



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

Final Audit Report

Subject:

AUDIT OF BENEFEDS AS ADMINISTERED BY LONG TERM CARE PARTNERS, LLC FOR CONTRACT YEARS 2010 THROUGH 2013

Report No. 1G-LT-00-14-031

Date: December 23, 2014

--CAUTION--

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**AUDIT OF BENEFEDS AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC
FOR CONTRACT YEARS 2010 THROUGH 2013**

CONTRACT NUMBER: OPM0031000001

Report No. 1G-LT-00-14-031

Date: 12/23/14

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits

--CAUTION--

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**AUDIT OF BENEFEDS AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC
FOR CONTRACT YEARS 2010 THROUGH 2013**

CONTRACT NUMBER: OPM0031000001

Report No. 1G-LT-00-14-031

Date: 12/23/14

The enclosed audit report details the results of our audit of BENEFEDS as administered by Long Term Care Partners, LLC (LTCP) for contract years 2010 through 2013. The primary objective of our audit was to determine whether costs charged to the program and services provided to BENEFEDS users were in accordance with the terms of Contract Number OPM0031000001, between LTCP and the U.S. Office of Personnel Management, and applicable federal regulations. The audit identified one finding and questions \$77,590 from an overcharge of allocated expenses.

Our audit fieldwork was conducted at LTCP's location in Portsmouth, New Hampshire, from February 10 through February 21, 2014, and additional audit work was performed at our offices in Washington, D.C., and Cranberry Township, Pennsylvania.

The results of our audit have been summarized below.

ADMINISTRATIVE EXPENSE REVIEW

- **Overcharged Allocated Expenses** **\$77,590**

LTCP overcharged BENEFEDS \$77,590 in allocated expenses during contract year 2012.

CASH MANAGEMENT REVIEW

The results of our review showed that LTCP had sufficient policies and procedures in place to ensure that BENEFEDS funds were kept separate from LTCP's other lines of business and that interest earned, profit allowances, administrative fees, and premiums were properly handled.

COMPLIANCE REVIEW

The results of our review showed that LTCP followed the requirements for subcontracts and had sufficient internal controls in place to prevent and detect fraud, waste, and abuse.

PERFORMANCE REVIEW

The results of our review showed that LTCP had sufficient policies and procedures in place to meet its annual performance standards.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of BENEFEDS as administered by Long Term Care Partners, LLC (LTCP) for contract years 2010 through 2013. The audit was conducted pursuant to the provisions of Contract Number OPM0031000001 and applicable regulations.

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. Our audit fieldwork was conducted at LTCP's location in Portsmouth, New Hampshire, from February 10 through February 21, 2014, and additional audit work was performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

BACKGROUND

LTCP, a wholly owned subsidiary of John Hancock Life & Health Insurance Company, was created in 2002 to administer the Federal Long Term Care Insurance Program (FLTCIP). Beginning March 1, 2005, LTCP assumed the responsibility for the development, maintenance, and administration of BENEFEDS (an enrollment and premium processing system) necessary to facilitate the administrative functions of the Federal Employee Dental and Vision Insurance Program (FEDVIP) and the Federal Employees Flexible Spending Account Program (FSAFEDS) through an amendment to Contract OPM-01-RFP-0016 between OPM and LTCP.

LTCP's agreements with OPM for all services (Contract OPM-01-RFP-0016) expired on April 30, 2009, but were extended to September 30, 2009. OPM awarded the Sole Source Contract OPM0031000001 to LTCP, effective October 1, 2009, to continue administering BENEFEDS. The new contract provided for two 3-month and six 1-month options to extend the contract period. The last of the extension options expired on September 30, 2012, and there have been four additional modifications to the contract to extend it through April 30, 2014.

BENEFEDS was implemented in 2006, and consists of the system and business structures necessary to administer the enrollment and/or premium administration functions associated with multiple voluntary federal benefits that include FEDVIP, FSAFEDS, and FLTCIP.

There are four major components to BENEFEDS:

- an enrollment website (www.BENEFEDS.com);
- data transmission to/from the carriers;
- a premium administration system; and
- a customer service system.

