



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Report Number 1J-0D-00-19-030

August 9, 2019

MEMORANDUM FOR [REDACTED], Life and Ancillary Benefits

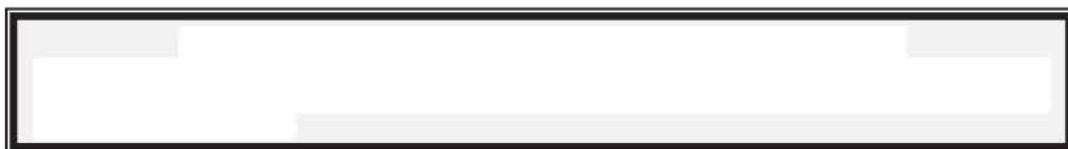
FROM: [REDACTED], Special Audits Group [REDACTED]

SUBJECT: Audit of Aetna Dental's 2020 Premium Rate Proposal for the Federal Employees Dental and Vision Insurance Program

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has conducted a limited-scope performance audit of Aetna Dental's (Plan) premium rate proposal for 2020. Our objective was to determine whether premium rates proposed by the Plan were in accordance with the terms of Contract Number OPM01-FEDVIP-01AP-1 (Contract) and Federal regulations. The audit included a review of the Plan's 2020 premium rate proposal and 2018 certified annual accounting statement (AAS) for the Federal Employees Dental and Vision Insurance Program (FEDVIP).

[REDACTED]

We are providing this memorandum to OPM's Healthcare and Insurance Office (HIO) for use by OPM's Office of Actuaries to negotiate the Plan's 2020 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 in the future; however, any future audit would exclude a review of the Plan's initial 2020 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 Blue Bell, Pennsylvania. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the Plan's FEDVIP operations.

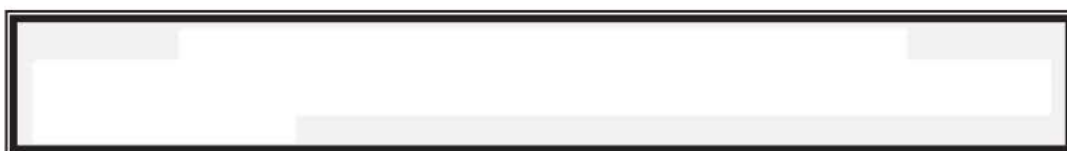
Our previous full-scope audit of the Plan (Report No. 1J-0D-00-15-037) was dated February 16, 2016. All findings related to that audit have been satisfactorily resolved.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited-scope performance audit of the Plan's 2020 dental premium rate proposal for the FEDVIP. Our audit objective was to determine whether premium rates proposed for contract year (CY) 2020 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 2020 premium rate proposal (as of May 31, 2019) and its 2018 certified AAS for FEDVIP operations. The audit fieldwork was conducted at the Plan's office in Blue Bell, Pennsylvania from June 10 through June 14, 2019. Additional audit work was completed at our Washington, D.C. and Cranberry Township, Pennsylvania offices.



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.

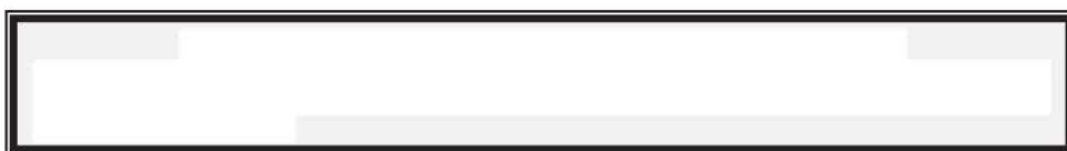
To determine whether the premium rates proposed for CY 2020 were in accordance with the terms of the Contract and Federal regulations, we performed the following audit steps:

2020 Premium Rate Proposal Review

- We traced the premium, enrollment, and claims data used to develop the Plan's 2020 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.

2018 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 supporting documentation to ensure the claims were accurately reported.
- We reviewed the Plan's supporting documentation to determine whether the administrative expenses were allowable, allocable and reasonable in compliance with FAR Subpart 31.2.
- 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 2018 certified AAS.



