



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

Final Audit Report

**Audit of the U.S. Office of Personnel Management's
Administration of the Federal Employees Dental
And Vision Insurance Program
For Fiscal Years 2010 through 2013**

Report Number 4J-0L-00-15-038

June 3, 2016

-- CAUTION --

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EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Administration of the Federal Employees Dental and Vision Insurance Program

Report No. 4J-0L-00-15-038

June 3, 2016

Why Did We Conduct the Audit?

The objective of the audit was to obtain reasonable assurance that the U.S. Office of Personnel Management's (OPM) administration of the Federal Employees Dental and Vision Insurance Program (FEDVIP) was compliant with Federal regulations and the provisions of the FEDVIP Solicitation which is incorporated in each agreement between OPM and the individual FEDVIP Carriers (Contract), and that monies received by OPM from FEDVIP carriers were used only for FEDVIP purposes.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of OPM's administration of FEDVIP for fiscal years 2010 through 2013 to include a review of program expenses, the FEDVIP Trust Fund, OPM's administrative fee, and OPM's program operations. Our audit was conducted from June 15 through July 24, 2015, at our office in Washington D.C.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

The audit identified three findings related to administrative expenses, the FEDVIP Trust Fund, and program operations and questions \$127,229 in unsupported or unallowable expenses.

Specifically, we identified the following findings related to fiscal year (FY) 2010 through FY 2013 (unless otherwise stated):

FEDVIP Expense Review:

- The FEDVIP was overcharged \$127,229 as a result of the lack of sufficient documentation and oversight of FEDVIP expenses on the part of OPM's Office of the Chief Financial Officer (OCFO) and Federal Employee Insurance Operations (FEIO). This was also a finding in our previous audit (Report #1J-0L-00-11-033, dated February 1, 2012).

FEDVIP Trust Fund Review:

- In FY 2013, the OCFO inadvertently permitted an unbalanced journal entry resulting from the change of accounting systems to remain in the accounting records of the FEDVIP Trust Fund.

OPM Program Operations Review:

- The OCFO did not perform financial viability reviews of the FEDVIP carriers' annual certified financial statements.

In addition, we also identified two opportunities for program improvement in areas related to the FEDVIP loading for OPM's administrative costs and the review and approval of non-labor expenses by the FEIO.

ABBREVIATIONS

Contract	FEDVIP Solicitation OPM-RFP-06-00060
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEIO	Federal Employee Insurance Operations
FY	Fiscal Year
OA	Office of Actuaries
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Trust Fund	FEDVIP Trust Fund

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I. BACKGROUND

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

The Federal Employee Dental and Vision Benefits Enhancement Act of 2004, Public Law 108-496, 118 Stat. 4001, was signed into law on December 23, 2004. It provided for the establishment of programs under which supplemental dental and vision benefits are made available to Federal employees, retirees, and their dependents. The first effective date of coverage was December 31, 2006. OPM initially contracted with 10 FEDVIP carriers to provide dental and vision insurance services for a period of seven years. In 2014, three new dental plans and one new vision plan were added.

OPM has the overall responsibility to maintain the FEDVIP website, act as a liaison and facilitate the promotion of the FEDVIP through Federal agencies, provide timely responses to carrier requests for information and assistance, and perform functions typically associated with insurance commissions, such as the review and approval of rates, forms, and educational materials.

Our previous audit of OPM's administration of the FEDVIP (Report No. 1J-0L-00-11-033, dated February 1, 2012), covered operational activities, cash management, and fraud and abuse policies and procedures for FYs 2006 through 2009. All recommendations from the prior audit have been resolved.

The initial results of our current audit were discussed with OPM during an exit conference on August 18, 2015. A draft report was provided to OPM for review and comment on August 26, 2015. OPM's response to the draft report was considered in preparation of this final report and is included, as appropriate, as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The main objective of this audit was to obtain reasonable assurance that OPM's administration of the FEDVIP was compliant with Federal regulations and the provisions of the FEDVIP Solicitation which is incorporated in each agreement between OPM and the individual FEDVIP Carriers (Contract), and that monies received by OPM from the FEDVIP carriers were used only for program purposes.