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

Our previous audit of BENEFEDS (Report Number 1G-LT-00-08-062), dated November 4, 2009, covered administrative expenses, premium payments, and cash management activities related to FEDVIP for contract years 2005 through July 2008. The audit report did not disclose any findings or significant deficiencies.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary objective of our audit was to determine whether costs charged to BENEFEDS and services provided to portal users were in accordance with the terms of Contract OPM0031000001 and federal regulations.

Our specific objectives were as follows:

Administrative Expense Review

- To obtain and document an understanding of LTCP's cost accounting system.
- To determine if all overhead and administrative expenses charged to the program were actual, allocable, reasonable, and allowable.
- To determine if excess administrative fees were used in subsequent years to reduce administrative expenses.

Cash Management Review

- To determine if LTCP accurately transferred the FEDVIP premiums to carriers, if administrative fees for OPM and LTCP were calculated correctly and reconcile to financial statements, and to reconcile FEDVIP refunds and returned items to supporting documentation and financial statements.
- To determine if LTCP accounted for and maintained premiums and program funds independent of its other lines of business and if the premiums and program funds were held in interest bearing accounts.
- To determine if LTCP's FEDVIP profit allowances were correctly calculated and reconcile to the financial statements.
- To obtain an understanding of OPM's fee subsidy in FY 2012 and to reconcile the subsidy to bank statements and financial statements.
- To determine if LTCP's FSAFEDS administrative fees and profit allowances were correctly calculated and reconcile to the financial statements.

Compliance Review

- To determine if LTCP has policies and procedures in place to prevent, detect, and disclose fraud and abuse.
- To determine if LTCP complies with the Health Insurance Portability and Accountability Act's (HIPAA) in its handling of personally identifiable information.
- To determine if LTCP contracted with any subcontractors to carry out its functions for the program and if all applicable laws and regulations were followed.
- To determine if LTCP's internal control policies and procedures are reasonable safeguards over activities and processes.

Performance Review

- To determine if LTCP met its performance standards and whether it paid any penalties for performance standards that were not met.
- To determine if LTCP performs a review of dependents to ensure that coverage has been terminated for those dependents who have aged-out of the FEDVIP.

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 LTCP's adherence to its contractual and regulatory requirements for contract years 2010 through 2013. The audit scope included a review of LTCP's administrative expenses, cash management, contractual compliance, and performance standards.

For contract years 2010 through 2013, LTCP reported collecting \$4,099,230,355 in receipts for BENEFEDS operations, including fee subsidies and investment income. From this amount, LTCP reported disbursements of \$3,923,440,554 in premium payments to FEDVIP carriers and another \$161,055,340 for BENEFEDS administrative fees disbursed to itself and OPM (includes LTCP's profit allowance of \$18,012,985). The remaining funds are maintained as a cash balance for BENEFEDS (See Schedule A).

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.

We also conducted tests to determine whether LTCP had complied with the contract and the laws and regulations governing BENEFEDS. Exceptions noted in the areas reviewed are set forth in the "Audit Findings and Recommendations" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that LTCP had not complied, in all material respects, with those provisions.

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.

METHODOLOGY

To determine whether LTCP's administration of BENEFEDS was in compliance with the terms of the contract and applicable regulations, we performed the following audit steps:

Administrative Expense Review

- Met with LTCP personnel and reviewed their cost accounting policies and procedures to obtain an understanding of LTCP's cost accounting system.
- Reconciled expenses reported in LTCP's general ledger to its audited financial statements to ensure that they were properly reported.
- Selected a judgmental sample of 10 cost centers from fiscal year (FY) 2012 totaling \$22,489,063 out of a universe of 20 cost centers totaling \$25,015,857 to determine if the cost centers were allowable, allocable, and reasonable based on Federal Acquisition Regulation (FAR) part 31.2. Our sample selection included four cost centers with the highest dollar amount and the six cost centers that contained allocations for LTCP's senior management.
- Selected a judgmental sample of 10 natural accounts from FY 2012 totaling \$23,059,626 out of a universe of 45 natural accounts totaling \$25,015,857 to determine if the accounts were allowable, allocable, and reasonable under FAR 31.2. Our sample selection included the 10 natural accounts with the highest dollar amounts.
- Selected a sample of 50 general ledger transactions from FY 2012 with a net charge of \$152,556 out of a universe of 6,797 general ledger transactions with a net charge of \$25,015,857 to determine whether the transactions were allowable, allocable, and reasonable under FAR 31.2. We randomly selected the 50 general ledger transactions using Microsoft Excel's Data Analysis tool for random number generating and sample selection.
- Reconciled FEDVIP's and FSAFEDS's reported excess administrative fees per the audited financial statements to their actual administrative fees per the year-end bank statements to ensure that they were properly reported.
- Reviewed LTCP's executive compensation charged to BENEFEDS for FY 2010 through 2013 to determine if the amounts exceeded the Office of Federal Procurement Policy's allowable limits.
- Recalculated the allocation methodology, using our sample of six cost centers that contained allocations for LTCP's senior management, to ensure that expenses were properly divided between LTCP's two lines of business (BENEFEDS and FLCTIP).

Cash Management Review

- Requested and reviewed banking account documentation to verify that LTCP has not commingled funds with its other line of business.
- Reviewed a judgmental sample of premiums received to determine if the correct premiums were calculated and transferred to each FEDVIP carrier, if the refunds and returned items reconciled to financial statements and supporting documentation, and if the correct administrative fees for OPM and LTCP were calculated and transferred. We selected our sample by first identifying the lowest month of premiums received from each fiscal year (FY 2010 through 2014) and then selected the lowest week of premiums from each of those months. Total sample size included 4 weeks totaling \$10,472,924 in premiums received out of a universe of 208 weeks totaling \$4,086,254,256 in premiums received.
- Reviewed LTCP's bank accounts and banking documents to verify that the premiums and OPM's administrative fees were held in an interest-bearing bank account and that investment income earned was used to offset expenses.
- Judgmentally selected a 4 month sample of the FEDVIP's profit allowance, totaling \$1,509,939, out of a universe of 48 months, totaling \$16,479,949, to verify that LTCP correctly calculated and reconciled its profit allowance in accordance with enrollment reports and Attachments 5C-5E of the contract. We selected our sample by choosing two months from FY 2012 and two months from FY 2013 with the highest dollar profit amount for review. FY 2010 and 2011 were excluded from selection due to Section I.21(e) of the contract, which prohibits the questioning of any costs that have not been audited within two years after they were incurred.
- Gained an understanding of OPM's fee subsidy that was paid to LTCP in FY 2012, and verified that the subsidy amounts within the financial statements reconciled to bank records and/or other supporting documentation.
- We reviewed all FSAFEDS administrative expenses and profit allowance for FY 2012 and 2013 to determine if the amounts were calculated correctly and reconciled to the financial statements and appropriate reports. FY 2010 and 2011 were excluded from selection due to Section I.21(e) of the contract, which prohibits the questioning of any costs that have not been audited within two years after they were incurred.

Compliance Review

- Reviewed LTCP's policies and procedures for fraud and abuse to determine if they were sufficient to prevent, detect, and disclose fraud and abuse activities.
- Reviewed LTCP's policies and procedures for HIPAA to determine if they complied with each HIPAA standard.

- Identified any subcontractors utilized by LTCP to perform functions related to BENEFEDS and verified that OPM was aware of and approved the subcontracts.
- Reviewed LTCP's internal control policies and procedures to determine if there were reasonable safeguards over activities and processes.

Performance Review

- Judgmentally selected the performance standard metric groups for FEDVIP and FSAFEDS that carried the greatest amount of weight or greatest penalty potential in FY 2012 and 2013 to verify that LTCP is complying with the performance standards and paid any penalty for performance standards that were not met. Our review included a total penalty amount of \$0.62 per enrollee encompassing 11 performance standards out of a universal penalty amount of \$1.10 per enrollee encompassing 26 performance metrics. FY 2010 and 2011 were excluded from selection due to Contract OPM0031000001 Section I.21(e), which prohibits the questioning of any costs that have not been audited within two years after they were incurred.
- Determined if LTCP performs a review of dependents to ensure that coverage has been terminated for those dependents who have aged-out of the FEDVIP.

