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

Final Audit Report

Subject:

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM'S OPERATIONS AT LONG TERM CARE PARTNERS, LLC FOR AUGUST 2008 THROUGH SEPTEMBER 2009 PORTSMOUTH, NEW HAMPSHIRE

Report No. 1G-LT-00-10-022

Date: November 10, 2011

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM'S OPERATIONS AT LONG TERM CARE PARTNERS, LLC FOR AUGUST 2008 THROUGH SEPTEMBER 2009 PORTSMOUTH, NEW HAMPSHIRE

Report No. **1G-LT-00-10-022** **Date:** 11/10/11

Michael R. Esser
Assistant Inspector General
for Audits

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM'S OPERATIONS AT LONG TERM CARE PARTNERS, LLC FOR AUGUST 2008 THROUGH SEPTEMBER 2009 PORTSMOUTH, NEW HAMPSHIRE

REPORT NO. 1G-LT-00-10-022 **DATE:** 11/10/11

The enclosed audit report details the results of our audit of the Federal Long Term Care Insurance Program's (Program) operations at Long Term Care Partners, LLC (LTCP), located in Portsmouth, New Hampshire. LTCP is a joint venture between John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company (MetLife) (referred to collectively as the Carriers). The audit covered administrative expenses, cash management activities, claim benefit payments, compliance with the Contract's requirements related to the prevention of fraud and abuse, and compliance with the Contract's Health Insurance Portability and Accountability Act requirements for the period of August 1, 2008 through September 30, 2009.

This report questions $861,275 in unallowable administrative expenses, outstanding checks and lost investment income. The results of our audit have been summarized below.

ADMINISTRATIVE EXPENSES

- **Program Maintenance Costs** **$796,021**

  LTCP charged the Program for program maintenance costs that were either not properly supported or not directly related to the Carriers' roles of financial and legal oversight of the Program.

- **Unallowable Travel Expenses** **$11,453**

  LTCP charged the Program for unallowable travel related expenses.

- **Unallowable Administrative Expenses** **$208**

  LTCP charged the Program $208 in unallowable administrative expenses.

- **Costs Charged to the Program Inappropriately** **Procedural**

  LTCP inappropriately charged costs related to non-Program business to the Program before transferring the cost to the appropriate line of business.

CASH MANAGEMENT

- **Outstanding Checks** **Procedural**

  LTCP did not properly void two outstanding benefit checks within 25 months of issuance.

CLAIMS

The results of our claims reviews did not identify any claims paid in error by LTCP.

FRAUD AND ABUSE

The results of our review showed that LTCP's policies and procedures for fraud and abuse complied with the Contract and applicable regulations.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)

The results of our review showed that LTCP complied with the Contract's HIPAA requirements.

LOST INVESTMENT INCOME

- **Lost Investment Income on Program Overcharges** **$53,593**

  The FEHBP is due $53,593 for lost investment income on overcharges to the program related to administrative expenses calculated through October 31, 2011. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning November 1, 2011 until all questioned costs have been returned to the Program.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Long Term Care Insurance Program (Program) operations at Long Term Care Partners, LLC (LTCP). LTCP is a joint venture between John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company (MetLife) (referred to collectively as the Carriers), located in Portsmouth, New Hampshire. 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 Program was established by the Long Term Care Security Act (Public Law 106-265), which was signed by the President on September 19, 2000. The Act directed OPM to develop and administer a long term care insurance program for Federal employees and annuitants, current and retired members of the uniformed services, and qualified relatives.

In December 2001, OPM awarded a seven year contract to LTCP to offer long term care insurance coverage to eligible participants. Operations began on March 25, 2002, and the contract expired on April 30, 2009. A new contract was awarded to John Hancock upon the expiration of the original contract and provided for the continuation of LTCP even though MetLife was no longer involved in the Program. LTCP, with OPM oversight, is responsible for all administrative functions of the Program, including marketing and enrollment, underwriting, policy issuance, premium billing and collection, and claims administration.

Program assets are held in the Experience Fund. Premiums received by LTCP are deposited into the Experience Fund and invested by the Carriers. Investment income, net of Carrier management fees, is retained in the Experience Fund. Claims paid by LTCP are deducted from the Experience Fund, and liabilities for "incurred but not reported claims" are accrued and reported in the financial statements.

Operating expenses incurred by LTCP for the administration of the Program are reimbursed from the Experience Fund to the Carriers, subject to expense guarantees stipulated in the contract and according to defined timelines and funds availability. Interest on any outstanding balance owed to the Carriers accrues at the rate of return earned by the Experience Fund.

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

All findings identified in our previous audit of the Program as administered by LTCP (Report No. 1G-LT-00-08-047, dated August 6, 2009) have been satisfactorily resolved.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The purpose of the audit was to determine whether charges to the Program and claims services provided to Program members were in accordance with the terms of the Contract and applicable regulations. The specific objectives of the audit were as follows:

- **Administrative Expenses**
  - To determine if the administrative expenses incurred for the Program by LTCP and reported to OPM were actual, necessary, reasonable, and allocable.

- **Cash Management**
  - To determine if premiums were properly deposited into the Experience Fund and invested by the Carriers;
  - To determine if the Carriers invested and reinvested all Program funds on hand until needed to discharge the obligations incurred under the Contract;
  - To determine if the disbursements made from the Experience Fund (reimbursements to the Carriers) were made in accordance with the terms of the Contract (including any subsequent modifications) and applicable regulations; and
  - To determine if LTCP reconciled premiums expected to premiums received.

