



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

Final Audit Report

Subject:

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM AS ADMINISTERED BY LONG TERM CARE PARTNERS, LLC FOR CONTRACT YEARS 2010 THROUGH 2012

Report No. 1G-LT-00-14-025

Date: December 23, 2014

--CAUTION--

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**AUDIT OF THE FEDERAL LONG TERM CARE
INSURANCE PROGRAM AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC FOR
CONTRACT YEARS 2010 THROUGH 2012**

CONTRACT NUMBER: OPM490900004

Report No. 1G-LT-00-14-025

Date: 12/23/14

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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Inspector General

EXECUTIVE SUMMARY

**AUDIT OF THE FEDERAL LONG TERM CARE
INSURANCE PROGRAM AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC FOR
CONTRACT YEARS 2010 THROUGH 2012**

CONTRACT NUMBER: OPM490900004

Report No. 1G-LT-00-14-025

Date: 12/23/14

The enclosed audit report details the results of our audit of the Federal Long Term Care Insurance Program (FLTCIP) as administered by Long Term Care Partners, LLC (LTCP) for contract years 2010 through 2012. The primary objective of our audit was to determine whether LTCP's costs charged to the FLTCIP and services provided to FLTCIP subscribers were in accordance with the terms of Contract No. OPM490900004, between LTCP and the U.S. Office of Personnel Management (OPM), and applicable federal regulations. The audit scope included a review of LTCP's administrative expenses, cash management, claim benefit payments, profit and performance incentives, HIPAA policies and procedures, and fraud and abuse policies and procedures. We expanded the scope of the profit and performance incentives review through December 6, 2013, due to the charging of excess investment management fees to the FLTCIP Experience Fund.

The audit identified four monetary findings. Three findings identified overcharges to the program of \$34,524, including \$3,826 in lost investment income, and one finding identified an undercharge of \$77,590. Additionally, the audit identified two procedural findings regarding administrative expenses and cash management.

Our audit fieldwork was conducted at LTCP's location in Portsmouth, New Hampshire, from February 10 through February 21, 2014, and additional audit work was performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

The results of our audit have been summarized below.

ADMINISTRATIVE EXPENSE REVIEW

- **Unallowable Lodging Expenses** **\$13,110**

LTCP charged the FLTCIP \$13,110 in unallowable lodging expenses in excess of the General Service Administration's per diem rates during contract years 2010 through 2012.

- **Undercharged Allocated Expenses** **(\$77,590)**

LTCP did not properly apply its Management Allocation methodology used to allocate certain administrative expenses to the FLTCIP in 2012, resulting in a \$77,590 undercharge.

- **Understatement of 2010 FLTCIP Audited Financial Statements** **Procedural**

LTCP erroneously understated the FLTCIP's administrative expenses reported in its 2010 audited financial statements by \$114,591.

CASH MANAGEMENT REVIEW

- **Outstanding Check** **Procedural**

LTCP did not properly void or credit one outstanding benefit check within 25 months of issuance.

CLAIMS REVIEW

The results of our review found that LTCP had the appropriate policies and procedures in place to process claims and recover overpayments.

PROFIT AND PERFORMANCE INCENTIVES REVIEW

- **Investment Management Fees – Lost Investment Income** **\$17,588**

LTCP did not return \$17,588 of lost investment income on investment management fees that were incorrectly calculated from 2010 through 2013.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT REVIEW

The results of our review showed that LTCP has policies and procedures in place to address the Health Insurance Portability and Accountability Act's Standards for Electronic Transactions, Privacy Rules, and Security Rules.

FRAUD AND ABUSE REVIEW

Our review determined that LTCIP's policies and procedures for fraud and abuse were in compliance with the requirements of the Contract.

LOST INVESTMENT INCOME

- **Lost Investment Income on Unallowable Expenses** **\$3,826**

The FLTCIP is due \$3,826 for lost investment income related to \$13,110 in questioned administrative expenses.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Long Term Care Insurance Program (FLTCIP) as administered by Long Term Care Partners, LLC (LTCP) for contract years 2010 through 2012. The audit was conducted pursuant to the provisions of Contract Number OPM490900004 (Contract) and applicable regulations (5 CFR Part 875). The audit covered LTCP's adherence to its contractual and regulatory requirements under the FLTCIP. We expanded the scope of the profit and performance incentives review through December 6, 2013, due to the charging of excess investment management fees to the FLTCIP Experience Fund.

The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended. Our audit fieldwork was conducted at LTCP's location in Portsmouth, New Hampshire, from February 10 through February 21, 2014, and additional audit work was performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

BACKGROUND

The FLTCIP was established by the Long Term Care Security Act (Public Law 106-265), which was signed by the President on September 19, 2000. The Act directed OPM to develop and administer a long term care insurance program for federal employees and annuitants, current and retired members of the uniformed services, and their qualified relatives.

In December 2001, OPM awarded a seven-year contract to LTCP to offer long term care insurance coverage to eligible participants. A new contract was awarded to John Hancock Life and Health Insurance Company (John Hancock) upon the expiration of the original contract. On October 1, 2009, John Hancock became the sole insurer and LTCP became a wholly-owned subsidiary of John Hancock. LTCP, with OPM oversight, is responsible for all administrative functions of the Program, including marketing and enrollment, underwriting, policy issuance, premium billing and collection, and claims administration.

