089795

B-164562
8-24-70

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

RELEASED

B-164562 Civil Service Commission

AUG 24 1970

Dear Mr. Belcher:

This report is in response to your request of June 26, 1970, for information concerning certain financial practices of the Blue Cross and Blue Shield organizations and their Washington, D.C., affiliate, Group Hospitalization, Inc.

The Civil Service Commission entered into a contract with the Blue Cross Association and the National Association of Blue Shield Plans (hereafter referred to as the Corporations) to provide a Government-wide health benefits plan, called the Service Benefit Plan, to eligible Federal employees, annuitants, and their dependents or survivors in accordance with its responsibilities under the Federal Employees Health Benefits Act of 1959 (5 U.S.C. 8901). The contract, which was effective July 1, 1960, has been renewed annually. The cost of the Service Benefit Plan is shared by the participants and the Government.

The Service Benefit Plan provides benefits generally through direct payments to doctors and hospitals. Under agreements with the Corporations, benefits provided by the Service Benefit Plan are underwritten by certain Blue Cross and Blue Shield plans--called local plans--located throughout the country.

The Corporations use the subscription income received from the Civil Service Commission primarily for reimbursing Blue Cross and Blue Shield local plans for benefits paid and for paying other allowable charges. The contract with the Civil Service Commission requires the Corporations to invest all funds on hand which, in the judgment of the Corporations, are in excess of those needed to discharge promptly the obligations incurred under the Service Benefit Plan.

The Corporations contracted with Group Hospitalization, Inc., Washington, D.C., to serve as the Operations Center for the Service Benefit Plan. Group Hospitalization, Inc., is also the Blue Cross plan for the Washington, D.C., area. Subscription income is paid to the Operations Center, which reimburses local plans for paid claims, administrative expenses, and other allowable charges, and pays subscriber supplemental benefit claims for local plans that underwrite but do not process such claims. The Operations Center also maintains

~~914744~~ 089795

claims status records for enrollees, prepares accounting and statistical reports required by the Corporations' contract with the Civil Service Commission, and issues instructions to local plans to assist them in their operations under the contract.

Our Office has been reviewing selected aspects of the administration of the Service Benefit Plan. We expect in the near future to issue a report to the Congress on the results of our review and we will send you a copy of the report. Our report will discuss in detail and present our conclusions and recommendations on certain financial policies and practices of the organizations referred to in your request.

At the time of our review, the Operations Center maintained four checking accounts with Washington, D.C., banks. The primary checking account was used to reimburse local plans for claims they had paid and to replenish the other checking accounts. Each of the other three accounts was used to pay a different type of expense. None of the checking accounts earned interest. The subscription income not deposited in checking accounts was transferred to the Corporations' investment custodian in Chicago, Illinois, for use in purchasing short- and long-term securities.

During our review, we analyzed the balances in the Operation Center's checking accounts. We concluded that they were substantially in excess of the amounts required to meet the Center's current obligations. Therefore, we suggested that the Operations Center reduce these balances so that funds in excess of the amounts needed to meet current obligations could be invested to earn interest income. Officials of the Operations Center reduced the checking account balances by depositing funds not immediately required in an interest-bearing savings account.

The Subcommittee on Intergovernmental Relations, House Committee on Government Operations, held hearings regarding the Civil Service Commission's administration of the program on May 21, June 30, and July 1, 1970. Testimony during these hearings revealed that the chairman of the board of trustees of Group Hospitalization, Inc., was also a member of the board of directors of the bank in which Group Hospitalization, Inc., maintains its primary checking account. It was further brought out that the treasurer of Group Hospitalization, Inc., who is also a member of its board of trustees, was president and chairman of the board of directors of the same bank and that other members of the board of trustees of Group Hospitalization, Inc., were also officials of two other banks in which Group Hospitalization, Inc., maintained checking accounts.

In a statement presented during the hearings on June 30, 1970, a Civil Service Commission official stated that immediately after the May 21, 1970, hearings, the Commission had commenced an exhaustive review of the unresolved issues raised by our review. The official stated that the Commission's review would be concerned with improvements for the future and with the question of whether there was a legal basis for seeking retroactive adjustments for the period during which excess funds were kept in non-interest-bearing accounts. He stated further that the Commission, working with officials of the Blue Cross and Blue Shield organizations, would (1) resolve any problems of conflict of interest, (2) make retroactive adjustments if appropriate, and (3) assure prompt and prudent investment of funds not needed for immediate disbursement.

During the hearings on July 1, 1970, the president of Group Hospitalization, Inc., stated that the Operations Center had maintained balances in checking accounts in accordance with instructions received from the Corporations. He said that the officials of Group Hospitalization, Inc., who were also officials of the banks in which checking accounts were maintained, either had not influenced or did not have any opportunity to influence the amounts of money to be deposited in their banks, and he expressed the opinion that no conflicts of interest had been involved.

The president also said that, upon advice of counsel, the Operations Center's savings account had been closed but arrangements had been made to assure the daily investment of all available cash except that needed to cover disbursements for that day. He said further that, to ensure meeting its responsibilities to subscribers and to the Corporations, Group Hospitalization, Inc., had recently employed a nationally known, independent accounting firm to make a complete and thorough examination of the cash management policies, practices, and procedures.

As you requested, we are returning the correspondence enclosed with your letter.

Sincerely yours,

R F Keller

Acting Comptroller General
of the United States

Enclosure

The Honorable Page Belcher
House of Representatives

Section 3560 of title 39, United States Code, provides that a postal employee who is reassigned to a position with a lower salary than his position before reassignment is, under certain conditions, entitled to receive, for 2 years after reassignment, the same salary he received before reassignment. We were advised by a Department official that the four former employees on the Evansville-St. Louis highway post office who were reassigned in September 1969 were entitled to the salary protection provided in 39 U.S.C. 3560. The difference between their salaries on the highway post office and the salaries they would otherwise be earning in their new positions, if they had not been entitled to salary protection, would be about $2,900 for each of the first 2 years after the discontinuance of the highway post office.

The nonrecurring costs discussed above total $8,600 for the first year after the discontinuance of the highway post office and $2,900 for the second year. These amounts are not sufficient to offset the cost savings which we estimated that the Department would realize due to the discontinuance of the highway post office. After giving consideration to these nonrecurring costs, we estimate that the Department will achieve cost savings of $44,300 the first year after discontinuance of the highway post office, $50,000 the second year, and $52,900 annually thereafter.

- - - -

Mr. Keil also expressed concern that the discontinuance of railway and highway post office units had caused congestion in large post offices and delays in mail deliveries. Our reviews over the years have shown that, when such units were discontinued, mail service had not been adversely affected and the alternative means of processing and transporting the mail had been less costly. The director of the St. Louis Postal Region indicated that the Centralia Sectional Center Facility could handle the mail formerly sorted on the Evansville-St. Louis highway post office and stated that no problems had been encountered in clearing all mail at other sectional centers when they were properly staffed.