



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**Audit of the Federal Employees' Group Life Insurance
Program as Administered by the Metropolitan Life
Insurance Company for Fiscal Years 2015 through 2018**

Report Number 2A-II-00-18-054

July 20, 2020

EXECUTIVE SUMMARY

Audit of the Federal Employees' Group Life Insurance Program as Administered by the Metropolitan Life Insurance Company for Fiscal Years 2015 through 2018

Report No. 2A-II-00-18-054

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Why Did We Conduct The Audit?

The objective of the audit was to determine whether the costs charged to the Federal Employees' Group Life Insurance (FEGLI) Program and services provided to its subscribers were in accordance with the terms of Contract Number 17000-G and Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the FEGLI Program as administered by the Metropolitan Life Insurance Company (MetLife) for fiscal years 2015 through 2018. The audit included reviews of MetLife's administrative expenses, cash management, claims processing, performance standards, and service charge for FEGLI operations. Our audit was conducted from August 12 through August 15, 2019, at MetLife's office in Oriskany, New York. Additional audit work was completed at our Cranberry Township, Pennsylvania office.

What Did We Find?

Our audit identified one monetary finding related to administrative expenses and one procedural finding related to claims processing, as follows:

- **Unallowable Administrative Expenses:** MetLife overcharged the FEGLI Program by \$96,765 in 2015 as a result of erroneously including costs for a prior period adjustment in its year-end Letter of Credit Account reconciliation process. In addition to returning \$96,765 to the FEGLI Program, MetLife is responsible for returning \$10,636 in lost investment income. MetLife credited these amounts to the FEGLI program.
- **Claims Processing Errors:** We identified 8 claims, out of a judgmental sample of 234 claims reviewed, that were processed by MetLife without the required documentation or at an incorrect payment amount.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

Contract	Contract Number 17000-G
FEGLI	Federal Employees' Group Life Insurance Program
FY	Fiscal Year
LIFAR	Life Insurance Federal Acquisition Regulation
LII	Lost Investment Income
LOCA	Letter of Credit Account
MetLife	Metropolitan Life Insurance Company
OPM	U.S. Office of Personnel Management

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I. BACKGROUND

This report details the results of our audit of the Federal Employees' Group Life Insurance (FEGLI) Program as administered by the Metropolitan Life Insurance Company (MetLife) for fiscal years (FY) 2015 through 2018. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General, as authorized by the Inspector General Act of 1978, as amended.

The FEGLI Program is authorized by Chapter 87 of Title 5, United States Code, to provide life and accidental dismemberment insurance benefits to Federal employees, annuitants, and their family members. The program was established on August 29, 1954, through Contract Number 17000-G (Contract) between OPM and MetLife. OPM's Healthcare and Insurance Office has the overall responsibility for administering the program. OPM's responsibilities include:

- Receiving all premium payments from participating agencies to the Employees' Life Insurance Fund;
- Depositing FEGLI payments in the Treasury of the United States;
- Authorizing payment of life insurance premiums from the Employees' Life Insurance Fund to MetLife's Office of Federal Employees' Group Life Insurance;
- Determining whether retiring employees and employees receiving workers' compensation benefits are eligible to continue life insurance coverage. For retirement systems other than the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), OPM bases its determination on certifications by the administrative office of the system involved;
- Publishing regulations, forms, and documents;
- Providing guidance to employing offices; and
- Administering the Contract.

Employer agencies are responsible for enrolling, informing, and advising employees of program changes, determining eligibility, maintaining insurance records, withholding premiums from pay, remitting and reporting withholdings to OPM, and certifying salary and insurance coverage upon separation or death.

MetLife's responsibilities under the Contract are carried out by its offices located in Oriskany, New York; Bridgewater, New Jersey; and New York, New York. These responsibilities include:

- Processing and paying FEGLI claims;
- Determining whether an insured individual is eligible for a living benefit;
- Determining whether accidental death and dismemberment benefits are payable;

- Determining an employee's eligibility to cancel a waiver of insurance based on satisfactory medical information; and
- Processing requests for conversions.