- **Claims**
  - To determine if there were any unallowable or duplicate claim payments incurred by the Program; and
  - To determine if Medicare eligible claims were properly coordinated.

- **Fraud and Abuse**
  - To determine how LTCP prevents and protects itself and its Federal employee members against fraud and abuse.

- **Health Insurance Portability and Accountability Act (HIPAA) Compliance**
  - To determine if LTCP is in compliance with the Contract's HIPAA requirements.

SCOPE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit 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 covered administrative expenses, cash management activities, claim benefit payments, compliance with the Contract's requirements related to the prevention of fraud and abuse, and compliance with the Contract's HIPAA requirements for the period of August 1, 2008 through September 30, 2009. In fiscal year 2009, LTCP received $298,222,033 in premium revenue and incurred $31,187,488 and $17,983,801 in claim and administrative expenses, respectively.

In planning and conducting the audit, we obtained an understanding of LTCP'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 LTCP'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 LTCP's system of internal controls taken as a whole.

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

We also conducted tests to determine whether LTCP and the Carriers had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. 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 LTCP and the Carriers had not complied, in all material respects, with those provisions.

METHODOLOGY

To test whether LTCP accurately charged the Program for administrative expenses and that claims services provided to Program members were in accordance with the terms of the Contract and applicable regulations, we performed the following audit steps:

- **Administrative Expenses**
    - Selected a judgmental sample of natural accounts for review. We selected 24 natural accounts based on total percent change (increase) in amounts charged to the Program from fiscal year 2008 to 2009, and nomenclature review. Accounts selected were: 50100 Salaries, 50110 Overtime, 50120 Incentive/Performance Sharing, 51120 401(k) Match, 51130 Insurance –Medical, 51140 Insurance – Dental, 51150 Insurance – Short Term Disability, 51155 Insurance – Long Term Disability, 51160 Insurance – Life, 60100 Airfare, 60110 Other Travel, 60120 Lodging, 60130 Meals and Entertainment, 61105 Lease/Rent Building and Equipment, 61165 Disaster Recovery, 61188 CARE/Web I-Series Hosting Charges, 62215 Consultants/Contract Expenses, 70028 National Sponsorship, 70029 National Sponsorship – Marketing Related, 71022 Local Fulfillment, 72020 Airfare – Marketing (Seminar), 72022 Other Travel Marketing (Seminar), 72024 Lodging – Marketing (Seminar), and 72026 Meals and Entertainment –Marketing (Seminar). The natural accounts selected totaled $13,412,490 out of a universe of $17,983,801 in administrative expenses.

- **Cash Management**
  - Judgmentally selected the month in fiscal year 2009 with the highest amount of premiums for review. The month selected (December 2008) totaled $30,540,133 in premiums from a fiscal year 2009 universe of $298,222,033.
  - From each Carrier, we judgmentally selected the fourth quarter of 2009 investment income activity (totaling $19,354,932) for review from a universe of $73,713,062; and
  - From each Carrier, we judgmentally selected the two largest reimbursements for OPM expenses in fiscal year 2009. The resulting sample totaled $20,481,469 in expense from a universe of $71,455,078.

- **Claims**
  - Using stratifications of claims, we calculated each stratum's claim percentage as compared to the universe (13,974 claims totaling $31,187,488) to determine a number of members to select from each stratum. We judgmentally selected every third member to select up to the number of members (rounded) determined. Our sample consisted of 101 members with 497 claims totaling $2,279,243; and
  - For Medicare eligible claims we selected a judgmental sample of the top five claims paid by Medicare where no LTCP check number was listed, the top five claims paid by Medicare where a LTCP check number was listed with no amount paid ($0), and one claim where it appeared as if both Medicare and LTCP paid on the claim. Our sample of 11 claims totaled $164,525 from a universe of 145 claims totaling $585,520.

- **Fraud and Abuse**
  - We reviewed LTCP's policies and procedures related to fraud and abuse, its responses to a fraud and abuse questionnaire, and interviewed appropriate personnel at LTCP.

- **HIPAA Compliance**
  - We reviewed LTCP's policies and procedures related to the HIPAA and interviewed appropriate personnel at LTCP.

The samples selected during our review 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 as a whole.

We used provisions of the Contract (OPM-01-RFP-0016), Public Law 106-265, and the Federal Acquisition Regulations to determine the allowability, allocability, and reasonableness of the administrative expenses charged against the contract.

The results of our audit were discussed with LTCP officials throughout the audit and at the exit conference. In addition, a draft report, dated January 5, 2011, was provided to LTCP for review and comment. LTCP's comments on the draft report were considered in preparing the final report and are included as Appendices to this report.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSES

1. Program Maintenance Costs $796,021

LTCP charged the Program $796,021 in program maintenance costs that were either not properly supported or not directly related to the Carriers' roles of financial and legal oversight of the Program.

The Contract (Updates to Solicitation No. OPM-01-RFP-0016 Cost Proposal – Section IV, Financial Section B, Question b.6 – Overhead Allocations) states that "Since LTC Partners exists to support the FLTCIP, we have not indentified any of its expenses as 'overhead' and have included traditional 'overhead' expenses, such as rent, in our estimate of program maintenance cost. However, there are certain services for which it is more cost efficient for LTC Partners to rely upon the actuarial, financial, legal and auditing staffs of John Hancock and MetLife. The services described are directly related to the carrier's role of financial and legal oversight of the FLTCIP …." It is our opinion that duties related to the FLTCIP should be provided and charged by either the LTCP as an administrative expense or by the Carriers as program maintenance costs, but not both.

