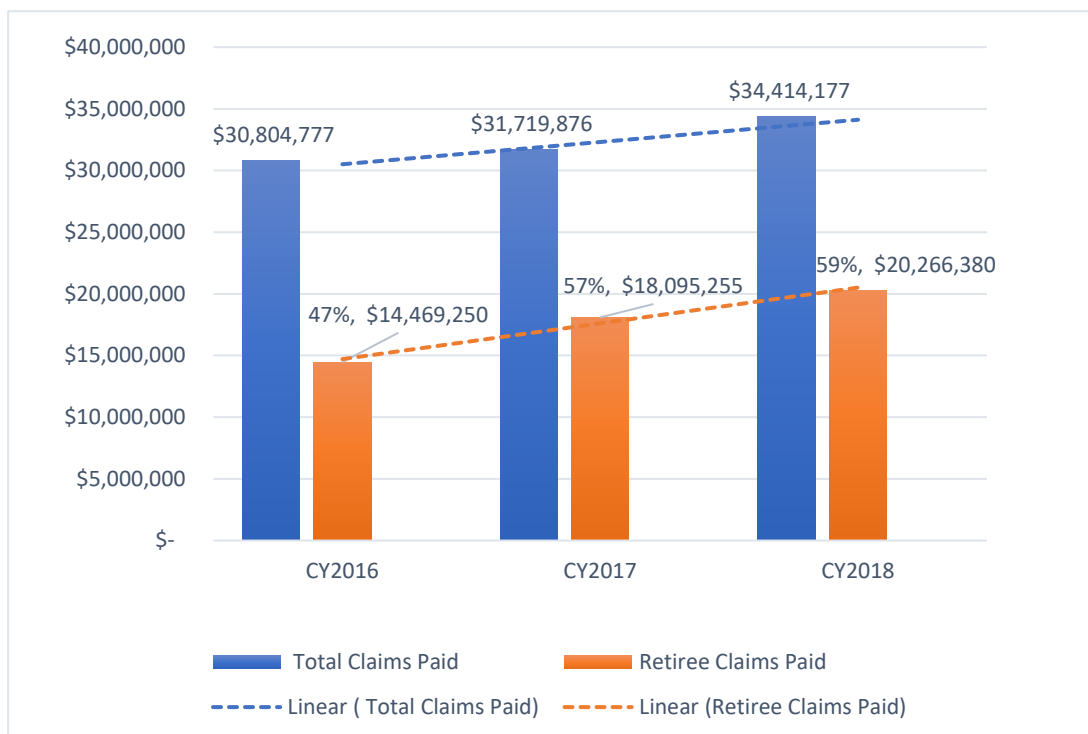
**Risk Rating:** **Medium**

WSSC's Standard Procedures for self-funded plans do not require staff to verify the eligibility of participant's paid healthcare claims. Healthcare claims are administered by Third-Party Claims Administrators (TPA) and managed through signed agreements with WSSC. According to the TPA agreements, changes to eligibility status of employees (retirees included) and their dependents is the responsibility of WSSC.

The following two WSSC offices are responsible for monitoring TPA contractual requirements:

- The HRO which notifies the TPA of any changes to the eligibility status for employees, retirees, and dependents under the Plan; and
- The Finance Department remits and reconciles funds to the TPA regularly.

Because coverage eligibility for healthcare claims processed and paid by the contract TPA are not verified, WSSC may be unable to promptly detect and correct control deficiencies. According to the records kept by the Finance Department, WSSC paid more than **\$20 million** in claims and fees for retirees during the calendar year 2018. The payment represented **59%** of **\$34 million** spent during the same period by the TPA. Based on the data provided, auditors determined that the average claim amount per retiree participant was **\$17,138** (\$20 million / 1,167 names) during the same period. The chart below illustrates the historical exposure for paid healthcare claims.



