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

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# Final Audit Report

**Audit of the Federal Employees' Group Life Insurance Program  
as Administered by the Metropolitan Life Insurance Company  
for Fiscal Years 2013 and 2014**

**Report Number 2A-II-00-16-016  
August 10, 2016**

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# EXECUTIVE SUMMARY

*Audit of the Federal Employees' Group Life Insurance Program as Administered  
by the Metropolitan Life Insurance Company*

Report No. 2A-II-00-16-016

August 10, 2016

## **Why Did We Conduct the Audit?**

The objective of the audit was to determine whether costs charged to the Federal Employees' Group Life Insurance Program (FEGLI) and services provided to FEGLI subscribers were in accordance with the terms of Contract Number 17000-G and Federal regulations.

## **What Did We Audit?**

The Office of the Inspector General has completed a performance audit of FEGLI as administered by the Metropolitan Life Insurance Company (MetLife) for fiscal years (FY) 2013 and 2014. The audit included reviews of MetLife's administrative expenses, cash management, claim benefit payments, and statutory compliance. Our audit was conducted from January 19 through January 21, 2016, at MetLife's offices in Bridgewater, New Jersey and Oriskany, New York. Additional audit work was completed at our Washington, D.C. and Cranberry Township, Pennsylvania offices.



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

## **What Did We Find?**

The audit identified one finding where funds in excess of the indirect administrative expense cap were inadvertently retained by MetLife.

Specifically, our review determined that MetLife did not return \$72,000 to FEGLI in FY 2013, as a result of a manual mathematical error it made in the calculation.

# ABBREVIATIONS

<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>Contract</b>	<b>Contract Number 17000-G</b>
<b>FAR</b>	<b>Federal Acquisition Regulation</b>
<b>FEGLI</b>	<b>Federal Employees' Group Life Insurance Program</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>LIFAR</b>	<b>Life Insurance Federal Acquisition Regulation</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>METLIFE</b>	<b>Metropolitan Life Insurance Company</b>
<b>OFEGLI</b>	<b>MetLife's Office of Federal Employees' Group Life Insurance</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>

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# I. BACKGROUND

This report details the results of our audit of the Federal Employees' Group Life Insurance Program (FEGLI) as administered by the Metropolitan Life Insurance Company (MetLife) for fiscal years (FY) 2013 and 2014. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General, as authorized by the Inspector General Act of 1978, as amended.

FEGLI is authorized by Chapter 87 of Title 5, United States Code and was established on August 29, 1954 through Contract Number 17000-G (Contract) between OPM and MetLife.

OPM has overall responsibility for administering the Contract. OPM's responsibilities include:

- Receiving all payments from agencies to the Employees' Life Insurance Fund;
- Depositing these payments in the Treasury of the United States;
- Authorizing payment of life insurance premiums from the Fund to MetLife's Office of the Federal Employees' Group Life Insurance (OFEGLI);
- Determining whether retiring employees and employees receiving workers' compensation benefits are eligible to continue life insurance coverage (For retirement systems other than the Civil Service Retirement System and the Federal Employees Retirement System, OPM bases its determination on certifications by the administrative office of the system involved);
- Publishing regulations, forms, and documents;
- Providing guidance to employing offices; and
- Administering the life insurance contract.

Employer 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.

OPM contracts with MetLife to provide life insurance coverage to Federal employees, annuitants, and their family members. MetLife established the OFEGLI administrative unit to carry out its responsibilities under the Contract. OFEGLI's responsibilities include:

- Processing and paying claims;
- Determining whether an insured individual is eligible for a living benefit;
- Determining whether accidental death and dismemberment benefits are payable;
- Determining an employee's eligibility to cancel a waiver of insurance based on satisfactory medical information; and
- Processing requests for conversions.

OFEGLI's offices are located in Oriskany, New York. MetLife provides additional support activities to OFEGLI through its offices located in Bridgewater, New Jersey.

Clause 2109.7001(i) of the Life Insurance Federal Acquisition Regulation (LIFAR) states that MetLife must permit representatives of OPM to audit and examine records and accounts pertaining to FEGLI at such reasonable times and places as may be designated by OPM. Compliance with the laws and regulations applicable to FEGLI, including establishing and maintaining a system of internal controls, is the responsibility of MetLife's management.

