



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

Final Audit Report

**Audit of the Federal Employees Dental and Vision
Insurance Program Operations as Administered by
United Concordia Dental for
Contract Years 2011 through 2013**

**Report Number 1J-0G-00-16-017
December 21, 2016**

-- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

EXECUTIVE SUMMARY

Audit of the Federal Employees Dental and Vision Insurance Program Operations as Administered by United Concordia Dental

Report No. 1J-0G-00-16-017

December 21, 2016

Why Did We Conduct the Audit?

The objective of the audit was to determine whether costs charged to the Federal Employees Dental and Vision Insurance Program (FEDVIP) and services provided to its members were in accordance with Contract Number OPM-06-00060-9 and applicable Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of United Concordia Dental's (Plan) annual accounting statements (AAS), claims processing, fraud and abuse program, performance guarantees, and rate proposals as they relate to FEDVIP operations for contract years 2011 through 2013. Our audit was conducted from January 11 through 15, 2016, at the Plan's office in Harrisburg, Pennsylvania. Additional audit work was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

We determined that the Plan needs to strengthen its procedures and controls related to its AAS, fraud and abuse program, performance standards, and rate proposals.

Specifically, our audit identified the following five deficiencies that require corrective action:

1. The Plan failed to submit certified and audited AAS for its FEDVIP operations in 2011 and 2012.
2. The Plan overstated premiums received and expenses incurred by approximately \$17.2 million in its 2011 through 2013 AAS for FEDVIP operations.
3. The Plan's fraud and abuse program has never identified or reported a single fraud and abuse case to the U.S. Office of Personnel Management, and the costs for its program far exceeded any recovery and savings for FEDVIP during the scope of our audit.
4. The Plan failed to meet several customer service performance standards that it guaranteed for 2011 through 2013.
5. The Plan overcharged the FEDVIP by approximately \$23.3 million due to its use of an exaggerated completion factor to project claims for 2012 and 2013, and because the maximum administrative cost and profit loadings in the 2013 premium rate proposal were exceeded.

ABBREVIATIONS

Act	Federal Employee Dental and Vision Benefits Enhancement Act of 2004
AAS	Annual Accounting Statements
Contract	Contract Number OPM-06-00060-9
CY	Contract Year
FAR	Federal Acquisition Regulation
FEDVIP	Federal Employees Dental and Vision Insurance Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	United Concordia Dental
SIU	Special Investigations Unit

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I. BACKGROUND

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations as administered by United Concordia Dental (Plan) for contract years (CY) 2011 through 2013. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

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, act as a liaison and facilitate the promotion of the FEDVIP through Federal agencies, be responsive on a timely basis to the carriers' requests for information and assistance, and perform functions typically associated with insurance commissions such as the review and approval of rates, forms, and educational materials.

OPM's Contracting Office contracts with United Concordia Companies, Inc. to provide dental coverage to Federal beneficiaries enrolled in the Plan under the FEDVIP. The Plan's responsibilities under Contract Number OPM-06-00060-9 (Contract) are carried out at its offices located in Harrisburg, Pennsylvania. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the program's operations.

This was the OIG's first audit of the Plan. The initial results of this audit were discussed with Plan officials during an exit conference on April 11, 2016. A draft report was provided to the Plan on July 29, 2016, for its review and comment. The Plan's response to the draft report was considered in preparation of this final report and is included as an Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

The main objective of the audit was to determine whether costs charged to the FEDVIP and services provided to its members were in accordance with the terms of the Contract and applicable Federal regulations.

Our specific audit objectives included:

Annual Accounting Statement Review

- To determine if the Plan's Annual Accounting Statements (AAS) were accurately reported to OPM.

Claims Processing Review

- To determine if the Plan paid claims in accordance with the Contract, its annual benefit brochures, and its internal policies and procedures.
- To determine if the Plan paid any claims to debarred providers.

Fraud and Abuse Program Review

- To determine if the Plan's fraud and abuse program was sufficient and if potential fraud cases were being reported to OPM.

Performance Guarantee Review

- To determine if the Plan accurately reported its performance and achieved what it guaranteed.

