



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

Final Audit Report

Subject:

AUDIT OF THE FEDERAL EMPLOYEES DENTAL AND VISION INSURANCE PROGRAM OPERATIONS AS ADMINISTERED BY VISION SERVICE PLAN RANCHO CORDOVA, CALIFORNIA

Report No. 1J-0A-00-10-031

Date: January 25, 2011

-CAUTION-

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-RFP-06-00060-6**

**Vision Service Plan As Administrator
Rancho Cordova, California**

REPORT NO. 1J-0A-00-10-031

DATE: 1/25/2011

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

Michael R. Esser
Assistant Inspector General
for Audits

EXECUTIVE SUMMARY

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-RFP-06-00060-6**

**Vision Service Plan As Administrator
Rancho Cordova, California**

REPORT NO. 1J-0A-00-10-031

DATE: 1/25/2011

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations at Vision Service Plan (VSP) located in Rancho Cordova, California. VSP provides vision insurance benefits under the FEDVIP program. The audit covered the testing of application controls over claim benefit payments, and other tests of administrative expenses, premiums, cash management activities, fraud and abuse program compliance, compliance with the Contract's Health Insurance Portability and Accountability Act (HIPAA) requirements, subcontracts, and quality assurance compliance for contract years 2007 and 2008. We identified six procedural findings pertaining to VSP's administrative expenses and one procedural finding regarding VSP's policies and procedures for handling outstanding checks. Except for these findings, we determined that the vision benefits were administered in accordance with Contract OPM-06-00060-6 (the Contract) and the FEDVIP regulations (5 CFR Part 894). Our audit issues are summarized below.

CLAIM BENEFIT PAYMENTS

The application controls over claim benefit payments were sufficient to ensure that claims were paid in accordance with the Contract, as well as the applicable Federal regulations.

ADMINISTRATIVE EXPENSES

- **Unsupported Administrative Expenses** **Procedural**

We identified numerous transactions in 2007 and 2008 where VSP charged the FEDVIP for unsupported administrative expenses. VSP did not provide sufficient documentation to show that these expenses were actual, necessary, and reasonable to administer benefits under FEDVIP, pursuant to Section K.9 (b) (1) of the Contract.

- **Unallowable Travel Expenses** **Procedural**

We identified 12 transactions in 2007 and 2008 where VSP charged the FEDVIP for unallowable travel expenses.

- **Costs Associated with Lobbying Activities** **Procedural**

We identified four transactions in 2007 where VSP charged the FEDVIP for potential lobbying expenses. These expenses were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract and are listed as unallowable expenses under FAR 31.205-22.

- **Unnecessary Expenses** **Procedural**

We identified 51 transactions in 2008 where VSP charged the FEDVIP for meals at its home duty station. These expenses were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract.

- **Charges for Alcoholic Beverages** **Procedural**

We identified one transaction in 2008 where VSP charged the FEDVIP for alcoholic beverages. This expense was not a necessary or reasonable expense under Section K.9 (b) (1) of the Contract and is listed as an unallowable expense under FAR 31.205-51.

- **Charges for Gift Cards** **Procedural**

We identified two transactions in 2008 where VSP charged the FEDVIP for gift cards. These expenses were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract and are listed as unallowable expenses under FAR 31.205-13 (b).

PREMIUMS

The premium costs charged by VSP to the FEDVIP were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

CASH MANAGEMENT ACTIVITIES

- **Outstanding Checks Policies and Procedures**

Procedural

VSP's policy on outstanding checks inappropriately allows for an escheatment of unclaimed funds to the state instead of returning these funds to the FEDVIP, as required by the Contract.

FRAUD AND ABUSE PROGRAM COMPLIANCE

VSP's fraud and abuse policies and procedures were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

COMPLIANCE WITH THE CONTRACT'S HIPAA REQUIREMENTS

VSP's HIPAA policies and procedures were in compliance with the terms of the Contract.

SUBCONTRACTS

VSP's policies and procedures for administering subcontracts were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

QUALITY ASSURANCE COMPLIANCE

VSP's Quality Assurance program policies and procedures were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

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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) operations as administered by Vision Service Plan (VSP) in Rancho Cordova, California. 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.

BACKGROUND

FEDERAL EMPLOYEES DENTAL and VISION PROGRAM

The Federal Employee 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 and vision insurance services for a term of 7 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 vision 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.