RESULTS OF THE AUDIT

2020 Premium Rate Proposal Review

1. Overestimated Dental Premium Rate Proposal

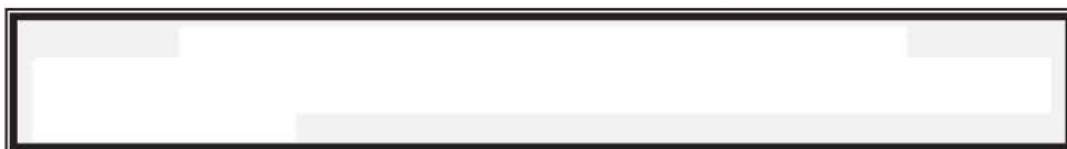
Procedural

Section I.6 of the Contract states "Premium prices may be redetermined if supported by data that the parties agree is sufficiently different to warrant a change." It also states "The Carrier shall submit ... (i) An estimate and breakdown of the costs for dental and vision insurance coverage in a format on which the parties may agree; (ii) Sufficient data to support the accuracy and reliability of this estimate; (iii) An explanation of the differences between this estimate and the original (or last preceding) estimate for the same insurance coverage."

Additionally, Section L.14.3.2 of the Contract states the proposed biweekly premium shall be based on the required benefit and the applicant's actuarial assumptions underlying its development to include: enrollment assumptions by type of enrollment and region, utilization rates by type of service and region, unit costs by type of service and region, the impact of any difference in benefits, the impact of any other factors on utilization or unit costs, administrative expense loadings, profit loadings and interest earnings.

During the course of our audit, we learned that the Plan uses a prospective dental rating model and then backs into the OPM provided premium-rating worksheet (the OPM FEDVIP Dental Rate Submission) to fulfill contract requirements. To verify the accuracy of the claims data used in the Plan's prospective pricing model, we calculated the actual claims paid amount, for the rolling 12 months used in the proposal, using the Plan's Triangle Report.¹ Then, using the Plan's completion factor ranges, we calculated the adjusted claims using the minimum completion percentages and the maximum completion percentages. ■

¹ The Triangle Report is an annual financial report (claim lag) that identifies claims processed each month to the month in which they were incurred. It is primarily used to calculate claims paid through a particular date.



[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

Annual Profits				
Year	Proposed %	Actual %	Additional %	Additional \$
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

In addition, we performed a review of the Plan's 2020 OPM FEDVIP Dental Rate Submission spreadsheet, which is a requirement of the Contract, and found the following errors:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

[Redacted]

[Redacted]

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Recommendation 1

[Redacted]

Recommendation 2

[Redacted]

Recommendation 3

[Redacted]

Recommendation 4

[Redacted]

Recommendation 5

[Redacted]

2018 Annual Accounting Statement Review

[Redacted]

1. Unallowable Reporting of Administrative Expenses

Procedural

[Redacted]

Section K.9(b)(1) of the Contract states "The allowable costs chargeable to the contract for a fiscal year will be the actual, necessary, reasonable, and allocable amounts incurred with

[Redacted]

proper justification and accounting support, determined in accordance with Subpart 31.2 of the Federal Acquisition Regulation"

Additionally, section K.9(b)(2) of the Contract states "Administrative expenses consist of all actual, allocable, allowable, and reasonable expenses incurred in the adjudication of claims"

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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Recommendation 6

The results of the audit were discussed with Plan officials at an exit conference on July 24, 2019. OPM's HIO and Office of Actuaries may discuss the results of the audit with Plan officials. We notified the Plan that this memorandum is issued directly to the contracting officer to assist in finalizing the Plan's 2020 FEDVIP premium rates.

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

cc: Honorable Margaret M. Weichert
Acting Director

Honorable Michael J. Rigas
Deputy Director

Alexandra D. Czwartacki
Chief of Staff

Kathleen M. McGettigan
Chief Management Officer

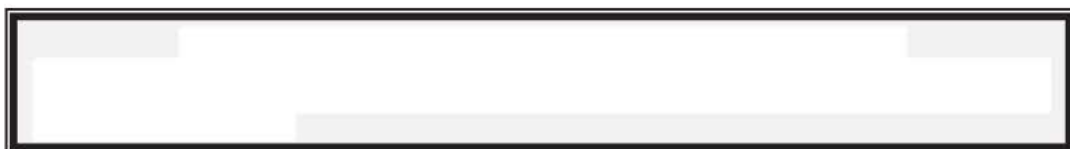
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