



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

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# Final Audit Report

Subject:

**AUDIT OF THE FEDERAL EMPLOYEES  
DENTAL AND VISION INSURANCE PROGRAM  
AS ADMINISTERED BY  
THE OFFICE OF PERSONNEL MANAGEMENT**

Report No. 1J-0L-00-11-033

Date: February 1, 2012

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

## AUDIT REPORT

**AUDIT OF THE FEDERAL EMPLOYEES  
DENTAL AND VISION INSURANCE PROGRAM  
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Report No. 1J-0L-00-11-033

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A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

**Michael R. Esser**  
**Assistant Inspector General**  
**for Audits**



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

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**EXECUTIVE SUMMARY**

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**AUDIT OF THE FEDERAL EMPLOYEES  
DENTAL AND VISION INSURANCE PROGRAM  
AS ADMINISTERED BY  
THE OFFICE OF PERSONNEL MANAGEMENT**

**Report No. 1J-0L-00-11-033**

**Date: February 1, 2012**

The enclosed audit report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) as administered by the Office of Personnel Management (OPM). OPM administers and provides oversight for the FEDVIP, which provides both dental and vision benefits to Federal employees. The audit covered a review of OPM's administration and oversight of the FEDVIP, including operational activities, cash management, and fraud and abuse policies and procedures for years 2006 through 2009. While the FEDVIP is operated on a contract year basis, OPM charges expenses against the FEDVIP on a fiscal year basis. Consequently, contract year and fiscal year are used throughout this report as appropriate.

This report identified four procedural findings and two areas for program improvement. The results of our audit have been summarized below.

**OPM ADMINISTRATIVE OPERATIONS**

• **Annual Accounting Statement Requirement Not Enforced** **Procedural**

OPM did not enforce the requirement in the Contract for the FEDVIP Carriers to provide annual accounting statements during contract years 2006 through 2009.

## CASH MANAGEMENT

- **FEDVIP Expenses** **Procedural**

We identified 43 expense transactions, totaling \$3,282,998, in fiscal years 2006 through 2009, which we could not determine were actual, allocable, or reasonable costs for administration of the FEDVIP. However, since it would be very difficult for OPM to determine, due to a lack of internal controls over the expensing of FEDVIP funds, from whom the overcharges should be recouped if the amounts proved to be unallowable FEDVIP costs, we are not recommending that these funds be returned to the FEDVIP. Instead, we are recommending the implementation of stronger controls to ensure that future charges against FEDVIP funds are for actual FEDVIP costs.

- **2007 Salary Expenses** **Procedural**

OPM did not provide adequate support for salary expenses totaling \$568,699 that were charged to the FEDVIP in 2007.

- **No Reconciliation of Budgeted to Actual Expenses** **Procedural**

OPM did not perform a yearly reconciliation of the budgeted to actual expenses for fiscal years 2006 through 2009 as required by the Contract.

## FRAUD AND ABUSE

Our review of OPM's administration of the FEDVIP did not identify any specific problems related to fraud and abuse in its administration of the funds received or the amounts expensed. However, as addressed in the Lack of Internal Controls issue below, we did determine that OPM lacked specific written policies and procedures for the detection and prevention of fraud and abuse related to its handling of FEDVIP funds.

## PROGRAM IMPROVEMENT AREAS

The areas included in this section of the report, while not violations of the FEDVIP contract, were, in our opinion, reportable program weaknesses that are in need of corrective actions. Consequently, we are including them in this final report in order to assist OPM in improving its administration of the FEDVIP.

- **Inadequate Support for OPM's Administrative Fee** **Procedural**

OPM was unable to provide documentation supporting the method of determining the percentage of premiums used to fund its budget to administer the FEDVIP. Additionally, it was unable to support the reasons for changes to this percentage from year to year.

- **Lack of Internal Controls** **Procedural**

OPM does not have adequate internal controls for the approval and review of its administrative expenses. Additionally, it also does not have policies and procedures in place

to prevent fraud and abuse in relation to the funds it receives for its administration of the FEDVIP.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) as administered by the Office of Personnel Management (OPM). The audit was performed by the OPM's Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

## **BACKGROUND**

The Federal Employees Dental and Vision Benefits Enhancement Act of 2004, Public Law 108-496, 118 Statute 4001, was signed into law on December 23, 2004. This law established a dental benefits and vision benefits program for Federal employees, annuitants, and their eligible family members. The following 10 FEDVIP carriers all signed contracts with OPM to provide dental or vision insurance services for a term of seven years:

### **Dental**

- Aetna Life Insurance Company;
- Government Employees Hospital Association, Inc.;
- Metropolitan Life Insurance Company;
- United Concordia Companies, Inc.;
- Group Health, Inc.;
- CompBenefits; and
- Triple-S Salud, Inc.

### **Vision**

- BlueCross BlueShield Association;
- United HealthCare (formerly Spectera, Inc.); and
- Vision Service Plan

The duties and responsibilities of insurance carriers participating in the FEDVIP program include the following:

1. To provide payments or benefits to an eligible individual if such individual is entitled thereto under the terms of the contract;
2. With respect to disputes regarding claims for payments or benefits under the terms of the contract –
  - a. to establish internal procedures designed to expeditiously resolve such disputes;
  - b. to establish, for disputes not resolved through procedures mentioned above, procedures for one or more alternative means of dispute resolution involving independent third-party review under appropriate circumstances by entities mutually acceptable to OPM and the carrier;
3. To make available to each individual eligible to enroll in a dental benefits plan, information on services and benefits to enable the individual to make an informed decision about electing coverage;

4. To maintain accounting records that contain such information and reports as OPM may require;
5. To furnish such reasonable reports as OPM determines to be necessary to enable it to carry out its functions; and
6. To permit OPM and representatives of the Government Accountability Office to examine such records of the carrier as may be necessary to carry out the purposes of the contract.

