United States
Office of
Personnel
Management

Office of the Inspector General

Final Audit Report

Subject:

**REPORT ON THE AUDIT OF
METROPOLITAN LIFE INSURANCE COMPANY
JERSEY CITY, NEW JERSEY**

Prepared By:

OFFICE OF AUDITS

Report No. 2A-II-00-05-045

Date: January 31, 2006

--CAUTION--

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

OFFICE OF
THE INSPECTOR GENERAL

AUDIT REPORT

Federal Employees' Group Life Insurance Program
Contract Number 17000-G

Metropolitan Life Insurance Company
Jersey City, New Jersey

REPORT NO. 2A-II-00-05-045 DATE: January 31, 2006

Dennis K. Black
for Harvey D. Thorp
Assistant Inspector General
for Audits

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

OFFICE OF
THE INSPECTOR GENERAL

EXECUTIVE SUMMARY

Federal Employees' Group Life Insurance Program
Contract Number 17000-G

Metropolitan Life Insurance Company
Jersey City, New Jersey

REPORT NO. 2A-II-00-05-045 DATE: January 31, 2006

This final audit report on the Federal Employees' Group Life Insurance (FEGLI) Program operations at Metropolitan Life Insurance Company (MetLife) in Jersey City, New Jersey questions $1,273,154[1] in administrative expense overcharges and $180,354 in net under draws from the letter of credit (LOC) account. MetLife agreed *(A)* with all questioned amounts. Lost investment income on the questioned costs amounted to $23,787.

Our audit was conducted in accordance with Government Auditing Standards. The audit covered claim payments for fiscal year 2004, as well as claim overpayments and administrative expenses for fiscal years 2000 through 2004 as reported in the FEGLI Program financial statements. In addition, we reviewed MetLife's policies and procedures related to cash management of FEGLI Program funds for fiscal years 2000 through 2004.

Questioned items are summarized, as follows:

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[1] Since the actual administrative expenses incurred by MetLife for the FEGLI Program exceeded the contract expense limitations for fiscal years 2000 through 2004 by approximately $2 million, no monetary adjustments are required by MetLife for these overcharges.

OIG-01
May 1999

BENEFIT CHARGES

The audit disclosed no findings pertaining to benefit charges. Overall, we concluded that MetLife correctly paid claims in fiscal year 2004 and properly processed overpayment recoveries in fiscal years 2000 through 2004.

ADMINISTRATIVE EXPENSES

- **Pension Costs *(A)*** **$1,249,584**

MetLife did not calculate pension costs in accordance with the Federal regulations. The regulations limit the amount of pension costs that may be charged to a government contract to the lower of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standards (CAS) 412 and 413, whichever is lower. MetLife did not calculate pension costs based on the lesser of cash contributions or CAS amounts. As a result, MetLife over allocated pension costs to the FEGLI Program in fiscal years 2001 through 2004.

- **Limits on Executive Compensation *(A)*** **$23,570**

MetLife overcharged the FEGLI Program for executive compensation in fiscal years 2000 through 2004.

CASH MANAGEMENT

- **Letter of Credit Drawdown Reconciliations *(A)*** **($180,354)**

MetLife under drew a net amount of $180,354 from the LOC account for administrative expenses and service charges for fiscal years 2002 through 2004. Specifically, MetLife over drew $141,100 and $94,105 from the LOC account for fiscal years 2002 and 2003, respectively, and under drew $415,559 for fiscal year 2004.

LOST INVESTMENT INCOME ON AUDIT FINDINGS

As a result of the audit findings presented in this report, the FEGLI Program is due lost investment income of **$23,787** through September 30, 2005.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This final audit report details the findings, conclusions, and recommendations resulting from our audit of the Federal Employees' Group Life Insurance (FEGLI) Program operations at Metropolitan Life Insurance Company (MetLife). MetLife's FEGLI Program operations are located in Jersey City, New Jersey.

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

The FEGLI Program was created in 1954 by the Federal Employees' Group Life Insurance Act (P.L. 83-598). OPM's Center for Retirement and Insurance Services (CRIS) has overall responsibility for administering the Program, including the publication of program regulations and agency guidelines; and the receipt, payment, and investment of agency withholdings and contributions. CRIS contracts with MetLife to provide life insurance coverage to employees, annuitants, and their family members (Contract No. 17000-G). Employing agencies are responsible for enrolling, informing and advising employees of program changes, determining eligibility, maintaining insurance records, withholding premiums from pay, remitting and reporting withholdings to OPM, and certifying salary and insurance coverage upon separation or death.

