



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Report Number 1J-0F-00-18-027

August 2, 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 MetLife 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 MetLife Federal Dental Plan's (Plan) premium rate proposal 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-10 (Contract) and Federal regulations. The audit included a review of the Plan's 2019 premium rate proposal and 2017 certified annual accounting statement (AAS) for the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations.

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This memorandum is being provided to OPM's Healthcare and Insurance 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 final reports available to the public on its webpage. Since this was a limited-scope audit, the OIG reserves the right to perform a full-scope audit of the Plan at a later date; however, it would exclude a review of the Plan's initial 2019 FEDVIP 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. The Plan's responsibilities under the Contract are carried out primarily at its offices located in Bridgewater, New Jersey and Oriskany, New York. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the Plan's FEDVIP operations.

Our previous full-scope audit of the Plan (Report No. 1J-0F-00-14-075), was dated June 2, 2015. All findings related to that audit have been satisfactorily resolved.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited-scope performance audit of the Plan's 2019 premium rate proposal for FEDVIP. Our audit objective was to determine whether costs proposed for contract year 2019 were reasonable and equitable 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 objective. We believe that the evidence obtained does provide a reasonable basis for our findings and conclusions based on the audit objective.

The audit included a review of the Plan's 2019 premium rate proposal (as of May 31, 2018) and the 2017 certified AAS for FEDVIP operations. The audit fieldwork was conducted at the Plan's office in Bridgewater, New Jersey from June 11 through June 14, 2018. Additional audit work was completed at our Cranberry Township, Pennsylvania office.

In planning the audit, we obtained an understanding of the Plan's internal control structure as it relates to its AAS and premium rate setting methodology 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 Premium Rate Proposal Review

- We traced the premium, enrollment, and claims data used to develop the Plan's 2019 proposed rates back to supporting documentation to ensure accuracy.
- We reviewed the benefit changes, trends, completion factors, and other actuarial assumptions to ensure that they were properly supported.

2017 Annual Accounting Statement Review

- We reconciled the premiums received, as reported in the Plan's AAS, to the BENEFEDS cash transfer report to determine if the information was accurate. Additionally, we reconciled the paid claims reported in the AAS to a system generated report that we observed while on-site to ensure that the claims were accurately reported.
- We reviewed the cost center descriptions and expense allocation methods to determine if the costs were accurately charged to the FEDVIP in accordance with the Federal Acquisition Regulations, Subpart 31.2. Additionally, we also reconciled the administrative expenses reported in the AAS to the cost centers and trial balance, using the general ledger.
- We recalculated the Plan's dental loss ratio and profit based on the supporting documentation provided by the Plan to determine if the percentage and amounts were accurately calculated and disclosed to OPM in the 2017 certified AAS.

RESULTS OF THE AUDIT

2019 Premium Rate Proposal Review

[REDACTED]

2017 Annual Accounting Statement Review

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The results of the audit were discussed with Plan officials at an exit conference on July 16, 2018. OPM's Healthcare and Insurance 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 Healthcare and Insurance 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

cc: Honorable Jeff T.H. Pon
Director

Honorable Michael J. Rigas
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