The duties and responsibilities of OPM in its administration of the FEDVIP include, but are not limited to, the following:

1. To maintain the OPM FEDVIP website;
2. To act as a liaison with Federal agencies;
3. To facilitate the promotion of the FEDVIP through Federal agencies;
4. To be responsive on a timely basis to the Carrier's requests for information and assistance; and
5. To perform, as provided by The Federal Employees Dental and Vision Benefits Enhancement Act, functions typically associated with insurance commissions such as the review and approval of rates, forms, and education materials.

OPM's responsibilities are outlined in Contract OPM-RFP-06-00060, with its associated amendments, (the Contract) and its oversight duties are carried out in its Washington, D.C. offices.

This was our first audit of OPM's administration of the FEDVIP.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The objectives of our audit were to determine if OPM's administration of the FEDVIP was in compliance with the Contract, and the FEDVIP regulations (5 CFR Part 894). Our specific audit objectives for this audit were as follows:

#### **OPM Administrative Operations**

- To obtain an understanding of OPM's administrative organization as it relates to the FEDVIP.
- To obtain an understanding of OPM's responsibilities for administering the FEDVIP.
- To obtain an understanding of the various OPM departments and offices which are involved in the administration of the FEDVIP.

#### **Cash Management**

- To obtain an understanding of the OPM administrative fee, including: how the fee is determined; who calculates the fee; and how often the fee is reviewed or recalculated.
- To obtain an understanding of OPM's responsibilities regarding FEDVIP funds according to the Contract and applicable Federal regulations.
- To determine how the funds for the OPM administrative fee are transferred to OPM and how much money was allocated to OPM during the scope of the audit.
- To determine the policies and procedures and/or internal controls for expensing the FEDVIP funds; how OPM distributes or utilizes these funds; and what OPM does with any remaining funds.
- To reconcile the OPM administrative fee to the schedule of related OPM FEDVIP administrative expenses during the scope of the audit.

#### **Fraud and Abuse**

- To determine the policies and procedures that OPM has in place to prevent instances of fraud and abuse in its administration of funds received and amounts expensed related to the FEDVIP.

### **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 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 OPM's administration of the FEDVIP, including operational activities, cash management activities, and fraud and abuse policies and procedures for years 2006 through 2009.

We performed our fieldwork from February 14 to March 31, 2011, at our offices in Washington, D.C. Additional audit work was also completed in our Washington, D.C. offices after completion of our field work.

In planning and conducting our audit, we obtained an understanding of OPM's internal control structure, as it relates to its administration of the FEDVIP, 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 identified internal control deficiencies within OPM's administration of the FEDVIP which did not permit us to verify the accuracy of expenses charged against FEDVIP funds. These issues are included in the "Audit Findings and Recommendations" section of this report. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on OPM's system of internal controls taken as a whole.

In conducting our audit, we relied to varying degrees on computer-generated data provided by OPM. 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.

We also conducted tests to determine whether OPM had complied with the Contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. Exceptions noted in the areas reviewed are set forth in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that OPM had not complied, in all material respects, with those provisions.

## **METHODOLOGY**

To determine whether OPM's administration of the FEDVIP was in compliance with the Contract, and the FEDVIP regulations (5 CFR Part 894), we performed the following audit steps:

### OPM Administrative Operations

- Obtained an organizational breakdown and contact information of OPM's management and staff directly involved in the administration of the FEDVIP; and
- Determined OPM's responsibilities related to its administration of the FEDVIP.

### Cash Management

- Obtained an understanding of OPM's administrative fee received for the administration of the FEDVIP, its calculation, and how often the fee was reviewed and/or recalculated;
- Determined how the FEDVIP administrative fee monies were transferred to OPM and the total amount of funds received by OPM to administer the FEDVIP;

- Determined the policies and procedures and/or internal controls utilized by OPM to ensure that the FEDVIP funds were used only for the administration of the FEDVIP;
- Judgmentally selected, based on the ratio of expense charged by each OPM organization code to total FEDVIP expenses, a sample of 157 expense transactions (totaling \$8,124,624) from a universe of 2,305 transactions (totaling \$12,080,689) charged by OPM in its administration of the FEDVIP to determine if the expenses charged were actual, allocable, and reasonable;
- Determined the process for the handling of FEDVIP funds retained in excess of expenses incurred; and
- Reviewed OPM's reconciliation of the FEDVIP administrative fees received to the FEDVIP expenses incurred.

#### Fraud and Abuse

- Determined whether OPM had policies and procedures in place to prevent instances of fraud and abuse in its administration of the FEDVIP.

The samples selected during our review 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 as a whole.

We used the Contract and the FEDVIP regulations (5 CFR Part 894) to determine whether OPM's operations activities and cash management activities were in compliance with the terms of the contract and the applicable regulations. We also determined whether or not OPM had policies and procedures in place to detect and prevent instances of fraud and abuse related to its administration of the FEDVIP.

The results of our audit were discussed with OPM throughout the audit and at the exit conference. In addition, a draft report, dated July 14, 2011, was provided to OPM for review and comment. OPM's comments on the draft report were considered in the preparation of this final report and are included as Appendices to this report.

### **III. AUDIT RESULTS AND RECOMMENDATIONS**

#### **A. OPM ADMINISTRATIVE OPERATIONS**

##### **1. Annual Accounting Statement Requirement Not Enforced**

##### **Procedural**

OPM did not enforce the requirement in the Contract for the FEDVIP Carriers to provide annual accounting statements during contract years 2006 through 2009.