Our previous audit of FEGLI's operations as administered by MetLife (Report Number 2A-II-00-13-065), dated July 9, 2014, covered FYs 2009 through 2012. The audit included reviews of claims payments, fraud and abuse prevention and detection, administrative expenses, and cash management activities. All findings and recommendations from that audit have been satisfactorily resolved.

The initial results of our current audit were discussed with MetLife and OPM during an exit conference on April 6, 2016. A draft report was provided to MetLife for review and comment on the same date. MetLife'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

### Objectives

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

Specifically, our audit objectives were:

#### **Administrative Expense Review**

- To determine if the administrative expenses charged to FEGLI were actual, allocable, reasonable, and allowable in compliance with Subpart 31.2 of the Federal Acquisition Regulation (FAR), Part 2131 of the LIFAR, and clause 2152.231-70 of the LIFAR.
- To determine if the indirect cost centers charged to FEGLI were allocable and allowable in accordance with the terms of the Contract and applicable regulations.
- To determine if the administrative expenses recorded in MetLife's general ledger and agreed-upon annual service charge amount with OPM reconcile to:
  - MetLife's monthly Letter of Credit Account (LOCA);
  - Administrative cost (administrative expenses and service charge) drawdowns;
  - Administrative costs reported in FEGLI's annual financial statements; and
  - MetLife's annual administrative cost true-up credited to OPM through the LOCA.
- To determine if the executive compensation charged to FEGLI was in compliance with 48 CFR 31.206-6(p).

#### **Cash Management Review**

- To determine if MetLife held FEGLI funds on hand independent of its other investments and lines of business in compliance with applicable laws and regulations regarding non-commingling of funds.
- To reconcile the LOCA drawdowns and interest reported by MetLife to those recorded by OPM and note any material variances.
- To reconcile the LOCA drawdown against supporting documentation.
- To determine if MetLife is estimating, accounting, and reporting on FEGLI's cash reserves in compliance with Federal and state regulations.

### **Claims Review**

- To determine if the amounts paid to beneficiaries were in compliance with the contractual provisions and regulatory requirements for accidental dismemberment benefits, including the insured's Basic Insurance and Option A coverage levels.
- To determine if the amounts paid to beneficiaries were in compliance with the contractual provisions and regulatory requirements for living benefits, including the insured's Basic Insurance coverage level.
- To determine if the amounts paid to beneficiaries were in compliance with the contractual provisions and regulatory requirements for death benefits, including the insured's Basic Insurance, Option A, B, C, Accidental Death and Extra Benefit coverage levels.
- To determine if overpayment recoveries were credited to FEGLI in compliance with MetLife's overpayment recovery policies and procedures, and if the overpayment process for each sample was initiated within the time frames set forth in the Contract.

### **Statutory Compliance Review**

- To determine if MetLife has policies and procedures in place to prevent, detect, and disclose fraud and abuse of FEGLI funds.
- To determine if MetLife implemented a system of internal controls in compliance with clause 48 CFR 2109.7001(h).
- To determine if MetLife implemented a quality assurance program in compliance with clause 48 CFR 2146.270.
- To determine if subcontracts entered into by MetLife on behalf of FEGLI were in compliance with 48 CFR 2152.244-70(a).
- To determine if MetLife's corporate travel policies and procedures were in compliance with 48 CFR 31.205-46.

### **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, and statutory policies and procedures to ensure compliance with the Contract and Federal regulations for FYs 2013 and 2014. The audit fieldwork was conducted at MetLife's offices in Oriskany, New York and Bridgewater, New Jersey, from January 19 through 21, 2016. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.