Clause 2109.7001(i) of the Life Insurance Federal Acquisition Regulation (LIFAR) states that MetLife must permit representatives of OPM to audit and examine records and accounts pertaining to the FEGLI Program at such reasonable times and places, as may be designated by OPM. Compliance with the laws and regulations applicable to the FEGLI Program, including establishing and maintaining a system of internal controls, is the responsibility of MetLife's management.

Our previous audit of the FEGLI Program's operations at MetLife for FYs 2013 and 2014 (Report number 2A-II-00-13-065, dated August 10, 2016), reviewed administrative expenses, cash management, claim payments, and statutory compliance with the Contract and Federal regulations. All findings and recommendations from that audit have been satisfactorily resolved.

The initial results of our current audit were discussed with MetLife and OPM during an exit conference on March 31, 2020. A draft audit report was provided to MetLife for review and comment on April 30, 2020. MetLife's response to the draft audit report was considered in preparation of this final audit report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The main objective of the audit was to determine if the costs charged to the FEGLI Program and services provided to its subscribers were in accordance with the terms of the Contract and applicable Federal regulations.

Our specific audit objectives for FYs 2015 through 2018 were to determine if:

Administrative Expenses Review

- MetLife's indirect expenses for FEGLI were allocable and allowable in accordance with the terms of the Contract and applicable regulations.
- MetLife's general ledger accounts and administrative fees reconciled to the Letter of Credit Account (LOCA) drawdowns, annual financial statements, and end of the year true-ups.
- MetLife charged executive compensation to the FEGLI Program in compliance with 48 Code of Federal Regulations 31.205-6(p)(2).
- MetLife's direct and indirect administrative expenses exceeded the adjusted ceiling cap for each year, and if any excess amounts were charged to the program.

Cash Management Review

- The LOCA drawdowns and interest reported by MetLife reconciled to the amounts recorded by OPM.
- The LOCA drawdowns were appropriately accounted for, documented, and used to pay for only allowable expenses and service charges.
- MetLife properly estimated, accounted for, and reported on the FEGLI cash reserves in compliance with the applicable laws and regulations.

Claims Processing Review

- The paid claims reported in MetLife's annual financial statements reconcile to the amounts supported by MetLife's claims system.
- The amounts paid to beneficiaries were in compliance with the contractual provisions and regulatory requirements for life insurance benefits, including the insured's Basic Insurance, Option A, Option B, and Option C coverage levels.
- The overpayment recoveries were initiated timely and in accordance with MetLife's policies and procedures.

Performance Standards and Service Charge Review

- The performance standards were met, and if the service charge was appropriately calculated in accordance with the Contract and LIFAR 2115.404-71.

SCOPE AND METHODOLOGY

We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

This performance audit included reviews of MetLife’s administrative expenses, cash management, claims processing, performance standards, and service charge for FEGLI operations to ensure compliance with the Contract and Federal regulations for FYs 2015 through 2018. The audit fieldwork was conducted at MetLife’s offices in Oriskany, New York, from August 12 through August 15, 2019. Additional audit work was completed at our Cranberry Township, Pennsylvania office.

MetLife reported the following revenues, claims (excludes interest and change in reserves), expenses, and profit for FEGLI operations from FYs 2015 through 2018:

	Revenues	Claims	Expenses	Profit
2015	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
2016	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
2017	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
2018	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Total	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

In planning and conducting the audit, we obtained an understanding of MetLife’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 MetLife’s system of internal controls taken as a whole.

We also conducted tests of accounting records and other auditing procedures that we considered necessary to determine compliance with the Contract and Federal regulations. Exceptions noted

in the areas reviewed are set forth in the “Audit Findings and Recommendations” section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that MetLife had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by MetLife. Due to the 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 MetLife’s administration of FEGLI was in compliance with the terms of the Contract and applicable regulations, we performed the following steps for FYs 2015 through 2018:

Administrative Expenses Review

- We reviewed MetLife’s indirect cost centers to determine if the costs were allocable and allowable under Subpart 31.2 of the Federal Acquisition Regulations, Part 2131 of the LIFAR, and clause 2152.231-70 of the LIFAR.
- We compared MetLife’s general ledger expenses and service charges to its LOCA drawdowns, annual financial statements, and annual administrative cost true-ups to determine if the amounts reconcile.
- We reviewed executive compensation expenses that were charged to FEGLI to verify that the amounts did not exceed the compensation expense limit for government contractors.
- We reviewed MetLife’s direct and indirect administrative expenses to determine if they exceeded the expense ceiling set by OPM for each year.