Rate Proposal Review

- To determine if the Plan accurately developed FEDVIP premium rates.

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 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.

This performance audit included reviews of the Plan's AAS, claims processing, fraud and abuse program, performance guarantees, and rate proposals as they relate to FEDVIP operations for CYs 2011 through 2013. The audit fieldwork was conducted at the Plan's office in Harrisburg, Pennsylvania, from January 11 through 15, 2016. Additional audit work was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

The Plan reported the following subscription revenue, dental claims paid, administrative costs, and operating income for CYs 2011 through 2013:

Contract Year	Subscription Revenue	Dental Claims Paid	Administrative Costs	Operating Income
2011				
2012				
2013				
Total				

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.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contract and 5 CFR 894. 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 the Plan had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to the 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 FEDVIP and services provided to its members were in accordance with the terms of the Contract and applicable Federal regulations, we performed the following audit steps:

Annual Accounting Statement Review

- We reconciled the subscription income, as reported in the 2011 through 2013 AAS, to the premium transfers reported by BENEFEDS to determine if there were any material variances.
- We reviewed a judgmental sample of 15 cost centers from CYs 2011 through 2013 (5 cost centers for each year totaling \$8,920,655), out of a total of 197 cost centers over all

three years (totaling \$23,750,965¹), to determine if the administrative expense categories were allowable, allocable, and reasonable. Our sample selection was based on five cost centers with the highest dollar amount, three cost centers with the largest annual variance, and seven cost centers with an unusual expense allocation methodology.

- We compared each CY's incurred expenses and profit, as a percentage of premium, to the proposed expense and profit loading in order to determine the accuracy of the premium rates.

Claims Processing Review

- From CY 2013, the most recent year in our audit scope, we reviewed a random sample of 25 claims from each quarter (100 claims totaling \$16,621 out of a universe of 2,548,098 claims totaling \$108,227,006²) to determine if they were paid correctly.
- We selected a random sample of 50 dentists debarred by OPM-OIG (from a universe of 1,230 debarred dentists) and reviewed all claims to determine if any were paid to those debarred dentists. We also reviewed all of the claims to determine if any were paid to the 10 dentists debarred by the Plan (the Plan's internal debarment list only contained 10 dentists).

Fraud and Abuse Program Review

- We met with the Plan's Special Investigations Unit (SIU) to gain an understanding of its fraud and abuse program, and we traced the information reported in its 2011 through 2013 Fraud and Abuse Savings Data Report back to supporting documentation to identify any material variances, deficiencies, or potential fraud cases that were not reported to OPM.

Performance Guarantee Review

- We reviewed all monthly performance reports for CYs 2011 through 2013 to determine if the Plan achieved the level of performance it guaranteed.

Rate Proposal Review

- We traced the data used to develop the Plan's 2011 through 2013 premium rate proposals back to supporting documentation and identified any material variances or inaccurate pricing information.

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

¹ Expenses incurred by the Plan did not match what was reported in the 2011 through 2013 AAS due to it wrongly including OPM and BENEFEDS administrative fees as its own expenses.

² 2013 claims data did not match what the Plan reported in its 2013 AAS due to retro-activity.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. ANNUAL ACCOUNTING STATEMENT REVIEW

1. Submission of Annual Accounting Statements

Procedural

The Plan failed to submit certified and audited AAS for its FEDVIP operations in 2011 and 2012.

Section K.9 of the Contract requires the Plan to submit certified and audited AAS for its FEDVIP operations to OPM.

The Plan did not submit its 2011 and 2012 FEDVIP annual accounting statements to OPM.

During our audit, we were unable to obtain evidence from the Plan or OPM showing that the Plan submitted certified and audited AAS for FEDVIP operations in 2011 and 2012. The Plan and OPM did not know why the AAS were not submitted, and neither party was aware that the statements did not exist. To assist us with the audit, the Plan created new AAS for 2011 and 2012 with a certification date of December 4, 2015.

Without the proper reporting of FEDVIP operations by the Plan, OPM is unable to determine the Plan's level of performance or assess overall operations for the FEDVIP.

Recommendation 1

We recommend that the contracting officer ensure that the Plan submits AAS for FEDVIP operations each year that are both certified and audited in accordance with the Contract.