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 were representative of the universe as a whole. We used the BENEFEDS contract and FAR 31.2 to determine if the administrative expenses charged against the Contract were allowable, allocable, and reasonable.

The results of our audit were discussed with LTCP officials throughout the audit. In addition, a draft report, dated April 24, 2014, was provided to LTCP for review and comment. LTCP's response and comments to our draft report were considered in preparing the final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ADMINISTRATIVE EXPENSE REVIEW

1. Overcharged Allocated Expenses **\$77,590**

LTCP overcharged BENEFEDS \$77,590 in allocated expenses during contract year 2012.

Contract OPM0031000001, I.23(b)(1) states that “The allowable costs chargeable to the contract 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 [FAR]....”

Additionally, FAR 31.201-4 states that “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it... (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received....”

Finally, section I.19 of the contract requires LTCP to pay BENEFEDS investment income that was lost as a result of unallowable, unallocable, or unreasonable charges.

As part of our administrative expense review, we looked at the allocation methods used to split expenses between LTCP’s two lines of business, BENEFEDS and the FLTCIP. Because LTCP splits the expenses based on its employee headcount, we recalculated the percentages and found that LTCP’s spreadsheet formula excluded the employee count within its FLTCIP Claims Unit. The employee count in the FLTCIP’s Claims Unit varied between 11 and 13 full-time employees during the months of October 2011 through May 2012. The formula error was discovered and corrected by LTCP in June 2012, but no adjustments were made to recover the overcharge to BENEFEDS that was incurred from the prior eight months.

As a result of this error, the allocation percentage used to charge administrative expenses to BENEFEDS should have been three percent lower on average. When applied to the six cost centers that were affected by the error, BENEFEDS was overcharged \$77,590.

After being notified of this audit finding, LTCP reviewed the figures and returned \$77,590 to BENEFEDS through a general ledger adjustment for March 2014.

Recommendation 1

We recommend that the contracting officer verify that LTCP has returned \$77,590 to BENEFEDS as part of its corrective action plan to resolve the administrative expense overcharge.

LTCP's Comments:

LTCP agrees with the recommendation, and as mentioned above, has already returned the questioned amount through a general ledger adjustment for March 2014.

Recommendation 2

We recommend that the contracting officer direct LTCP to implement a management approval process that will require a review of its manual calculations for allocating costs between the FLTCIP and BENEFEDS.

LTCP's Comments:

LTCP agrees with the recommendation and has implemented a management level review and approval process to ensure that expense allocations are correct for future years.

Recommendation 3

We recommend that the contracting officer require LTCP to pay BENEFEDS lost investment income (LII) on the \$77,590 unallowable charge in accordance with section I.19 of the contract.

LTCP's Comments:

The draft report did not include LII on the audit finding. Therefore, LTCP did not address this recommendation in its response to the draft report.

B. CASH MANAGEMENT REVIEW

The results of our review showed that LTCP had sufficient policies and procedures in place to ensure that BENEFEDS funds were kept separate from LTCP's other lines of business and that interest earned, profit allowances, administrative fees, and premiums were properly handled.

C. COMPLIANCE REVIEW

The results of our review showed that LTCP followed the requirements for subcontracts and had sufficient internal controls in place to prevent and detect fraud, waste, and abuse.

D. PERFORMANCE REVIEW

The results of our review showed that LTCP had sufficient policies and procedures in place to meet its annual performance standards.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

REDACTED, Auditor-In-Charge

REDACTED, Auditor

REDACTED, Group Chief **REDACTED**

REDACTED, Senior Team Leader

AUDIT OF BENEFEDS AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC
FOR CONTRACT YEARS 2010 THROUGH 2013

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
REPORT NUMBER: 1G-LT-00-14-031