**Data Source:** WSSC Finance / Disbursement Division Records.



**Recommendation 1: Develop Procedures to Verify Coverage Eligibility of Paid Healthcare Claims for WBP including Assignment of Responsibility**

The OIG recommends that WSSC develop Standard Procedures to verify the eligibility of paid healthcare claims for its Plan, and administrative responsibilities should be assigned to a department. The fact that WSSC paid 71% of the Plan expenses during this audit period evidences the substantial financial exposure that WSSC has with respect to self-funded plans.

The OIG identified two benefits that may result from verifying plan-participants' eligibility; (1) identifying claims paid for ineligible participants and (2) detecting fraud.

***Management Response and Action Plan (including anticipated due dates):***

**Human Resources Office:**

The HRO concurs that we could expand procedures to verify eligibility for coverage.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** Complete revision of Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** June 1, 2021

**Action Plan 2:** Publish updated Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** December 31, 2021

**Action Plan 3:** HRBD work with TPA/benefit consultants to determine best approach to verify eligibility of paid healthcare claims for WSSC Water plan participants.

**Anticipated Due Date:** April 1, 2021

**Action Plan 4:** Develop plan to perform reconciliation of Pension Master File and carrier invoices for fees or a carrier census (not Oracle).

**Anticipated Due Date:** June 30, 2021

**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

Observation 2: WSSC Discontinued Verification of Eligible Retiree Plan Participants in 2016**Risk Rating: Medium**

The names of eligible retirees are no longer verified against those listed on TPA administrative fee invoices as communicated by HRO to WSSC executive management in 2016. During 2016, the Internal Audit Office (IAO)<sup>6</sup> recommended that the HRO establish mitigating controls to address eligibility risks associated with self-funded benefits plans. HRO responded by assuring WSSC's executive management that, "... for retirees, the retiree payroll deductions are compared to the carrier invoices every month."

HRO has now explained that it was unreasonable to maintain the verification schedule. It reasoned "[w]hile it was stated that we would perform monthly comparisons starting in 2016, it was unreasonable to maintain that schedule ... we have conducted periodic comparisons since then." HRO did not provide any information to define "periodic reviews," nor did it provide additional records to determine when reconciliation was conducted for retirees during the audit.

To test the proposed control, OIG auditors examined and reconciled two reports for January 2018; a) Carrier invoice, and b) HRO record(s). The reconciliation by count showed a difference of 38 unreconciled names between the reports. The table below shows potential input errors, irregularities, and omissions that may have required management's corrective action.

Carrier Invoice	HRO Record	Difference	Input errors, Irregularities, and Omissions identified by the OIG auditors
1147	1109	38	<b>Unreconciled-Name Count</b>
			55_Billed Retiree Names not shown on the HRO Record.
			<ul style="list-style-type: none"> <li>38 of 55- Direct Bill retirees or qualified beneficiaries paid premiums directly to the TPA. The 38 names included an employee on COBRA.</li> <li>9 of 55 -Subscribers retired before 1996; Eight (8) added during 2017, and one (1) with undocumented reasons.</li> <li>4 of 55- Deceased or retired in 2017</li> <li>3 of 55 -Qualifying Beneficiaries in 2017</li> <li>1 of 55-Retired in 2010 and added in 2017</li> </ul>
	55	(55)	
			17 - Employees retired during the 4 <sup>th</sup> Quarter of 2017. HRO staff retrospectively adjusted the Administrative rate during February 2018.
	(17)	17	
1147	1147	0	<b>Reconciled-Name Count</b>

<sup>6</sup> In 2018, the IAO became the Office of the Inspector General pursuant to Title 17, Subtitle 6 of the Maryland Annotated Code, Public Utilities Article.

**Recommendation 2: Establish a Monitoring Procedure to Verify Coverage Eligibility for Plan Participants**

The OIG recommends HRO establish a procedure to monitor where personnel, other than the HRBD, reconcile the retiree record to the insurance carrier invoices. Additionally, the results of the reconciliation should be documented, and exceptions should be researched. Performing consistent reconciliations and reviewing the results may detect input errors, irregularities and omissions in a timely manner, and prevent the long-term payments of premiums on behalf of those who are not eligible for coverage.