VSP

VSP administers vision benefits under the FEDVIP. Contract number OPM-06-00060-6 between OPM and VSP was awarded on August 29, 2006. Incorporated by reference into this contract are Solicitation OPM-RFP-06-00060 and Amendments 001, 002, and 003.

VSP provides vision insurance benefits to Federal employees, annuitants, and their eligible family members. The Contract between OPM and VSP is for a seven year period, starting December 31, 2006, and ending December 31, 2013, with the option to renew the Contract.

This was our first audit of VSP's program operations as it relates to the FEDVIP program.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit of VSP, relating to the FEDVIP, were to determine compliance with Contract OPM-06-00060-6 (the Contract) and FEDVIP regulations (5 CFR Part 894). Our specific audit objectives for this audit were as follows:

Claim Benefit Payments

- To gain an understanding of VSP's claims processing system.
- To determine whether VSP has appropriate controls/edits in place to prevent the payment of unallowable claims.
- To determine whether VSP has a program in place to protect enrollees and its claims system from instances of fraud and abuse.
- To determine whether VSP has proper application controls in place over its claim processing and check-writing systems to help ensure that FEDVIP-related transactions are valid, properly authorized, and completely and accurately processed.

Administrative Expenses

- To determine if administrative expenses incurred for the FEDVIP program by VSP and reported to OPM as part of the premium determination were actual, necessary, reasonable, and allocable to the program.

Premiums

- To determine whether the FEDVIP premium cost and its relative components are derived from amounts that are allowable, allocable, and reasonable to the program.
- To reconcile the premiums transferred from Benefeds to the premiums collected by VSP.
- To determine if FEDVIP premiums were appropriately collected and used to pay for FEDVIP claims.

Cash Management Activities

- To determine if the FEDVIP funds are held and invested in an interest-bearing bank account separate from VSP's other lines of business; if these funds are held until they are used to pay claims; and if the amount claimed for investment income is accurate.
- To determine if VSP/FEDVIP has adequate outstanding check procedures in place, and to determine if it currently has any checks that have been outstanding for more than two years.

Fraud and Abuse Program Compliance

- To determine how VSP prevents instances of and protects its FEDVIP vision subscribers from fraud and abuse.
- To determine if the fraud and abuse policies and procedures implemented and followed by VSP were sufficient to meet the Contract requirements.

Compliance with the Contract's Health Insurance Portability and Accountability Act (HIPAA) Requirements

- To determine if VSP's HIPAA policies and procedures are sufficient to meet the Contract requirements.

Subcontracts

- To determine if VSP adheres to the subcontracting provisions stipulated within the Contract.
- To determine if there are any subcontracts where FEDVIP costs exceeded the Federal regulation threshold (\$550,000) and did not receive OPM approval.
- To determine if OPM's contracting office approved any significant changes to the original subcontract.

Quality Assurance

- To determine if VSP has a quality assurance program in place that meets the requirements of the Contract.

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.

The audit covered the testing of application controls over claim benefit payments, and other tests of administrative expenses, premiums, cash management activities, fraud and abuse program compliance, compliance with the Contract's HIPAA requirements, subcontracts, and quality assurance compliance for contract years 2007 and 2008. We performed our fieldwork from March 8 to March 25, 2010, at VSP's offices in Rancho Cordova, California. Additional audit work was completed in our Washington, D.C. and Cranberry, Pennsylvania offices after the on-site visit.

We reviewed the VSP/FEDVIP premium reports for the years under review and found that VSP collected premium payments of approximately \$13.8 million and \$26.5 million in 2007 and 2008 respectively. Vision claim payments during the same period amounted to approximately [REDACTED] million and [REDACTED] million.

In planning and conducting our audit, we obtained an understanding of VSP/FEDVIP'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 VSP/FEDVIP'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 VSP/FEDVIP's system of internal controls taken as a whole.

In conducting our audit, we relied to varying degrees on computer-generated data provided by VSP/FEDVIP. 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 VSP/FEDVIP had complied with the Contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. The results of our tests indicate that, with respect to the items tested, VSP/FEDVIP complied with all provisions of the Contract and the federal procurement regulations, except for the seven procedural findings explained in detail in the "Audit Findings and Recommendations" section of this report.

METHODOLOGY

To achieve our objectives related to claim benefit payments, we:

- Interviewed personnel to obtain an understanding of VSP's claims processing system.
- Performed application testing and reviewed the results to determine if claims were processed properly. Specifically, we created 21 test claims which were submitted into the VSP test claim processing system. The test claims were manually entered by VSP claims processors and each edit was reviewed by our auditors.