The Contract (Cost Evaluation Questions - Question 1C) also states that "the asset management fees should include all transaction and brokerage costs; there should be no separate transaction or brokerage charges to the Experience Fund."

Additionally, 48 CFR 31.201-2 (d) states "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported." Furthermore, Contract Section K.9 (b) (1) states "The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with proper justification and accounting support, determined in accordance with Subpart 31.2 of the Federal Acquisition Regulation (FAR) applicable on October 1 of each year, and the terms of this contract."

Initially, LTCP did not provide sufficient supporting documentation for us to come to a conclusion regarding the accuracy and allowability of the program maintenance costs charged to the Program. As a result, we questioned all program maintenance costs. LTCP, in its responses to the draft report, provided documentation supporting these costs for us to review. We reviewed the documentation provided to determine if the charges met the requirements of the Contract, specifically if the charges were "directly related to the carrier's role of financial and legal oversight of the FLTCIP," and if they were actual, necessary, reasonable, and allocable amounts with proper support.

Our review of the documentation provided identified $796,021 in program maintenance costs that are unallowable to the Program. Specifically, we identified the following unallowable costs per Carrier:

MetLife

- $181,310 in State Street asset management fees which were paid to MetLife as part of the Contract and are, therefore, duplicate charges;
- $179,666 in additional "Other Fees" which were identified by MetLife as other eligible expenses that were not previously reimbursed, to substitute for costs it agreed were unallowable in its response to the draft report. Not only were these costs not supported (only a narrative was provided to explain them), but we find it strange that costs which, according to MetLife it did "not account for," and were not previously reported by MetLife, are now being charged to the Program;
- $165,803 in "Other Fees" which were charged to the Program as an allocated portion of MetLife's total corporate costs. However, the documentation provided did not explain how these costs were "directly related to the carrier's role of financial and legal oversight of the FLTCIP."; and,
- $62,045 in copier ($48,421) and actuarial ($13,624) charges that were not properly supported, nor was it shown how the costs were directly related to MetLife's role of financial and legal oversight of the FLTCIP.

John Hancock

- $193,573 related to Compliance/Contract Staff ($118,293) and Overhead ($75,280) (described as relating to charges for payroll, travel for presentations, and printing and collating of reports for the FLTCIP). The functions described as performed for these areas do not appear to fit the program maintenance cost requirement of financial and legal oversight of the FLTCIP; and,
- $13,624 in Milliman charges that were not properly supported, nor was it shown how the costs were "directly related to the carrier's role of financial and legal oversight of the FLTCIP."

As a result of the Carriers charging the Program for program maintenance costs which were not "directly related to the carrier's role of financial and legal oversight of the FLTCIP," the program was overcharged $796,021.

LTCP's Comments:

The LTCP disagrees with this finding and states that the expenses questioned were incurred by the Carriers while performing duties related to executive management, legal, actuarial, and financial support provided to LTCP.

OIG Comments:

As we have already stated in the finding above, it is our opinion that the program maintenance costs questioned were unallowable because they were either duplicate charges, unsupported, or it was not clear, based on information provided by the Carriers, that the costs were "directly related to the carrier's role of financial and legal oversight of the FLTCIP."

Recommendation 1

We recommend that the contracting officer direct the Carriers to reimburse LTCP $796,021 for unallowable program maintenance costs.

Recommendation 2

We recommend that the contracting officer direct LTCP to only allow those program maintenance costs where it completely relies upon the actuarial, financial, legal, and auditing expertise of the Carriers.

Recommendation 3

We recommend that the contracting officer direct LTCP to require the Carriers to report all costs incurred in performing their roles of financial and legal oversight of the FLTCIP and support that the costs are actual, necessary, reasonable, and allocable amounts in accordance with the Contractual requirements.

2. Unallowable Travel Expenses **$11,453**

LTCP charged the Program $11,453 in travel related administrative expenses in 2009 that were not actual, allowable, or reasonable.

Contract section I.35 (Incorporation of Laws and Regulations) states that 48 CFR Chapter 1 constitutes a part of the contract between LTCP and OPM. As a result, LTCP must adhere to the requirements of those regulations. 48 CFR Ch. 1.31.205-46 (Travel Costs) states that costs for transportation, lodging, meals, and incidental expenses are subject to the limitations of the Federal regulations.

Solicitation OPM-01-RFP-0016 section K.9 (b) (1) states that "The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with proper justification and accounting support, determined in accordance with Subpart 31.2 of the Federal Acquisition Regulation (FAR) applicable on October 1 of each year, and the terms of this contract."

During our review, we selected and reviewed administrative expense transactions to determine if the costs were actual, allowable, and/or reasonable costs to the program. Our review encountered various travel related transactions that although approved and reimbursed by LTCP, did not adhere to the Contract requirements resulting in the charging of unallowable costs to the Program.

Specifically, we identified $2,576 in per diem allowance charges that exceeded the Federal Travel Regulation per diem limitation for the time and place in question. Additionally, we identified $36 in incidental charges (tips) that were in relation to the purchase of alcoholic beverages.

48 CFR Ch. 1 Part 31.205-46 (a) (2) states that costs for lodging, meals, and incidental expenses will only be considered allowable to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the Federal Travel Regulation.

48 CFR Ch. 1 Part 31.205-51 states that the costs of alcoholic beverages are unallowable. It is our opinion that any resulting incidental expenses relating to the purchase of unallowable costs are unallowable as well.

