



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Report Number 1J-0C-00-18-030

July 30, 2018

MEMORANDUM FOR [REDACTED]
Chief, Individual Benefits and Life

FROM: [REDACTED] [REDACTED]
Chief, Special Audits Group

SUBJECT: Audit of the Federal Employees Dental and Vision Insurance Program
Premium Rate Proposal of FEP BlueDental for 2019

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has conducted a limited-scope performance audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) premium rate proposal of FEP BlueDental (Plan) for 2019. Our objective was to determine whether costs proposed by the Plan were in accordance with the terms of Contract Number OPM01-FEDVIP-01AP-6 (Contract) and Federal regulations. The audit included a review of the Plan's 2017 certified annual accounting statement and its 2019 proposed premium rates for FEDVIP operations. The results of our audit did not identify any findings and no corrective action is necessary.

This memorandum is being provided to OPM's Program Office and will be used by OPM's Office of Actuaries to negotiate the Plan's 2019 FEDVIP premium rates. Under section 8M of the Inspector General Act, the OIG makes redacted versions of its audit reports available to the public on its webpage. The OIG reserves the right to perform a full-scope audit of the Plan's 2019 contract at a later date, however it would exclude a review of the initial 2019 premium rate proposal.

BACKGROUND

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

OPM has overall responsibility to maintain the FEDVIP website, be a liaison with Federal agencies, facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a

timely basis to the carrier's requests for information and assistance, and perform, as provided by the Act, functions typically associated with insurance commissions, such as the review and approval of rates, forms, and education materials.

OPM contracts with the Plan to provide dental insurance benefits to FEDVIP participants. FEP BlueDental is a joint endeavor of the BlueCross BlueShield Association, Participating Plans and DeCare Dental (DeCare). The participating plans hold the initial underwriting risk for the Plan and retain certain member field servicing administrative responsibilities. The overall benefits administration of the Plan rests primarily with DeCare at its offices in Eagan, Minnesota. Section I.11 (Inspection of Services – Fixed Price) of the Contract includes a provision which allows for audits of the Plan's FEDVIP operations. It is the responsibility of the Plan's management to establish and maintain a system of internal controls and comply with applicable FEDVIP laws and regulations.

This was the OIGs first audit of the Plan.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited-scope performance audit of the Plan's FEDVIP premium rate proposal for 2019. Our audit objective was to determine whether costs proposed for contract year 2019 were in accordance with the terms of the Contract and Federal regulations.

We conducted the 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.

The audit included a review of the Plan's 2017 certified annual accounting statement and its 2019 proposed premium rates for FEDVIP operations as of May 31, 2018. The audit fieldwork was conducted at DeCare's offices in Eagan, Minnesota from June 11 through June 15, 2018. Additional audit work was completed at our Washington, D.C. and Cranberry Township, Pennsylvania offices.

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

structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan. 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 our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

To determine whether the costs proposed for contract year 2019 were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

2019 Rate Proposal Review

- We traced the data used to develop the Plan's 2019 proposed rates back to supporting documentation.
- We reviewed the supporting documentation to identify any material variances with the premiums, enrollment, and claims expenses reported to OPM. We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were reasonable and equitable.

2017 Annual Accounting Statement Review

- We reconciled the premiums received, as reported in the Plan's annual accounting statement, to the BENEFEDS cash transfer report to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the annual accounting statement to a system generated report to ensure that the claims were accurately reported.
- We reviewed the expenses and allocation methods to determine if the costs were accurately charged to the FEDVIP in accordance with the Federal Acquisition Regulations Subpart 31.2.
- We recalculated the loss ratio based on the supporting documentation provided by the Plan to determine if its 2017 profit or loss was accurately calculated and disclosed to OPM in the annual accounting statement.

RESULTS OF THE AUDIT

Rate Proposal Review

The results of our review showed that the Plan's initial 2019 FEDVIP premium rate proposal was in accordance with the Contract and Federal regulations. We did not identify any findings during our review and no corrective action is necessary.



Annual Accounting Statement Review

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that its 2017 annual accounting statement was accurately reported to OPM. We did not identify any findings during this review and no corrective action is necessary.

The results of the audit were discussed with Plan officials at an exit conference on July 19, 2018. OPM's Program Office and Office of Actuaries may discuss the results of the audit with Plan officials. The Plan has been notified that this memorandum will be issued directly to OPM's Contracting Office to assist in finalizing the Plan's 2019 FEDVIP premium rates.

If I can be of assistance during your review of this memorandum, please contact me at

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cc: Honorable Jeff T. H. Pon
Director

Honorable Michael J. Rigas
Deputy Director

Michael D. Dovilla
Chief of Staff

Kathleen M. McGettigan
Chief Management Officer

Dennis D. Coleman
Chief Financial Officer

Theodore M. Cooperstein
General Counsel

Alan P. Spielman
Director, Healthcare and Insurance

Edward M. DeHarde
Assistant Director, Federal Employee Insurance Operations

[REDACTED]
Deputy Assistant Director, Federal Employee Insurance Operations

[REDACTED]
Chief, Audit Resolution and Compliance

[REDACTED]
Branch Chief, Audit Resolution and Compliance

[REDACTED]
Senior Health Actuary