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

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# Final Audit Report

**Audit of the Federal Long Term Care Insurance  
Program Operations as Administered by  
Long Term Care Partners, LLC  
for Contract Years 2013 through 2016**

**Report Number 1G-LT-00-19-003  
July 17, 2019**

# EXECUTIVE SUMMARY

*Audit of the Federal Long Term Care Insurance Program Operations  
As Administered by Long Term Care Partners, LLC for Contract Years 2013 through 2016*

Report No. 1G-LT-00-19-003

July 17, 2019

## Why Did We Conduct The Audit?

The objective of the audit was to determine whether costs charged to the Federal Long Term Care Insurance Program (FLTCIP) and services provided to FLTCIP participants were in accordance with the terms of contract number OPM490900004 (Contract) and the applicable Federal regulations.

## What Did We Audit?

The Office of the Inspector General has completed a performance audit of the FLTCIP as administered by Long Term Care Partners, LLC (LTCP). Our audit consisted of a review of administrative expenses, cash management, claims processing and performance guarantees as they related to the FLTCIP for contract years (CYs) 2013 through 2016 (through close-out of the Contract). We conducted a site visit from October 22 through 25, 2018, and December 10 through 14, 2018, at LTCP's office in Portsmouth, New Hampshire. Additional audit fieldwork was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.



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

## What Did We Find?

The results of our audit showed that LTCP properly charged all costs to the FLTCIP and provided services to FLTCIP participants in accordance with the contract.

Consequently, our audit disclosed no findings pertaining to our reviews of administrative expenses, cash management, claims processing, and performance guarantees for CYs 2013 through 2016 (through the closeout of the Contract) and no corrective action is necessary.

# ABBREVIATIONS

<b>5 CFR 890</b>	<b>Title 5, United States Code of Federal Regulations, Part 890</b>
<b>AAS</b>	<b>Annual Accounting Statements</b>
<b>Contract</b>	<b>Contract Number OPM490900004</b>
<b>CYs</b>	<b>Contract Years</b>
<b>DAC</b>	<b>Deferred Acquisition Cost</b>
<b>FLTCIP</b>	<b>Federal Long Term Care Insurance Program</b>
<b>GL</b>	<b>General Ledger</b>
<b>LTCP</b>	<b>Long Term Care Partners, LLC</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Program Office</b>	<b>OPM's Federal Employee Insurance Operations, Life and Ancillary Benefits</b>

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# I. BACKGROUND

This report details the results of our audit of the Federal Long Term Care Insurance Program (FLTCIP) as administered by Long Term Care Partners, LLC (LTCP), for contract years (CYs) 2013 through 2016 (through the closeout of the contract<sup>1</sup>). The audit was conducted pursuant to the provisions of contract number OPM49090004 (Contract) between the U.S. Office of Personnel Management (OPM) and LTCP; Title 5, United States Code, Chapter 89; and Title 5, Code of Federal Regulations, Chapter 1, Part 890 (5 CFR 890). The audit was performed by the OPM's Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The FLTCIP 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 their qualified relatives.

OPM's Federal Employee Insurance Operations, Life and Ancillary Benefits group (Program Office) has overall responsibility for administering the FLTCIP, including the publication of program regulations and agency guidelines. OPM's Program Office contracts with LTCP to administer the FLTCIP. LTCP's responsibilities under the Contract are carried out at its office in Portsmouth, New Hampshire. Section I.10 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of LTCP's operations. LTCP entered into a new contract with OPM for the administration of FLTCIP on May 1, 2016.

All findings related to the OIG's prior audit of the FLTCIP (Report Number 1G-LT-00-14-025, issued December 23, 2014) have been satisfactorily resolved.

We communicated the results of our audit to LTCP on April 25, 2019. Since our audit did not identify any findings, we did not issue a draft report.

<sup>1</sup> LTCP entered into a new contract with OPM for the administration of FLCTIP on May 1, 2016.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### **OBJECTIVES**

The primary purpose of our audit was to determine whether costs charged to the FLTCIP and services provided to FLTCIP participants were in accordance with the terms of the Contract and applicable Federal regulations.