For the two years ended April 1, 2018, WSSC paid \$4 million in administrative fees to the TPA. The recommended monitoring may support WSSC's core values of accountability and the strategic priority of spending customer dollars wisely.

***Management Response and Action Plan (including anticipated due date):*****Human Resources Office:**

We acknowledge we would perform monthly comparisons starting in 2016. We did start that process and at the same time, were implementing Oracle Advanced Benefits (OAB) without a dedicated IT/OAB expert. This required a significant amount of time for the entire team. As such, we have, at a minimum, done approximately 12 comparisons of those paying premiums to carrier records, but not monthly.

The HRO concurs with the recommendation to compare names and ID of paid administrative fees to the Pension Master File on a regular basis.

**Action Plan and Anticipated Due Date:**

**Action Plan:** Develop plan to perform reconciliation of Pension Master File and carrier invoices for fees or a carrier census (not Oracle).

**Anticipated Due Date:** June 30, 2021

**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

**Observation 3: No Review Confirming Plan Participants Paid Monthly Premiums.**

**Risk Rating:** **Medium**

There is no review to confirm that plan-participants have paid their monthly premiums. Chapter 9.280.030 (b)(1) of the WSSC Manual of Standard Procedures provides that health insurance premiums will be deducted from the checks of those receiving a pension from the WSSC retirement plan.

HRO had proposed corrective actions, which stated in part that retiree payroll deductions will be compared to the carrier invoices monthly, and that by February 29, 2016, the Benefits Group would complete an additional review of all retiree and employee deductions in comparison to the carrier invoices.

During this audit, the OIG identified risks associated with non-verification of insurance premium payments made through pension deductions, including the following three:

1. WSSC may pay insurance coverage for ghost retirees;
2. WSSC may charge retirees a premium rate that is not representative of their selected benefit plan at the time of enrollment; and
3. WSSC may pay for Plan expenses, without offsetting the cost with contributions from covered participants.

The OIG was unable to test the control deficiencies because data could not be independently extracted from the Retiree Payroll System, causing the auditors to rely on WSSC Information Technology Department to overcome this challenge. Additionally, the Retiree Payroll Register and the TPA invoices had different record identifiers which presented data match challenges. As an example, there were seven plan-participants listed on the TPA invoices that did not pay their monthly premium for January 2018 coverage. As a result, OIG could not reassure management that payroll deductions were accurate.

**Recommendation 3: Develop Standard Procedures to Monitor Plan Premium Contributions**

The OIG recommends that WSSC develop Standard Procedures to monitor the accuracy of insurance premiums deducted from the paychecks of plan-participants. A system that requires HR to verify insurance premium deductions on a monthly basis may assist in identifying input errors, irregularities, and omissions promptly. According to the records kept by the Finance Disbursement Division (FDD), during calendar year 2018, the plan-participants contributed a total of \$8 million (23% of \$34.4 million) towards Plan expenses incurred under the self-funded medical insurance.

To assist HR in its monitoring responsibilities of insurance premium deductions for plan-participants, the OIG also recommends that WSSC prioritize the replacement of the retiree payroll (pension) legacy system with a client-server solution. The new application may enable easy extraction of data by end-users, including the HRO staff and retirees.

***Management Response and Action Plan (including anticipated due date):***

**Human Resources Office**

**Finance and Information Technology Departments:**

The HRO agrees that standard procedures to ensure correct retiree premium contributions are collected is needed and supports the Finance Department and Retirement Division replacing the retiree payroll system with a modern technology system that integrates with Oracle.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** HRBD, Retirement and IT develop interim process to compare Rumba and Oracle to ensure retirees enrolled in correct plan(s) at the right time and having the correct deduction taken from their pension checks.