Plan Response:

The Plan agrees with our recommendation and established a process to ensure that certified and audited AAS are submitted to the contracting officer.

2. Overstated Premiums and Expenses

Procedural

The Plan overstated premiums received and expenses incurred by approximately \$17.2 million in its 2011 through 2013 AAS for FEDVIP operations.

Section K.9 of the Contract requires the Plan to submit AAS that show the financial results for its FEDVIP operations, including actual income and costs incurred by the Plan.

We compared the premiums reported in the Plan's AAS to the premium transfers reported by BENEFEDS and found that the Plan overstated its premiums received by approximately \$17.2 million for the scope of our audit. The overstatement was due to the Plan including BENEFEDS and OPM's administrative service charges as part of its own income. The Plan's expenses were also overstated by a similar amount due to it reporting BENEFEDS and OPM's expenses as costs incurred by the Plan.

We asked the Plan why it included BENEFEDS and OPM's service charges and expenses in its AAS, and the Plan explained that it always reported FEDVIP operations that way. We informed the Plan of the overstatements and asked that it only include the premiums it receives and expenses that it incurs in the AAS, since BENEFEDS and OPM service charges and expenses were unknown and unrelated to the Plan's own operations.

As a result of the overstated premiums and expenses, the Plan's FEDVIP operations and loss ratios were inaccurately reported to OPM, which could have affected the rate setting process.

Recommendation 2

We recommend that the contracting officer direct the Plan to include only income and expenses that are incurred by the Plan in its administration of FEDVIP. The Plan should not report BENEFEDS and OPM's administrative service charges and expenses as its own operational costs.

Plan Response:

The Plan agrees with our recommendation and will only include income and expenses that it incurs for the administration of FEDVIP. BENEFEDS and OPM's administrative service charges will no longer be reported under the Plan's expenses or premium received.

B. CLAIMS PROCESSING REVIEW

The results of our review showed that the Plan had sufficient policies and procedures in place to accurately process claim benefit payments and recoveries.

C. FRAUD AND ABUSE PROGRAM REVIEW

1. Ineffective Fraud and Abuse Program

Procedural

The Plan's fraud and abuse program has never identified or reported a single fraud and abuse case to OPM, and the costs for its program far exceeded any recovery and savings for FEDVIP during the scope of our audit.

Section I.22 of the Contract requires the Plan to report significant events to OPM within 10 working days. A "significant event" includes any fraud, embezzlement, or misappropriation of FEDVIP funds.

Additionally, the Plan's response to our FEDVIP Fraud and Abuse Questionnaire reported that between 3 and 10 percent of claims paid are fraudulent. It also stated that if a fraud case involved the FEDVIP, then it would immediately notify OPM.

Finally, section K.9 of the Contract requires all costs charged to the program to be allowable in accordance with the Federal Acquisition Regulation (FAR) subpart 31.2. The FAR subpart 31.201-2 states that a cost is only allowable when it's reasonable and allocable. The FAR subpart 31.201-4 further defines a cost as being allocable based on benefits received or another equitable relationship.

As part of our audit, we interviewed the Plan's SIU and reviewed its policies and procedures. We also reconciled data reported to OPM with the Plan's own internal documents. Our review found the following deficiencies with the Plan's fraud and abuse program:

The Plan has an ineffective fraud and abuse program where the costs far exceed the benefits.

- The Plan's internal documents for FEDVIP related SIU cases opened for 2011 through 2013 showed 63 cases for participation violations, 17 cases of services not rendered, 6 cases for misreporting, 3 cases for necessity, and 1 case for substance abuse. The Plan stated that none of these FEDVIP cases were reported to OPM because it didn't consider them to be fraud. We disagree with the Plan's opinion and consider all of these cases to be possible fraud that should have been reported to OPM within 10 days.
- The OIG's Office of Investigations reported that OPM has never received a fraud and abuse referral from the Plan since it began participating in the FEDVIP. The Plan also reported that during the scope of our audit, there were no dental providers removed from its network as a result of fraud perpetrated against the company. It is evident that the Plan's inability to identify a single fraud and abuse case, where it

estimated 3 to 10 percent of all claims were fraudulent, was due to an ineffective fraud and abuse program.