MetLife reported the following premium revenue, claims incurred, administrative expenses paid, and profit received for FYs 2013 and 2014:

	Revenues	Claims	Expenses	Profit
<b>2013</b>	\$2,827,794,450	\$2,765,172,549	\$11,667,584	\$1,000,000
<b>2014</b>	\$2,892,116,431	\$2,968,417,462	\$11,009,188	\$1,025,000
<b>Total</b>	<b>\$5,719,910,881</b>	<b>\$5,733,590,011</b>	<b>\$22,676,772</b>	<b>\$2,025,000</b>

In planning and conducting the 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. Additionally, 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 of accounting records and such other auditing procedures as we considered necessary to determine compliance with the Contract and Federal regulations. 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 MetLife 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 MetLife. 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 MetLife’s administration of FEGLI was in compliance with the terms of the Contract and applicable regulations, we performed the following steps for FYs 2013 and 2014:

**Administrative Expense Review**

- We reviewed a sample of 83 administrative expense transactions, totaling \$137,555, out of a universe of [REDACTED] transactions (direct operational expenses only), totaling \$ [REDACTED],

to determine if the amounts were actual, allocable, reasonable, and allowable. Specifically, we randomly selected 34 expense transactions from each FY, totaling \$92,840. Additionally, we judgmentally selected another 15 administrative expense transactions based on a nomenclature review, totaling \$44,715.

- We reviewed MetLife's indirect cost centers to determine if the cost centers were allocable and allowable under Subpart 31.2 of the FAR, Part 2131 of the LIFAR, and clause 2152.231-70 of the LIFAR.
- We compared MetLife's general ledger expenses and service charges to its LOCA drawdowns, annual financial statements, and annual administrative cost true-ups to determine if the amounts reconcile.
- We reviewed executive compensation expenses that were charged to FEGLI to verify that the amounts did not exceed the compensation expense limit for government contractors.

#### **Cash Management Review**

- We held a meeting with MetLife to verify that it held FEGLI funds on hand in investment accounts which are separately identifiable from its other lines of business.
- We reconciled LOCA drawdowns and interest reported by MetLife to those recorded by OPM to determine if there were any variances.
- We reviewed a judgmental sample of 39 LOCA drawdowns, totaling \$517,633,690, from a universe of [REDACTED] drawdowns totaling \$[REDACTED], to verify that the amounts were accurate and properly supported. For each FY, we selected the two months with the largest individual amounts drawn down by MetLife. From those months, we selected all LOCA drawdowns from those weeks with the two largest individual drawdowns.
- We reviewed documentation to verify that MetLife was estimating, accounting, and reporting on the FEGLI's cash reserves in compliance with Federal and state regulations.

#### **Claims Review**

- We randomly selected a sample of 10 accidental dismemberment claims (5 claims from each FY), totaling \$354,500, out of a universe of [REDACTED] accidental dismemberment claims, totaling \$[REDACTED], to determine if the claims were accurately processed.
- We reviewed a random sample of 60 living benefit claim lines (representing 30 distinct claims), totaling \$1,920,117, out of a universe of [REDACTED] living benefit claim lines, totaling \$[REDACTED], to determine if the claims were accurately processed. Specifically, we

randomly selected 15 claim lines from each FY for review. We then pulled all other claim lines associated with the 30 claims selected for review, which resulted in 60 total claim lines being selected.

- We selected a sample of 82 death claim lines (representing 55 distinct claims), totaling \$3,848,711, out of a universe of [REDACTED] death claim lines, totaling \$ [REDACTED], to determine if the claims were accurately processed. Specifically, we randomly selected 25 claims from each FY for review. Additionally, we judgmentally selected another five claims based on concerns identified during the offset removal process. We then pulled all other claim lines associated with the 55 claims selected for review, resulting in 82 total claim lines being selected.
- We reviewed a sample of 20 claim overpayment recoveries, totaling \$1,750,091, out of a universe of [REDACTED] claim overpayment recoveries, totaling \$ [REDACTED], to verify that the amounts were properly credited back to FEGLI. Specifically, for each FY we judgmentally selected 10 claims with the largest total recoveries.

#### **Statutory Compliance Review**

- We reviewed MetLife's fraud and abuse policies and procedures to determine if they are sufficient to prevent, detect, and disclose fraud and abuse of FEGLI funds to OPM.
- We reviewed MetLife's system of internal controls to verify compliance with 48 CFR 2109.7001(h).
- We reviewed MetLife's quality assurance program to verify compliance with 48 CFR 2146.270.
- We reviewed MetLife's subcontracts for FYs 2013 and 2014 to determine if subcontractor expenses exceeded the reporting threshold of 48 CFR 2152.44-70(a).
- We reviewed MetLife's corporate travel policies and procedures to verify compliance with 48 CFR 31.205-46.