We also identified $1,441 in airfare costs that are not allowable costs to the contract. These excess costs were the result of LTCP employees upgrading the normal coach airfare to business class or first class airfare and the resulting change fees.

48 CFR Ch. 1 Part 31.205-46 (b) states that airfare costs in excess of the lowest customary standard, coach airfare offered during business hours are unallowable.

Additionally, as a result of our review and identification of travel related overcharges to the Program, we also helped LTCP identify fraudulent charges committed by a former employee. We requested that LTCP review all travel related expense reports, not only for this employee, but also for all other employees. LTCP determined that all inappropriate charges, approximately $7,400, were identified during this comprehensive audit and were reclassified by it as corporate expenses.

As a result of not adhering to the regulations outlined in 48 CFR chapter 1 and the contract, the LTCP overcharged the Program $11,453 related to travel expenses.

LTCP's Comments:

The LTCP agrees with this finding and states that it has revised its travel policy to ensure that the travel costs charged to the Program adhere to the applicable Federal regulations.

Recommendation 4

We recommend that the contracting office ensure that LTCP has returned $11,453 to the Program for unallowable travel expenses.

Recommendation 5

We recommend that the contracting office verify that LTCP has instituted travel policies and procedures that will ensure that the travel costs charged to the Program are in accordance with the Federal regulations.

3. Unallowable Administrative Expenses **$208**

LTCP charged the Program $208 in unallowable administrative expenses.

Solicitation OPM-01-RFP-0016 section K.9 (b) (1) states that "The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with proper justification and accounting support, determined in accordance with Subpart 31.2 of the Federal Acquisition Regulation (FAR) applicable on October 1 of each year, and the terms of this contract."

We reviewed a sample of administrative expenses charged to the program to determine if the costs charged were actual, allowable, necessary, and/or reasonable costs with proper justification and accounting support according to the contract and regulations. Our review identified the following unallowable expenses charged to the Program:

- One expense transaction, totaling $190, where LTCP charged the Program twice for the same expense;
- One expense transaction, totaling $16, which was for personal shipping costs of a department director of LTCP and was not related to the Program; and,
- Ten expense transactions where the Program was inadvertently charged $0.20 in excess due to a typographical error in the journal entries, resulting in a $2 overcharge to the Program.

Although the amounts questioned are immaterial in total, the nature of the errors and the fact that they were not identified by LTCP prior to our audit necessitated the reporting of the errors.

As a result of these unallowable expenses, LTCP overcharged the Program $208.

LTCP's Comments:

The LTCP agrees with the finding and states that it has taken steps to correct the errors noted.

Recommendation 6

We recommend that the contracting office ensure that LTCP has properly returned the $208 to the Program.

Recommendation 7

We recommend that the contracting office ensure that LTCP has implemented procedures so that only expenses related to the Program are charged to it in the future.

4. Costs Charged to the Program Inappropriately **Procedural**

LTCP did not adhere to the contract stipulations that prohibited the charging of allocated costs as if they were direct costs.

FAR 31.202(a) states "No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective."

LTCP was established to administer the Program contract, which was awarded on December 17, 2001. At the time this was the only OPM contract administered by LTCP and all costs related to the contract were charged to it directly. In the fall of 2005, the contract was amended to add an additional cost objective (Benefeds) to LTCP's duties. Benefeds is the portal for Federal employees to register for the FEDVIP and FSA programs. With the additional administration of a second cost objective in the OPM contract LTCP did not set up intermediary cost pools to allocate indirect costs. Rather than update its systems to indirectly allocate costs to the two cost objectives, LTCP made the decision to charge all costs related to Benefeds to the Program and then to allocate those costs to the proper cost objective.

We reviewed the costs charged to the Program to determine if they were allocated correctly. We identified four costs centers (Executive 120-00, Finance 140-00, IT Management 299-00, and Admin Management 499-00) where the costs initially charged to the Program included those related to other cost objectives (Benefeds). LTCP provided documentation to show how the costs related to the other cost objectives were removed from the cost charged to the Program. However, LTCP's method of charging and allocating indirect costs clearly violated the requirement of FAR 31.202 (a) and should be modified so that only costs related to the Program are charged to it.

As a result of LTCP not following FAR 31.202 (a) it is running the risk of potentially not identifying and removing all costs not related to the Program which would result in overcharges.

LTCP's Comments:

LTCP agrees with the finding and stated that it has established a separate cost center for indirect costs which eliminates the need to subtract costs that do not relate to the Program.

Recommendation 8

We recommend that the contracting officer ensure that LTCP has established a separate cost center for each of its cost objectives to properly account for indirect costs.

B. CASH MANAGEMENT

1. Outstanding Checks — Procedural

LTCP did not properly void two outstanding benefit checks (totaling $8,339) within 25 months of their issuance.

According to a letter of agreement between OPM and LTCP dated January 14, 2005, "LTCP will void all checks issued pursuant to the FLTCIP contract that have been outstanding for two years. The amount represented by checks voided under this provision shall be credited ... no later than the 25th month after issuance."

We identified two outstanding checks (totaling $8,339) that were outstanding more than 25 months as of September 30, 2009. All other outstanding checks were either cashed or voided within the 25 month window. Discussions with LTCP determined that it inadvertently did not follow its internal outstanding checks procedures for these two checks.

As a result of not properly voiding the two checks identified, LTCP did not offset the appropriate account or expense charges timely per the letter of agreement.

LTCP's Comments:

LTCP agrees with the finding and stated that it has improved its policies and procedures relating to outstanding checks to prevent this from recurring.