- The Plan allocated \$281,576 for anti-fraud administrative expenses to the FEDVIP for 2011 through 2013, but it only reported \$1,290 in recoveries and \$12,577 in actual savings during that same time period. The Plan did not provide an explanation for why the costs exceeded the savings or comment on why it was unable to identify fraud. The OIG does not consider this expense reasonable or allocable in accordance with the FAR since costs far exceeded any benefit.

Based on the issues described above, and the limited number of staff assigned to the Plan's SIU (three investigators oversee all of United Concordia's business), we found that its fraud and abuse program was ineffective at reducing the estimated \$3 million to \$10 million (3 to 10 percent of \$100 million claims paid) of fraud lost every year in its administration of FEDVIP.

Recommendation 3

We recommend that the contracting officer require the Plan to implement new policies and procedures to improve its fraud and abuse program, and ensure that all potential fraud cases are reported to OPM. OPM recently issued guidance to all FEDVIP carriers which requires specific fraud, waste, and abuse standards to be met. The contracting officer should ensure that the Plan complies with these new standards by 2017.

Plan Response:

The Plan agrees with our recommendation and is "working with the Contracting Officer to obtain direction and clarification on the reporting requirements. Once finalized, the Policy & Procedure Manual will be updated to ensure compliance with these standards by 2017."

Recommendation 4

We recommend that the contracting officer direct the Plan to submit an annual cost/benefit analysis of its fraud and abuse program to OPM, so that the contracting officer can determine compliance with FAR and assess the reasonableness, amount allocable, and effectiveness of the Plan's fraud and abuse program.

Plan Response:

The Plan disagrees with our recommendation since this is a fixed price contract and there are no provisions to provide a cost/benefit analysis of its fraud and abuse program. The Plan also

insists that its costs are allowable and allocated in accordance with the Contract and the FAR, and its investigations have resulted in significant savings/recoveries with multiple convictions of dentists and members.

OIG Comment:

As stated in the finding, the Plan reported that it had not identified any fraud from 2011 through 2013, even though it estimated that 3 to 10 percent of all claims were fraudulent.

Additionally, the Plan charged \$281,576 to the FEDVIP for anti-fraud activities, where it only saved \$12,577 and recovered \$1,290. This type of expenditure, where costs far exceed any benefit, should not have been allocated to the FEDVIP and is considered unreasonable and unallowable in accordance with the FAR since there is no benefit relationship.

Finally, if the Plan is now reporting that it has identified fraud during the period from 2011 through 2013, and if it recognized “significant savings/recoveries with multiple convictions”, then the Plan should disclose this information to the OIG and the contracting officer to help resolve the finding.

D. PERFORMANCE GUARANTEES REVIEW

1. Compliance with Performance Standards

Procedural

The Plan failed to meet several performance standards that it guaranteed for CYs 2011 through 2013.

The Plan guaranteed the following performance standards in section 7(B)(2) of the Contract:

- 30 second average hold time for calls;
- Less than 2 percent of calls will be abandoned or blocked;
- 100 percent of written inquiries will be answered within 15 days from receipt;
- 100 percent of email inquiries will be answered within 5 days;

We reconciled the Plan’s 2011 through 2013 performance results to what it guaranteed in the Contract and found that its level of customer service did not meet the requirements. Specifically, the Plan reported results below standard for the following customer service guarantees:

- 30 second average hold time for calls – The Plan did not meet this standard in 7 out of 36 months, with average hold times for those months between 31 and 128 seconds.

- Less than 2 percent of calls will be abandoned or blocked – The Plan did not meet this standard in 6 out of 36 months, with average call abandonment rates for those months between 2.17 and 8.39 percent.
- 100 percent of written inquiries will be answered within 15 days from receipt - The Plan did not meet this guarantee during 10 of the 36 months, when it answered between 97 and 99 percent of the written inquiries within 15 calendar days.
- 100 percent of email inquiries will be answered within 5 days – The Plan did not meet this standard in 3 out of 36 months, when it answered 99 percent of the email inquiries within 5 calendar days.