Specifically, our audit objectives were:

FEDVIP Expense Review

- To determine if OPM's administrative expenses were allowable, allocable and reasonable.
- To determine if an annual reconciliation of actual expenses to budgeted expenses was being performed.
- To obtain an understanding of the Office of the Chief Financial Officer's (OCFO) responsibilities as it pertains to the FEDVIP.
- To determine if the FEDVIP premium loading (fees received for the administration of the FEDVIP) exceeded administrative costs.
- To determine if all administrative expenses were reviewed and properly approved before payment.

FEDVIP Trust Fund Review

- To obtain an understanding of OPM's responsibilities regarding the FEDVIP Trust Fund (Trust Fund) according to the Contract and applicable Federal regulations.
- To determine how the funds for OPM's administrative fees are transferred to OPM.
- To obtain an understanding of the process and procedures for expensing the incoming funds; how the Program Office distributes/utilizes these funds; and what the Program Office does with any remaining funds.
- To determine how much OPM received for administrative expenses for FYs 2010 through 2013.
- To reconcile the funds received and the administrative expenses paid to the FEDVIP trial balance during the scope of the audit.
- To obtain an understanding of how the Program Office is preventing fraud and abuse of FEDVIP funds.

OPM Administrative Fee Review

- To obtain an understanding of the OPM administrative fee, including how the fee is determined, who calculates the fee, and how often the fee is reviewed or recalculated.

- To determine what the administrative fee was for FYs 2010 through 2013, and if the fee was reasonable.

OPM Program Operations Review

- To obtain an understanding of the functions performed for the FEDVIP by OPM’s Program Office, the OCFO, the Office of Actuaries’ (OA) and any other OPM departments.
- To obtain an understanding of OPM’s Program Office’s responsibilities for administering the FEDVIP.
- To review policies and procedures that have been instituted since the last audit of OPM’s administration of the FEDVIP.
- To obtain reasonable assurance that the monies received by OPM from the FEDVIP carriers were used only for program purposes.

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 program expenses, the Trust Fund, OPM’s administrative fee, and OPM’s program operations for FY’s 2010 through 2013. The audit fieldwork was conducted at our office in Washington, D.C. from June 15 through July 24, 2015. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.

OPM reported the following funds received and expensed for FEDVIP operations during the scope of our audit:

	Funds Received For Administration	Funds Expensed
2010	\$9,506,442	\$1,876,558
2011	\$11,369,376	\$2,361,824
2012	\$5,945,090	\$5,890,576
2013	\$3,382,509	\$13,288,062
Total	\$30,203,417	\$23,417,019

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

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 OPM 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 OPM. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during the 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 if OPM's administration of the FEDVIP was compliant with provisions of the Contract and Federal regulations, and that monies received by OPM from the FEDVIP carriers were used only for FEDVIP purposes, we performed the following steps for FY's 2010 through 2013 (unless otherwise stated):

FEDVIP Expense Review

- We selected and reviewed a sample of 38 FEDVIP expense transactions, totaling \$18,063,658, (out of a universe of 3,089 expense transactions totaling \$24,012,619) to determine if the transactions were reasonable for the administration of FEDVIP. Specifically we selected:
 - Labor Costs – We selected the three highest dollar amount transactions and the only credit transaction for labor account number 111100 from FY 2013. (four transactions totaling \$59,606).
 - Non-Labor Costs – We selected all transactions for review from accounts with 5 transactions or less (17 transactions, totaling \$92,487) and we selected the 3 highest dollar amount transactions and all transactions over \$1 million from accounts with 6 transactions or more, (17 transactions, totaling \$17,911,565), from FY10 through FY13 (34 transactions totaling \$18,004,052).

- We reviewed the annual reconciliation of actual expenses to budgeted expenses to determine if the reconciliation was actually performed.
- We compared the FEDVIP administrative expenses (less OPM's buy down of premiums) to the administrative fees received from the FEDVIP premium loading for each FY to determine if fees received exceeded administrative expenses.
- We met with the Federal Employee Insurance Operations (FEIO) to determine whether all expenses were properly reviewed and approved prior to being paid.

FEDVIP Trust Fund Review

- We reconciled the funds received and the expenses charged each year to the FEDVIP trust balance to determine the accuracy of the Trust Fund's FY 2013 ending balance.