**Anticipated Due Date:** June 30, 2021

**Action Plan 2:** HRBD, Retirement and IT implement Action Plan 1.

**Anticipated Due Date:** December 31, 2021

**Action Plan 3:** The HRO will serve as subject matter expert for data transition from HRO to Retirement Office to aid in minimizing or eliminating manual processes for the new retirement pension system.

**Anticipated Due Date:** July 1, 2022

Finance agrees with the recommendation for Retiree Audit Observation #3. Finance supports replacing the Retiree Payroll System with a new more modern system to (1) support all retirement actions and reporting and (2) minimize or eliminate manual processes.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** The Retirement Division to work with Information Technology and Finance Office to conduct a cost-benefit analysis to determine best interim (short-term) solution.

**Anticipated Due Date:** March 31, 2021

**Action Plan 2:** Contract awarded for new Retiree Payroll system (long-term solution).

**Anticipated Due Date:** January 31, 2021 \*\*

*\*\* Original RFP released May 2020, with presumed awardee selected after September 2020 Best and Final Offers. Procurement, OGC, Retirement and IT concurred on presumed awardee. Pending Commission approval with vote planned for December 2020 meeting.*

**Action Plan 3:** Implementation of new Retiree Payroll System

**Anticipated Due Date:** December 31, 2022

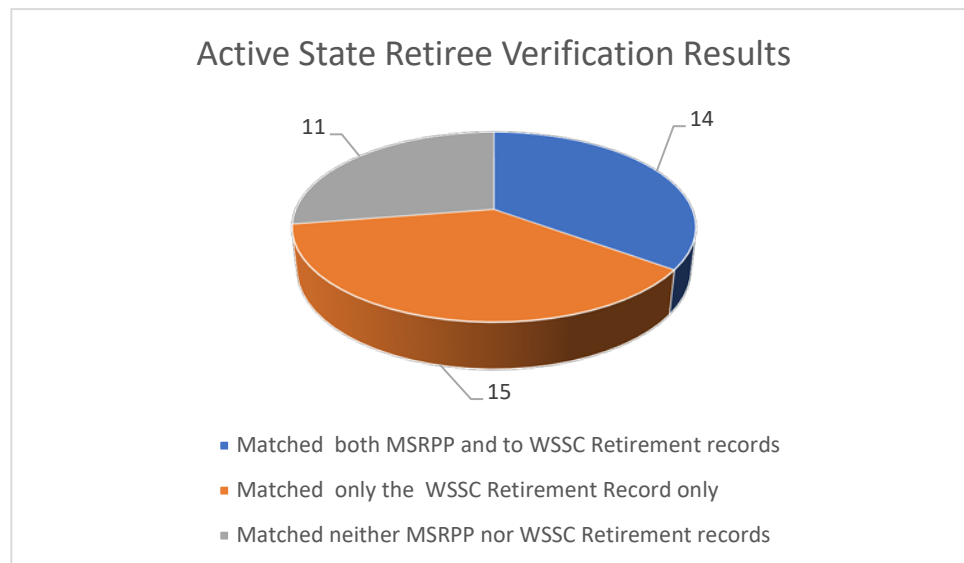
**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. We are waiting for management's update on the tentative implementation due date for Action Plans. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

**Observation 4: A List of WSSC Retirees with a Maryland State Pension may be Inaccurate**

**Risk Rating: Medium**

HRO records, depicting Maryland State Retirement Pension Plan (MSRPP) retiree participants who opted for healthcare coverage under the WSSC Retiree Benefits Plan (WRBP), may be inaccurate. According to the records kept by HRO, there were 40 names of *Active State Retirees* or their beneficiaries in March 2019. During this audit, OIG auditors reconciled the names of the *Active State Retirees* listed on the records maintained by WSSC's Finance/Retirement Division (FRD) and the Maryland State Retirement System Office (MSRSO) with HRO benefits and found discrepancies. Specifically, only 14 of the 40 names listed by HRO as *Active State Retirees* or their beneficiaries appeared on FRD and MSRSO records. The chart below summarizes the verification results.