Recommendation 9

We recommend that the contracting office verify that LTCP has implemented procedures to strengthen its internal policies and procedures for following up on outstanding checks.

C. CLAIMS

The results of our review of claim benefit payments showed that LTCP's policies and procedures, and the processing and payment of claims, complied with the Contract and applicable regulations.

D. FRAUD AND ABUSE

The results of our review showed that LTCP's policies and procedures for fraud and abuse complied with the Contract and applicable regulations.

E. HEALTH INSURANCE PORTABILITY AND ACCOUNTABILTY ACT

The results of our review showed that LTCP complied with the Contract's requirements related to the HIPAA and privacy laws in its handling of individually identifiable health information.

F. LOST INVESTMENT INCOME

1. Lost Investment Income on Program Overcharges $53,593

The Program is due $53,593 for lost investment income (LII) on the findings subject to the recovery of LII.

Solicitation OPM-01-RFP-0016 section I.48 (Investment Income), requires, among other things, that the Carriers pay the Program LII on charges made against the contract which are not allowable, allocable, or reasonable. It provides that all amounts will bear simple interest compounded semiannually at the rates established by the Secretary of the Treasury.

We computed LII that would have been earned using the semiannual rates specified by the Secretary of the Treasury and determined that the Program is due $53,593 for LII, calculated for the period October 1, 2009 through October 31, 2011, on questioned costs from the period August 1, 2008 through September 30, 2009.

LTCP's Comments:

The draft report did not include a section covering LII on the audit findings. Therefore, LTCP did not address LII in commenting on the draft report.

Recommendation 10

We recommend that the contracting officer require LTCP to refund the Program $53,593 for LII on the audit findings calculated through October 31, 2011.

Recommendation 11

We recommend that the contracting officer recover LII on amounts due beginning November 1, 2011 until all questioned costs have been returned to the Program.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[redacted], Auditor-In-Charge

[redacted], Auditor

[redacted], Auditor

[redacted], Group Chief ([redacted]

[redacted], Senior Team Leader

SCHEDULE A

AUDIT OF THE FEDERAL LONG TERM
CARE INSURANCE PROGRAM'S OPERATIONS
AT LONG TERM CARE PARTNERS, LLC
AUGUST 2008 THROUGH SEPTEMBER 2009

SCHEDULE OF PREMIUM REVENUE AND CONTRCT CHARGES
REPORT NUMBER: 1G-LT-00-10-022

PREMIUM REVENUE	**$298,222,033**
CONTRACT CHARGES	
A. CLAIM PAYMENTS	**$31,187,488**
B. ADMINISTRATIVE EXPENSES	**$17,983,801**
TOTAL CONTRACT CHARGES	**$49,171,289**

SCHEDULE B

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM'S OPERATIONS AT LONG TERM CARE PARTNERS, LLC AUGUST 2008 THROUGH SEPTEMBER 2009

SUMMARY OF QUESTIONED COSTS
REPORT NUMBER: 1G-LT-00-10-022

AUDIT FINDINGS	
A. ADMINISTRATIVE EXPENSES	
1. Program Maintenance Costs	$796,021
2. Unallowable Travel Expenses	$11,453
3. Unallowable Administrative Expenses	$208
4. Costs Charged to the Program Inappropriately	Procedural
TOTAL AUDIT FINDINGS	$807,682
B. LOST INVESTMENT INCOME (From Schedule C)	$53,593
TOTAL QUESTIONED COSTS	$861,275

SCHEDULE C

AUDIT OF THE FEDERAL LONG TERM CARE INSURANCE PROGRAM'S OPERATIONS AT LONG TERM CARE PARTNERS, LLC AUGUST 2008 THROUGH SEPTEMBER 2009

LOST INVESTMENT INCOME
REPORT NUMBER: 1G-LT-00-10-022

Year	2009*	2010	2011**	Total
Audit Findings:	$807,682	$0	$0	$807,682
Totals (per year):	$807,682	$0	$0	$807,682
Cumulative Totals:	$807,682	$807,682	$807,682	$807,682
Average Annual Interest Rate:	5.2500%	3.1875%	2.5625%	
Interest on Prior Years Findings:	$0	$25,745	$17,247	$42,992
Current Years Interest:	$10,601	$0	$0	$10,601
Total Cumulative Interest:	$10,601	$25,745	$17,247	$53,593

** = 2009 interest calculated beginning October 2009.*
*** = 2011 interest calculated through October 2011.*

2011 MAR -9 AM 9:20

Long Term Care Partners, LLC℠

March 4, 2011

[redacted] Chief
Special Audits Group
Office of the Inspector General
U. S. Office of Personnel Management
Theodore Roosevelt Building
1900 E St. NW, Room 6400
Washington, DC 20415-1100

Re: Audit Report Number 1G-LT-00-10-022

Dear [redacted]

We have received and reviewed Draft Audit Report Number 1G-LT-00-10-022, which reported on the Federal Long Term Care Insurance Program (FLTCIP) operations at Long Term Care Partners, LLC (LTCP) for the period of August 1, 2008 through September 30, 2009. Thank you for providing us with an opportunity to respond to the issues identified in the report.

Audit Finding B1: Unsupported Management Fees

This audit issue pertains to the overhead charge of $2,085,818 which the insurance carriers, John Hancock and MetLife, owners of LTCP during the first FLTCIP contract period, were allowed to bill to the Program, for costs incurred by them in FY2009 in support of the Program. The draft report states that these charges were not supported by verifiable documentation, and thus the funds should be returned to the Program. We disagree with this finding.