Cash Management Review

- We reconciled the LOCA drawdowns and interest reported by MetLife to those recorded by OPM to determine if there were any variances.
- We reviewed a judgmental sample of 40 LOCA drawdowns totaling \$568,384,321 (out of a universe of 1,003 LOCA drawdowns totaling \$12,207,054,688) to verify that the amounts were accurate and supported by documentation. For each FY, we selected the two months with the greatest LOCA drawdowns and then reviewed all transactions from the largest week of drawdowns.
- We reviewed documentation to verify that MetLife was estimating, accounting for, and reporting on the FEGLI’s cash reserves in compliance with applicable regulations.

Claims Processing Review

- We reconciled the claim amounts reported in MetLife’s financial statements to supporting documentation to ensure that the reported amounts were accurate.

- We reviewed all accidental dismemberment claims (74 claims totaling \$2,877,500) to determine if they were accurately processed.
- We reviewed a judgmental sample of 40 accidental death claims totaling \$7,096,000 (out of a universe of 1,023 accidental death claims totaling \$72,838,500) to determine if they were accurately processed. Specifically, we selected 10 claims for each FY based on the highest dollar amount paid.
- We reviewed a judgmental sample of 40 basic life insurance claims totaling \$12,273,820 (out of a universe of 289,932 basic life insurance claims totaling \$6,840,601,654) to determine if they were accurately processed. Specifically, we selected 10 claims for each FY based on the highest dollar amount paid.
- We reviewed a judgmental sample of 40 dependent life insurance claims totaling \$1,000,000 (out of a universe of 20,973 dependent life insurance claims totaling \$284,381,850) to determine if they were accurately processed. Specifically, we selected 10 claims for each FY based on the highest dollar amount paid.
- We reviewed a judgmental sample of 40 living benefit claims totaling \$6,213,760 (out of a universe of 841 living benefit claims totaling \$46,010,230) to determine if they were accurately processed. Specifically, we selected 10 claims for each FY based on the highest dollar amount paid.
- We reviewed a judgmental sample of 40 claim overpayments totaling \$7,834,322 in recoveries (out of a universe of 433 claim overpayments totaling \$13,497,539 in recoveries) to determine if the overpayment recoveries were made in compliance with MetLife's policies and procedures and contractual requirements. Specifically, we selected 10 claim overpayments for each FY based on the highest dollar amount paid.

Performance Standards and Service Charge Review

- We reviewed MetLife's performance standards and service charge each year to ensure that they were properly measured and calculated in accordance with the Contract.

The samples mentioned above, that were selected and reviewed in performing the audit, were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES REVIEW

1. Unallowable Administrative Expenses

\$107,401

We determined that MetLife overcharged the FEGLI Program by \$96,765 in FY 2015 for unallowable administrative costs. Specifically, MetLife erroneously included prior period adjustments in the net administrative expenses amount used for the year-end LOCA reconciliation process. This caused an understatement of the LOCA credit to OPM for FY 2015. In addition, \$10,636 in Lost Investment Income (LII) is due to the FEGLI Program from the time of the overcharge until the funds have been returned to the LOCA.

According to Section 3.15 of the Contract, costs charged to the FEGLI Program must be actual, allocable, allowable, and reasonable. Additionally, administrative expenses should be presented net of any prior period adjustments or un-reimbursable costs. Finally, 48 Code of Federal Regulations 2152.232-70(a) under the LIFAR requires MetLife to perform a reconciliation of actual and estimated costs at the end of each FY to determine if any amount is owed to MetLife or credited back to the LOCA.

The FEGLI Program was overcharged \$96,765 in unallowable expenses, resulting in \$10,636 in associated lost investment income.

