



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

Final Audit Report

**Audit of the Federal Employees Dental and Vision Insurance
Program as Administered by the
Government Employees Health Association, Inc.
For Contract Years 2010 through 2013**

**Report Number 1J-0E-00-15-016
November 16, 2015**

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EXECUTIVE SUMMARY

Audit of the Federal Employees Dental and Vision Insurance Program As Administered by the Government Employees Health Association, Inc.

Report No. 1J-0E-00-15-016

November 16, 2015

Why Did We Conduct the Audit?

The main objective of the audit was to determine if the cost charged and services provided to the Federal Employees Dental and Vision Insurance Program members were in accordance with the terms of Contract Number OPM-06-00060-4 and Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit that included a review of the Government Employees Health Association, Inc.'s (Plan) administrative expenses, cash management, claim benefit payments, performance guarantees, and rate proposals. Our audit was conducted from January 12 through 23, 2015, at the Plan's offices in Lee's Summit, Missouri.

What Did We Find?

The audit identified one procedural finding related to claim benefit payment recoveries.

Specifically, our review determined that the Plan had overstated its overpayment recoveries by \$2,678.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

5 CFR 894	Title 5, Code of Federal Regulations, Part 894
Act	The Federal Employee Dental and Vision Benefits Enhancement Act of 2004
AAS	Annual Accounting Statement
CC	Cost Center
Contract	Contract Number OPM-06-00060-4
CY	Contract Year
FAR	Federal Acquisition Regulation
FEDVIP	Federal Employees Dental and Vision Insurance Program
GL	General Ledger
HIO	Healthcare and Insurance Office
IBNR	Incurred But Not Reported
NA	Natural Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	Government Employees Health Association, Inc.

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I. BACKGROUND

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) as administered by the Government Employees Health Association, Inc. (Plan) for contract years (CYs) 2010 through 2013. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

The FEDVIP was created on December 23, 2004 by the Federal Employees Dental and Vision Benefits Enhancement Act of 2004 (Act). The Act provided for the establishment of programs under which supplemental dental and vision benefits are made available to Federal employees, retirees, and their dependents.

OPM has overall responsibility to maintain the FEDVIP website, act as a liaison and facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a timely basis to the carriers' requests for information and assistance, and perform functions typically associated with insurance commissions such as the review and approval of rates, forms, and education materials.

OPM's Contracting Office contracts with the Plan to administer the FEDVIP, which provides dental coverage to Federal beneficiaries. The Plan's responsibilities under Contract Number OPM-06-00060-4 (Contract) are carried out at its offices located in Lee's Summit, Missouri. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the program's operations. Compliance with the laws and regulations applicable to the FEDVIP, including establishing and maintaining a system of internal controls, is the responsibility of the Plan's management.

Our previous audit of the Plan's administration of the FEDVIP (Report No. 1B-31-00-10-006 dated September 27, 2010), covered claim benefit payments, administrative expenses, premiums, cash management activities, Health Insurance Portability and Accountability Act compliance, fraud and abuse policies and procedures, and subcontracts for contract years 2007 and 2008. The audit found that the Plan properly administered the program in accordance with the Contract and Title 5, Code of Federal Regulations, Part 894 (5 CFR Part 894).

The initial results of our current audit were discussed with the Plan during an exit conference on January 22, 2015. A draft report was provided to the Plan for review and comment on May 5, 2015. The Plan's response to the draft report was considered in preparation of this final report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

The main objective of the audit was to determine if the costs charged and services provided to the FEDVIP members were in accordance with the terms of the Contract and Federal regulations.

Specifically, our audit objectives were:

Administrative Expense Review

- To determine if expenses exceeded the contractual administrative expense loading.
- To determine if the Plan's Cost Centers (CC), Natural Accounts (NA), and direct expense out-of-system adjustments were allowable, allocable and reasonable.
- To determine if the Plan's administrative expenses were actual, allocable, reasonable, and allowable in compliance with the Contract and Subpart 31.2 of the Federal Acquisition Regulations (FAR).
- To determine if the amount paid to any subcontractors was greater than the reporting threshold identified in Section I.28 of the Contract.

Cash Management Review

- To determine if the cash reported as received by the Plan reconciled to the amount transferred to it by BENEFEDS.
- To determine if the premium rates listed in the Plan's benefit brochures were the rates approved by OPM.
- To determine if premiums earned, as reported in the Plan's Annual Accounting Statements (AAS), reconciled to monthly premium invoices generated by the Plan.
- To determine if premiums received, as documented by the Plan, reconciled to its bank statements and reports prepared by BENEFEDS.
- To determine if claim disbursements, reported in the Plan's AAS, reconciled to the Plan's bank statements and operational claims reports.
- To determine if the Incurred but Not Reported (IBNR) claims from the Plan's financial statements reconciled to the amounts reported in its general ledger (GL).