MetLife's responsibilities under the contract are carried out by the Office of FEGLI (OFEGLI), a separate unit of MetLife, which is located in Jersey City, New Jersey. OFEGLI is supervised by MetLife's Group Insurance Department. OPM's Insurance Services Programs administers the contract with OFEGLI.

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

Our previous audit of MetLife (Report Number II-00-99-018, dated July 14, 1999), covering administrative expenses for fiscal year 1998, disclosed no questioned costs.

The results of our audit were provided to MetLife in written audit inquiries; were discussed with MetLife officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated August 23, 2005. MetLife's comments offered in response to the draft report were considered in preparing our final report and are included as the Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether MetLife charged costs to the FEGLI Program and provided services to FEGLI Program subscribers in accordance with the terms of the contract. Specifically, our objectives were as follows:

Benefit Charges

- To determine whether MetLife complied with the contract provisions relative to benefit payments.
- To determine whether overpayment recoveries were returned promptly to the FEGLI Program.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, necessary and reasonable expenses incurred in accordance with the terms of the contract, contractual expense limitations, and applicable regulations.

Cash Management

- To determine whether MetLife handled FEGLI Program funds in accordance with applicable laws and regulations concerning cash management in the FEGLI Program.

SCOPE

Our performance audit was performed in accordance with Government Auditing Standards, published by the United States General Accounting Office, and with the terms of the contract. Accordingly, the audit included tests of the accounting records and other auditing procedures as considered necessary in the circumstances.

We reviewed the FEGLI Program financial statements for fiscal years 2000 through 2004. During this period, benefit charges totaled approximately $9.8 billion and administrative expenses totaled $41.2 million. (See Schedule A) Specifically, we reviewed claim payments in fiscal year 2004 for proper adjudication. We also reviewed claim overpayments, administrative expenses, and cash management activities for fiscal years 2000 through 2004.

In planning and conducting our audit, we obtained an understanding of MetLife's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving MetLife'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 MetLife's system of internal controls taken as a whole.

We also conducted tests to determine whether MetLife had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Group Life Insurance Federal Acquisition Regulations, as appropriate), and the laws and regulations governing the FEGLI Program. The results of our tests indicate that, with respect to the items tested, MetLife did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail 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 MetLife had not complied, in all material respects, with those provisions.

The audit was performed at MetLife's OFEGLI in Jersey City, New Jersey from April 11, 2005 through May 13, 2005.

METHODOLOGY

To test MetLife's compliance regarding the FEGLI Program benefit provisions, we selected and reviewed a judgmental sample of 200 claims from fiscal year 2004. For the claims in this sample, we reviewed the case files and determined if the necessary documents were provided and if these claims were correctly calculated and paid.

To test MetLife's compliance regarding claim overpayments, we selected a judgmental sample of 80 overpayment recoveries from fiscal years 2000 through 2004, and reviewed MetLife's accounting records to determine if these recoveries were properly processed.

We judgmentally reviewed the administrative expenses charged to the FEGLI Program for contract years 2000 through 2004. We used the FEGLI Program contract; the Federal Acquisition Regulations; and the Federal Employees Group Life Insurance Federal Acquisition Regulations to determine the allowability, allocability, and reasonableness of charges.

In addition, we reviewed MetLife's cash management to determine whether MetLife handled FEGLI Program cash in accordance with Contract No. 17000-G and applicable laws and regulations.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. BENEFIT CHARGES

The audit disclosed no findings pertaining to benefit charges. Overall, we concluded that MetLife correctly paid claims in fiscal year 2004 and properly processed overpayment recoveries in fiscal years 2000 through 2004.

B. ADMINISTRATIVE EXPENSES

1. Pension Costs $1,249,584

MetLife did not calculate pension costs in accordance with the Federal regulations. The regulations limit the amount of pension costs that may be charged to a government contract to the lower of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standards (CAS) 412 and 413, whichever is lower. MetLife did not calculate pension costs based on the lesser of cash contributions (funded) or CAS amounts. As a result, MetLife over allocated pension costs of $1,249,584 to the FEGLI Program in fiscal years 2001 through 2004.

48 CFR 31.205-6(j)(2) states, "… The cost of all defined-benefit pension plans shall be measured, allocated and accounted for in compliance with the provisions of 48 CFR 9904.412, Cost accounting standard for composition and measurement of pension cost, and 48 CFR 9904.413, Adjustment and allocation of pension cost. The costs of all defined-contribution pension plans shall be measured, allocated, and accounted for in accordance with the provisions of 48 CFR 9904.412 and 48 CFR 9904.413. Pension costs are allowable subject to the referenced standards …"

The Federal Acquisition Regulations (FAR) limit the amount of pension costs that may be charged to a government contract. Only the following may be charged:

- the amount of any cash contribution to the pension fund trustee, or
- the amount of expense calculated in accordance with CAS 412 and 413, whichever is lower.