Section K.9, Accounting and Allowable Cost (a) (1), of the Contract states that the Carrier will prepare annually an accounting statement summarizing the financial results of its FEDVIP contract for the previous fiscal year (for the purposes of this program a fiscal year is the same as a calendar year). This statement will be prepared in accordance with the requirements issued annually by OPM and will be due to OPM in accordance with a date established by those requirements.

During our audit of the FEDVIP as administered by GEHA in November 2009, we determined that OPM, via E-mail, had informed the FEDVIP Carriers that they did not have to provide annual accounting statements. Although this was a Contract requirement as cited above, this directive was communicated to the Carriers without benefit of an amendment to the Contract. Discussion with OPM personnel could not determine why it did not require the FEDVIP carriers to provide these statements. Of concern to us is that without the annual accounting statements OPM could not verify the financial viability of the Carriers participating in the FEDVIP.

As a result of our inquiries during our November 2009 audit, beginning in June 2010, OPM has required the Carriers to provide certified annual accounting statements to comply with Section K.9, Accounting and Allowable Cost (a) (1). OPM uses these statements to monitor financial viability of the FEDVIP Carriers, thereby ensuring the success of the program, and to validate the proposed premiums for the upcoming plan year.

##### **Recommendation 1**

We recommend that in the future OPM should give formal notice to its Carriers (i.e., contract amendment or modification) should a requirement within the original Solicitation be changed.

##### **OPM Comments:**

OPM requested that this recommendation be removed because the issue at hand was corrected via an amendment to the Contract in June 2010.

**OIG Comments:**

Due to the fact that during the scope of our audit the proper procedure was not followed, we have kept the recommendation in this report. However, since the proper procedure was followed subsequently, we consider this recommendation to be closed.

**Recommendation 2**

We recommend that OPM, through the collaborative efforts of its various offices, continue to receive and review annual certified financial statements from each of the FEDVIP Carriers in order to ensure the Carriers financial viability in relation to the FEDVIP. In addition, the process for receipt and review of these financial statements should be formalized in a policies and procedures document.

**OPM Comments:**

OPM partially concurs with this recommendation. The Federal Employee Insurance Operations (FEIO) already coordinates with the Center for Financial Services, specifically the Trust Fund Accounting group, to request, receive, and review the annual financial statements from FEDVIP Carriers. This agreement will be formalized and documented. Additionally, as part of its updated response sent on January 13, 2012, the FEIO provided its financial statement request and review process and support for receipt of a 2007 annual financial statement from one of the participating FEDVIP carriers. Based on the information provided, OPM asks that the OIG consider the processes that were in place prior to the beginning of the audit and remove this recommendation from the final report.

**OIG Comments:**

While OPM outlined its process for requesting and reviewing annual financial statements submitted by the FEDVIP carriers in its updated response, we would like to see this process summarized in more detail in a formal policies and procedures document. Additionally, while this process may have been in place prior to the start of our audit, we have evidence showing that it was not being consistently followed. Nor do we know, short of a request from OPM's actuaries inquiring about administrative cost information from the FEDVIP carriers, whether an actual review of the statements or any reports provided to OPM by the FEDVIP carriers was performed. Consequently, we have kept this recommendation in our final report.

**B. CASH MANAGEMENT**

**1. FEDVIP Expenses**

**Procedural**

We identified 43 transactions, totaling \$3,282,998, in fiscal years 2006 through 2009 which we could not determine were actual, allocable, or reasonable for the administration of the FEDVIP. However, since it would be very difficult for OPM to determine, due to a lack of internal controls over the expensing of FEDVIP funds, from

whom the overcharges should be recouped if the amounts proved to be unallowable FEDVIP costs, we are not recommending that these funds be returned to the FEDVIP.

Public Law 108-496, Section 8958 (f) (2) (A) states, “There is established in the Employees Health Benefits Fund a Dental Benefits Administrative Account, which shall be available to the Office, without fiscal year limitation, to defray reasonable expenses incurred by the Office in administering this chapter after the start of the first contract year.”

Public Law 108-496, Section 8988 (f) (2) (A) states, “There is established in the Employees Health Benefits Fund a Vision Benefits Administrative Account, which shall be available to the Office, without fiscal year limitation, to defray reasonable expenses incurred by the Office in administering this chapter after the start of the first contract year.”

For our review of the 2006 through 2009 administrative expenses, we sampled 157 transactions, totaling \$8,124,624, to determine if the expenses were actual, allocable, or reasonable for the administration of the FEDVIP. Our review identified 43 transactions, totaling \$3,282,998, which we could not determine were actual or allocable costs and, therefore, have determined them to be unreasonable in relation to the administration of the Program. Specifically, we identified the following for 2006 through 2009:

- 17 transactions, totaling \$2,436,084, where no supporting documentation or insufficient documentation was provided;
- 7 transactions, totaling \$349,423, related to a 40 percent overlay cost. OPM stated that, for the expenses related to overlay cost, the percentage was established many years ago by OPM to cover indirect expenses. OPM is not sure how the percentage was determined;
- 1 transaction, totaling \$243,696, where the expense charged was an estimated expense, not an actual expense;
- 5 transactions, totaling \$214,477, which did not relate to the FEDVIP;
- 6 transactions, totaling \$35,342, related to salary expenses. For these expenses, we obtained supporting documentation for the employees who actually worked on the administration of the Program, and the amount of their salary charged to the FEDVIP. From information provided we could not determine that these employees worked on projects related to the FEDVIP; and
- 7 transactions, totaling \$3,976, related to transit benefit costs. For these expenses, we could not determine the employees for which these costs apply and if they performed work for the FEDVIP.

Additionally, OPM stated that they have no way of knowing what expenses were actually charged to the FEDVIP because all expenses are paid by the Office of the Chief Financial Officer (OCFO) office. Expenses are not approved at the Contracting Officer level prior to or after payment.