In addition, Section 3.12 of the Contract states that MetLife is responsible for paying investment income lost as a result of failure to credit income due under the Contract. The amount payable shall bear LII compounded semiannually at the rate established by the Secretary of the Treasury. The amount payable shall be calculated starting on the date that the appropriate income was not credited and ending on the date that the amount was returned to OPM. Additionally, the LII that is due and unpaid shall bear simple interest at the applicable rate that is established by the Secretary of the Treasury.

In this review, we reconciled MetLife's administrative expenses and service charges to its LOCA drawdowns, annual financial statements, and annual administrative cost true-ups for FYs 2015 through 2018. Our review showed that MetLife overcharged the FEGLI Program \$96,765 by erroneously including costs for a prior period adjustment in the net administrative expenses amount used during the year-end LOCA reconciliation process, resulting in an understatement of the LOCA credit for fiscal year 2015.

Based on our review, we found that MetLife lacked adequate oversight controls to ensure that accurate administrative expense data was used during the year-end LOCA reconciliation. We also found that MetLife was not using an automated process to reduce the possibility of human error. However, MetLife provided evidence that it had sufficiently addressed this

issue by revising its LOCA reconciliation process as a result of a prior audit of the FEGLI Program that covered FYs 2013 and 2014. Due to the timing of this prior audit, the updated procedure did not become effective until FY 2016. The updated procedure includes an automated spreadsheet, as well as a review and signoff of the year-end reconciliation amount.

As a result of this finding, MetLife promptly issued a \$96,765 credit to the FEGLI Program and provided drawdown documentation for the LOCA transaction that was completed on November 19, 2019. According to MetLife, Lost Investment Income was also credited to the FEGLI Program in the amount of \$10,636 on May 6, 2020.

Recommendation 1

We recommend that both OPM and MetLife properly account for the \$96,765 credit in the 2019 year-end LOCA reconciliation and ensure that controls are followed to eliminate this type of error from occurring in future reconciliations.

Recommendation 2

We recommend that both OPM and MetLife properly account for the return of \$10,636 in LII to the FEGLI Program.

MetLife's Response:

MetLife agreed with our finding and recommendations. It credited the FEGLI Program \$96,765 on November 19, 2019, and \$10,636 on May 6, 2020, for the lost investment income. MetLife also adopted controls to eliminate this type of error from occurring in the future.

B. CASH MANAGEMENT REVIEW

The results of our review showed that MetLife had sufficient policies and procedures in place to ensure that FEGLI funds were accurately withdrawn from the LOCA, were accounted for properly, and that reserve accounts were in compliance with applicable laws and regulations.

C. CLAIMS PROCESSING REVIEW

1. Claims Processing Errors

Procedural

We determined that the 8 claims outlined below (out of a judgmental sample of 234 claims reviewed) were processed incorrectly or did not contain the required information or documentation:

Accidental Dismemberment Insurance Claims

According to FEGLI form FE-7, Claim for Dismemberment Benefits, the claimant must sign the form certifying that all statements are true and information was not knowingly omitted from the claim. Additionally, the signature authorizes healthcare providers to release any requested information concerning the claim. Furthermore, according to the form's instructions, the claimant shall attach medical, police, traffic, and any other pertinent reports documenting the accident.

In addition, the FEGLI Program Handbook states that Accidental Dismemberment benefits for the loss of one hand, one foot, or eyesight in one eye is equal to one-half of Option A coverage. Furthermore, the loss of two or more of these is equal to full Option A coverage. The employing agency certifies the Option A coverage for processing by MetLife.

During our review of accidental dismemberment claims, we found the following errors:

- One claim where Option A coverage was paid without the employing agency certifying Option A coverage;
- One claim where Option A coverage was not paid when the employing agency had certified Option A coverage;
- One claim that was paid without the required employee's signature; and
- Two claims that did not include the required reports or any supporting documentation.

We identified multiple claims processing errors that could lead to improper payments.

Dependent Life Insurance Claims

According to FEGLI form FE-6 DEP, Statement of Claim - Option C, the employing agency (or OPM for retirees) is required to complete "Part D" of the form to certify the claimant's insurance status.