OPM Administrative Fee Review

- To determine if OPM reviewed the administrative fee annually, we reviewed the FEDVIP Administrative Loading Memo that was prepared by the OA for FY 2012 and FY 2013.

OPM Program Operations Review

- We reviewed job descriptions of OPM's Program Office staff to determine if they included the responsibilities of OPM's administration of the FEDVIP listed in the Contract and Federal regulations.

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. FEDVIP EXPENSE REVIEW

1. Unreasonable Expenses

\$127,229

We identified 10 transactions, totaling \$127,229, in FYs 2010 through 2013 that were considered unreasonable FEDVIP expenses due to a lack of supporting documentation.

Adequate documentation was not provided to determine the reasonableness of certain FEDVIP expenses.

Public Law 108-496, Sections 8958(f)(2) and 8988(f)(2), established a dental benefits administrative account and a vision benefits administrative account that are available to OPM, without FY limitation, to defray the reasonable expenses incurred by it in administering the FEDVIP.

We reviewed a sample of 38 administrative expenses, totaling \$18,063,658, to determine if the expenses were reasonable for the administration of the FEDVIP. Our review questioned 10 transactions for the following reasons:

- 9 transactions, totaling \$125,175, where OPM's OCFO provided only transaction screen prints and not actual invoices or any other supporting documentation. Therefore, we were unable to determine if the transactions were reasonable, and;
- 1 transaction, totaling \$2,054, where OPM's FEIO could not verify if the employees charging salary to the FEDVIP actually worked on the program. As a result, we could not determine if this transaction was a reasonable cost to the program.

The FEIO is responsible for reviewing and approving FEDVIP expenses on a monthly basis. However, it stated that there are times when expenses are charged to the FEDVIP that the FEIO does not review and approve.

Consequently, because of a lack of sufficient documentation and oversight of FEDVIP expenses by the OCFO and FEIO, the FEDVIP was overcharged \$127,229 for FYs 2010 through 2013.

Recommendation 1

We recommend that the OCFO maintain complete documentation to support all charges for the administration of the FEDVIP.

OPM Response:

OPM does not concur with our recommendation. OPM states that the OCFO and FEDVIP Program Office share responsibility for maintaining documentation to support program charges, and there are procedures in place to oversee employees' work reports, travel expenses and service contracts. All vendor invoices are submitted to the OCFO for payment and are processed for payment by a Federal shared service provider, and maintained by the OCFO. The OCFO and FEIO maintain documentation of the FEDVIP expenses paid and have had robust documentation procedures in place since the resolution of the prior audit of OPM's administration of the FEDVIP. The scope of this audit overlaps the actions taken in response to similar findings from the previous audit.

OIG Comment:

As stated in the finding, the only documentation to support the FEDVIP expenses questioned were the actual screen prints in OPM's accounting system. However, the reported information in the accounting system did not support the transactions, but just showed that transactions were entered into the system and paid.

We understand the fact that our current audit scope (FY 2010 through FY 2013) encompasses the period during which our prior audit took place (Report Number: 1J-0L-00-11-033, dated February 1, 2012; with dates of audit between February 14 to March 31, 2011). We also acknowledge that the audit findings in the prior report were not fully resolved until March 26, 2013. However, it should be noted that most of the transactions reviewed in this audit occurred after the date of issuance of our previous final report (and many after its resolution date). Therefore, any changes implemented by OPM to maintain supporting documentation in response to our prior audit should have covered these transactions.

Recommendation 2

We recommend that OCFO return \$127,229 to the Trust Fund for FEDVIP administrative expenses determined to be unreasonable due to a lack of supporting documentation.

OPM Response:

OPM does not concur with our recommendation and states that, as noted previously, steps were being put in place during the scope of this audit, which the OIG has since accepted and approved.

OIG Comment:

We again understand that OPM was in the process of implementing procedures for proper documentation during the scope of the audit. However, this fact does not relieve OPM from the requirement to support expense charges. As OPM was unable to provide support for these charges, the \$127,229 remains questioned as unreasonable charges.

Recommendation 3

We recommend that FEIO strengthen its controls to ensure that only expenses related to the administration of the FEDVIP are charged and that proper approvals are obtained prior to expenses being paid.