Specifically, our audit objectives were to determine if:

#### **Administrative Expense Review**

- The LTCP administrative expenses reported in the audited financial statements reconcile to the general ledger (GL).
- Direct administrative expenses charged to the FLTCIP were allowable, accurate, and reasonable.
- Indirect administrative expense costs were properly and reasonably allocated, and if the allocation methods were supported with adequate documentation.

#### **Cash Management Review**

- The investment income was properly reported.
- The premium reported on the audited financial statements was properly reported.
- Any outstanding checks are older than 24 months and whether those checks were credited back to the Experience Fund within 25 months.

#### **Claims Processing Review**

- The participant's eligibility was reviewed and processed within five days of receiving all information required by FLTCIP and if claims were properly paid.
- Other claim transactions were properly classified as claim transactions.

#### **Performance Guarantee Review**

- LTCP met standards in accordance with the terms of the Contract and paid any penalties if any standards were not met.

## 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, appropriate evidence to provide a reasonable basis for our audit results based on the audit objectives. We believe that the evidence obtained will provide a reasonable basis for our audit results based on our audit objectives.

This performance audit included reviews of administrative expenses, cash management, claims processing, and performance guarantees for CY's 2013 through 2016 (through the closeout of the Contract). A site visit was conducted from October 22 through 25, 2018, and December 10 through 14, 2018, at LTCP's office in Portsmouth, New Hampshire. Additional audit fieldwork was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

LTCP is responsible for providing Federal employees and annuitants, current and retired members of the uniformed services, and their qualified relatives with long-term care insurance.

To accomplish this objective, LTCP reported the following program revenue, claims paid, and administrative expenses, during the scope of our audit:

	<b>CY 2013</b>	<b>CY 2014</b>	<b>CY 2015</b>	<b>CY 2016</b>	<b>Total</b>
<b>Revenues</b>					
- Premiums					
- Investment					
- <b>Total Revenues</b>					
<b>Expenses</b>					
- Claims <sup>2</sup>					
- DAC <sup>3</sup> Tax					
- Carrier Profit					
- Interest					
- OPM Admin					
- LTCP Admin					
- <b>Total Expenses</b>					

<sup>2</sup> Includes both long-term claim costs and disable life reserves.

<sup>3</sup> Deferred Acquisition Cost.

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 is 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 LTCP's system of internal controls taken as a whole.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contract and Federal regulations. With respect to items not tested, nothing came to our attention that caused us to believe that LTCP had not complied, in all material aspects with those provisions.

In conducting the audit, we relied on varying degrees of 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 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 costs charged to the FLTCIP and services provided to FLTCIP participants were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

### **Administrative Expenses Review**

- We reconciled LTCP's administrative expenses as reported in the annual accounting statements (AAS) to LTCP's GL to determine if the amounts were reported accurately for CYs 2013 through 2016.

From the universe of [REDACTED]<sup>4</sup> of total LTCP administrative expenses for 2013 – 2016, we selected the following samples:

#### **Direct Expenses:**

- We judgmentally selected a sample of 76 GL direct expense transactions from CYs 2013 through 2016 (totaling \$4,097,043) to determine if the expense charged to the FLTCIP

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<sup>4</sup> The LTCP administrative expense universes cited in the direct and indirect samples below do not reconcile to the amounts reported in the table on page 3 due to the exclusion of salary and salary related expenses (Not reviewed due to low risk).



was accurate, allowable, and reasonable. Specifically, the sample was selected in the following manner:

<b>Sample Selection Process</b>	<b>Number</b>	<b>Total Dollars</b>
CY 2013-16 Direct Expense Account Universe (Non-Salary Related)	58	██████████
<b>Step 1</b>		
From the universe: Judgmentally selected the top 10 accounts	10	██████████
<b>Step 2</b>		
From top 10 accounts: Judgmentally selected the top 10 department codes:	10	██████████
<b>Step 3</b>		
From top 10 department codes: Selected top 2 transactions per CY (where direct FLTCIP expenses were incurred)	76 <sup>5</sup>	██████████