OPM's Federal Employee Insurance Operations, Individual Benefits and Life (IBL) group has overall responsibility for administering the Program, including the publication of program regulations and agency guidelines and the following:

- Maintain the OPM FLTCIP website;
- Liaison with federal agencies and uniformed services;
- Facilitate the promotion of the FLTCIP as Program sponsor,
- Be responsive on a timely basis to the LTCP's requests for information and assistance;
- Perform, as provided by the Long Term Care Security Act, functions typically associated with insurance commissions such as the review and approval of rates, forms, and marketing materials, and
- Request any re-determinations, if necessary, from the Secretary of the Treasury pursuant to 26 U.S.C. 7702B(g)(2)(B)(iii) in order to ascertain that the FLTCIP meets the

requirements of the National Association of Insurance Commissioners Long Term Care Model Act and Regulations.

OPM's IBL group contracts with LTCP to provide Long Term Care Insurance coverage to federal employees. LTCP's responsibilities, as outlined in the Contract, are carried out at its office located in Portsmouth, New Hampshire. The Contract and the "Request For Proposal" include a provision, I.10 Inspection of Services – Fixed Price, which allows for audits of FLTCIP's operations.

Incorporated into this Contract are six modifications (0001 through 0006). This is a fixed-price with prospective price re-determination-type contract. The Contract is for a base period of seven years with an option for renewal.

Compliance with the laws and regulations applicable to the FLTCIP is the responsibility of LTCP's management. Also, management of LTCP is responsible for establishing and maintaining a system of internal controls.

The duties and responsibilities of LTCP include the following:

- a. To provide payments or benefits to an eligible individual if such individual is entitled thereto under the terms of the contract; and
- b. with respect to disputes regarding claims for payments or benefits under the terms of the contract;
 - i. to establish internal procedures designed to expeditiously resolve such disputes; and
 - ii. to establish, for disputes not resolved through procedures under clause, procedures for one or more alternative means of dispute resolution involving independent third-party review under appropriate circumstances by entities mutually acceptable to the Office and qualified company.

Program assets are held in the "Experience Fund." Premiums received by LTCP are deposited into the Experience Fund and invested by John Hancock. Investment income, net of John Hancock management fees, is retained in the Experience Fund. Claims paid by LTCP are deducted from the Experience Fund, and liabilities for "incurred but not reported claims" (IBNR) are accrued and reported in the financial statements. Upon termination of the contract, the Experience Fund (reduced by IBNR claims, any other reserves for claims remaining with LTCP, and agreed-upon termination fees), calculated as of the date of the termination, would be transferred to the new contract holder.

Operating expenses incurred by LTCP for the administration of the Program are reimbursed by John Hancock. John Hancock is then reimbursed from the Experience Fund for the administrative expense of LTCP, subject to expense guarantees stipulated in the contract, and according to defined timelines and funds availability. Interest on any outstanding balance owed to John Hancock accrues at the rate of return earned by the Experience Fund.

Our previous audit of LTCP (Report Number 1G-LT-00-10-022), dated November 10, 2011, covered Administrative Expenses, Cash Management, Claims, Health Insurance Portability and

Accountability Act (HIPAA) Compliance and Fraud and Abuse Compliance for contract years 2008 and 2009. All recommendations from the prior audit have been satisfactorily resolved.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary objective of our audit was to determine whether LTCP's costs charged to the FLTCIP and services provided to FLTCIP subscribers were in accordance with the terms of the Contract and federal regulations.

Our specific objectives were as follows:

Administrative Expense Review

- To obtain and document an understanding of LTCP's cost accounting system.
- To reconcile the FLTCIP Experience Fund's administrative expenses reported in the Audited Financial Statements to LTCP's general ledger and other supporting documentation, as necessary.
- To determine whether the sampled invoices charged to the FLTCIP were allowable, allocable, and reasonable based on Federal Acquisition Regulation (FAR) Part 31.2. In addition, provide reasonable assurance that LTCP's updated travel policy was implemented properly.
- To determine whether the cost centers and natural accounts charged to the FLTCIP were allowable, allocable, and reasonable based on FAR 31.201.
- To determine whether LTCP charged executive compensation to the FLTCIP in accordance with the federal regulations.
- To review all expense guarantees to ensure the charges reported to OPM didn't exceed the expense guarantee requirements.
- To review the allocation methodology to determine whether an appropriate base is used and to reconcile the allocations made based on the accounting methodology provided.
- To review John Hancock's management fees charged to the FLTCIP for allowability.

Cash Management Review

- To obtain an overview of LTCP's procedures and processes for the FLTCIP.
- To determine if LTCP accounted for and maintained FLTCIP funds separate from LTCP's other assets.
- To determine if LTCP held premiums in an interest-bearing bank account and investment income earned was credited to the Experience Fund. Also, to reconcile the investment fees and income reported to financial records, as of September 30, 2012.
- To reconcile LTCP's monthly cash management schedules to Experience Fund bank records and/or other supporting documentation.
- To reconcile one month of premiums received to premiums expected, and then sample and review the premiums received to determine if they were supported and deposited into the Experience Fund properly.
- To select a sample and review the disbursements (i.e., on-going costs, Deferred Acquisition Cost taxes, profit charge, interest expense, and OPM administrative expenses) from the Experience Fund.