The carrier overhead charge was identified in the Contract, established as an agreed upon annual fee, and approved by the original Contracting Officer at the time of Contract implementation. Although the FLTCIP has been audited every year since inception, this was the first time that supporting documentation for the overhead charge has been required. These expenses had not previously been questioned. Consequently, when asked to provide supporting documentation, it was unclear what type and how much documentation was being requested.

The expenses incurred by the carriers included executive management, legal, actuarial, and financial support, and were primarily comprised of fully loaded salaries. They also included investment management expenses, costs associated with copier leases, and other administrative support expenses. Both John Hancock and MetLife provided summary spreadsheets listing the types of expenses, (mainly salaries), the amount of each, and the reason for the expense. Some additional detail was provided for actuarial, investment management, and other expenses. These spreadsheets were provided to the audit staff during the audit, and additional documentation was not requested. Consequently, LTCP assumed that what had been provided was sufficient. In response to the draft report audit issue, the spreadsheets have been revised to provide further detail, and are included with this letter. Copies of some of the invoices for the investment management expenses and the other expenses are also included. Please inform me if further information is required.

Audit Finding B2: Indirect Costs Inappropriately Charged to the Program

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Not Relevant to Final Report.

Although for FY2009 it was true that LTCP charged all indirect costs for Finance, Executive, and IT Management to the FLTCIP cost center prior to allocating them across all contracts at the end of the accounting period (i.e. monthly), all FLTCIP related direct costs were backed out of the total departmental expenses prior to allocating the remaining, indirect costs. Our methodology was described in the documentation provided to the audit staff, and is also provided in the spreadsheet we have attached as support for our calculation (see tab entitled 2008 vs. 2009 Methodology). This step was not reflected in the calculation done by the audit staff, resulting in an incorrect calculation, as referenced above. We have enclosed a spreadsheet which explains and illustrates in detail the correct calculation, and demonstrates that indirect costs were not inappropriately charged to the FLTCIP.

As recommended, in order to avoid confusion with respect to the allocation calculation, we have now established a separate cost center for indirect costs, thus eliminating the need to subtract the FLTCIP direct costs prior to performing the indirect cost allocations.

Audit Finding B3: Unallowable Administrative Expenses

Deleted by OIG.

Not Relevant to Final Report.

We agree that the remaining $208 was overcharged to the FLTCIP and have made correcting journal entries to reduce FY2011 FLTCIP expenses by this amount. Copies of these journal entries have been provided to you along with the supporting documentation for the other items.

Audit Finding B4: Unallowable Travel Expenses

The audit report states that LTCP charged the Program $6,980 in unallowable travel expenses. Of this amount, we agree that $2,576 in per diem charges exceeded the Federal Travel Regulation per diem limitation for the time and place in question. We also agree that $1,441 in airfare costs were as a result of unallowable airfare associated with upgrades to Business Select and that $36 in tips related to the purchase of alcohol were charged. In August of 2010, LTCP conducted an internal audit of expense reports, and all alcohol related charges including tax and tips were reclassified to corporate expense. The item identified in the audit report was included. A copy of this journal entry, made in September 2010 is enclosed. Copies of the journal entries removing the charges in excess of the per diem and the charges for excess airfare are also enclosed.

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Not Relevant to Final Report.

Reference is made in the report to the internal audit that LTCP conducted as a result of the discovery that a former employee had committed fraud against LTCP and the FLTCIP program. During this audit, all expense reports were reviewed, not only for this employee but also for all other employees.

All inappropriate charges, approximately $7,400, were identified during this comprehensive audit and were reclassified as corporate expenses. Documentation of the recovery of the funds fraudulently charged to the Program by the former employee ($4,720) is included with our response. In addition to the internal audit, LTCP has revised its travel policy as recommended in the audit report.

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Not Relevant to Final Report.

Audit Finding C1 Outstanding Checks Not Properly Voided:
As stated in the report, at the time of the audit LTCP had not properly voided two outstanding checks, totaling $8,339, within the requisite 25 months of their issuance. These checks were subsequently voided, and the process of following up on outstanding checks has been strengthened in order to prevent this from reoccurring. A copy of the process is included as an attachment to this response.

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Not Relevant to Final Report.

We appreciate the opportunity to respond to the draft report, and hope that our responses have provided the information and clarification needed to resolve these issues.

If you have any questions, or require further information, please don't hesitate to contact me at [redacted]

Sincerely,

Linda S. Roth
Linda S. Roth, CFO
Long Term Care Partners, LLC

Enclosures

cc: [redacted]
FSA, Life, and Long Term Care Insurances Group
Insurance Services Programs

Paul Forte
Chief Executive Officer
Long Term Care Partners, LLC

[redacted]
Chief Operating Officer
Long Term Care Partners, LLC

[redacted]
Director, Account Management
Long Term Care Partners, LLC

Long Term Care Partners, LLC
P.O. Box 797
Greenland, NH 03840-0797

June 18, 2011

[redacted]
Lead Auditor, Special Audits Group
Office of the Inspector General
U. S. Office of Personnel Management
Theodore Roosevelt Building
1900 E St. NW, Room 6400
Washington, DC 20415-1100

Re: Audit Report Number 1G-LT-00-10-022

Dear [redacted]

This document is in response to your email dated June 2, 2011 regarding Management Fees for John Hancock and MetLife. Updated charts and expenses from both carriers are enclosed.

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Not Relevant to Final Report.

Deleted by OIG.

Not Relevant to Final Report.