**Indirect Expenses:**

- We judgmentally selected a sample of 10 GL indirect expense transactions, totaling \$324,407, to determine if the indirect expenses charged to the FLTCIP were properly allocated. Specifically, the sample was selected in the following manner:

<b>Sample Selection Process</b>	<b>Number</b>	<b>Total Dollars</b>
CY 2013-16 Indirect Expense Account Universe (Non-Salary Related)	16	██████████
<b>Step 1</b>		
From the universe: Randomly selected 10 department codes	10	\$2,056,367
<b>Step 2</b>		
From 10 department codes: Randomly selected 10 expense transactions:	10	\$324,407

- Review of the randomly selected indirect expense transactions determined that all utilized the same allocation methodology (headcount). To ensure that all other allocation methodologies were reviewed we selected the following additional transactions:

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<sup>5</sup> 20 transactions per year were selected for CY 2013 and 2014. 18 transactions per year were selected for CY 2015 and 2016.

- We judgmentally selected all 3 departments (consisting of 6 account numbers for a total of [REDACTED]) that use a non-headcount allocation method for CY 2016 (due to all 3 departments having transactions for CY 2016), using a nomenclature review, to determine if the expenses charged were properly and reasonably allocated and if the allocation methods were supported with adequate documentation.

### **Cash Management Review**

- We judgmentally selected CY 2015 (CY 2015 was selected due to it being the last full year of our audit scope), with a universe of [REDACTED] of investment losses, to reconcile the investment income reported from LTCP's 12 monthly investment reports to the AAS to determine if the investment income was properly reported.
- We judgmentally selected CY 2015 (CY 2015 was selected due to it being the last full year of our audit scope), with a universe of [REDACTED] of premium revenue, to reconcile the premium revenue reported from LTCP's 12 monthly investment reports to the AAS to determine if the premium revenue was properly reported.
- We reviewed LTCP's outstanding check reports as of September 30, 2015 (CY 2015 was selected due to it being the last full year of our audit scope), with a universe of 398 outstanding checks, totaling \$679,438, to determine if uncashed checks were properly voided and credited back to the Experience Fund.

### **Claims Processing Review**

- We judgmentally selected 25 GL claim transactions from each CY 2013 through 2015 (excluding the 2016 partial year), totaling 75 transactions and \$189,077 (from a universe of [REDACTED] transactions, totaling [REDACTED]<sup>6</sup>), to determine if the participant's eligibility was reviewed and processed timely and if the claim was properly paid.
- Additionally, we performed a nomenclature review of LTCP's GL claim transactions and judgmentally selected transactions from CYs 2013 through 2015 (excluding the 2016 partial year), greater than +/- \$250, that raised questions upon initial review. Specifically, we selected 175 GL claim transactions, totaling \$161,870, to determine if the transactions were properly classified as claim transactions and were allowable.

### **Performance Guarantees Review**

- For CYs 2013-2015, we reviewed all performance guarantees to determine if the guarantees were met and any penalties were properly calculated and paid.

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<sup>6</sup> The claim universe reported excludes the disabled life reserves amount reported by LTCP as claims on the table on page 3.

The samples that were selected and reviewed in performing the audit were not statistically based. Consequently, the results were not projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

### III. RESULTS OF THE AUDIT

The results of our audit showed that LTCP properly charged all costs to the FLTCIP and provided services to FLTCIP participants in accordance with the contract. Consequently, our audit disclosed no findings pertaining to our reviews of administrative expenses, cash management, claims processing, and performance guarantees for CYs 2013 through 2016 (through the closeout of the Contract) and no corrective action is necessary.



## **Report Fraud, Waste, and Mismanagement**

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**By Mail:** Office of the Inspector General  
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