To test and determine if administrative expenses incurred by VSP for the FEDVIP program and reported to OPM as part of the premium determination were actual, necessary, reasonable, and allocable to the program, we judgmentally selected a sample of administrative expenses under the cost centers titled: Marketing, Enterprise Info Services, Client Services, Customer Services, Claim Services, CPS, and Sales. The sample was based on one or more of the following:

- highest monthly expense of the year,
- nomenclature,
- unusual charges, and
- consistently high charges for the year.

Specifically, the sample included:

- 266 transactions (from contract year 2007) totaling \$653,053 out of a universe of [REDACTED].
- 140 transactions (from contract year 2008) totaling \$690,847 out of a universe of \$ [REDACTED].

The universal transaction totals for both samples was too voluminous to record.

To determine if FEDVIP premiums were appropriately collected and paid, we:

- Reviewed the "Request for Proposal" agreements between OPM and VSP/FEDVIP to determine the components of the premiums.
- Obtained an overview of the premium process and how the premium rates are calculated.
- Compared the FEDVIP premiums reported on the VSP bank statements to VSP's report of actual monthly premiums received for 2007 and 2008.
- Judgmentally selected the first four deposits posted to the VSP system in January 2008. These were chosen because we felt they were dated far back enough that we would be

able to trace all the premiums earned to these amounts [through earlier discussions with VSP, we realized due to retroactivity that these amounts could be for premiums earned in 2007 and/or 2008]. This sample amounted to \$1,246,863 out of a universe of \$40,272,984.

To achieve our objectives related to cash management activities, we:

- Reviewed the VSP/FEDVIP bank statements and procedures related to accounting for FEDVIP premiums to determine whether the FEDVIP funds were maintained separately from VSP's other lines of business.
- Reviewed the VSP high and standard option utilization reports to determine if interest was earned and used to pay claims.
- Reviewed the VSP/FEDVIP outstanding checks policies and procedures and outstanding checks reports to determine if the policies were reasonable and if there were any checks outstanding for more than two years.
- Obtained an overview of VSP's investment policy and process to determine if the policy was reasonable.

To achieve our fraud and abuse objectives, we interviewed VSP personnel and reviewed VSP's internal fraud policies and procedures and other information to gain an understanding of their fraud and abuse program and to determine compliance with the Contract requirements.

To determine if VSP's HIPAA policies and procedures were sufficient to meet the Contract requirements, we reviewed VSP's responses to our HIPAA questionnaire and its internal HIPAA policies and procedures.

To achieve our objectives related to subcontracts, we:

- Obtained a listing of subcontracts requested for approval from OPM and VSP.
- Determined whether any subcontract's costs exceeding \$550,000 received appropriate approval.
- Reviewed the costs charged to the FEDVIP program, for all qualifying subcontracts, to determine if they were allowable, allocable and reasonable.

To achieve our objective related to quality assurance, we obtained and reviewed the policies and procedures for VSP's Quality Assurance Program.

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

We used the FEDVIP contract, the Federal Acquisition Regulations, and the laws and regulations governing VSP/FEDVIP to determine whether VSP's application controls over claim benefit payments, and procedures covering administrative expenses, premiums, cash management activities, fraud and abuse program compliance, compliance with the Contract's HIPAA requirements, subcontracts, and quality assurance compliance for contract years 2007 and 2008 were in compliance with the terms of the Contract and applicable regulations.

The initial results of our audit were discussed with VSP during an exit conference at the end of our on-site work. In addition, a draft report dated September 22, 2010 was provided to VSP for review and comment. VSP's comments to the draft report were considered in preparing the final report and are included as an Appendix to this report.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. CLAIM BENEFIT PAYMENTS

The application controls over claim benefit payments were sufficient to ensure that claims were paid in accordance with the Contract, as well as the applicable Federal regulations.

B. ADMINISTRATIVE EXPENSES

Procedural

The Contract between VSP and OPM limits the total amount of premium dollars that can be allocated to pay program administrative expenses to [REDACTED] percent of gross premiums received. However, in contract years 2007 and 2008, VSP actually incurred administrative expenses related to the FEDVIP totaling [REDACTED] percent and [REDACTED] percent of gross premiums received, respectively. Consequently, because of the Contract terms, VSP paid [REDACTED] percent ([REDACTED] [REDACTED]) of the 2007 incurred administrative expenses and [REDACTED] percent ([REDACTED] [REDACTED]) of the 2008 incurred administrative expenses out of corporate funds.

