



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Report Number 2024-SAG-016

July 29, 2024

MEMORANDUM FOR DENNIS N. HODGES
Program Manager, FEDVIP

FROM: JAMES L. TUEL, JR.
Group Chief, Special Audits Group

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TUEL**

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SUBJECT: Audit of Humana Dental's 2025 Premium Rate Proposal for the Federal
Employees Dental and Vision Insurance Program

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) conducted a limited-scope audit of Humana Dental's (Carrier) 2025 premium rate proposal for the Federal Employees Dental and Vision Insurance Program (FEDVIP). Our objective was to determine whether premium rates proposed for contract year (CY) 2025 were in accordance with the terms of Contract Number OPM02-FEDVIP-02AP-10 (Contract) and federal regulations. The audit included a review of the Carrier's 2025 premium rate proposal and 2023 certified annual accounting statement (AAS) for FEDVIP operations.

We are providing this memorandum to OPM's Healthcare and Insurance Office (HIO) to be used by OPM's Office of Actuaries in negotiating the Carrier's 2025 premium rates. The Inspector General Act of 1978, as amended, 5 U.S.C. § 420, requires the OIG to make redacted versions of our final reports available to the public on our webpage. Since this was a limited-scope audit, the OIG reserves the right to perform a full-scope audit of the Carrier in the future; however, any future audit would exclude a review of the Carrier's initial 2025 FEDVIP premium rate proposal. Due to the nature of this audit, a draft report/memorandum was not issued.

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.

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. These functions include the review and approval of rates, forms, and education materials. OPM contracts with the Carrier to

provide dental insurance benefits to FEDVIP participants. The Carrier's responsibilities under the Contract are carried out primarily at its office located in Louisville, Kentucky. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, that allows for audits of the Carrier's FEDVIP operations.

Our previous full-scope audit of the Carrier's FEDVIP operations (Report Number 1J-0J-00-17-016), dated February 6, 2018, covered CYs 2014 and 2015 with reviews of annual accounting statements, claims processing, the fraud and abuse program, performance guarantees, and rate proposals. All findings and recommendations from that audit have been satisfactorily resolved.

OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted a limited-scope performance audit of the Carrier's 2025 premium rate proposal for the FEDVIP. Our audit objective was to determine whether premium rates proposed for CY 2025 were 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 findings and conclusions based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

The audit included a review of the Carrier's 2025 premium rate proposal (as of May 31, 2024) and its 2023 certified AAS for FEDVIP operations. Audit fieldwork was conducted at the Carrier's office in Louisville, Kentucky from June 10 through June 13, 2024. Additional audit work was completed at our Washington, D.C., Cranberry Township, Pennsylvania and Jacksonville, Florida offices.

In planning the audit, we obtained an understanding of the Carrier'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 Carrier'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 Carrier. 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 doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for CY 2025 were in accordance with the terms of the Contract and federal regulations, we performed the following audit steps:

2025 Premium Rate Proposal Review

- We traced the premium, enrollment, and claims data used to develop the Carrier's 2025 proposed rates to supporting documentation to ensure accuracy.
- We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were properly supported.

2023 Annual Accounting Statement Review

- We reconciled the premiums received, as reported in the Carrier's AAS, to the BENEFEDS cash transfer reports to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the AAS to supporting documentation to ensure the claims were accurately reported.
- We reviewed the Carrier's supporting documentation to determine whether the administrative expenses were accurately reported.
- We recalculated the Carrier's dental loss ratio and profit based on the supporting documentation provided by the Carrier to determine if the percentage and amounts were accurately calculated and disclosed to OPM in the 2023 certified AAS.

RESULTS OF THE AUDIT**2025 Premium Rate Proposal Review**

The results of our review showed that the Carrier's initial 2025 FEDVIP premium rate proposal was in accordance with the Contract and federal regulations. We did not identify any findings during our review of the premium rates, and no corrective action is necessary.

2023 Annual Accounting Statement Review

The results of our review showed that the Carrier had sufficient policies and procedures in place to ensure that its 2023 annual accounting statement was accurately reported to OPM. We did not identify any findings during this review and no corrective action is necessary.

The results of the audit were communicated to Carrier officials via email on July 10, 2024. OPM's HIO and Office of Actuaries may discuss the results of the audit with Carrier officials. We notified the Carrier that this memorandum is issued directly to the contracting officer to assist in finalizing the Carrier's 2025 premium rates for FEDVIP.

If I can be of assistance during your review of this memorandum, please contact me at (724) 741-0713 or Luke Z. Johnson at (724) 741-0729.

cc: The Honorable Robert H. Shriver
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