



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the  
Inspector General

Report Number 1J-0K-00-17-037

August 15, 2017

MEMORANDUM FOR [REDACTED]  
Chief, Individual Benefits and Life

FROM: [REDACTED] [REDACTED]  
Chief, Special Audits Group

SUBJECT: Audit of Delta Dental's Federal Employees Dental Program's  
Premium Rate Proposal for 2018

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has conducted a limited-scope performance audit of Delta Dental's Federal Employees Dental Program's (Plan) premium rate proposal for 2018, to determine whether costs proposed were in accordance with the terms of Contract Number OPM01-FEDVIP-01AP-3 (Contract) and Federal regulations. The audit included a review of the Plan's 2016 certified annual accounting statement and 2018 proposed premium rates for the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations. [REDACTED]

This memorandum is being provided to OPM's Program Office and will be used by OPM's Office of Actuaries to negotiate the Plan's 2018 FEDVIP premium rates. Under section 8M of the Inspector General Act, the OIG makes redacted versions of its final reports available to the public on its webpage. The OIG reserves the right to perform a full-scope audit of the Plan's 2018 contract at a later date; however, it would exclude a review of the initial 2018 premium rate proposal.

**BACKGROUND**

The FEDVIP was created on December 23, 2004, by the *Federal Employee Dental and Vision Benefits Enhancement Act of 2004* (Act). The Act provided for the establishment of programs under which supplemental dental and vision benefits are made available to Federal employees, retirees, and their dependents.

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OPM has overall responsibility to maintain the FEDVIP website, be a liaison with Federal agencies, facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a timely basis to the carrier's requests for information and assistance, and perform, as provided by the Act, functions typically associated with insurance commissions, such as the review and approval of rates, forms, and education materials.

OPM contracts with the Plan to provide dental insurance benefits to FEDVIP participants. The Plan's responsibilities under the Contract are carried out at its offices located in Rancho Cordova, California and San Francisco, California. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the Plan's FEDVIP operations.

This was the OIG's first audit of the Plan.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

We conducted a limited-scope performance audit of the Plan's FEDVIP premium rate proposal for 2018. Our audit objective was to determine whether costs proposed for contract year 2018 were reasonable and equitable in accordance with the terms of the Contract and Federal regulations.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our finding and conclusion based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on the audit objective.

The audit included a review of the Plan's 2016 certified annual accounting statement and 2018 proposed premium rates for FEDVIP operations as of May 31, 2017. The audit fieldwork was conducted at the Plan's office in San Francisco, California from June 5 through June 8, 2017. Additional audit work was completed at our Cranberry Township, Pennsylvania office.

In planning and conducting the audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to

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[REDACTED]

doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for contract year 2018 were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

**2016 Annual Accounting Statement Review**

- We reconciled the premiums received, as reported in the Plan’s annual accounting statement, to the BENEFEDS cash transfer report to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the annual accounting statement to a system generated report that we observed while on-site to ensure that the claims were accurately reported.
- We reviewed the cost center descriptions and expense allocation methods to determine if the costs were accurately charged to the FEDVIP in accordance with the Federal Acquisition Regulations Subpart 31.2.
- We recalculated the Plan’s FEDVIP loss ratio based on the supporting documentation provided by the Plan to determine if its profit or loss was accurately disclosed to OPM in the 2016 annual accounting statement.

**2018 Rate Proposal Review**

- We traced the data used to develop the Plan’s 2018 proposed rates back to supporting documentation.
- We reviewed the supporting documentation to identify any material variances with premiums, enrollment, and claims expenses reported to OPM. We also reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were reasonable and equitable.

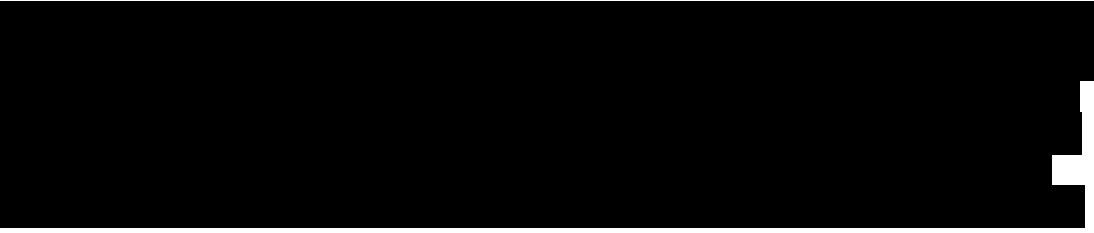
**RESULTS OF THE AUDIT**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



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The results of the audit were discussed with Plan officials at an exit conference on July 19, 2017.



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[REDACTED]

The Plan has been notified that this memorandum will be issued directly to OPM's Program Office to assist in finalizing the Plan's 2018 FEDVIP premium rates.

If I can be of assistance during your review of this memorandum, please contact me at [REDACTED].

cc: Kathleen M. McGettigan  
Acting Director

Jason Simmons  
Chief of Staff

Dennis D. Coleman  
Chief Financial Officer and Acting Chief Management Officer

Kathie Whipple  
Deputy General Counsel

Jason Foster  
Associate General Counsel

Anne Easton  
Acting Director, Planning and Policy Analysis

Mark W. Lambert  
Associate Director, Merit System Audit and Compliance

Janet L. Barnes  
Director, Internal Oversight and Compliance

Alan Spielman  
Director, Healthcare and Insurance

Laurie Bodenheimer  
Deputy Director, Healthcare and Insurance

[REDACTED]  
Deputy Assistant Director, Federal Employee Insurance Operations

[REDACTED]  
Senior Advisor, Federal Employee Insurance Operations

[REDACTED]  
Chief, Policy and Internal Controls Group

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[REDACTED]

[REDACTED]

Chief, Audit Resolution

[REDACTED]

Senior Health Actuary

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