- To determine if the estimate for claims incurred but not reported and the Disabled Life Reserve calculations are supported and reconcile to the audited financial statements.
- To determine if any outstanding checks are older than 25 months.

Claims Review

- To obtain an understanding of LTCP's claims processing system for the FLTCIP.
- To reconcile LTCP's paid claims file total to the amount reported as paid claims on the Statement of Experience Fund Activity/Trial Balance.
- To select "other" identified claim samples to provide to LTCP for review.
- To verify that there were no unallowable or duplicate claim payments made by LTCP.
- To determine if Medicare eligible claims were properly coordinated.
- To obtain supporting documentation to determine whether LTCP timely deposited the claim overpayments to the Experience Fund.

Profit and Performance Incentives Review

- To determine if the profit charge (performance and asset based) for the FLTCIP was calculated and supported with adequate documentation.
- To determine if LTCP met its performance standards identified in the Quality Assurance Surveillance Plan during the scope of the audit.
- To determine if the investment management fees were calculated and supported with adequate documentation.

HIPAA Review

- To determine if LTCP's administration of FLTCIP is in compliance with HIPAA regulations.

Fraud and Abuse Review

- To determine if LTCP has policies and procedures in place to prevent, detect, and disclose fraud and abuse of FLTCIP funds.

SCOPE

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, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit covered LTCP's adherence to its contractual and regulatory requirements for contract years 2010 through 2012. The audit scope included a review of LTCP's administrative expenses, cash management, claim benefit payments, profit and performance incentives, HIPAA policies and procedures, and fraud and abuse policies and procedures. As

stated previously, we expanded the scope of the profit and performance incentives review through December 6, 2013, due to the charging of excess investment management fees to the Experience Fund.

For contract years 2010 through 2012, the FLTCIP had revenues of \$1.8 billion, which includes premiums and investment income. It also had expenses of \$508 million, which includes claims expense, deferred acquisition costs tax, profit charge, interest expense, and OPM and LTCP administrative expenses (See Schedule A).

In planning and conducting the audit, we obtained an understanding of LTCP'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. Based on our testing, we did not identify any significant matters involving LTCP's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on LTCP's system of internal controls taken as a whole.

We also conducted tests to determine whether LTCP had complied with the contract and the laws and regulations governing the FLTCIP. 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 LTCP had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by LTCP. 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 audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

METHODOLOGY

To determine whether LTCP's administration of the FLTCIP was in compliance with the terms of the contract and applicable regulations, the following audit steps were performed:

Administrative Expense Review

- We reconciled LTCP's general ledger expenses to its annual financial statements.
- From contract year 2012, we randomly selected 43 general ledger transactions (out of a universe of 13,556), totaling \$130,594 (out of a universe of \$26,546,072), to determine if the amounts were actual, allocable, reasonable, and allowable. As a result of an audit finding, we expanded the general ledger review to include all \$67,831 in expenses charged to natural account "Lodging – Marketing/Seminars/CLTC Sales" during contract years 2010 through 2012 that were greater than or equal to \$259, with the exception of transactions identified as accrual expenses.

- From contract years 2010 through 2012, we judgmentally selected 6 cost centers (out of a universe of 21), totaling \$39,516,211 (out of a universe of \$84,821,739), to determine if the costs charged were actual, allocable, reasonable, and allowable. Specifically, we selected four cost centers (totaling \$31,417,496) based on high dollars and three cost centers (totaling \$17,442,191) where year to year percentage changes were greater than 34 percent and where the dollar value of the change was greater than or equal to \$150,000. (Note: One cost center, totaling \$9,343,476, was common between the two samples, resulting in six total cost centers selected.)
- From contract year 2012, we judgmentally selected 10 natural accounts (out of a universe of 73), totaling \$17,600,195 (out of a universe of \$26,546,072), to determine if the costs charged were actual, allocable, reasonable, and allowable. Specifically, we selected five natural accounts based on high dollars (totaling \$16,465,456) and five natural accounts based on nomenclature review (totaling \$1,134,739).
- We reviewed all executive compensation expenses charged to the FLTCIP during contract years 2010 through 2012, totaling \$4,167,621, to verify that the amounts did not exceed the compensation expense limit for government contractors.
- We compared the 2010 through 2012 expenses to LTCP's expense guarantees, to ensure that LTCP did not exceed its expense guarantees.
- From contract year 2012, we judgmentally selected the allocation method associated with the highest dollar cost center (out of a universe of four allocation methods), totaling \$3,600,594 (out of a universe of \$3,951,289), to test its allocated costs and determine if an appropriate base was used.
- From contract years 2010 through 2012, we judgmentally selected \$2,132,744 in John Hancock management fees that were charged to the FLTCIP (out of a universe of \$3,609,019), to determine if the costs were actual, allocable, reasonable, and allowable. Specifically, we selected the two high dollar personnel costs from the two high dollar expense categories for each fiscal year.