**Note:** Auditors did not verify the 11 retiree names with the MSRPP because the WSSC Retirement Record excluded them.

According to the FRD staff, the information for *Active State Retirees* is not up-to-date in the Rumba Payroll Personnel legacy computer system because there are no assigned resources to update the system. *Active State Retirees* remit their insurance premiums to a third-party service provider (TPSP). According to the signed agreement between the TPSP and WSSC, it is the responsibility of HRBD to send updated information to the TPSP. The transmission of accurate information may not be occurring due to potential erroneous information on HRO's *Active State Retirees* list. For example, HRO's *Active State Retirees* list may include the names of surviving spouses of WSSC pension-retirees.

**Recommendation 4: Reconcile names of WSSC State Retirees to Maryland State Record**

The OIG recommends that the HRBD staff reconcile the retirees designated as *Active State Retirees* with those identified by the *Maryland State Retirement and Pension System* office. This reconciliation should be a single-time event to verify the accuracy and completeness of *Active State Retirees*. HRO management should document the review and research exceptions. The comparison may enable management to find and correct input errors, irregularities, and omissions.

Because the benefits information in the retirement legacy computer system is not updated regularly for the *Active State Retirees*, there is a risk of uploading incorrect data into a new computer application.

***Management Response and Action Plan (including anticipated due date):***

**Human Resources Office:**

1. The title "WSSC State Retirees" includes State of Maryland retirees receiving WSSC Water's benefits, surviving spouses of State retirees, retirees whose pension is not enough to cover their deductions and employees who are on a leave status and not receiving salary from WSSC Water (e.g. Injury/Illness). No new state retirees are added to the list;



although it is possible more surviving spouses and retirees whose pension is not enough to cover their deductions will be added to the list in the future.

2. HRBD reviews payments made to Benefit Strategies compared to our “state list” annually at Open Enrollment, at a minimum.
3. There are mechanisms in place with carriers, the Retirement Division and/or financial institutions that will prohibit benefits from being paid for a deceased member. Thus, the likelihood of a member receiving pension and/or benefits is unlikely.

The HRO concurs with the recommendation.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** Contact the Maryland State Retirement and Pension System.

**Anticipated Due Date:** March 30, 2021

**Action Plan 2:** Develop a process to consistently monitor retirees and beneficiaries in the Maryland State Pension system.

**Anticipated Due Date:** July 1, 2021

**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

**Observation 5: Two WSSC Personnel Management Policies Conflict**

**Risk Rating: Medium**

WSSC's policies administered by the HRO that pertain to insurance and retirement benefits conflict with each other. According to the WSSC's Retirement Policy set forth in Chapter 9.305.050 of the Manual of Standard Procedures, a retiree may participate in the supplemental life insurance program **until age 70**.<sup>7</sup> Contrastingly, Chapter 9.280.010 does not mention age limits.<sup>8</sup>

HRO agreed that there was a conflict between the two policies, and that although Chapter 9.305.050 was enacted after Chapter 9.280.010, the language of Chapter 9.280.010 is correct and governs with respect to participation of retirees in the supplemental life insurance program. Consequently, HR plans to update the strategy for Chapter 9.305.050 to align with the practice.