OPM Response:

OPM does not concur with our recommendation. It states that in response to a prior audit all appropriate offices have instituted procedures to ensure that only expenses related to the administration of FEDVIP are charged to the FEDVIP and that proper approvals are obtained. It also stresses that these procedures were developed and implemented during the scope of this audit.

OPM noted that during the last audit, 21 salary expense transactions were questioned and only one transaction was questioned during this audit. Although OPM strives for 100 percent accuracy, the dramatic reduction of erroneous charges to the FEDVIP demonstrates that OPM has strengthened its controls regarding expenses charged to the FEDVIP.

OIG Comment:

As stated previously, we understand that OPM was in the process of implementing procedures to ensure that only expenses related to the administration of FEDVIP are charged to the program and that proper approvals are obtained prior to the expenses being paid.

However, as stated in our finding, the FEIO indicated that there are charges made to the FEDVIP by other departments that it does not review and approve. This statement was made in May 2015, nearly two years after resolution of the prior audit. Therefore, this issue still exists. The fact that there is not a single office having final approval over all expenses made to the FEDVIP continues to be a concern and a risk to the program (see Section E.2).

OPM's comment regarding the reduction of questioned costs in this area is of great concern to us. The fact that the number of salary expense transactions questioned was greatly

reduced is misleading. It should be noted that we questioned 50 percent (two out of four transactions; one transaction is included with the nine transactions questioned for inadequate support) of the transactions reviewed. More importantly, we had to greatly reduce our salary expense sample due to problems encountered by the OCFO. Originally, our review of labor costs consisted of 149 transactions from FYs 2010 through 2013. After the OFCO expressed concern that it could not provide the information requested in a timely manner, we reduced our labor sample to only four transactions from FY 2013. It should be noted that a majority of the expenses incurred by FEDVIP are labor related, and if information supporting these charges is not more readily available, it will greatly limit our ability to review these types of costs to determine if they are reasonable to the program.

B. FEDVIP TRUST FUND REVIEW

1. Reversing Entry Not Made

Procedural

The OCFO inadvertently permitted an unbalanced journal entry resulting from the change of accounting systems to remain in the accounting records of the Trust Fund.

The OCFO is responsible “for all OPM disbursements and accountability processes, as well as management and coordination of OPM planning, budgeting, and analysis.” Therefore, the OCFO responsibilities include accuracy of its reports used for planning of OPM programs such as FEDVIP.

During our verification of the Trust Fund balance, we discovered a credit entry of \$2,616,419 to the FY 2013 FEDVIP administrative expense account that was not included on the FEDVIP trial balance. This immediately appeared to us as an overstatement of expenses.

OPM did not perform necessary reversing entries for FY 2013.

Following discussions with the OCFO, it was explained that the entry in question was a correcting journal entry posted in FY 2013 to clear voided transactions, due to the transition to a new accounting system at OPM. According to the OCFO, this entry did not affect the Trust Fund balance as was first thought. The posted entry was not for actual incurred and paid expenses, but was for voided expenses that were in the old accounting system and the only way to clear them out was to push them through the system, creating the amount in question.

The OCFO stated that, as a result of our bringing this transaction to its attention, it discovered that the reversing entry was never made following the move to the new accounting system. Subsequently, the OCFO made the reversing entry for \$2,616,419 in September 2015.

By failing to make all of the necessary journal entries in FY 2013 the OCFO ran the risk of incorrectly reporting FEDVIP financial information, which is relied on for FEDVIP planning.

Recommendation 4

We recommend that the OCFO strengthen its policies and procedures for oversight of correcting entries and end of the year adjustments.

OPM Response:

OPM does not concur with our recommendation. OPM states that this finding relates to a correction journal voucher entry that was posted in FY 2013 during a cleanup effort after the OCFO transitioned to a new accounting system. It determined that a reversing entry was not generated after a confirmed payment was voided, but has since made the reversing journal voucher entry. OPM believes that it has adequate controls in place for financial reporting.

OIG Comment:

Although OPM disagrees with this finding, it ultimately processed a correcting journal entry to reverse the voided transaction identified in the finding. Therefore, we maintain that OPM should improve its current controls by strengthening its policies and procedures to ensure that this type of issue (not identifying a needed journal entry for two years) does not reoccur. This should be done to ensure that OPM reports accurate information.