Cash Management Review

- We held a meeting with LTCP to confirm that it did not commingle FLTCIP funds with other lines of business.
- For contract year 2012, we judgmentally selected three reporting months (July, August, and September) to determine if:
 - ▶ the reported investment income reconciled to the trial balances;
 - ▶ the amounts reported in the Experience Fund traced to supporting documentation; and
 - ▶ the disbursements and premiums reported in operational program reports reconciled to the bank statements.

- For contract year 2012, we reviewed and reconciled the estimate for incurred but not reported claims, the disabled life reserve calculations, and other year-end adjustments to the audited financial statements.
- We reviewed the outstanding check reports as of September 30, 2012, to determine if there were any outstanding checks older than 24 months.

Claims Review

- We performed a reconciliation of paid claim amounts in LTCP's claims system to paid benefits reported in the Experience Fund's annual financial statements and the FLTCIP trial balance.
- From contract years 2010 through 2012, we judgmentally selected 60 paid claims (out of a universe of 77,779 paid claims), representing \$2,211,171 in net claim payments (out of a universe of \$173,359,302), to determine if the claims were accurately processed. Specifically, we selected the 20 highest dollar claims per contract year for review.
- From contract years 2010 through 2012, we judgmentally selected the 10 highest dollar claim overpayments (out of a universe of 95), representing \$67,677 in credits (out of a universe of \$159,626), to determine if the refunds were returned promptly to the FLTCIP.

Profit and Performance Incentives Review

- For contract year 2012, we judgmentally selected the last quarter of the contract year (most readily available information) to recalculate the profit charges using supporting documentation to verify the amounts reported.
- From the 2012 contract year quality assurance surveillance plan (QASP) performance standards, we judgmentally selected 4 factors with at least 0.2 percent of the 2 percent non-guaranteed profit charge amount (out of a universe of 9) to determine if the QASP target values were accurate and achieved or if the profit value at risk was remitted to OPM.
- From contract year 2012, we judgmentally selected investment management fees for the last quarter of the contract year (most readily available information), totaling \$1,204,511 (out of a universe of \$4,436,202), to determine if the investment management fees were calculated accurately and supported with adequate documentation. As a result of an audit finding, we expanded the audit scope through December 6, 2013, to verify that the Experience Fund was fully reimbursed for excess management fees.

Health Insurance Portability and Accountability Act Review

- We reviewed LTCP policies and procedures in place to determine if they are in compliance with HIPAA regulations.

Fraud and Abuse Review

- We reviewed LTCP policies and procedures in place to prevent, detect, and disclose fraud and abuse of FLTCIP funds.

The samples selected during our review were not statistically based. Consequently, the results could not be projected to the universe since it's unlikely that the results were representative of the universe as a whole.

The results of our audit were discussed with LTCP officials throughout the audit. In addition, a draft report, dated June 6, 2014, was provided to LTCP for review and comment. LTCP's response and comments to our draft report were considered in preparing the final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSE REVIEW

1. Unallowable Lodging Expenses

\$13,110

LTCP charged the FLTCIP \$13,110 in unallowable lodging expenses in excess of the General Service Administration's (GSA) lodging per diem rates during contract years 2010 through 2012.

Contract section I.32(b)(1) states that "The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with proper justification and accounting support, determined in accordance with Subpart 31.2 of the [FAR] applicable on October 1 of each year"

Additionally, 48 CFR 31.205-46(a)(2) states that costs incurred for lodging, meals, and incidental expenses shall be considered reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the Federal Travel Regulations, prescribed by GSA, for travel in the contiguous United States.

We reviewed a sample of 43 general ledger transactions to determine if the costs charged to the FLTCIP were allowable, allocable, and reasonable. Our review identified one lodging transaction where LTCP did not adjust lodging expenses to the lesser of actual cost incurred or the maximum daily GSA per diem rates. Because this error was also identified in our prior audit of LTCP, we expanded our general ledger transaction review to include all expenses charged to natural account 72024 ("Lodging -Marketing/ Seminars/CLTC Sales") during contract years 2010 through 2012 that were greater than or equal to \$259, with the exception of transactions identified as accrued expenses. As a result, we determined that LTCP charged the FLTCIP \$13,110 in unallowable lodging expenses which were in excess of the GSA's lodging per diem rates.

LTCP stated that it did not adhere to the GSA's lodging per diem rates for travel expenses during contract years 2010 through 2011. In March 2012, LTCP conducted an internal review of lodging expenses charged to the FLTCIP for the period of October 2011 through March 2012, to reclassify lodging expenses in excess of the GSA's lodging per diem rates to its corporate account. LTCP stated that \$641 of the \$13,110 in unallowable expenses found by our audit were for contract year 2012 lodging expenses missed by its internal review. Additionally, LTCP stated that in May 2012, a new FAR compliant travel policy and new travel expense system was implemented to automatically reclassify lodging expenses in excess of the GSA's lodging per diem rates to its corporate account.

As a result of not implementing a FAR compliant travel policy and travel expense system until May 2012, LTCP charged the FLTCIP \$13,110 in unallowable lodging expenses in excess of the GSA's lodging per diem rates.

Recommendation 1

We recommend that the contracting officer verify that LTCP returned \$13,110 in unallowable lodging expenses to the FLTCIP.

LTCP's Comments:

LTCP agrees with this recommendation and states that it has reduced its current year (fiscal year 2014) lodging expenses by \$13,110.