As part of our audit, we sampled and tested 266 and 140 administrative expense transactions in 2007 and 2008, respectively, to determine whether the expenses charged to the FEDVIP were actual, necessary, reasonable, and allocable program costs, in accordance with the Contract and program regulations. The results of these reviews showed VSP did include unsupported, as well as unallowable, expenses in its administrative costs charged to the FEDVIP.

We identified the following unsupported and unallowable expenses during our review of administrative costs:

1. Unsupported Administrative Expenses

Procedural

We identified numerous transactions in 2007 and 2008, totaling \$534,292, where VSP could not provide sufficient documentation to show that the related expenses were actual, necessary, allocable, and reasonable to administer benefits under the FEDVIP, pursuant to Section K.9 (b) (1) of the Contract.

2. Unallowable Travel Expenses

Procedural

We identified 12 transactions in 2007 and 2008, totaling \$6,601, where VSP charged the FEDVIP for unallowable travel expenses, including hotel fees in excess of the Federal per diem rate and the applicable tax on the unallowable lodging costs.

3. Costs Associated with Lobbying Activities

Procedural

We identified four transactions in 2007 where VSP charged the FEDVIP for lobbying expenses. These expenses, totaling \$18,463, were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract and are listed as unallowable expenses under FAR 31.205-22.

- 4. Unnecessary Expenses** **Procedural**
We identified 51 transactions in 2008 where VSP charged the FEDVIP for meals at its home duty station. These expenses, totaling \$1,677, were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract.
- 5. Charges for Alcoholic Beverages** **Procedural**
We identified one transaction in 2008 where VSP charged the FEDVIP for alcoholic beverages. This expense, totaling \$157, was not a necessary or reasonable expense under Section K.9 (b) (1) of the Contract and is listed as an unallowable expense under FAR 31.205-51.
- 6. Charges for Gift Cards** **Procedural**
We identified two transactions in 2008 where VSP charged the FEDVIP for gift cards. These expenses, totaling \$150, were not necessary or reasonable expenses under Section K.9 (b) (1) of the Contract and are listed as unallowable expenses under FAR 31.205-13 (b).

Section K.9 (b) (1) of the Contract (Accounting and Allowable Costs) states, "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 Federal Acquisition Regulation"

Additionally, Contract section I.20, regarding Contractor Records Retention, states that the Carrier will retain and make available all records that support the annual statement of operations for a period of six years after the end of the year to which the records relate.

Furthermore, FAR 31.205-46 limits the amount of travel costs that can be charged by contractor personnel on official company business. It states that these costs are 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 the General Services Administration.

VSP's identification of these unsupported and unallowable administrative expenses as chargeable costs against the FEDVIP results in an inappropriate use of subscriber premium dollars that could have been used to fund more needed program services.

VSP Comments:

As stated above, VSP incurred more in administrative expense in each year than the [REDACTED] percent it was allowed to charge against the Program. Consequently, it contends that even if the identified unsupported or unallowable expenses were excluded from the chargeable costs to the Program, it would still have sufficient allowable costs exceeding the [REDACTED] percent cap that could replace the unallowable expenses. Therefore, VSP argues that no amounts are due back to the FEDVIP for these unallowable costs.

OIG Comments:

We agree that no amounts are due to the FEDVIP for these unsupported and unallowable expenses for the reasons stated above. However, we strongly encourage VSP to implement the needed controls over program administration costs to ensure that unallowable program costs are properly identified and excluded as potential allowable FEDVIP costs for all open and future year's contracts.

Recommendation 1

We recommend that VSP develop better internal controls which require the review of all administrative expenses charged to a cost center under its FEDVIP account. These charges should be properly documented and the records supporting these expenses must be maintained for a period of six years after the end of the year to which the records relate.

Recommendation 2

We recommend that the program office review the estimated administrative expenses at the time of each year's rate proposal to ensure that unallowable costs are not included as part of the allowable costs charged to the FEDVIP.

C. PREMIUMS

The premium costs charged by VSP to the FEDVIP were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

D. CASH MANAGEMENT ACTIVITIES

1. Outstanding Checks Policies and Procedures

Procedural

Our review of VSP's cash management activities identified a VSP policy that was not in compliance with the terms of the Contract and the applicable federal regulations. Specifically, VSP's policy on outstanding checks inappropriately allows for an escheatment of unclaimed funds to the state instead of returning these funds to the FEDVIP.