State Street Bond Trust Fees ($206,928)

The audit document states that this charge is not allowed under the contract because the carriers received investment management fees. We believe that a certain portion of these charges are allowable. Solicitation No. OPM-01-RFP-0016 dated October 15, 2001 indicated "The investment fees include all transactions and brokerage costs; there are no separate transaction or brokerage charges to the Experience Fund". The charges we are re-submitting do not include brokerage or transaction charges. All submitted fees are associated with the services provided by State Street Bank that were specifically related to the "Bond Trust Account A." This trust was established to hold assets on behalf of MetLife's Separate Account 425 (the MetLife separate account for the FLTCIP). State Street Bank served as directed trustee for the trust, maintained custody of the assets held by the trust, maintained an accounting of the ledger of assets, and provided valuation for those assets. These services were provided by State Street Bank for the specific assets associated with the FLTCIP contract and the FLTCIP and its enrollees directly benefited from these services. Therefore, we have concluded that these services were required to supervise the management of the FLTCIP assets and were directly related to the carrier's financial oversight of the FLTCIP.

After removing $25,618 of charges related to transactions and trade activity, we are re-submitting bond trust fees of $181,310. We have provided a breakdown of these charges that illustrates those expenses that have been included and excluded. We have also provided the twelve relevant monthly invoices and the associated service fee schedule.

Other Fees – Original Submission ($165,803)

The audit document states that additional information is requested to determine if these charges are allowable. The Other Fees grouping of expenses includes indirect costs for services related to the actuarial, financial, legal and auditing roles provided by the carriers on behalf of the Federal Long Term Care Insurance Program. An indirect cost is any cost/cost center that cannot be specifically identified with a particular cost object in an economically feasible way. Direct costs for some of these functions are reflected in the MetLife staff compensation and has not been included here.

MetLife cost centers where functions are not specifically identifiable to particular lines of business or contracts are allocated indirectly using one of three methods (1) general overhead allocation (2) general clerk allocation; or (3) departmental overhead allocation. The method used to allocate the indirect expenses included in Other Fees is the general overhead allocation. Costs allocated as general overhead include those expenses incurred in the management and operation of the Company as a whole. These expenses are not chargeable in a direct manner to the contract or any other final cost objective, the general overhead allocation distributes these costs in reasonable proportion to the benefits they provide to the organization. In the time periods comprising fiscal year 2009, these costs were allocated across the organization using a three factor formula which is based on the weighted average of (1) insurance in force (premium & fees); (2) liabilities and (3) expenses, excluding corporate overhead. This formula is applied consistently across the MetLife Institutional Business organization.

It's important to note that the expenses included in Other Fees are not simply the total corporate overhead expenses incurred by MetLife in fiscal year 2009 multiplied by the result of the three-factor formula described above. We went through the expenses in a comprehensive way to determine the cost types which were allocable to the FLTCIP under the contract provisions. We were also careful not to double count expenses that are already captured in other cost categories charged to the FLTCIP, including costs included in MetLife Staff compensation.

Table 1 shows the calculation used to arrive at the dollar amounts referenced in each organization below.

<u>MetLife Internal Audit:</u> The internal audit organization partners with the business to ensure key risks are anticipated, recognized and appropriately managed. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for Auditing services was $37,912.

<u>Public Accounting Fees:</u> MetLife retains independent accounting firms to audit the Company's consolidated financial statements, partner with the internal audit team and provide consultation for various key projects. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for public accounting fees was $22,286

<u>MetLife Treasury Operations:</u> Treasury operations provides strategic management of financial resources by managing capital structure, cash, liquidity and relationships with banks and rating agencies. This function is allocable to the FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for the Treasury department was $21,008.

<u>MetLife Enterprise Risk Management:</u> This group is responsible for assessing risks in relation to achieving business objectives by ensuring that highest priority risks are mitigated and enabling assurance that high-risk exposures have been identified and managed. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for Enterprise Risk Management was $11,591.

<u>MetLife Financial Risk Management:</u> This group is responsible for overall strategy, planning and governance for the MetLife organization. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for Financial Risk Management was $35,131. Please note: that there was one associate from this organization who was already accounted for in the MetLife Staff compensation so we have removed that expense from this allocated amount as to not double count.

<u>MetLife Planning & Governance:</u> This group is responsible for overall strategy, planning and governance for the MetLife organization. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for Strategy, Planning & Governance was $7,032

<u>MetLife Contracts Unit</u>: This group is responsible for ensuring that plan documents (such as benefit booklets, policy forms) are in compliance and up to date and provide support when questions come up regarding provisions of the contract.. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. The amount allocated for MetLife Contracts Unit was $13,844

Dues and Assessments: This expense includes the annual membership fee for AHIP, which is a trade association that focuses on the long term care insurance industry. AHIP provides guidance on federal and state initiatives as it relates to long term care insurance. This function is allocable to FLTCIP in that it benefits both the contract and other work and is necessary to the overall operation of the business. We allocated $17,000 to FLTCIP, which is a percentage of the annual charge, based on the number of lives.

Table 1: Other Fees (Original Submission)	Total MetLife Institional Expense (4Q2008)	Total MetLife Institional Expense (Sept YTD 2009)	2008 MetLife COH Allocation % to Federal Program	2009 MetLife COH Allocation % to Federal Program	Sum of Fiscal Year 2009 Dollars Allocated to FLTCIP	Adjustment(s)	Final Fiscal Year 2009 Dollars Allocated to FLTCIP
Internal Audit	[redacted]						$37,912
Public Accounting Fees							$22,286
Treasury Operations							$21,008
Enterprise Risk Management							$11,591
Financial Risk Management							$35,131
Planning & Governance							$7,032
Contracts Unit							$13,844
Dues & Assessments (AHIP)							$17,000
Grand Total	$[redacted]						$165,803

MetLife Revisions to Original Submission

The documentation previously provided did not account for the following expenses which were incurred by MetLife, as our previous total had already exceeded the amount we were permitted to charge the Program.