OIG Comments:

While we appreciate that LTCP has agreed to return the overcharged amount, its method of return (adjusting current year expenses) is not the appropriate action. Rather, it should adjust the actual expense totals for each fiscal year (2010 by \$3,868, 2011 by \$8,601, and 2012 by \$641) via prior period adjustments so that its financial reports are accurately stated.

Recommendation 2

We recommend that the contracting officer verify that the FLTCIP's new travel expense system correctly reclassifies FLTCIP lodging expenses that are in excess of GSA's per diem rates to LTCP's corporate account.

LTCP's Comments:

LTCP agrees with this recommendation and states that its new travel and expense reporting system (implemented in 2012) provides its employees the allowed rates along with a list of compliant hotels to choose from when traveling. Additionally, it stated that alerts are sent to the Chief Financial Officer when lodging is booked at a non-compliant hotel and any amounts in excess of the allowed rates are charged to a non-FLTCIP account.

2. Undercharged Allocated Expenses (\$77,590)

LTCP did not properly apply its Management Allocation methodology used to allocate certain administrative expenses to the FLTCIP in contract year 2012, resulting in a \$77,590 undercharge to the FLTCIP.

Section I.32(b)(1) of the Contract states that the allowable charges to the contract for a fiscal year will be the allocable amounts incurred with proper justification and

accounting support, determined in accordance with FAR Subpart 31.2 applicable on October 1 of each year.

Additionally, 48 CFR 31.201-4 states that “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it ... Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received”

For contract year 2012, we reviewed the allocation methodology (Management Allocation) which charged the most cost to the FLTCIP to determine if an appropriate base was used. Based on our review, we determined that LTCP miscalculated the Management Allocation for the months of October 2011 through May 2012. Specifically, LTCP erroneously calculated the FLTCIP employee headcount and its corporate employee headcount by excluding the FLTCIP dedicated Claims cost center (481) headcount from the calculations. Consequently, six cost centers allocated costs to the FLTCIP based on incorrect statistics from the Management Allocation methodology.

For the months of October 2011 through May 2012, LTCP manually calculated and allocated costs for the Management Allocation methodology. On a monthly basis, LTCP’s Finance department obtained month-end FLTCIP and corporate employee headcounts from the Human Resources department. Using a Microsoft Excel spreadsheet with pre-defined formulas, the Finance department inserted the month-end headcount and corporate expenses into the spreadsheet to determine monthly allocated expenses chargeable to applicable cost centers.

Following the start of contract year 2012, LTCP separated claims activities from the Care Coordination cost center (480) to create the Claims cost center. However, when this change took place, the Management Allocation spreadsheet was not updated to include the Claims cost center’s headcount in the calculation. LTCP realized this error in July 2012 but failed to retroactively adjust allocated expenses for the period of October 2011 through May 2012.

As a result of misapplying the October 2011 through May 2012 Management Allocation methodology, LTCP undercharged the FLTCIP by \$77,590.

Recommendation 3

We recommend that the contracting officer verify that LTCP charged the FLTCIP \$77,590 for contract year 2012 allocation expenses that were undercharged.

LTCP’s Comments:

LTCP agrees with this recommendation and states that it has booked an adjustment to correct the error during the audit.

OIG Comments:

We accept LTCP's response. However, LTCP should report the correction of this error in the Experience Fund's financial statements as a prior period adjustment to fiscal year 2012 by (\$77,590).

Recommendation 4

We recommend that the contracting officer verify that LTCP reviewed its monthly allocation approval process and identified areas of improvement to reduce manual errors.

LTCP's Comments:

LTCP agrees with the recommendation and stated that it has implemented additional review and approval processes to avoid these errors in the future.

OIG Comments:

We accept LTCP's response. However, it did not provide the updated review and approval processes for our review. Therefore, we were unable to determine if the changes made were adequate.

3. Understatement of 2010 FLTCIP Audited Financial Statements Procedural

LTCP erroneously understated the FLTCIP's administrative expenses reported in the Experience Fund's audited financial statements for contract year 2010 by \$114,591.

Section I.32(a)(1) of the Contract states, "The Contractor will prepare annually an accounting statement summarizing the financial results of the FLTCIP for the previous fiscal year."

Additionally, section I.32(b)(2)(ii) states, "Administrative expenses consist of all actual, allocable, allowable and reasonable expenses incurred in the Contractor's overall administration of the FLTCIP."

We performed a reconciliation of the FLTCIP's administrative expenses reported in the Experience Fund's audited financial statements to LTCP's corporate general ledger for each year of our scope to identify variances. In contract year 2010, LTCP reported FLTCIP administrative expenses of \$28,198,646 in the financial statements and \$28,313,237 in LTCP's corporate general ledger (a variance of \$114,591). We determined that this variance was a result of LTCP erroneously understating the FLTCIP's administrative expenses in the financial statements.

LTCP stated that it maintains two general ledgers on an ongoing basis – the corporate general ledger and the FLTCIP general ledger. Each month, LTCP posts administrative expenses incurred in administering the FLTCIP to its corporate general ledger and then

to the FLTCIP's general ledger. For the month of May 2010, LTCP posted the FLTCIP's final month-end administrative expenses to its corporate general ledger but failed to post the correct amount to the FLTCIP's general ledger. Subsequently, LTCP's monthly and year-end accounting reviews did not detect this oversight.