Following the guidance OPM issued to the carriers on November 3, 2006, all payment checks outstanding after two years of issuance shall be voided. The amounts of these checks shall be credited to a designated account no later than the 25th month after issuance. In addition, the Contract (Section C.1.C Enabling Legislation) states that OPM has the authority to preempt individual State dental and vision benefit and procedural mandates, and contractors must be aware of and be prepared to comply with its requirements and OPM's implementing regulations and administrative guidance.

VSP stated that they do not track FEDVIP check payments separately and all outstanding checks fall under the applicable states' unclaimed property regulations. If a check remains outstanding for one year, then the amount will be transferred to an unclaimed property

account and all information regarding the payment, including the client information, will be recorded in this file. VSP's policy follows each state's requirement for outstanding check monies to be escheated to the state.

We recommend that VSP modify its policy on how to handle outstanding checks so that it credits the funds back to the FEDVIP instead of transferring the funds to each state's unclaimed property account. For contract years 2007 and 2008, our review showed that no FEDVIP monies had been escheated to the states.

VSP Comments:

VSP agrees with this finding.

Recommendation 3

We recommend that VSP modify its policy on outstanding checks so that it agrees with the guidance provided by OPM's Program Office and provide a copy of the revised policy to OPM's Program Office.

E. FRAUD AND ABUSE PROGRAM COMPLIANCE

VSP's fraud and abuse policies and procedures were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

F. COMPLIANCE WITH THE CONTRACT'S HIPAA REQUIREMENTS

VSP's HIPAA policies and procedures were in compliance with the terms of the Contract.

G. SUBCONTRACTS

VSP's policies and procedures for administering subcontracts were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

H. QUALITY ASSURANCE COMPLIANCE

VSP's Quality Assurance program policies and procedures were in compliance with the terms of the Contract, as well as the applicable Federal regulations.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Senior Team Leader

██████████ Chief (██████████)

SCHEDULE A

Vision Service Plan, as Administrator of the Federal Employees Dental and Vision Insurance Program
 Rancho Cordova, California

Schedule of Contract Charges
 Contract Years 2007-2008

	2007		2008		Total
<u>Revenue</u>					
Premiums Received (Cash)	\$13,797,712		\$26,475,272		
Total Revenue	\$13,797,712		\$26,475,272		\$40,272,984
<u>Expenses</u>					
Claim Benefits Paid	██████████		██████████		
Total Expenses	██████████		██████████		██████████



October 21, 2010

Office of Personnel Management
Office of the Inspector General
Attention: [REDACTED]
1900 E Street, NW, Room 6400
Washington, DC 20415-1100

RE: Report No. 1J-0A-00-10-031

Dear Ms. [REDACTED],

Thank you for providing VSP Vision Care with the draft audit report, 1J-0A-00-10-031 dated September 22, 2010, detailing the Office of Personnel Management (OPM) findings. We highly value the FEDVIP contract and believe the audit results continue to demonstrate our commitment to service excellence. We were very pleased to see that our compliance, policies and controls all received favorable ratings. This is very consistent with comments from the FEDVIP Audit team during their visit, as well as other very large clients who perform such reviews of our backroom operations.

We appreciate the opportunity to address the administrative expenses and cash management activities exceptions noted in the report. We are committed to full transparency and believe the administrative expense concern noted in the report may be a misunderstanding of how the FEDVIP contract is rated or a mistake in understanding our cost center structure. It is important to note that we have not charged the expenses identified in the report to the government, nor at anytime did we co-mingle funds to pay claims.

Below we have outlined information that we hope will bring clarity to this concern. We would welcome the opportunity to provide additional background or insight, if needed. If we need to modify aspects of our accounting structure for the FEDVIP contract to better align with the OPM expectations, we would be happy to discuss your recommendations.

The FEDVIP contract is a fully insured contract and all payments to VSP are produced by the set per member/per month fee including a fixed [REDACTED] administrative fee. The FEDVIP rates are based solely on utilization and a flat [REDACTED] administrative fee and not the expenses contained in the 2007 and 2008 budget to actual reports.

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APPENDIX

Office of Personnel Management
Office of the Inspector General
Attention: [REDACTED]
October 21, 2010
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Below is a summary regarding our expenses related to administration of FEDVIP in 2007 and 2008. Please note: Our actual allowable expenses far exceed the [REDACTED] administrative expense charged to FEDVIP.