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

### 1. Funds in Excess of Administrative Expense Cap Retained \$72,000

MetLife did not return \$72,000 to FEGLI that exceeded the indirect administrative expense cap in FY 2013.

**\$72,000 of funds in excess of the indirect administrative expense cap were not returned to FEGLI.**

Section 3.15(b)(2)(ii)(B) of the Contract states that an administrative expense ceiling will be set each year for the following contract year and that within the ceiling there will be a separate negotiated limit for indirect administrative expenses.

To determine if the expenses charged to FEGLI were within the administrative expense caps established by OPM, we reviewed the accuracy of MetLife's FY-end reconciliations. Specifically, we verified the amounts drawn down for administrative expenses and the service charge to the actual expense incurred by MetLife. We then determined if the actual administrative expenses exceeded either the total administrative expense cap or the indirect administrative expense cap established by OPM.

Our review found that in its reconciliation of FY 2013 administrative expenses, MetLife incorrectly calculated the amount it had to return to FEGLI, because of a manual mathematical error. In its calculation, MetLife correctly determined that it exceeded the indirect administrative expense cap by \$80,050. However, in a handwritten calculation, it inadvertently returned \$8,050 to FEGLI, and not \$80,050. As a result of this manual error, FEGLI was overcharged \$72,000.

When we disclosed this finding to MetLife, it reviewed the data and agreed that the error was due to a manual mathematical error. MetLife then issued a \$72,000 credit to FEGLI via a LOCA adjustment on January 19, 2016.

### **Recommendation 1**

We recommend that the contracting officer confirm that MetLife credited FEGLI \$72,000 for the error in its indirect administrative expense cap calculation for FY 2013.

### **Recommendation 2**

We recommend that the contracting officer review and determine if MetLife's revised fiscal year-end reconciliation process is adequate to ensure that potential human error is minimized when calculating the amounts due to or from FEGLI.

### **MetLife Response:**

*MetLife agrees with the recommendation and has updated its procedures for the fiscal year-end administrative expense reconciliation to include the use of a spreadsheet.*

*MetLife has also added a second level of review to verify the accuracy of the calculations.*

## **B. CASH MANAGEMENT REVIEW**

The results of our review showed that MetLife had sufficient policies and procedures in place to ensure that FEGLI funds were accurately withdrawn from the LOCA, were kept separate from MetLife's other lines of business, and were accounted for properly.

## **C. CLAIMS REVIEW**

The results of our review showed that MetLife had the appropriate policies and procedures in place to process death claims, living benefits, accidental death and dismemberment claims, and overpayment recoveries.

## **D. STATUTORY COMPLIANCE REVIEW**

The results of our review showed that MetLife had sufficient policies and procedures in place for its fraud and abuse program, system of internal controls, quality assurance program, and the reporting of subcontracts in accordance with Federal regulations and the Contract.

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## Special Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

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██████████, Group Chief, ██████████

██████████, Senior Team Leader

# APPENDIX

National Accounts  
501 US Highway 22, PO Box 6891  
Bridgewater, NJ 08807-0891

**MetLife**<sup>®</sup>

[REDACTED]  
Vice President  
Registered Representative

[REDACTED] Fax  
[REDACTED]@metlife.com

April 20, 2016

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

Re: FEGLI Program Audit Report Number 2A-II-00-16-016

Dear [REDACTED]:

The following is MetLife's response to the recommendation contained in the draft audit report dated April 6, 2016.

MetLife is in agreement with the recommendation. MetLife has updated its procedures to use a spreadsheet to calculate the amount of the year end administrative expense reconciliation. In addition, a second associate will review and sign off on the accuracy of the calculation.

If you have any questions, please let me know.

Sincerely,

[REDACTED]

cc: [REDACTED]

Report No. 2A-II-00-16-016



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