C. OPM ADMINISTRATIVE FEE REVIEW

The results of our review showed that OPM had sufficient policies and procedures in place to annually review the administrative fee rate and make adjustments as needed.

D. OPM PROGRAM OPERATIONS REVIEW

1. Review of Certified Annual Financial Statements

Procedural

The OCFO did not perform financial viability reviews of the FEDVIP carriers' annual certified financial statements.

No formal financial reviews are being performed of plan participants.

Section K.9(a)(1) of the Contract requires carriers to “prepare annually an accounting statement summarizing the financial results of its [FEDVIP] contract for the previous fiscal year.”

Furthermore, Public Law 108-496, Sections 8952(b) and 8982(b), Availability of Dental and Vision Benefits, states that OPM, “shall determine, in the exercise of its reasonable discretion, the financial requirements for qualified companies to participate in the program.”

Lastly, OPM’s FEDVIP Annual Certified Financial Statement Receipt and Review Process states that the purpose of receiving the certified financial statements annually is to monitor financial viability, thereby ensuring the success of the FEDVIP.

OPM’s FEDVIP Annual Certified Financial Statement Receipt and Review Process indicates that the FEIO will request and receive annual certified financial statements from FEDVIP carriers, review them for completeness and accuracy, and transmit them to the OCFO and the OPM Office of Actuaries for reference and review.

We requested further information on how OPM documents its financial review of the certified financial statements and requested an example. The FEIO indicated that the statements are sent to the OCFO for review, but it (FEIO) only scans them to ensure compliance with Subpart 31.2 of the Federal Acquisition Regulation. The OCFO stated that it does not have policies and procedures for the review of the financial statements, and that it only “glances” at the statements when received.

Without a proper review of the annual certified financial statements, there is an increased risk of a carrier participating in the program that is not financially viable, which threatens the success of the FEDVIP.

Recommendation 5

We recommend that OPM develop and implement formal policies and procedures outlining the steps for reviewing each FEDVIP carrier’s annual certified financial statements and documenting its assessment of the carrier’s financial viability.

OPM Response:

OPM concurs with our finding and indicates the OCFO did not review the FEDVIP carrier’s certified financial statements during the audited period. The OCFO has since commenced

reviewing the FEDVIP carriers' 2014 unaudited statements. Formal procedures have been developed and are now being followed.

OIG Comment:

We have reviewed the financial statement review that was provided and a copy of the procedures that were developed to ensure completion of the annual financial statement reviews. The procedures provided did not include a signed and dated approval from a Department Head. Therefore, we ask that the procedures include the Department Head's signature and date signed to indicate approval and date of implementation. However, the procedures provided appear satisfactory to resolve the finding if followed by OPM in the future.

E. PROGRAM IMPROVEMENT AREAS

1. Excessive Administrative Fees Received

Procedural

The FEDVIP loading for OPM's administrative costs continues to exceed what is needed to administer the program.

Public Law 108-496, Sections 8958(f)(2) and 8988(f)(2), established a dental benefits administrative account and a vision benefits administrative account that are available to OPM, without FY limitation, to defray the reasonable expenses incurred by it in administering the FEDVIP.

OPM receives administrative fees to offset its expenses in the form of a loading that is attached to FEDVIP premiums. Since the program's inception, this loading has far exceeded the actual administrative costs.

Administrative fees received by OPM to defray FEDVIP expenses greatly exceed the actual expenses on a yearly basis.

In 2012, as a result of our prior audit (Report Number 1J-0L-00-11-033, dated February 1, 2012), OPM lowered its FEDVIP loading from 1.0 percent of net premium for national dental plans to 0.25 percent, and from 2.0 percent of net premium for vision plans and regional dental plans to 0.5 percent. This reduction was necessary to reduce the Trust Fund held by OPM, which had a balance in excess of \$28 million as of September 30, 2012.

To further reduce the Trust Fund account, OPM initiated a buy down of the BENEFEDS loading in FY 2012. As illustrated in the table, OPM has used part of the Trust Fund to buy down the BENEFEDS loading fees for both 2012 and 2013, thereby reducing the current balance. However, OPM's loading still greatly exceeds its needs to cover the yearly administrative costs.