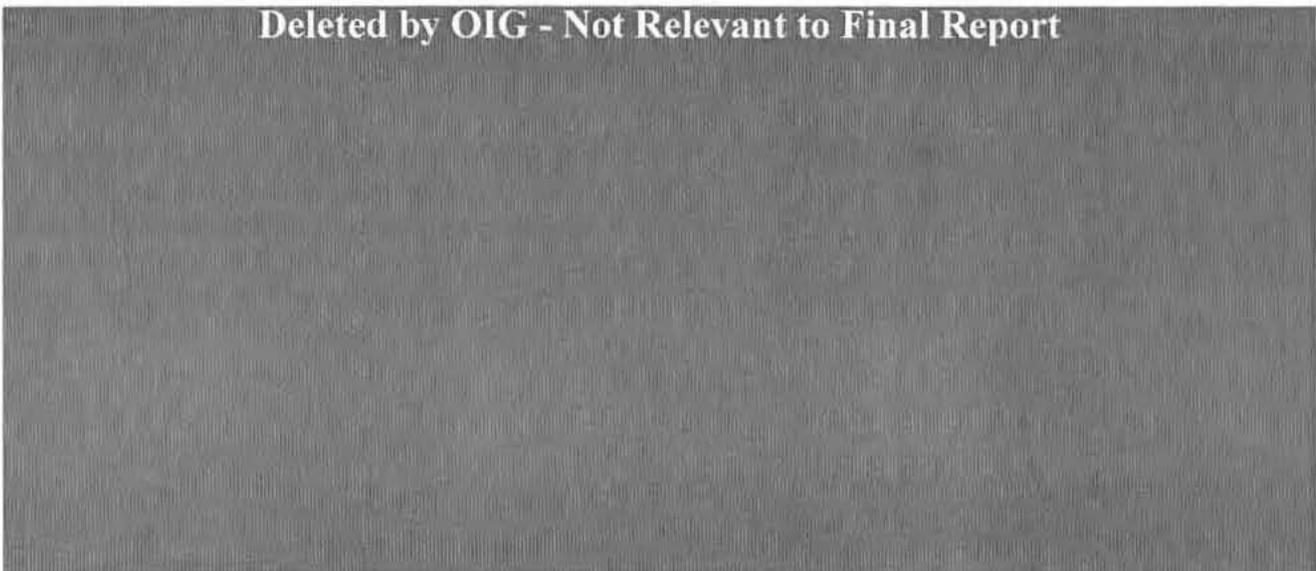
	2007	2008
Incurred	\$ [REDACTED]	[REDACTED]
Non-chargeable	[REDACTED]	[REDACTED]
Allowed	[REDACTED]	[REDACTED]
Projected [REDACTED] Administrative Expense*	\$ [REDACTED]	[REDACTED]
Allowed	[REDACTED]	[REDACTED]
Allowed Expense as % of Gross Premium	[REDACTED]	[REDACTED]

**Prior to underwriting and enrolling FEDVIP members, VSP notified OPM that our underwritten rates included [REDACTED] of premiums projected as administrative expense. Premiums paid by FEDVIP members included only the [REDACTED] administrative expense projected by VSP.*

Premiums charged to FEDVIP members included [REDACTED] for projected administrative expense in both 2007 and 2008. In 2007, VSP's allowed expenses were [REDACTED] % of premiums, and in 2008 they were [REDACTED] % of premiums. In both 2007 and 2008, FEDVIP members actually benefitted from those differences. Their premiums reflected the lower [REDACTED] projected administrative expenses. Even if non-chargeable expenses are subtracted from incurred expenses, allowed expenses still exceeded the [REDACTED] projected administrative expenses that were a [REDACTED] component of gross premiums charged to FEDVIP members.

[REDACTED]

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Office of Personnel Management
Office of the Inspector General
Attention: [REDACTED]
October 21, 2010
Page 3

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B. Cash Management

1. Outstanding Check Procedures

VSP agrees that payments for the benefit of FEDVIP enrollees will not be escheated to the states. There was no unclaimed property escheated related to the FEDVIP contract, so there is no amount that VSP is required to repay.

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APPENDIX

Office of Personnel Management
Office of the Inspector General
Attention: [REDACTED]
October 21, 2010
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Thank you again for providing VSP, Vision Care the opportunity to address the results of the March 2010 audit. We hope the information provided in this letter, as well as the supporting expense information provided under separate cover, fully addresses your concerns. We would appreciate the opportunity to provide additional information or discussion should there be any concern regarding administrative expenses prior to the final report. If there you have any questions, please let me know.

[REDACTED]
Vice President, Managed Care and Health Policy
VSP, Vision Care

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