As a result of OPM not providing adequate supporting documentation or not providing the basis for some of the expenses charged to the FEDVIP, we cannot properly determine if these expenses are actual, allocable, and/or reasonable.

Furthermore, due to the lack of knowledge regarding the expenses charged to the FEDVIP, OPM cannot provide adequate oversight of the Program. Nor can it determine, with any accuracy, the amount of funds required to reimburse it for its true administrative costs.

### **Recommendation 3**

We recommend that OPM maintain documentation related to all expenses charged by it for its administration of the FEDVIP.

#### **OPM Comments:**

OPM concurs with this recommendation and states that additional controls are needed to more fully document and monitor the FEDVIP's expenses and that it will work within its various offices to identify those expenses and develop ways to effectively document them. As part of this process an OCFO/FEIO task team has been put together to look at the work reporting component of this audit issue from the standpoint of accurately charging time across all of Insurance Operations, not just for the FEDVIP. As of the date of this report, documentation included as part of its updated draft response, provided to the OIG on January 13, 2012, OPM indicates that progress has been made in how FEDVIP time is tracked and expense amounts are coded to the appropriate funds.

### **Recommendation 4**

We recommend that OPM work within its appropriate offices to institute procedures which make certain that only those expenses related to the administration of the FEDVIP are charged to it and that proper approvals are obtained prior to the expenses being charged.

#### **OPM Comments:**

OPM partially concurs with this recommendation. It states that responsibility for implementing this recommendation lies with many offices within OPM. It states that it will implement periodic reviews of labor codes and those individuals authorized to use them to mitigate unauthorized personnel charges to the FEDVIP. Additionally, it will run periodic reports from its internal accounting system to help identify and reallocate unauthorized expenses that have been charged against the FEDVIP.

## **OIG Comments:**

We accept OPM's response. However, we further stress the need for OPM to schedule the planned periodic reviews regularly (e.g., quarterly or bi-annually) to ensure that unauthorized expenses to the FEDVIP are identified in a timely manner and reversed.

### **2. 2007 Salary Expenses**

### **Procedural**

OPM did not provide adequate support for salary expenses totaling \$568,699 that were charged to the FEDVIP in 2007.

Public Law 108-496, Section 8958 (f) (2) (A) states, "There is established in the Employees Health Benefits Fund a Dental Benefits Administrative Account, which shall be available to the Office, without fiscal year limitation, to defray reasonable expenses incurred by the Office in administering this chapter after the start of the first contract year."

Public Law 108-496, Section 8988 (f) (2) (A) states, "There is established in the Employees Health Benefits Fund a Vision Benefits Administrative Account, which shall be available to the Office, without fiscal year limitation, to defray reasonable expenses incurred by the Office in administering this chapter after the start of the first contract year."

During our review of the expenses charged to the FEDVIP in 2007, we requested supporting documentation for the salary expenses in our sample. The intent of our review was to determine if the salary expense charged to the FEDVIP was related to employees who actually worked on the Program. OPM stated that for 2007, it would not be able to provide a breakdown of those employees who specifically performed work for the administration of the FEDVIP because it had utilized employees from different departments within the Retirement and Insurance Services office. OPM was unable to provide a listing of all of the specific employees who worked on the FEDVIP because it did not track that information and due to the amount of time that had lapsed between the period in question and the timing of our audit.

Our review of 2007 expenses identified that 21 transactions, totaling \$568,699, related to salary and employee leave costs which were unsupported. Therefore, we could not determine if the costs were accurate, allocable, and/or reasonable.

As a result of the inadequate support for these salary costs, the FEDVIP may have been charged salary or leave costs for employees who did not work on the administration of the FEDVIP.

### **Recommendation 5**

We recommend that OPM's various offices tasked with administering the FEDVIP maintain a listing of all employees who have regular duties and responsibilities related

to the FEDVIP, and approve the salary expenses to ensure that the FEDVIP is only charged for those employees assigned duties related to the FEDVIP.

**OPM Comments:**

OPM partially concurs with this recommendation. It states that it can provide a core list of employees who have ongoing or cyclical responsibilities related to the administration of the FEDVIP. However, creating and maintaining a comprehensive list for those who might charge time or perform work related to the FEDVIP on an ad hoc basis for the entire agency is not feasible. It also requested that the recommendation be written in such a way as to reflect the collaborative nature of the effort required.

Furthermore, it states that it is possible for employees outside those regular agency offices in which the core of the FEDVIP staff reside to charge time to the FEDVIP for a variety of activities such as Open Season, Policy, Retirement and others. It feels that this necessitates the need for retroactive review of salary and leave expenses as stated in its comments above and in its comments to recommendation number four.

**OIG Comments:**

We accept OPM's response. We would like to stress that the "core list" of FEDVIP employees need not include any employees who would only on rare occasions work on the FEDVIP. This list should only include those employees who regularly (i.e., daily or weekly) have duties and responsibilities related to the FEDVIP. Additionally, during its regular review of the salary and leave expenses charged to the FEDVIP, we suggest that OPM check all those employees charging salary expense to the FEDVIP who are not listed as a core employee with ongoing or cyclical FEDVIP responsibilities to ensure that time charged to the FEDVIP was accurate. The recommendation has also been adjusted to reflect the collaborative effort required to address it.

**3. No Reconciliation of Budgeted to Actual Expenses Procedural**

OPM did not perform a yearly reconciliation of the budgeted to actual expenses for fiscal years 2006 through 2009 as required by the Contract.

Section 1.31 of the Contract regarding reimbursement of government costs states that "OPM will perform a yearly reconciliation of actual expenses to anticipated expenses and the Carrier's future contributions will be adjusted accordingly."