	Revenue	Expenses		
Period	OPM Administrative Fees Received	Administrative Expenses	OPM Buy Down of FEDVIP Premiums	End of FY Balance
FY 2009				\$11,695,587
FY 2010	\$9,506,442	\$1,876,558	\$-	\$19,325,471
FY 2011	\$11,369,376	\$2,361,824	\$-	\$28,333,023
FY 2012	\$5,945,090	\$1,080,576	\$4,810,000	\$28,387,537
FY 2013	\$3,382,509	\$1,729,156	\$11,558,906	\$18,481,985

The buy down of the BENEFEDS loading was meant to be a temporary solution to immediately reduce the current amount of funds held by OPM. However, since the current “reduced” funding levels were instituted, the fees received still exceed the incurred expenses by nearly 100 percent (FY 2013). Therefore, it is imperative that a long term solution be put in place to ensure that excess FEDVIP funds are not held by OPM indefinitely.

Because OPM is continually receiving more funds than needed to administer the program, FEDVIP members are paying higher premiums than necessary.

Recommendation 6

We recommend that OPM develop a long term strategy to accurately evaluate the FEDVIP loading received to ensure that it only collects enough in fees to cover the administrative costs anticipated by OPM. Additionally, OPM should consider the steps necessary to modify the public law to allow it to reduce the yearly FEDVIP loading to a level necessary to only collect those funds needed for its administration of the FEDVIP (if the public law is interfering in the process).

OPM Response:

OPM does not concur with our finding. OPM states that by law, OPM has already reduced the administrative loading fee to its lowest level without going to zero and that reducing the loading fee to zero is not feasible due to fluctuations in enrollment. OPM depends on this loading fee for operations, as there is no government contribution for the administration of the FEDVIP. OPM indicates that since the scope of this audit was only through FY13, the OIG did not have the opportunity to review premium buy downs through FY16 and the current balance of the Trust Fund. A buy down for FY16 almost did not occur due to the low level of the Trust Fund, which to date is between \$5 to \$6 million. As more people enroll in the FEDVIP an increase in the Trust Fund balance is inevitable and OPM sees the buy down

approach as an acceptable way to reduce the Trust Fund balance and also reduce the premiums for enrollees. OPM will use this as a long term operational practice.

OIG Comment:

While the OIG agrees that the buy downs have reduced the balance of the Trust Fund, we do not believe that this should be the long term practice. As our chart shows, OPM has consistently collected more fees than is necessary to administer the FEDVIP. OPM indicated a current balance of the Trust Fund of between \$5 to \$6 million, yet in no year have the administrative expenses exceeded \$2.5 million.

OPM's use of the buy down doesn't fix the underlying problem that it continually collects too much in fees for its administrative expenses in administering the FEDVIP. Its proposed solution does not fix the problem, but merely reduces the amounts of excess fees collected after the fact. Therefore our recommendation remains that OPM should ensure that it only collects enough in fees to cover its anticipated FEDVIP expenses.

OPM states that by law it has already reduced the administrative loading fee as low as possible. However, we do not see where the law expressly limits the loading. If this is the case, our recommendation (which was not addressed by OPM) stands that OPM should explore the avenue of changing the law to allow for an even lower loading fee in cases where administrative fees received continually exceed the expense incurred.

2. FEDVIP Expense Review and Approval

Procedural

The FEIO does not have the opportunity to review and approve all non-labor expenses charged against the Trust Fund.

The Office of Management and Budget, Circular Number A-123, states that "Management is responsible for developing and maintaining effective internal control ... The agency head must establish controls that reasonably ensure that ... revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

Based on our understanding of the FEDVIP, the FEIO has the inherit responsibility, as administrator of the FEDVIP, to review and approve all non-labor expenses charged to the Trust Fund.

As identified in the unallowable expense finding, there are times when expenses are charged to the Trust Fund that the FEIO never sees nor approves. Those non-labor expenses are

reviewed and approved by OPM offices other than FEIO, and are paid, after receipt of the approvals, from the Trust Fund.

Because all non-labor expenses charged to the Trust Fund are not reviewed and approved by the FEIO prior to payment by the OCFO, the FEDVIP could have potentially been charged for expenses that are unrelated to the program.

Recommendation 7

We recommend that the FEIO and OCFO develop procedures to ensure that all non-labor expenses charged to the Trust Fund are reviewed and approved by the FEIO prior to payment by the OCFO.