For fiscal years 2000 through 2004, MetLife calculated pension costs according to Financial Accounting Standard 87 and allocated $2,053,842 to the FEGLI Program. MetLife charged these pension costs as indirect expenses to the FEGLI Program. However, MetLife did not calculate these pension costs according to FAR, nor limit pension costs to the lower of cash contributions or CAS amounts. After receiving our Audit Inquiry, MetLife recalculated pension costs based on the lesser of the funded or CAS amounts for fiscal years 2000 through 2004. Based on MetLife's recalculations, the FEGLI Program was over allocated $1,249,584 ($208,150 in 2001, $300,632 in 2002,

$583,699 in 2003, and $157,103 in 2004) for pension costs in fiscal years 2001 through 2004.[2] We reviewed and accepted MetLife's recalculations.

MetLife's Response:

MetLife agrees with this finding. In the future, MetLife will limit the pension costs allocated to the FEGLI Program in accordance with FAR.

OIG Comments:

We reviewed the FEGLI Program financial statements and noted that MetLife exceeded the administrative expense limitations by $1,983,886 ($128,198 in 2000, $373,340 in 2001, $304,988 in 2002, $730,122 in 2003, and $447,238 in 2004) for fiscal years 2000 through 2004.

Recommendation 1

We recommend that the contracting officer disallow $1,249,584 in pension costs that were over allocated to the FEGLI Program for fiscal years 2001 through 2004. However, since MetLife exceeded its administrative expense ceiling in each year by more than the amount questioned for that year, no monetary adjustments are required.

2. Limits on Executive Compensation **$23,570**

MetLife overcharged the FEGLI Program $23,570 for executive compensation in fiscal years 2000 through 2004.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a benchmark amount established each year by the Office of Federal Procurement Policy. For 2000 through 2004, this limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or not the home office or segment reports directly to the Plan's headquarters. The benchmark compensation amounts were $353,010 for 2000, $374,228 for 2001, $387,783 for 2002, $405,273 for 2003, and $432,851 for 2004.

MetLife allocated executive compensation indirectly to the FEGLI Program. To determine the allowability of the amounts charged to FEGLI for executive compensation, we reviewed the Plan's allocations for contract years 2000 through 2004 and determined if the executive compensation amounts were limited to the benchmark amounts as required by 48 CFR 31.205-6(p). We found that the Plan did not limit the executive compensation amounts in the 2000, 2001, 2003, and 2004 allocations. As a result, the FEGLI Program was overcharged $23,570 ($91 in 2000, $204 in 2001, $11,212 in 2003, and $12,063 in 2004) for executive compensation in fiscal years 2000 through 2004.

[2] MetLife allocated the funded amount to the FEGLI Program in 2000, which was less than the CAS amount.

MetLife's Response:

MetLife agrees with this finding. In the future, MetLife will limit the executive salaries allocated to the FEGLI Program in accordance with FAR.

OIG Comments:

We reviewed the FEGLI Program financial statements and noted that MetLife exceeded the administrative expense limitations by $1,983,886 ($128,198 in 2000, $373,340 in 2001, $304,988 in 2002, $730,122 in 2003, and $447,238 in 2004) for fiscal years 2000 through 2004.

Recommendation 2

We recommend that the contracting officer disallow $23,570 in executive compensation costs that were over allocated to the FEGLI Program for fiscal years 2000 through 2004. However, since MetLife exceeded its administrative expense ceiling in each year by more than the amount questioned for that year, no monetary adjustments are required.

C. CASH MANAGEMENT

1. Letter of Credit Drawdown Reconciliations ($180,354)

MetLife under drew a net amount of $180,354 from the letter of credit (LOC) account for administrative expenses and service charges for fiscal years 2002 through 2004. Specifically, MetLife over drew $141,100 and $94,105 from the LOC account for fiscal years 2002 and 2003, respectively, and under drew $415,559 for fiscal year 2004.

48 CFR 31.201-2(d) states, "A contractor is responsible for accounting for costs appropriately and for maintaining records ..."