As a result, LTCP did not report to OPM the actual administrative expenses incurred during contract year 2010. Therefore, OPM may have relied upon inaccurate information in its oversight of LTCP's administration of the FLTCIP.

Recommendation 5

We recommend that the contracting officer verify that LTCP revised its monthly and year-end reviews to include a reconciliation of the corporate general ledger to the FLTCIP general ledger.

LTCP's Comments:

LTCP agrees with this finding and states that it has revised its accounting procedures so that administrative expenses recorded on both general ledgers are reported on an accrual basis and are in agreement.

OIG Comments:

We accept LTCP's response. However, it did not provide us with the revised accounting procedures. Therefore, we were unable to determine if the changes made were adequate.

B. CASH MANAGEMENT REVIEW

1. Outstanding Check

Procedural

LTCP did not properly void one outstanding benefit check and credit the check amount to the Experience Fund within 25 months of issuance.

Section I.28(a-b) of the Contract states "The Contractor will void all checks issued pursuant to the FLTCIP contract that have been outstanding for two years. The amounts represented by checks voided under this provision shall be credited as set forth below no later than the 25th month after issuance. ... The Contractor will credit the amount represented by any benefit check or premium refund check to the Experience Fund."

We reviewed a list of LTCP's outstanding checks and identified one benefit check that was not voided and credited back to the Experience Fund within 25 months. Specifically, the benefit check was issued on August 25, 2010, and voided and credited back to the Experience Fund on October 10, 2012. LTCP indicated that the one outstanding benefit check was an oversight due to its manual process of escheating checks. It's currently working to implement a less manual process.

As a result of not voiding or crediting all outstanding benefit checks within the 25 month requirement, the amounts aren't being returned to the Experience Fund on time.

Recommendation 6

We recommend that the contracting office verify that LTCP has strengthened its procedures for processing outstanding checks in compliance with the terms of the Contract.

LTCP's Comments:

LTCP agrees with this recommendation and states that it has strengthened its procedures related to outstanding checks.

OIG Comments:

We accept LTCP's response. However, it did not provide us with the revised outstanding check procedures. Therefore, we were unable to determine if the changes made were adequate.

C. CLAIMS REVIEW

The results of our review showed that LTCP had the appropriate policies and procedures in place to process claims and overpayment recoveries.

D. PROFIT AND PERFORMANCE INCENTIVES REVIEW

1. Investment Management Fees – Lost Investment Income \$17,588

LTCP did not return \$17,588 of lost investment income (LII) on investment management fees that were incorrectly calculated from 2010 through 2013. Although the excess fees were returned to the Experience Fund in 2013, the corresponding LII was not calculated or credited.

Section I.22(f) of the Contract states that LII may be calculated on investment income that was lost by not crediting income due the contract, from the date the funds should have been invested until the date the funds are returned.

Additionally, section I.22(g) states that LII may be calculated using the rate of return of the Experience Fund during the applicable time periods.

We reviewed a sample of 2012 investment management fees and found that the fees had been calculated incorrectly in contract years 2010 through 2013. Specifically, John Hancock's Finance staff was not aware of the calculation methodology for the new contract, and they had based their calculations on the methodology of the first contract. When this was brought to LTCP's attention, we learned that they were already aware of

the error and had returned a principal amount of \$106,882 to the Program (\$106,739 was returned on January 7, 2013, and \$143 was returned on December 6, 2013). However, LII on the \$106,882 was not calculated and credited to the Fund.

Consequently, we expanded the audit scope through December 6, 2013, to verify that the Experience Fund was fully reimbursed for all excess investment management fees, and calculated LII on the fees charged to the Experience Fund until the final credit was received on that date. We computed LII on a monthly basis, compounded, using the Experience Fund's internal rate of return calculated by LTCP. As a result, the Experience Fund is due \$17,588 in LII.

Recommendation 7

We recommend that the contracting officer verify that LTCP returned \$17,588 in LII to the Experience Fund.

LTCP's Comments:

LTCP agrees with this recommendation and states that it has reduced the Investment Management Fee expense for fiscal year 2014 for the amount questioned.

Recommendation 8

We recommend that the contracting officer direct LTCP to implement policies and procedures for crediting LII to the Experience Fund in compliance with the requirements of the Contract.

LTCP's Comments:

No comments addressing this recommendation were provided by LTCP.

E. HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT REVIEW

The results of our review showed that LTCP has policies and procedures in place to address the HIPAA's Standards for Electronic Transactions, Privacy Rules, and Security Rules.

F. FRAUD AND ABUSE REVIEW

Our review showed that LTCP's policies and procedures for fraud and abuse were in compliance with the requirements of the Contract.

G. LOST INVESTMENT INCOME

1. Lost Investment Income on Unallowable Expenses **\$3,826**

The FLTCIP is due \$3,826 for LII related to the \$13,110 in questioned administrative expenses.