During our review of OPM's responsibilities regarding cash management for the FEDVIP administrative fee, we requested supporting documentation for the yearly reconciliation. OPM was unable to provide this information and subsequent discussions determined that it has never performed this aspect of its responsibility under the Contract. OPM explained that reconciliations of budgeted expenses to actual expenses could not be performed each year because it is not provided any financial information pertaining to the FEDVIP from OPM's OCFO. OPM has made efforts to

obtain financial information, such as a FEDVIP budget and a record of actual expenses from the OCFO, but was unsuccessful. Consequently, OPM believes that most of the budgeting functions for the FEDVIP have been performed by the OCFO and by other offices within the agency. The Program Office itself does not have an existing budget for the FEDVIP.

As a result of the necessary budget information being unavailable, not only was OPM unable to perform the functions required by Section 1.31 of the Contract, but it also could not adequately plan for future expenses or adjust its administrative fee percentage as needed.

Additionally, OPM runs the risk of having inappropriate and/or non-program related expenses charged to the FEDVIP which, consequently, may increase the administration fee for the FEDVIP as well as the enrollee premiums charged by the Carriers.

### **Recommendation 6**

We recommend that the various offices within the agency coordinate and obtain all information necessary to perform the annual reconciliations.

### **OPM Comments:**

OPM concurs with the recommendation and will work with the various agency offices to obtain the necessary documentation for the annual reconciliation process.

## **C. FRAUD AND ABUSE**

Our review of OPM's administration of the FEDVIP did not identify any specific problems related to fraud and abuse in its administration of the FEDVIP funds received or the amounts expensed. Nevertheless, we did determine that OPM lacked specific written policies and procedures for the detection and prevention of fraud and abuse related to its handling of FEDVIP funds. However, because there are no specific fraud and abuse requirements related to OPM's Program administrative responsibilities in the Contract or the FEDVIP regulations, we are addressing this area of concern in the Lack of Internal Controls finding in Section D of the report.

## **D. PROGRAM IMPROVEMENT AREAS**

The areas included in this section of the report, while not violations of the FEDVIP contract, were, in our opinion, reportable program weaknesses that are in need of corrective actions. Consequently, we are including them in this final report in order to assist OPM in improving its administration of the FEDVIP.

### **1. Inadequate Support for OPM's Administrative Fee**

### **Procedural**

OPM was unable to provide documentation supporting the method of determining the percentage of premiums used to fund its budget to administer the FEDVIP.

Additionally, OPM was unable to support the reasons for changes to the percentage from year to year.

According to the Contract, Section C, Part VII, Financial, OPM estimated its overall budget for administrative expenses for the FEDVIP to be approximately \$1,000,000 per annum.

We met with OPM to gain an understanding of how the percentage of premiums to fund its administrative costs was determined. We found that each year, OPM receives a portion of the FEDVIP premiums collected to use for its expenses in administering the FEDVIP. During our discussions, we requested supporting documentation for the calculation of this percentage (also known as the “administrative loading”) for calendar years 2006 through 2009, as well as support for the decisions to keep the fee percentage the same or change it each calendar year.

Additionally, in order to determine OPM’s fee for administering the FEDVIP, we reviewed OPM’s Administration Loading Schedule. We found that at the start of the Program, the administrative loading was an estimate. Initially it was calculated based on a projected number of enrollees and the estimated cost of \$1,000,000 stated in the Contract.

According to OPM, for contract years 2007 and 2008 the administrative loading used was 1.5 percent of net premiums for national dental plans, 3 percent for regional dental plans, and 4 percent for vision plans. In 2009, the loading changed to 1 percent of net premiums for national dental plans, 2 percent for regional dental plans, and 2 percent for vision plans. The administrative loading remained the same for 2010 and 2011.

We were able to obtain the calculation for the 2007 and 2008 administrative loading percentages, but not for the 2009 calculation. We were also not able to obtain any support for the discussion or decisions by OPM to modify or maintain the administrative loading percentages each year.

Our review has determined that, although OPM had estimated its administrative expense budget to be approximately \$1,000,000 per year, it actually received approximately \$20.5 million for contract years 2007 through 2009, and still held funds in excess of \$8.4 million following the first three years of the Program. As a result, it is evident that the administrative loading provided Program funding over and above what was actually needed to administer the program.

Furthermore, by not maintaining supporting documentation for the calculation of the administrative loading percentage, OPM might not objectively and fairly charge a reasonable amount to cover its administrative costs, resulting in overcharging or undercharging the FEDVIP enrollees and Carriers.

## **Recommendation 7**

We recommend that OPM develop a formal policies and procedures document that addresses the documentation required to support all of the components necessary for the calculation of and the changes to each year's administrative loading percentage. This policies and procedures document should also address OPM's yearly review of the administrative loading percentage to assess the current level of funds and to limit any excess funds that it has for its administration of the FEDVIP.

### **OPM Comments:**

OPM concurs with this recommendation and provided a summary of the various decisions made in regards to the administrative loading percentage during the initial years of the FEDVIP in its consolidated response. Additionally, in an updated response to the draft report submitted to the OIG on January 13, 2012, OPM provided additional documentation supporting the discussions and decisions that went into determining its administrative loading for 2012. Its decision to lower the administrative loading percentage for 2012 was intended to accomplish two objectives - lowering costs to the program participants and reducing the excessive amount of unspent funds by lowering the loading percentage below what OPM will need to fund administrative costs. Additionally, in order to draw down approximately \$10 million against the excess reserves, which had grown to \$26 million as of July 2011, the 2012 administrative loading also includes a credit or buy-down to the total rate. Finally, OPM contends that the documentation provided in its response confirms that a process has been in place to annually review the FEDVIP load and make recommendations. Consequently, OPM asks that the OIG consider the processes that were in place prior to the beginning of the audit and remove this recommendation from the report.