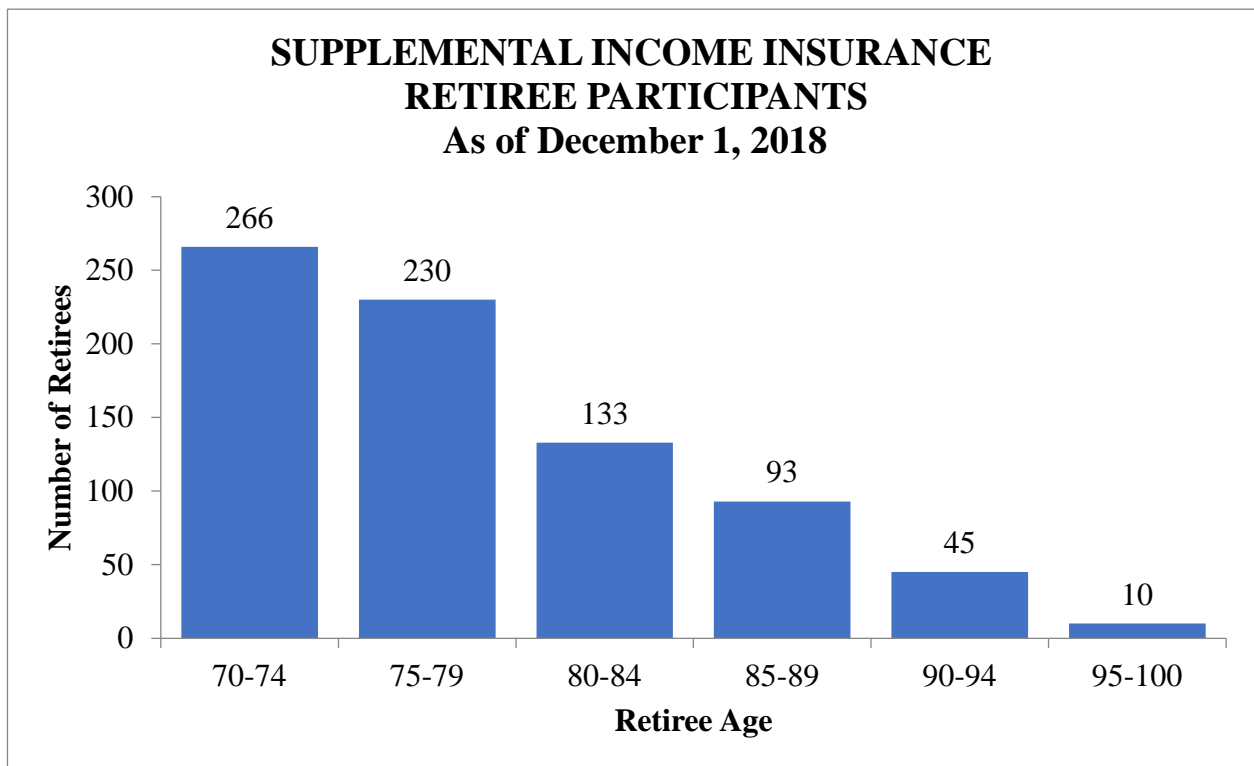
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<sup>7</sup> Chapter 9.305.050, effective June 2006, states in pertinent part that “retirees may continue participation in the supplemental life insurance program until age 70.”

<sup>8</sup> Chapter 9.280.010, effective December 2001, states that “[e]mployees are provided with life, supplemental life, and dependent life insurance, medical and dental insurance, Social Security coverage, and accident and sickness weekly income insurance. Booklets giving detailed information on these plans are available in the Benefits and Administration Unit of the Human Resources Group.”

Additionally, the 2015 *Schedule of Benefits* provided by the life insurance carrier, and which shows the benefits available to insured retirees under the group policy appears to comply with Chapter 9.280.010. Specifically, the insurance carrier's certificate does not mention age limits for additional life insurance. The certificate states on the date of retirement, the amount of supplemental life insurance will reduce to (a) 50% of the amount of the supplemental life insurance in effect on the day before the retirement date; or (b) \$20,000.

OIG auditors noted that during FY 2017, WSSC continued offering supplemental life insurance benefits for retirees **over 70** years of age, and the same retirees continued paying monthly premiums through payroll deductions. As of December 1, 2018, there were 777 retirees over 70 years of age, with an average income coverage of \$11,268.70 and a total insured-income of \$8,755,782.



*Data Source: Retirement Reports accessed through WSSC's Document Direct.*

**Recommendation 5: Update HRPM Policy and Procedures to align with Practice**

Update and align the Human Resources Personnel Management (HRPM) policy and procedures to reflect changes in practice. OIG auditors identified two risks associated with the conflicting Standard Procedures.