Section I.22(d) of the Contract states “the Contractor will pay to the [Experience] Fund the investment income that would have been earned, at the rate(s) specified in paragraph (g) of this clause, had it not been for the Contractor’s noncompliance. ‘Failed to comply with paragraphs (a) or (b)’ means (1) making any charges against the contract which are not allowable, allocable, or reasonable”

Additionally, section I.22(e) states that “Investment income lost as a result of unallowable, unallocable, or unreasonable charges against the contract will be paid from the 1st day of the fiscal year following the fiscal year in which the unallowable charge was made and will end on the earlier of: (1) the date the amounts are returned to the FLTCIP; (2) the date specified by the Contracting Officer; or (3) the date of the Contracting Officer’s final decision.”

Finally, section I.22(g) states that LII may be calculated using the rate of return of the Experience Fund during the applicable time periods.

We computed LII on a monthly basis, compounded, using the Experience Fund’s internal rate of return calculated by LTCP. As a result, the Experience Fund is due \$3,826 for LII from October 1, 2011 through June 23, 2014 when LTCP returned \$13,110 in questioned administrative expenses.

Recommendation 9

We recommend that the contracting officer require LTCP to refund the Experience Fund \$3,826 for LII on the audit finding calculated through June 23, 2014.

LTCP’s Comments:

The draft report did not include LII on audit findings. Therefore, LTCP did not address this finding in their response to the draft report.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Group Chief ██████████

██████████, Senior Team Leader

**AUDIT OF THE FEDERAL LONG TERM CARE
INSURANCE PROGRAM AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC FOR
CONTRACT YEARS 2010 THROUGH 2012**

**SCHEDULE OF REVENUE AND EXPENSES
REPORT NUMBER: 1G-LT-00-14-025**

REVENUES	2010	2011	2012	TOTAL
A. PREMIUM REVENUE	\$334,891,144	\$370,270,038	\$416,400,323	\$1,121,561,505
B. INVESTMENT INCOME	181,947,883	22,783,168	476,524,335	681,255,386
TOTAL REVENUES	\$516,839,027	\$393,053,206	\$892,924,658	\$1,802,816,891
EXPENSES				
A. CLAIMS EXPENSES, INCLUDING CHANGE IN DISABLED LIFE RESERVES	\$93,366,978	\$120,611,535	\$143,274,690	\$357,253,203
B. DEFERRED ACQUISITION COSTS TAX	1,607,310	2,187,351	2,506,114	6,300,775
C. PROFIT CHARGE	15,425,644	18,341,778	20,717,991	54,485,413
D. INTEREST EXPENSE	630,500	394,041	1,255,948	2,280,489
E. OPM ADMINISTRATIVE EXPENSES	1,150,882	1,096,156	1,025,428	3,272,466
F. LTCP ADMINISTRATIVE EXPENSES	28,198,646	29,962,432	26,546,072	84,707,150
TOTAL EXPENSES	\$140,379,960	\$172,593,293	\$195,326,243	\$508,299,496

**AUDIT OF THE FEDERAL LONG TERM CARE
INSURANCE PROGRAM AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC FOR
CONTRACT YEARS 2010 THROUGH 2012**

**SUMMARY OF QUESTIONED COSTS
REPORT NUMBER: 1G-LT-00-14-025**

AUDIT FINDINGS	2010	2011	2012	2013	2014	TOTAL
A. ADMINISTRATIVE EXPENSES						
1. Unallowable Lodging Expenses	\$3,868	\$8,601	\$641			\$13,110
2. Undercharged Allocated Expenses			(77,590)			(\$77,590)
TOTAL ADMINISTRATIVE EXPENSES	\$3,868	\$8,601	(\$76,949)	\$0	\$0	(\$64,480)
B. PROFIT AND PERFORMANCE INCENTIVES						
1. Investment Management Fees - Lost Investment Income	\$975	(\$349)	\$13,143	\$3,074	\$745	\$17,588
TOTAL PROFIT AND PERFORMANCE INCENTIVES	\$975	(\$349)	\$13,143	\$3,074	\$745	\$17,588
TOTAL AUDIT FINDINGS	\$4,843	\$8,252	(\$63,806)	\$3,074	\$745	(\$46,892)
C. LOST INVESTMENT INCOME (From Schedule C)			\$702	\$1,125	\$1,999	\$3,826
TOTAL QUESTIONED COSTS	\$4,843	\$8,252	(\$63,104)	\$4,199	\$2,744	(\$43,066)

**AUDIT OF THE FEDERAL LONG TERM CARE
INSURANCE PROGRAM AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC FOR
CONTRACT YEARS 2010 THROUGH 2012**