Claim Benefit Payments Review

- To determine if the claims/benefits paid reported in the Plan's AAS reconciled to the amount reported on its claims system.
- To determine if the Plan paid claims in accordance with the terms of the Contract.
- To determine if claim overpayment recoveries and fraud recoveries were processed correctly in the Plan's claims system and reported to OPM in its AAS.

Performance Guarantees Review

- To determine if the Plan’s performance results reported to OPM reconciled, were accurate, and supported using the appropriate measuring methods and source documentation.

Rate Proposal Review

- To determine if information reported to OPM as part of the annual rate renewal process was accurate and supported.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit included reviews of administrative expenses, cash management, claim benefit payments, performance guarantees, and rate proposals for CY’s 2010 through 2013. The audit fieldwork was conducted at the Plan’s office in Lee’s Summit, Missouri, from January 12 through 23, 2015. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.

The Plan reported the following premium income earned, claims incurred, expenses paid, and profit received for CY’s 2010 through 2013:

	Earned Premiums	Claims Incurred	Expenses	Profit
2010				
2011				
2012				
2013				
Total				

In planning and conducting the audit, we obtained an understanding of the Plan’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

We also conducted tests of accounting records and such other auditing procedures as we considered necessary to determine compliance with the contract and 5 CFR 894. Exceptions noted in the areas reviewed are set forth in the “Audit Findings and Recommendations” section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to the time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs charged and services provided to the FEDVIP members were in accordance with the terms of the Contract and Federal regulations, we performed the following steps for CY’s 2010 through 2013 (unless otherwise stated):

Administrative Expense Review

- We reconciled the total expenses reported in the Plan’s AAS to the GL for each CY to determine if the reported expenses exceeded the contractual administrative expense loading.
- We reviewed all of the Plan’s cost centers, cost pool descriptions, and natural accounts to determine if the description, function, and activity of each cost center, cost pool, and natural account indicated whether its charges were allowable, allocable, and reasonable in accordance with Subpart 31.2 of the FAR and the Contract.
- From CY 2013 unallocated expense natural accounts with an increase of \$50,000 or more from the prior CY (7 natural accounts totaling \$3,879,265, from a universe of 21 natural accounts totaling \$5,119,546) we judgmentally selected a sample of 46 transactions totaling \$1,304,837, from a universe of 840 transactions totaling \$3,879,265, from the Plan’s GL and reconciled the transactions to supporting documentation to determine if they were in compliance with FAR 31.2. Specifically, we selected:
 - 42 transactions, totaling \$1,298,523, greater than \$1,500 from the month with the most expenses from 6 natural accounts; and
 - 4 transactions, totaling \$6,314, greater than \$1,000 from the month with the most expenses from 1 natural account.
- We reviewed a list of all subcontracts and amounts paid to determine if the amounts paid exceeded the threshold set forth in the Contract for notification to and approval from OPM.

Cash Management Review

- We reconciled the Plan's schedule of FEDVIP cash activities to BENEFEDS schedule of cash transferred to it to determine if there were any variances.
- We reconciled the premium rates listed in the Plan's benefit brochures to the rates approved by OPM's Office of Actuaries to determine if there were any variances.
- We judgmentally selected two CYs (2012 and 2013) totaling \$ [REDACTED], from a universe of 4 CYs totaling \$ [REDACTED], with the highest premiums earned, to determine if premiums earned in the Plan's enrollment system reconciled to the premiums earned as reported on its AAS. We further reviewed the month with the highest premiums earned from each of those years, 2 months totaling \$44,317,298, from a universe of 24 months totaling \$ [REDACTED], to verify enrollment and premiums earned calculations.
- We judgmentally selected a sample of 20 premium received transactions totaling \$88,083,329, from a universe of 215 transactions totaling \$851,913,600 (all transactions from the month with the highest dollar amount of premiums received), reported in the Plan's schedule of cash activity to determine if the premiums received reconciled to the bank statements and Aggregate Funds Transfer Summary reports.
- We judgmentally selected a sample of 24 paid claim disbursement transactions totaling \$10,976,208, from a universe of 2,229 transactions totaling \$686,099,165 (based on the top three high dollar paid claim disbursements for the FEDVIP high and standard option from the month with the highest total paid claim disbursements in each CY), to determine if they reconcile to the claims batch reports from the Plan's accounting system.
- We reviewed a summary of how the Plan accounts for IBNR claims and reconciled the IBNR amounts reported in its financial statements with the GL to determine if there were any variances.