OPM Response:

OPM does not concur with our recommendation. OPM states that as previously mentioned new policies and procedures were implemented in FY13 to address findings in the prior audit. The scope of this audit overlaps the resolution of the prior audit. Therefore, OPM believes that they have adequate controls in place, including system edits and validations to ensure expenses are properly approved before payment.

OIG Comment:

While we acknowledge that changes were made as a result of our last audit, we are still concerned that the FEIO has indicated that there are some FEDVIP expenses charged that they don't see or approve. We believe that as FEIO has responsibility to administer the program and work with OA to review and set the premium loading (budget), that FEIO should be aware of (see and approve) ALL expenses charged to the program. We understand that multiple departments charge expenses to FEDVIP; however, for accountability purposes there should be one department (FEIO) charged with final approval of all FEDVIP expenses.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[REDACTED], Auditor-In-Charge

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Group Chief, [REDACTED]

[REDACTED], Group Chief (former), [REDACTED]

[REDACTED], Senior Team Leader

APPENDIX

October 1, 2015

TO: [REDACTED], CHIEF
SPECIAL AUDITS GROUP
OFFICE OF INSPECTOR GENERAL

FROM: LLOYD V. WILLIAMS
DEPUTY ASSISTANT DIRECTOR
FEDERAL EMPLOYEE INSURANCE OPERATIONS

THROUGH: [REDACTED]
SENIOR HEALTH ACTUARY
OFFICE OF THE ACTUARY

[REDACTED]
MANAGER
OFFICE OF CHIEF FINANCIAL OFFICER

[REDACTED]
CHIEF, TRUST FUNDS
OFFICE OF CHIEF FINANCIAL OFFICER

Reference: DRAFT REPORT of OPM's Administration of the
Federal Employees Dental and Vision Insurance Program
Audit Report Number – 4J-0L-00-15-038 August 26, 2015

Dear [REDACTED]:

This is in response to the above referenced Draft Audit Report concerning OPM's administration of the Federal Employees Dental and Vision Insurance Program (FEDVIP). The findings and recommendations in this draft audit refer to functions that are administered by the OCFO's Trust Funds and Accounting departments, Planning and Policy Analysis's (PPA), Office of the Actuary and HI's Individual Benefits and Life (program office), as well as its Resource Management Organization (RMO). Each office has reviewed the report, including each recommendation and the below represents a consolidated response. Where appropriate, we're also providing supporting documentation.

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FEDVIP EXPENSE REVIEW

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Recommendation 1 - We recommend that the OCFO maintain complete documentation to support all charges for the administration of FEDVIP.

OCFO Response – Non-Concur. The OCFO and the FEDVIP Program Office share the responsibility for maintaining documentation to support program charges. As indicated in the attached MOU-FEDVIP Oversight Procedures, there are procedures in place to oversee employees' work reports and travel expenses and service contracts. All vendor invoices are submitted to the OCFO PromptPay@opm.gov for payments. Those invoices are processed for payment by our federal shared service provider, and maintained by OCFO.

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OCFO assesses its internal controls periodically in the normal course of business, and makes improvements when needed.

The OCFO and FEIO have had robust documentation procedures in place since the resolution of the prior audit of the administration of FEDVIP, 11-033. To the extent that this audit's scope is 2010-2013, overlapping and largely addressed by the actions taken in response to similar findings in the prior audit, we request that this recommendation be removed from the final audit.

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Recommendation 2 - We recommend that OCFO return \$2,847,248 to the FEDVIP Trust Fund (Trust Fund).

OCFO Response – Non-Concur.

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As noted previously procedures were being put in place to eliminate these issues, during the scope of this audit that the OIG reviewed and accepted.

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Recommendation 3 - We recommend that FEIO strengthen its controls to ensure that only expenses related to the administration of FEDVIP are charged and that proper approvals are obtained prior to expenses being paid.

FEIO Response – Non-Concur. In response to the prior audit of the administration of FEDVIP, all appropriate offices instituted procedures to ensure that only expenses related to the administration of FEDVIP are charged and that proper approvals are obtained. As noted above, these procedures were developed during the resolution of the prior audit in 2013, which overlaps the scope of the present audit. The procedures are attached.