There may be some retiree subscribers who pay monthly premiums without supplemental life insurance coverage. In contrast, there may be retirees who stopped paying the insurance premiums with an understanding that WSSC will not cover them beyond the age of 70.

***Management Response and Action Plan (including anticipated due date):***

**Human Resources Office:**

HRO concurs there are conflicts between two (2) Human Resources Standard Procedures: Chapter 9.280, Insurance Plans and Chapter 9.305, Retirement.

The HRO concurs with the recommendation to update and align policy with practice.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** Develop a team to compare Manual of Standard Procedures Chapter 9.305, Retirement and Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** December 1, 2020

**Action Plan 2:** Review Team to draft updates to Chapter 9.305, Retirement and Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** April 1, 2021

**Action Plan 3:** Publish updated Chapter 9.305, Retirement and Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** December 31, 2021

**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. We are waiting for management's update on the tentative implementation due date for Action Plan 1. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

**Observation 6: WSSC Benefits Standard Procedures Not Aligned with Practice**

**Risk Rating:** **Medium**

Chapter 9.280 of WSSC's Manual of Standard Procedures states that retirees from the Maryland State System must pay premiums directly to the Disbursements Group<sup>9</sup>. A review of the records during this audit revealed; however, that HRO contracted with a TPA to collect monthly insurance premiums from retirees with none or insufficient pension funds, among others. Retirees were directed to remit funds to the TPA. On a monthly basis, the TPA then remits funds collected through an Automated Clearing House to the FDD.

The remittance records maintained by HRO indicated that 22 subscribers, classified as *Active State Retirees*, remitted through the TPA a total of **\$68,968** in health insurance premiums from **September 2017** to **December 2018**. OIG auditors verified, and the FDD acknowledged receipt of the funds.

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<sup>9</sup> Effective July 1, 2017, the Disbursement Group is now the Disbursement Division in WSSC's Finance Department.

HRO management explained that they decided in 2010 to move the collection of insurance premiums from Maryland State Retirees, along with the Consolidated Omnibus Budget Reconciliation Act (COBRA)<sup>10</sup> administration, to a TPA to ensure; (1) a one-stop shop for questions related to benefits, (2) consistent communication, and (3) a steady income flow back to WSSC for services rendered.

**Recommendation 6: Update HRPM Policy and Procedures to Align with Practice**

The OIG recommends updating and present for Executive Management's approval the Human Resources Personnel Management (HRPM) policy in Chapter 9.280 of WSSC's Manual of Standard Procedures to reflect changes in operations. Updating the WSSC policy will assist in aligning strategy with practice.

***Management Response and Action Plan (including anticipated due date):***

**Human Resources Office:**

The HRO concurs with the recommendation to update and align Chapter 9.280, Insurance Plans, with current practice.

We concur with the recommendation to update and align the Insurance SP with current practice.

**Action Plans and Anticipated Due Dates:**

**Action Plan 1:** Complete revision of Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** June 1, 2021

**Action Plan 2:** Publish updated Chapter 9.280, Insurance Plans.

**Anticipated Due Date:** February 28, 2022

**OIG Comment:**

The OIG appreciates management's response and notes that its action plan is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the proposed corrective action plan.

cc: General Manager/CEO, (C. Reid)  
DGM, Administration, (J. Beach)  
DGM, Strategy and Partnerships, (M. Johnson)  
Chief Financial Officer, (P. Colihan)  
Chief Information Officer, (C. Carter)  
Human Resources Acting Director, (D. Thomas)  
Acting Division Manager, Benefits, (R. Rodriguez)  
Retirement Division Manager, (R. Baker)  
OIG Supervisory Auditor, (J. Lewis)  
OIG Auditor, (D. Tok)

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<sup>10</sup> A federal law that provides eligible employees and their dependents the option of continued health insurance coverage when an employee loses their job or experiences a reduction of work hours.