During our review of the dependent life insurance claim sample, we found one claim that was paid without the required agency name, address, and telephone number on part D of the FE-6 DEP form. Specifically, the agency official failed to complete items 4 and 5 of part D, which identify the agency name, mailing address, and telephone number.

Living Benefit Insurance Claims

According to FEGLI form FE-8, Claim for Living Benefits, the claimant is required to obtain a statement from their physician certifying that they have a terminal condition that is expected to result in the claimant's death within nine months. Additionally, the claimant is required to attach physician's office notes and medical records for the past six months.

During our review of the living benefit claim sample, we found two claims that were paid without medical records or the physician's office notes.

Based on our review of the claim samples above, we found that the claim processing errors were due to human error, and MetLife lacked sufficient controls to ensure that all required support documentation was obtained and completed prior to adjudicating the claims. As a result of MetLife processing claims incorrectly or without sufficient documentation, there is a greater risk of improper claim payments and overcharges to the FEGLI Program.

Recommendation 3

We recommend that MetLife implement policies and procedures to ensure that claim forms are complete and all required information and documentation has been submitted prior to paying a claim. Effective policies and procedures to correct these issues could include, at a minimum, the creation of a checklist for each claim type that would be completed during both the initial and secondary review process.

Recommendation 4

We recommend that MetLife recover the Option A funds that were paid incorrectly and pay-out the Option A coverage that was not paid for the claims questioned during our review of accidental dismemberment insurance claims.

MetLife's Response:

MetLife agreed with our finding and recommendations. It will take the following steps to ensure that claim forms are complete and that the required documentation is obtained:

- *“Update its procedures to include a checklist of documentation required to process each type of claim.*
- *Conduct periodic refresher training sessions with team members to review and reinforce procedures.*
- *Recommend to OPM that the Living Benefits claim form be amended to change or remove the request for the insured to submit physician notes and 6 months of medical records. We believe that adjusting the language or removing this requirement will expedite the processing of Living Benefit claims and bring the FEGLI claim form in line with the form used to process claims for the rest of MetLife’s Living Benefits business.”*
- *MetLife paid the identified Option A benefit to the appropriate beneficiary on February 27, 2020, and began the process to recover the Option A overpayment on February 24, 2020.*

D. PERFORMANCE STANDARDS AND SERVICE CHARGE REVIEW

The results of our review showed that MetLife had sufficient policies and procedures in place to meet the contractual performance standards and provide OPM with sufficient documentation for calculation of the service charge.

APPENDIX

National Accounts
177 South Commons Drive
Aurora, IL 60504



May 28, 2020

Mr. [REDACTED]
Chief, Special Audits Group
US Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Drive, Suite 270
Cranberry Township, PA 16066

Re: FEGLI Draft Audit Report Number 2A-II-00-18-054

Dear Mr. [REDACTED]:

The following is our response to the FEGLI Draft Audit Report dated April 30, 2020.

Unallowable Administrative Expenses

Recommendation 1

MetLife agrees with this finding and recommendation. MetLife credited the program \$96,765 on November 19, 2019 and has put into place controls to eliminate this type of error from future reconciliations.

Recommendation 2

MetLife agrees with this finding and recommendation. MetLife reimbursed the program through a credit to the LOCA on May 6, 2020

Claim Processing Review

Recommendation 3

MetLife agrees with this finding and recommendation. MetLife will take the following steps to ensure claim forms are complete and required documentation is received:

- Update its procedures to include a checklist of documentation required to process each type of claim.
- Conduct periodic refresher training sessions with team members to review and reinforce procedures.
- Recommend to OPM that the Living Benefits claim form be amended to change or remove the request for the insured to submit physician notes and 6 months of medical records. We believe that adjusting the language or removing this requirement will expedite the processing of Living Benefit claims and bring the FEGLI claim form in line with the form used to process claims for the rest of MetLife's Living Benefits business.

Recommendation 4

MetLife agrees with the finding and Recommendation. MetLife paid the Option A benefit to the appropriate beneficiary on February 27, 2020 and began the process to recover the Option A payment on February 24, 2020.

Sincerely,

[REDACTED]
Vice President -National Accounts
Metropolitan Life Insurance Company

Report No. 2A-II-00-18-054



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