### **OIG Comments:**

While the documentation provided in OPM's updated response adequately supports the loading decision for 2012, OPM did not provide any support for the components of the administrative loading percentage or the meetings and/or decisions regarding each year's percentage for the years under audit. The crux of our finding was that we could not locate support for one year of the loading percentage nor could we find any documentation of decisions to modify or maintain the loading percentage each year.

Additionally, the documentation provided only supports that a process to annually review the FEDVIP administrative loading is currently in place. The documentation does not support that this process existed prior to the start of our audit. Thus, OPM has not provided documentation sufficient to adequately address our areas of concern and warrant the closing of this recommendation.

That being said, however, we do acknowledge OPM's current efforts in documenting the administrative loading derivation process and reducing the amount of excess reserves. We encourage them to formalize these processes in a policies and procedures document to be used going forward.

## **2. Lack of Internal Controls**

## **Procedural**

OPM does not have adequate internal controls for reviewing and approving its administrative expenses, or policies and procedures in place to detect and prevent fraud and abuse related to the funds it receives, for its administration of the FEDVIP.

During our review, we conducted separate meetings with various offices within OPM in order to determine who approves the FEDVIP administrative costs and how invoices are paid. We also requested the names of staff who are involved in the approval of the FEDVIP expenses. However, we were unable to obtain this information. OPM's Federal Employee Insurance Operations (FEIO), the office charged with the administration of the FEDVIP, does not approve any invoices or expenses, as they do not receive any financial information from OPM's OCFO. Consequently, the FEIO is currently unable to fulfill all of its duties and responsibilities as the Administrator of the FEDVIP because it has no knowledge of the funds expended for the administration of the FEDVIP each year.

Additionally, we determined that there are no written policies and procedures for the detection and prevention of fraud and abuse related to the FEDVIP funds OPM receives.

As a result of OPM's Healthcare and Insurance Office not approving the FEDVIP expenses or having a fraud and abuse policy, there is a risk that the funds received for its administrative loading will be used to fund other OPM programs unrelated to the FEDVIP, or for purposes completely unrelated to the intentions spelled out in Public Law and the Contract.

Furthermore, as a result of OPM not having knowledge of its own administrative costs for the FEDVIP each year, it will not be able to perform a reconciliation of budgeted to actual expenses, as required in the Contract, or make proper decisions for the changes to the administrative loading percentage.

### **Recommendation 8**

We recommend that OPM work to develop internal controls and a fraud and abuse policy, so that only FEDVIP expenses are charged to the FEDVIP in future contract years.

### **OPM Comments:**

OPM states that it partially concurs with this recommendation and that it believes that implementation of the proposed remedies to previous recommendations in this report will address this finding. It agrees that additional controls are needed to ensure that the FEDVIP related expenses are charged to the FEDVIP funds prospectively.

**OIG Comments:**

We accept OPM's response. However, OPM did not include in its comments anything about policies and procedures regarding fraud and abuse. This is also a major area of concern and procedures should be put in place to ensure that fraud and abuse is deterred before it occurs. OPM's proposed remedies to previous findings are for it to retroactively review costs after they are charged, while policies and procedures for fraud and abuse will hopefully prevent some errors from occurring in the first place.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Special Audits Group**

██████████ Auditor-In-Charge

██████████, Auditor

██████████, Auditor

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██████████, Chief ██████████

██████████, Senior Team Leader



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

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MEMORANDUM FOR:

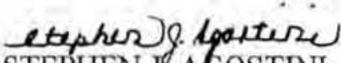
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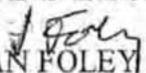
██████████  
CHIEF, SPECIAL AUDITS GROUP  
OFFICE OF INSPECTOR GENERAL

MELISSA BROWN,  
DEPUTY ASSISTANT INSPECTOR GENERAL  
FOR AUDITS

FROM:

JOHN O'BRIEN   
HEALTH AND INSURANCE

  
STEPHEN J. AGOSTINI  
CHIEF FINANCIAL OFFICER

JONATHAN FOLEY   
PLANNING AND POLICY ANALYSIS

**SUBJECT:** OIG DRAFT AUDIT REPORT,  
Federal Employees Dental and Vision Insurance Program (FEDVIP)  
Audit Report Number – 1J-0L-00-11-033, dated July 14, 2011

Thank you for the opportunity to respond to your review of OPM's Federal Employees Dental and Vision Insurance Program (FEDVIP). The Healthcare and Insurance, the Chief Financial Officer and the Office of the Actuary are committed to continually improving our administration and oversight of FEDVIP.

We recognize that even the best run programs can benefit from external evaluations, and, although we concur with the majority of the findings in the audit report, we do have some clarifications and corrections to some of the findings and recommendations as provided below. Be assured that efforts to improve the review of key documentation, evaluate and approve appropriate expenses and develop stronger controls and procedures are underway and key stakeholders are working together to address the findings in the report.

In an effort to add context to the draft audit, it should be noted that due to agency, as well as the Federal Employees Insurance Operation's (FEIO) reorganization(s), references to the "Program Office" are not synonymous with the current FEIO Contract and Resource Management Office (RMO) structures. FEIO's current RMO was established in 2011, well after the audit's scope of 2006 to 2009, when Insurance Services Program was organizationally linked to Retirement Services under Human Resources Products and Services and received RMO support from Retirement. In the aftermath of the 2011 reorganization, FEIO created its own RMO to provide work reporting, HR, budget and

other support previously provided by Retirement. Additionally, the FEDVIP contracting office and Contract Officer have changed as a result of the aforementioned organizational realignments.

Due to the broad audience of this audit report, including those who may access it via a Freedom Of Information Act (FOIA) request, we believe additional background on the program and description of its benefits and organizational structure is warranted. This will familiarize the reader with the program's structure, features and organizational coordination required to administer and oversee FEDVIP.