Claim Benefit Payments Review

- For each CY, we reconciled the claim benefits paid, as reported in the Plan's AAS, to the schedule of paid claims in its financial system.
- From CY 2013, we judgmentally selected a sample of 120 claims totaling \$135,651, from a universe of 3,645,685 claims totaling \$197,311,572, and reconciled the claims data to appropriate support documentation to determine if the claims were paid in accordance with the terms of the Contract. Specifically, we selected the 15 highest dollar claims from each quarter from both the high and standard options.

- We judgmentally selected a sample of 40 claim overpayment recoveries totaling \$102,510, from a universe of 19,030 claim recoveries totaling \$3,578,873, and reviewed supporting documentation to determine if the claim overpayment recoveries were processed correctly and reported to OPM in the Plan's AAS. Specifically, we selected the 40 highest dollar overpayment claims in which the amount had been fully recovered. (Note: The Plan did not report any fraud related recoveries.)

Performance Guarantees Review

- From CY 2013, we judgmentally selected the 2 performance standards with the highest percentage performance ratings and the 2 performance standards with the lowest percentage (4 performance standards in total were selected from a universe of 12) to trace back to supporting documentation and determine if the Plan accurately reported the performance measures.

Rate Proposal Review

- We reviewed the Plan's 2012 and 2013 rate proposals by tracing the enrollment and claims information back to supporting documentation for both the high and standard options.

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

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSE REVIEW

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that the expenses charged to the FEDVIP were in accordance with the Contract and Subpart 31.2 of the FAR.

B. CASH MANAGMENT REVIEW

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that premiums earned and received, and claim payments, were properly accounted for and reported to OPM.

C. CLAIM BENEFIT PAYMENTS REVIEW

1. Misreported Claim Recovery

Procedural

The Plan misreported a \$2,678 claim overpayment as being recovered for CY 2010.

Section K.9(a)(1) of the Contract, requires the Plan to submit an AAS that summarizes the financial results of the contract for the previous fiscal year.

The Plan incorrectly presumed a terminated member's FEDVIP coverage was reinstated.

Additionally, Section K.9(c) of the Contract requires the Chief Executive Officer and Chief Financial Officer to certify that "Income, overpayments, refunds and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement."

We performed a review of the claim overpayment recoveries to determine if they were processed correctly in the Plan's claims system. Our review identified one claim overpayment that was entered in the system as being collected when it was not.

The Plan stated that the overpayment was incorrectly reported as collected because it received notification that the member's coverage was reinstated. After an additional review of the member's benefits, it was determined that only the medical portion of coverage was reinstated and not the FEDVIP coverage. Once we notified the Plan of this issue, it reinitiated the overpayment recovery process and sent a recovery letter to the provider in January 2015.

As a result of the Plan not verifying the reinstatement of this member's coverage before considering the claim overpayment as being recovered, the recovery process was delayed and the financial information provided by the Plan to OPM was inaccurate.

Recommendation 1

We recommend that the contracting office ensure that the Plan has updated its policies and procedures for overpayment recoveries to include a review of changes in coverage before initiating or ending recovery efforts.

Plan's Response:

The Plan agrees with our finding and stated that it has updated its procedures to include a review of changes in coverage prior to initiating or ending recoveries.

D. PERFORMANCE GUARANTEES REVIEW

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that performance guarantees reported to OPM were accurate.

E. RATE PROPOSAL REVIEW

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that claims and enrollment data reported to OPM as part of the annual rate proposal process was accurate.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

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[REDACTED], Group Chief, [REDACTED]

[REDACTED], Senior Team Leader



June 4, 2015

[REDACTED]
Group Chief
Special Audits Group

[REDACTED]:

Attached please find GEHA's response to draft Report No. 1J-0E-00-15-016 issued on May 5, 2015.

We believe all findings are resolved with this additional information. If further information is required please let us know and we will respond as promptly as possible.

If you have any questions, please contact me at [REDACTED], [REDACTED]@geha.com.

Regards,

[REDACTED]

[REDACTED] – Internal Audit
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Cc:

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Recommendation

We recommend that the contracting officer direct GEHA to update its policies and procedures for overpayment recoveries to include a review of changes in coverage before initiating or ending recoveries.

GEHA Response

We agree with this recommendation. Employees are trained to review changes in coverage before initiating or ending recoveries; however, our procedure manual did not include this detail. We have reviewed this requirement with staff and the desk level procedures (DLP) have been updated to include reviewing coverage prior to initiating or ending recoveries.

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