RECEIPTS	2010	2011	2012	2013	TOTAL
A. PREMIUM	\$815,869,024	\$1,004,330,716	\$1,093,637,809	\$1,169,008,771	\$4,082,846,320
B. FEE SUBSIDY	\$0	\$0	\$4,810,000	\$11,558,906	\$16,368,906
C. INVESTMENT INCOME	\$15,129	\$0	\$0	\$0	\$15,129
TOTAL RECEIPTS	\$815,884,153	\$1,004,330,716	\$1,098,447,809	\$1,180,567,677	\$4,099,230,355
DISBURSEMENTS					
A. PREMIUM PAID TO FEDVIP CARRIERS	\$785,328,828	\$939,247,152	\$1,056,224,421	\$1,142,640,153	\$3,923,440,554
B. ADMINISTRATIVE FEES PAID TO LTCP	\$31,075,868	\$32,104,358	\$33,297,355	\$33,334,993	\$129,812,574
(FEDVIP Profit Allowance included in total above)	\$3,561,844	\$3,906,527	\$4,413,706	\$4,597,872	\$16,479,949
(FSAFEDS Profit Allowance included in total above)	\$376,793	\$379,631	\$385,555	\$391,057	\$1,533,036
					\$18,012,985
C. ADMINISTRATIVE FEES PAID TO OPM	\$9,500,692	\$11,329,008	\$5,940,905	\$3,372,007	\$30,142,612
D. OTHER DISBURSEMENTS (Refunds and Bank Fees)	\$202,862	\$226,327	\$321,990	\$348,975	\$1,100,154
TOTAL ADMINISTRATIVE FEES	\$40,779,422	\$43,659,693	\$39,560,250	\$37,055,975	\$161,055,340
TOTAL DISBURSEMENTS	\$826,108,250	\$982,906,845	\$1,095,784,671	\$1,179,696,128	\$4,084,495,894
CASH BALANCE	(\$10,224,097)	\$21,423,871	\$2,663,138	\$871,549	\$14,734,461

**AUDIT OF BENEFEDS AS ADMINISTERED BY
LONG TERM CARE PARTNERS, LLC
FOR CONTRACT YEARS 2010 THROUGH 2013**

**SUMMARY OF QUESTIONED COSTS
REPORT NUMBER: 1G-LT-00-14-031**

AUDIT FINDINGS	2010	2011	2012	2013	TOTAL
A. ADMINISTRATIVE EXPENSES					
1. Overcharged Allocated Expenses	\$0	\$0	\$77,590	\$0	\$77,590
TOTAL QUESTIONED COSTS	\$0	\$0	\$77,590	\$0	\$77,590



100 Arboretum Drive
Portsmouth, NH 03801-7833

May 28, 2014

REDACTED

Group Chief
Special Audits group
U.S. Office of Personnel Management
1900 E Street NW
Washington, DC 20415

RE: Draft Audit Report No. 1G-LT-00-14-031

Dear **REDACTED**,

I'm writing in response to the draft audit report No. 1G-LT-00-14-031, **Audit of BENEFEDS as Administered by Long Term Care Partners, LLC For contract Years 2010 through 2013.**

We agree with the finding identified in your report regarding overcharged allocated expenses of \$77,594 during FY2012. As you stated, the overcharge was caused by an error in the formula used to allocate indirect administrative costs to our two lines of business, BENEFEDS and the Federal Long Term Care Insurance Program (FLTCIP). Although the formula error had been identified and corrected by our accounting personnel prior to your audit, the financial impact had not been. When this was brought to our attention, an adjustment, reducing BENEFEDS expenses and increasing FLTCIP's, was made to the current fiscal year (FY2014). Documentation of the adjustment was provided to the audit team. Additionally, we have implemented a management level review and approval process to ensure that expense allocations are done correctly in the future.

Thank you for the opportunity to respond to the draft report.

Sincerely,

Linda S. Roth

Linda S. Roth, CPA
Chief Financial Officer

cc: Paul E. Forte, Chief Executive Officer
Long Term Care Partners, LLC

REDACTED, Controller
Long Term Care Partners, LLC

REDACTED, Senior Team Leader
Special Audits Group, Office of the Inspector General, U.S. Office of Personnel Management

REDACTED, Auditor
Special Audits Group, Office of the Inspector General, U.S. Office of Personnel Management