We respectfully request that findings and recommendations be reviewed with an eye towards clarifying the collaborative efforts required to implement the recommendations. Additionally, we request your consideration with regard to merging or consolidating several similar recommendations. In that vein, we request recommendations 4, 5, 6, 7 and 10 be combined. Similarly, we suggest recommendations 8 and 9 be combined. Responses to the individual recommendations follow.

#### **Recommendation 1**

We recommend that the Director instruct the Program Office to give notice to its Carriers (i.e. formal amendment or modification) should a requirement within the original Contract be changed.

#### **Response to Recommendation 1**

We do not concur with Recommendation 1. The FEDVIP draft audit report acknowledges that this is being done. In June 2010, an amendment to Section K.9 Accounting and Allowable Cost (a) (1) of the Contract was drafted and communicated to the carriers. The Program office changed from a requirement to provide *Audited* Annual Accounting Statements to a requirement for *Certified* Annual Accounting Statements (see attachment# 1). This was done via Contract modification and was in response to a prior FEDVIP Carrier audit (GEHA Dental, 1B-31-00-10-006, September 27, 2010). The reporting requirement applied to all FEDVIP carriers and was communicated to each (also provided as part of attachment# 1). We request this recommendation be removed from the final audit report.

#### **Recommendation 2**

We recommend that the Director ensures that the Program Office continue to receive and review annual certified financial statements from each of the FEDVIP Carriers in order to ensure the Carriers financial viability in relation to the FEDVIP.

## **Response to Recommendation 2**

We partially concur with the recommendation. The contract requirement is for "OPM" to receive and review the annual statements, not the Program Office. Federal Employee Insurance Operations (FEIO) already coordinates with the Center for Financial Services (CFS), specifically the Trust Fund Accounting group to request, receive and review the annual financial statements from FEDVIP Carriers (see attachment# 2 for email exchanges on this topic). This agreement and the review process itself will be formalized and documented. Note that this was an agenda item at the recent FEDVIP Carrier Conference (where an OIG auditor spoke on audit issues-also provided in attachment# 2). We request the recommendation be written in such a way as to reflect the collaborative nature of the effort required.

**Recommendation 3** - We recommend that the Director ensure that the Program Office maintain documentation related to all expenses charged to the FEDVIP.

## **Response to Recommendation 3**

We concur. FEIO agrees that additional controls and procedures are needed to more fully document and monitor FEDVIP expenses (i.e. salary and benefits, and any other objects such as training, travel, contracts, etc...) and will work together with the CFO and other appropriate office(s) to identify those expenses and develop ways to effectively document them prospectively. There is a CFO / FEIO task team that is looking at the work reporting component of this issue from the standpoint of accurately charging time across all of IO, not just FEDVIP.

## **Recommendation 4**

We recommend that the Director ensure that the Program Office work with the OCFO to institute procedures to ensure that only those expenses related to the administration of the FEDVIP are charged to it and that approval is sought from the Program Office prior to expenses being charged.

## **Response to Recommendation 4**

We partially concur with this recommendation. Program responsibility for implementing this recommendation lies with FEIO RMO, Contract officials and Program Managers across organizations, including the CFO and others to ensure that only approved staff is able to charge time and/or activities to FEDVIP.

Included in this activity are ensuring that labor codes in ETAMS are only available to approved staff and that approval is sought when charging expenses against the FEDVIP. Healthcare and Insurance and RMO staff will work with CFO to implement periodic reviews of labor codes and individuals authorized to use them to mitigate un-authorized personnel charges to FEDVIP. This will be done via labor reports designed to identify unauthorized charges, which will be reallocated to the appropriate fund code(s).

As with ETAMS, RMO staff will run periodic reports in CBIS – the agency’s financial system – to identify unauthorized expenses that have been charged against the FEDVIP fund. Unauthorized charges will be reallocated to the appropriate fund code(s).

**Recommendation 5** - We recommend that the Director ensure that the Program Office maintains a list of employees and their duties for the administration of the FEDVIP, and approve the salary expenses which are charged to the FEDVIP.

**Response to Recommendation 5**

We partially concur. FEIO can provide a core list of employees who have ongoing or cyclical responsibilities related to the administration of FEDVIP. Generally speaking, most salary expenses charged to FEDVIP are made by employees assigned to FEIO and the Individual Benefits and Life (IBL) program, in particular, FEDVIP. FEIO will maintain a list of those employees and their duties for those employees, as well as those identified within the CFO, OA and Retirement. However, creating and maintaining a comprehensive list for those who might charge time or perform work related to FEDVIP on an ad hoc basis agency wide is not feasible. Therefore, this action may not fully address the finding, especially where retroactive work reporting ‘corrections’ are done. We request the recommendation be written in such a way as to reflect the collaborative nature of the effort required.

**Recommendation 6** -We recommend that the Program Office, with the assistance of the OCFO, ensure that only those employees assigned specific duties related to the FEDVIP charge salary and leave expenses to the FEDVIP

**Response to Recommendation 6**

We partially concur. See the responses to Recommendations 4 and 5. Since most charges to FEDVIP are made by employees assigned to FEIO in general, and the office of Individual Benefits & Life (IBL) in particular, FEIO will work with the CFO to monitor, document and improve work reporting for employees who are assigned FEDVIP related duties. However, it is possible that employees outside of Health and Insurance (HI) may charge time under FEDVIP for a variety of activities such as Open Season, Policy, Retirement and others. This necessitates the need for retroactive review of salary and leave expenses charged to the FEDVIP, as previously discussed. HI believes that this recommendation will be met by implementing recommendations 4, 5 and 7.