For each month during fiscal years 2002 through 2004, MetLife withdrew an estimated amount from the LOC account for administrative expenses and service charges. As of the completion of our on-site audit (May 13, 2005), MetLife had not reconciled these LOC drawdowns to the actual chargeable expenses. Subsequently, MetLife reconciled the LOC drawdowns for these estimated expenses to the actual chargeable expenses for fiscal years 2002 through 2004. Based on these reconciliations, MetLife under drew a net amount of $180,354 from the LOC account for administrative expenses and service charges.

The following is a summary of MetLife's reconciliations.

Fiscal Year 2002

Total Charged through Monthly LOC Drawdowns	$8,352,388
Less:	
Chargeable Administrative Expenses	7,586,288
Less:	
Service Charge	625,000
Difference (Over drew)	$141,100

Fiscal Year 2003

Total Charged through Monthly LOC Drawdowns	$8,518,299
Less:	
Chargeable Administrative Expenses	7,749,194
Less:	
Service Charge	675,000
Difference (Over drew)	$94,105

Fiscal Year 2004

Total Charged through Monthly LOC Drawdowns	$8,518,299
Less:	
Chargeable Administrative Expenses	8,213,858
Less:	
Service Charge	720,000
Difference (Under drew)	($415,559)

The administrative expenses incurred by MetLife exceeded the contract expense limitation for each year. Therefore, the chargeable administrative expenses for each year equal the contract expense limitation (including approved exceptions).

We reviewed and agreed with MetLife's reconciliations.

MetLife's Response:

MetLife agrees with this finding.

Recommendation 3

We recommend that the contracting officer allow MetLife to withdraw an additional $180,354 from the LOC account for fiscal years 2002 through 2004 administrative expenses and service charges.

D. LOST INVESTMENT INCOME ON AUDIT FINDINGS **$23,787**

As result of the audit findings presented in this report, the FEGLI Program is due lost investment income (LII) of $23,787 from January 1, 2003 through September 30, 2005.

48 CFR 2152.210-70 requires the contractor to invest and reinvest all excess FEGLI Program funds on hand, and to credit all investment income earned on those funds to the FEGLI Program. When the carrier fails to comply with these requirements, the carrier shall credit the FEGLI Program with investment income that would have been earned at the rates specified by the Secretary of the Treasury. LII payable on questioned costs is compounded semiannually.

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. LII is only computed on the LOC overdraws for the 2002 and 2003 administrative expenses and service charges (see "Letter of Credit Drawdown Reconciliations" finding on page 6). Our computations show that the FEGLI Program is due LII of $23,787 from January 1, 2003 through September 30, 2005 on these LOC overdraws for 2002 and 2003 (see Schedule C).

MetLife's Response:

The draft audit report did not include a finding that computed LII on audit findings. Therefore, MetLife did not address this item in its reply.

Recommendation 4

We recommend that the contracting officer direct MetLife to credit $23,787 (plus interest accruing after September 30, 2005) to the FEGLI Program for LII on audit findings.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated and Special Audits Group

[redacted] Auditor-In-Charge

[redacted] Auditor

[redacted] Auditor

[redacted] Auditor

[redacted], Group Chief ([redacted]

[redacted] Senior Team Leader

SCHEDULE A

V. SCHEDULES

METROPOLITAN LIFE INSURANCE COMPANY
JERSEY CITY, NEW JERSEY

CONTRACT COSTS AND QUESTIONED CHARGES

CONTRACT COSTS	2000	2001	2002	2003	2004		TOTAL
A. BENEFIT CHARGES	$1,853,725,419	$1,805,525,690	$1,978,867,147	$1,989,896,360	$2,137,054,075		$9,765,068,691
B. ADMINISTRATIVE EXPENSES	$7,762,060	$7,479,730	$7,586,288	$7,749,194	$10,581,858		$41,159,130

QUESTIONED CHARGES	2000	2001	2002	2003	2004	2005	TOTAL
A. BENEFIT CHARGES	$0	$0	$0	$0	$0	$0	$0
B. ADMINISTRATIVE EXPENSES	91	208,354	300,632	594,911	169,166	0	$1,273,154
C. CASH MANAGEMENT	0	0	141,100	94,105	(415,559)	0	($180,354)
D. LOST INVESTMENT INCOME ON AUDIT FINDINGS	0	0	0	5,250	10,327	8,210	$23,787
TOTAL QUESTIONED CHARGES	$91	$208,354	$441,732	$694,266	($236,066)	$8,210	$1,116,587