In the last FEDVIP Program Office audit, 21 salary expense transactions were questioned. During this current audit, the OIG found “an employee” whose salary was charged to FEDVIP in error. Although we strive for 100% accuracy, the dramatic reduction in the number of employees erroneously charging salary to FEDVIP demonstrates that FEIO and other appropriate offices have strengthened controls regarding expenses charged to FEDVIP.

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We request that this recommendation be removed in acknowledgement that expense controls have been strengthened for FEDVIP.

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Reversing Entry Not Made

Procedural

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Not Relevant to the Final Report**

Recommendation 4: We recommend that the OCFO strengthen its policies and procedures for oversight of correcting entries and well as end of year adjustments.

OCFO Response – Non-Concur. This finding relates to a correction journal voucher (JV) that was posted in FY 2013 during a cleanup effort after OCFO’s transition from GFIS to CBIS. We

determined then that reversing entries for the Treasury Confirmation were not generated after a confirmed payment was voided. The system was updated in 2013. For those transactions that have already been voided, a JV was completed to reverse out the entries. We believe that OPM has adequate controls in place for its financial reporting.

OPM PROGRAM OPERATIONS REVIEW

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Recommendation 5 - We recommend that OPM develop and institute formal policies and procedures outlining the steps for reviewing each FEDVIP carrier's annual certified financial statements and documenting its assessment of the carrier's financial viability.

OCFO Response – Concur. The OCFO did not review the FEDVIP Carriers certified financial statements during the audited period. The OCFO/Trust Funds (TF) has commenced reviewing the FEDVIP Carriers' 2014 unaudited statements and will proceed with submitting its written analysis to the Program Office for this period by COB October 30, 2015. Formal procedures, attached, have been developed and are now being followed.

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Recommendation 6 - We recommend that OPM develop a long term plan to reduce the FEDVIP loading received to cover administrative costs. OPM should consider the steps necessary to modify the public law to allow it to reduce the yearly loading to zero until such a time as funds are needed to defray the administrative costs of the FEDVIP.

FEIO Response –Not Concur. As indicated in Recommendation #4, the Office of the Actuary does an annual review of the administrative loading. Since the scope of the audit was 2010-2013, the OIG did not review the current buy-down decision for 2016.

Reducing the loading to zero is not feasible because of the fluctuation in enrollment. The administrative fee is a loading on the premium per enrollment and since there is no Government contribution to the administration of the FEDVIP Program, OPM depends on this loading for continued operation of the Program.

By law, OPM has already reduced the OPM loading to its lowest level without going to zero. In fact, a buy-down for 2016 almost did not occur because of the low level of available funds. Also, buying down the BENEFEDS fee is a viable way of reducing the funds held by OPM and the premiums paid by enrollees. As FEIO educates the eligible population about their benefits

options, we expect more people to enroll in FEDVIP. As this occurs, OPM will realize even more fees in the Fund. An increase in the fund balance is inevitable as enrollments increase and we see this approach as an acceptable way to reduce that fund and also reduce premiums for enrollees as a sound long term operational practice, which works per the attached historical charts.

In 2012, we had close to \$31 million in the fund and proposed \$12 million for the 2013 buy-down. As a result of the buy-down process, today we have approximately \$5 to \$6 million in the fund, enabling us to use only about \$1 million for the 2016 buy-down. We do not anticipate having a buy-down next year but it will depend on enrollments throughout the 2016 plan year.

Based on the 2016 buy-down effort, which shows the approach is working we request that this recommendation be removed from the report.

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Recommendation 7 - We recommend that the FEIO and OCFO develop procedures to ensure that all non-labor expenses charged to the Trust Fund are reviewed and approved by the FEIO prior to payment by the OCFO.

FEIO Response – Non-Concur. As noted above, we implemented new procedures and tighter controls in 2013 to address the findings in the prior Administration of FEDVIP audit and the scope of this current audit overlaps the resolution of the prior audit. Hence, we believe there are adequate control procedures currently in place, including system edits and validations, to ensure that expenses are properly approved before payments.

We request that this recommendation be removed from the report.

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Not Relevant to the Final Report**

Thank you for the opportunity to review and respond to this draft report. We would like to request a meeting with to discuss the audit's findings and any of the responses in greater detail.

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