MetLife Staff Hours

In addition to what has already been deemed allowed and reasonable, the following MetLife Staff compensation amounts were also incurred on behalf of the FLTCIP.

- Finance & actuarial functions related to reserve valuation and analysis were not included in our original breakdown of hours incurred on behalf of the FLTCIP (Total of [redacted] - $9,215).
- Compliance function for associates who processed OFAC (Office of Foreign Assets Control) reviews was not included in our original breakdown of hours incurred on behalf of the FLTCIP. (Total of [redacted] $2,880).
- Executive leadership function for a National Accounts associate who performs a leadership function for US Federal Programs. (Total of [redacted] $13,790).
- MetLife LTC – Product Management hours were adjusted to properly account for time spent on the transition of the Program and conveyance of Long Term Care Partners to John Hancock. (Total of [redacted] - $16,047).

The total re-submitted MetLife staff compensation is $454,085 which includes the previous amount deemed allowable ($394,667), the adjustment for the Investment Staff ($2,364), the IT amount ($13,350), the Marketing amount ($1,772) and the above itemized additions ($41,932).

Other Fees – Revision to Original Submission ($191,239)

The Other Fees grouping of expenses includes workers compensation benefit expenses and indirect costs for services related to the actuarial, financial, legal and auditing roles provided by the carriers on behalf of the Federal Long Term Care Insurance Program. An indirect cost is any cost/cost center that cannot be specifically identified with a particular cost object in an economically feasible way.

MetLife workers compensation benefit expenses: We erroneously did not include these expenses as part of the fully loaded compensation rates for the associates who worked on the program in fiscal year 2009. (Total of $4,834).

MetLife Tax Organization: This organization is responsible for tax review and planning as well as filing reporting, audits and dealing with legislatures on issues that impact the company taxes. This function is allocable to FLTCIP in that it benefits both the contract (the FLTCIP incurred DAC Tax) and other work and is necessary to the overall operation of the business. The amount allocated for the Tax Organization was $17,023.

MetLife Mature Market Institute: This is a corporate function which is focused on the aging population. Their data is updated annually and is used to support the marketing and communication effort on behalf on the Program. This function is allocable to FLTCIP in that it benefits both the contract as well as other work and is necessary to the overall operation of the business. The amount allocated for the MetLife Mature Market Institute was $7,819.

MetLife Information Technology: This group is responsible for the building and maintaining the applications and infrastructure with which our businesses operate. This function is allocable to FLTCIP in that it benefits both the contract (in terms of having data on our systems to appropriately uphold our actuarial, financial, legal and auditing roles as well as maintaining and monitoring automated feeds that came into MetLife for the FLTCIP) and other work and is necessary to the overall operation of the business. The amount allocated for Information Technology was $50,392.

Financial Operations Center: This group is responsible for Financial Reporting & Consolidation, STAT & Subsidiary Reporting, SEC Reporting, Financial Information Systems, Financial Framework Initiatives, Separate Accounts, and General Accounting. This function is allocable to FLTCIP in that it benefits both the contract as well as other work and is necessary to the overall operation of the business. The amount allocated for the Financial Operations Center was $111,170. Please note: there were several associates from this organization who were already accounted for in the MetLife Staff compensation so we have removed that expense from this allocated amount as to not double count.

Table 2: Other Fees (Revision to Original Submission)	Total MetLife Institional Expense (4Q2008)	Total MetLife Institional Expense (Sept YTD 2009)	2008 MetLife COH Allocation % to Federal Program	2009 MetLife COH Allocation % to Federal Program	Sum of Fiscal Year 2009 Dollars Allocated to FLTCIP	Adjustment(s)	Final Fiscal Year 2009 Dollars Allocated to FLTCIP
Information Technology	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	$50,392
Mature Market Institute	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	$7,819
Tax Department	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	$17,023
Financial Operations Center	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	$111,170
Workers Compensation Benefits	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	$4,834
Grand Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	**$191,239**

In light of the additional documentation above, we would appreciate your reconsideration of Met Life's documentation of FLTCIP FY2009 expenses.

Response to John Hancock Questions:

Overhead Charges

The audit document states that additional information is requested to determine if these charges are allowable. The overhead charges include the following charges:

Compliance/Contract Staff ($10,653.74)
Expenses not included in the compensation plus loads calculation, (i.e. Business Development and Office Admin Actuarial

Product Staff ($48,852.67)
Expenses not included in the compensation plus loads calculation, (i.e. Business Development including consulting expense and Office Admin - exclusive of rent)

LTC Executive Staff ($52,894.27)
Expenses not included in the compensation plus loads calculation, (primarily non reimbursed temp help, travel for Federal Long Term Care Insurance Program and rent not included in the compensation load)

Division Charges ($25,174)
Total Allocated Expenses (Corporate and Divisional Overhead at less than 1% (.13%) and other BU overhead expense of $2,426)

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Not Relevant to Final Report.

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Not Relevant to Final Report.

I look forward to hearing from you with regard to the information we have provided.

Sincerely,

Linda S. Roth, CFO
Long Term Care Partners, LLC