SCHEDULE B

METROPOLITAN LIFE INSURANCE COMPANY
JERSEY CITY, NEW JERSEY

QUESTIONED CHARGES

QUESTIONED CHARGES	2000	2001	2002	2003	2004	2005	TOTAL
A. BENEFIT CHARGES	$0	$0	$0	$0	$0	$0	$0
B. ADMINISTRATIVE EXPENSES							
1. Pension Costs *	$0	$208,150	$300,632	$583,699	$157,103	$0	$1,249,584
2. Limits on Executive Compensation *	91	204	0	11,212	12,063	0	23,570
TOTAL ADMINISTRATIVE EXPENSES	$91	$208,354	$300,632	$594,911	$169,166	$0	$1,273,154
C. CASH MANAGEMENT							
1. Letter of Credit Drawdown Reconciliations **	$0	$0	$141,100	$94,105	($415,559)	$0	($180,354)
TOTAL CASH MANAGEMENT	$0	$0	$141,100	$94,105	($415,559)	$0	($180,354)
D. LOST INVESTMENT INCOME ON AUDIT FINDINGS	$0	$0	$0	$5,250	$10,327	$8,210	$23,787
TOTAL QUESTIONED CHARGES	$91	$208,354	$441,732	$694,266	($236,066)	$8,210	$1,116,587

* The administrative expenses incurred by the Metropolitan Life Insurnace Company exceeded the contract expense limitations for 2000 through 2004. Therefore, this audit finding is not subject to the lost investment income calculation.

** Only the over draws for 2002 and 2003 are subject to the lost investment income calculation.

SCHEDULE C

METROPOLITAN LIFE INSURANCE COMPANY
JERSEY CITY, NEW JERSEY

LOST INVESTMENT INCOME CALCULATION

	2000	2001	2002	2003	2004	2005*	TOTAL
A. QUESTIONED CHARGES (Subject to Lost Investment Income)							
Letter of Credit Drawdown Reconciliations	$0	$0	$141,100	$94,105	$0	$0	$235,205
TOTAL	$0	$0	$141,100	$94,105	$0	$0	$235,205
B. LOST INVESTMENT INCOME CALCULATION - Compounded Semi-Annually							
a. Prior Years Total Questioned (Principal)	$0	$0	$0	$141,100	$94,105	$0	
b. Cumulative Total (k)	$0	$0	$0	$0	$146,350	$250,782	
c. Total	$0	$0	$0	$141,100	$240,455	$250,782	
d. Treasury Rate: January 1 - June 30	6.750%	6.375%	5.500%	4.250%	4.000%	4.250%	
e. Interest (d*c)	$0	$0	$0	$2,998	$4,809	$5,329	$13,136
f. Total (c)	$0	$0	$0	$141,100	$240,455	$250,782	
g. Total	$0	$0	$0	$144,098	$245,264	$256,111	
h. Treasury Rate: July 1 - December 31	7.250%	5.875%	5.250%	3.125%	4.500%	4.500%	
i. Interest (h*g)	$0	$0	$0	$2,252	$5,518	$2,881	$10,651
j. Total (g)	$0	$0	$0	$144,098	$245,264	$256,111	
k. Cumulative Total (Principal + Interest)	$0	$0	$0	$146,350	$250,782	$258,992	
Total Interest By Year (e+i)	$0	$0	$0	$5,250	$10,327	$8,210	$23,787

* Calculated lost investment income through September 30, 2005

September 20, 2005

[redacted] Chief
Experience – Rated and Special Audits Group
Office of Inspector General
U.S. Office of Personnel Management
1900 E. Street NW, Room 6400
Washington, DC 20415-1100

Re: FEGLI Audit Draft Report

Dear [redacted]:

The following is our response to the four audit inquiries contained in the draft audit report dated August 23, 2005.

Audit Inquiry #1 – Pension Costs

After receiving the audit inquiry, we recalculated the questioned pension costs in accordance with the guidance provided. Our recalculated pension costs have now been reviewed and accepted. Going forward we will limit pension costs allocated to the FEGLI program in accordance with applicable regulation.

Audit Inquiry #2 – 2004 Open Season Expenses

Since Audit Inquiry #2 has been dropped, we need not respond to it.

Audit Inquiry #3 – Letter of Credit Drawdown (LOC) Reconciliation

We are in agreement with the recommendations regarding the LOC drawdown. We will contact the contracting office to request a withdrawal of $180,354 from the Letter of Credit, reflecting the reconciled amounts for FY 2002, 2003, and 2004.

Audit Inquiry #4 – Executive Compensation

We agree with the recommendations presented. Going forward we will limit the executive salaries allocated to the FEGLI program in accordance with applicable regulation.

If you have any question, please let me know.

Sincerely,

[redacted]

Director

[redacted]

Copy: [redacted]