**LOST INVESTMENT INCOME CALCULATION
REPORT NUMBER 1G-LT-00-14-025**

LOST INVESTMENT INCOME (LII) CALCULATION

Start Date	End Date	Principal Balance - Additions/ (Subtraction)	Principle Balance in Aggregate	Principal + Compounded Interest Balance	Experience Fund Rate of Return	Effective Days	Days in Month	LII Amount	Total LII by Contract Year
10/1/2011	10/31/2011	\$3,868		\$3,868	5.663%	31	31	\$219	
11/1/2011	11/30/2011			\$4,087	-2.105%	30	30	(\$86)	
12/1/2011	12/31/2011			\$4,001	1.803%	31	31	\$72	
1/1/2012	1/31/2012			\$4,073	3.468%	31	31	\$141	
2/1/2012	2/29/2012			\$4,214	2.568%	29	29	\$108	
3/1/2012	3/31/2012			\$4,322	0.150%	31	31	\$6	
4/1/2012	4/30/2012			\$4,328	0.486%	30	30	\$21	
5/1/2012	5/31/2012			\$4,349	-2.686%	31	31	(\$117)	
6/1/2012	6/30/2012			\$4,232	2.143%	30	30	\$91	
7/1/2012	7/31/2012			\$4,323	2.813%	31	31	\$122	
8/1/2012	8/31/2012			\$4,445	1.212%	31	31	\$54	
9/1/2012	9/30/2012			\$4,499	1.588%	30	30	\$71	
									\$702
10/1/2012	10/31/2012	\$8,601	\$12,469	\$13,171	0.647%	31	31	\$85	
11/1/2012	11/30/2012			\$13,256	0.298%	30	30	\$40	
12/1/2012	12/31/2012			\$13,296	0.669%	31	31	\$89	
1/1/2013	1/31/2013			\$13,385	1.903%	31	31	\$255	
2/1/2013	2/28/2013			\$13,640	0.800%	28	28	\$109	
3/1/2013	3/31/2013			\$13,749	1.464%	31	31	\$201	
4/1/2013	4/30/2013			\$13,950	2.856%	30	30	\$398	
5/1/2013	5/31/2013			\$14,348	-1.179%	31	31	(\$169)	
6/1/2013	6/30/2013			\$14,179	-2.904%	30	30	(\$412)	
7/1/2013	7/31/2013			\$13,767	3.113%	31	31	\$429	
8/1/2013	8/31/2013			\$14,196	-1.704%	31	31	(\$242)	
9/1/2013	9/30/2013			\$13,954	2.453%	30	30	\$342	
									\$1,125
10/1/2013	10/31/2013	\$641	\$13,110	\$14,937	3.430%	31	31	\$512	
11/1/2013	11/30/2013			\$15,449	0.702%	30	30	\$108	
12/1/2013	12/31/2013			\$15,557	1.121%	31	31	\$174	
1/1/2014	1/31/2014			\$15,731	-0.422%	31	31	(\$66)	
2/1/2014	2/28/2014			\$15,665	3.164%	28	28	\$496	
3/1/2014	3/31/2014			\$16,161	0.362%	31	31	\$59	
4/1/2014	4/30/2014			\$16,220	1.532%	30	30	\$248	
5/1/2014	5/31/2014			\$16,468	2.129%	31	31	\$351	
6/1/2014	6/23/2014			\$16,819	0.908%	23	30	\$117	
6/23/2014		(\$13,110)	\$0						
									\$1,999
Total Lost Investment Income:									\$3,826

100 Arboretum Drive
Portsmouth, NH 03801-7833

Long Term Care
Partners

July 8, 2014

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Group Chief
Special Audits group
U.S. Office of Personnel Management
1900 E Street NW
Washington, DC 20415

RE: Draft Audit Report No. 1G-LT-00-14-025

DELETED BY OIG, NOT RELEVANT TO FINAL REPORT.

I'm writing in response to the draft audit report No. 1G-LT-00-14-025, **Audit of Federal Long Term Care Insurance Program as Administered by Long Term Care Partners, LLC For Contract Years 2010 through 2012**. Below are comments pertaining to your findings.

A.1. Unallowable Lodging Expenses:

We agree with this finding and as recommended, have reduced our current year (FY14) FLTCIP lodging expenses by \$13,110, the amount identified in the finding.

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As stated in the report, in 2012 we implemented a new, automated travel and expense reporting system (**DELETED BY OIG, NOT RELEVANT TO FINAL REPORT**), which provides employees with the allowed GSA rates, along with a list of compliant hotels to choose from when traveling. Alerts are sent to the CFO when lodging is booked at a noncompliant hotel and amounts in excess of the allowed rates are charged to a corporate, non-reimbursable account.

**DELETED BY OIG
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A.2. Incorrect Allocation Rate:

We agree with this finding, **DELETED BY OIG, NOT RELEVANT TO FINAL REPORT**. As you are aware, we booked the adjustment to correct this during the audit. **DELETED BY OIG, NOT RELEVANT TO FINAL REPORT**. As recommended, we have implemented additional review and approval processes to avoid these errors in the future.

A.3. Understatement of 2010 FLTCIP Audited Financial Statements

We agree that the FLTCIP administrative expenses as reported on the Experience Fund Audited Financial Statements for FY 2010 did not agree with the FLTCIP administrative expenses as

incurred by LTCP. **DELETED BY OIG, NOT RELEVANT TO FINAL REPORT**. We have revised our accounting procedures so that administrative expenses recorded on both general ledgers are reported on an accrual basis, and are in agreement.

B.1. Outstanding Check:

We agree with this finding, and although it isn't possible to have a fully automated process, we have strengthened our procedures for processing outstanding checks.

D.1. Investment Management Fees-Lost Investment Income:

We agree with this finding, and have booked an adjustment to reduce the Plan's Investment Management Fees expense for FY2014 for the amount of lost investment income. **DELETED BY OIG, NOT RELEVANT TO FINAL REPORT**.

Thank you for the opportunity to respond to the draft report.

Sincerely,

Linda S. Roth

Linda S. Roth, CPA
Chief Financial Officer

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NOT RELEVANT TO FINAL REPORT**