**Recommendation 7**

We recommend that the Director encourage the OCFO to work with the Program Office and provide the necessary documentation for the annual reconciliation

**Response to Recommendation 7**

We concur and FEIO will work with the CFO and others to obtain the necessary documentation for the annual reconciliation process.

**Recommendation 8** - We recommend the Director ensure that the Program Office maintains documentation of the components needed for the calculation of the administrative loading percentage, and any decision to change the percentage each year.

**Response to Recommendation 8**

We concur. In 2008, the Office of the Actuary recommended we lower OPM's administrative loading. The program office adopted this recommendation and lowered the loading for CY2009. In 2011, the Program Office and OA worked together once again – this time to reduce both the OPM and BENEFEDS administrative loads, resulting in an outright decrease, or a lesser increase, in the premiums FEDVIP subscribers will pay in 2012. At FEDVIP's outset, a \$1 million estimate for OPM's administrative expense was used, based on a projected initial enrollment of 200,000. It was decided to lower the load for 2009 because the current actual enrollment exceeds 800,000, which generated unexpected monies in the OPM FEDVIP fund. Due to expected procurement initiatives (e.g. BENEFEDS contract, FEDVIP contracts ending in 2013), it was decided not to lower the fund again until solid estimated new contract figures were known. Once we could gauge how much money would be needed for expected procurement initiatives, the Actuary made a recommendation to lower the load, yet again, for plan year 2012. The BENEFEDS load will reduce for plan year 2012. This will further reduce the enrollee's premium rate. The Program Office, CFO, OA and representatives from BENEFEDS and LTC will meet to discuss and agree on the mechanics of the monetary transfers referred to above. See attachment#3 for additional information regarding OPM's loading decision.

**Recommendation 9** - We recommend that the Director instruct the Program Office to work with the OCFO and Actuaries and reduce the administrative loading percentage in an effort to limit the excess of funds it has for its administration of the FEDVIP, and to fairly reduce the premiums for FED VIP enrollees

**Response to Recommendation 9**

We concur. Please see the response to recommendation 8. We request recommendations 8 and 9 be combined. See attachment#3 for additional information.

**Recommendation 10** - We recommend that the Director ensure that the Program Office and the CFO work together to develop internal controls and a fraud and abuse policy, so that only the FEDVIP expenses are charged to the FEDVIP funds for future contract years.

**Response to Recommendation 10**

We partially concur. We believe that implementation of the proposed remedies for prior, related recommendations will address this finding. We agree that additional controls are needed to ensure that FEDVIP expenses are charged to the FEDVIP funds prospectively and seek to leverage existing OPM/CFO policy regarding documentation, expensing and the handling of funds by the CFO. Coordination between FEIO and CFO has been

initiated and is ongoing. It is expected to improve awareness, accuracy, and compliance in the area of Work Reporting as well as non-salary expenses, per our responses to recommendation 4, 5, 6 and 7.

## **Attachments**

January 13, 2012

**FEIO's Updated Response to FEDVIP Draft Audit - Dated July 14, 2011**

**We are submitting this updated response to our prior submission to the draft FEDVIP audit to address findings that were identified during the audit. We are responding to Recommendations 2 and 8.**

**Recommendation 2**

We recommend that the Director ensures that the Program Office continue to receive and review annual certified financial statements from each of the FEDVIP Carriers in order to ensure the Carriers financial viability in relation to the FEDVIP.

The word "continue" in the recommendation implies that OIG acknowledges and affirms that the Program Office is currently receiving and reviewing annual certified financial statements from each of the FEDVIP carriers.

**FEDVIP Annual Certified Financial Statement Receipt and Review Process**

The purpose of receiving the statements is to monitor financial viability, thereby ensuring the success of the program. The reports allow OPM to ensure that the plans are allocating cost correctly per the contract. Financial statements are also used to validate proposed premiums for the upcoming plan year. This also ensures compliance with section K.9 Accounting and Allowable Cost, (a) Annual Accounting Statement within the FEDVIP Solicitation (page K-7).

- There is an agreement between the Program Office and the plans that the statements are submitted in June, for the previous plan year.
- A reminder is sent to the plans to submit their certified statements in May.
- Once received, a copy is transmitted to the CFO and Actuary offices for their reference and review.
- The Program Office reviews for accuracy and completeness.
- A contract amendment was drafted in 2010 to change the requirement from audited to certified financial statements.
- The first certified statement was received in 2008 for the 2007 plan year. (2007 FEP Statement is attached)
- The Program Office will continue to receive and review these reports annually.

**We are requesting that the IG consider the processes that were in place prior to the beginning of the audit and remove this recommendation from the report.**

**Recommendation 8** - We recommend the Director ensure that the Program Office maintains documentation of the components needed for the calculation of the administrative loading percentage, and any decision to change the percentage each year.

**FEDVIP Loading Process and Documentation**

There has always been an ongoing process of determining the FEDVIP loading. It has always been our process to annually review and make recommendations. Starting last year and moving forward, the Program Office will maintain additional documentation from both the Actuary and the Program Office. The review process is as follows:

- Review operational/budget requirements and procurement considerations.
- Hold ongoing discussions with the Actuary Office. Maintain meeting notes for contract file.
- Meet with the Actuary Office prior to final rate setting.
- Review memo from Actuary with recommendation(s) discussed in the meeting.
- Program Office drafts a response back to the Actuary Office accepting, rejecting or requesting further clarification/information.
- Hold ongoing discussion via e-mail with additional documentation, if needed.
- Program Office drafts a memorandum with the final FEDVIP loading percentage.
- All documentation is maintained in the Program Office contract file.

Recommendations 8 and 9 are closely related. The attached documentation confirms that a process has been in place to annually review the FEDVIP load and make recommendations. **We are requesting that the IG consider the processes that were in place prior to the beginning of the audit and remove these recommendations from the report.**