The Plan stated that it was not able to meet all of its customer service guarantees because of an unanticipated spike in calls, letters, and emails. To improve performance, the Plan reviewed its current staffing levels, cross-trained existing staff for additional FEDVIP support, and hired new employees.

Because the Plan did not meet the required performance standards that were guaranteed, Federal employees participating in the Plan were not receiving the level of customer service agreed to under the Contract.

Recommendation 5

We recommend that the contracting officer review the Plan’s customer service improvements and monitor its customer service performance levels to ensure that the Plan meets its performance requirements.

Plan Response:

The Plan agrees with our recommendation and will continue to monitor its performance to ensure that all service guarantees are met. The Plan also noted that it has met its customer service performance guarantees for the years following the audit period.

E. RATE PROPOSAL REVIEW

1. Inaccurate Completion Factor and Retention

Procedural

The Plan overcharged the FEDVIP by approximately \$23.3 million due to its use of a completion factor that inflated its claims projections for 2012 and 2013, and because the maximum administrative costs and profit loadings in the 2013 premium rate proposal were exceeded.

The Plan's inaccurate rate proposals led to a \$23.3 million overcharge to the FEDVIP.

As part of a fixed-price contract with prospective price redetermination, the Plan is required to submit an annual rate proposal by using the most accurate data to estimate the premium rate for the next contract period. In section 4 of the Contract, the Plan also proposed a maximum administrative cost loading of █ percent and a maximum profit loading of █ percent for the life of the contract. This equates to a targeted loss ratio of 85 percent.

During our audit, we reviewed the Plan's AAS and premium rate proposals to determine what variances existed between estimated and actual claims, administrative costs, and profit. Our review showed that the FEDVIP was overcharged \$23.3 million in 2012 and 2013, due to the following discrepancies:

- The Plan overstated its claim projections for 2012 and 2013, causing the premiums to be inflated. An exaggerated completion factor and the use of historical claims experience from only the first half of a calendar year caused its claim projections to be overstated by 28.5 percent in 2012 and 20.4 percent in 2013.
- The Plan exceeded its maximum administrative cost and profit loading by █ percent in its 2013 rate proposal. The combined retention was proposed at █ percent with an █ percent loss ratio instead of 15 percent retention with an 85 percent loss ratio.

As a result of the above noted exceptions, the Plan overcharged the FEDVIP by approximately \$23.3 million for CYs 2012 through 2013. Based on the information we gathered, the monetary amount is not recoverable since this was a fixed-price contract with prospective price redetermination, meaning OPM negotiated and approved each year's fixed price and any surplus or shortage of funds was the Plan's responsibility.

Recommendation 6

We recommend that the contracting officer require the Plan to modify its FEDVIP rate proposal model to include more than six months of claims experience in projecting the following year's rates, or reduce the completion factor when annualizing the claims experience to account for the higher use of benefits in the beginning of each contract year.

Plan Response:

The Plan does not fully agree with this recommendation since it used the underwriting model provided by OPM. It has agreed to make changes if OPM decides to revise the standard FEDVIP underwriting model. The Plan also stated that its completion factors do

account for the higher claim utilization during the beginning of the year, and that it disagrees with our assertion that the FEDVIP was overcharged as a result of using OPM's underwriting model.

OIG Comment:

The use of OPM's model was not the sole cause of the inaccurate rates. The overestimated claims costs were a direct result of the Plan applying its own completion factor to the limited claims experience, which projected higher claims than what was actually incurred. It is the Plan's responsibility to accurately develop the rates regardless of the experience period used. This includes the Plan being responsible for reducing the rates once it realized the claims projections were too high. Instead, the Plan continued to overestimate the claims and collect a higher profit than what it proposed each year.

Recommendation 7

We recommend that the contracting officer and the Plan ensure that the premium rate proposals comply with the maximum administrative cost and profit loading listed in the Contract.

Plan Response:

The Plan disagrees with our statement that the Contract established a maximum administrative cost and profit loading since this is a fixed price, prospectively rated insurance contract.

OIG Comment:

The Plan did propose maximum loadings that became a part of the Contract, specifically a maximum administrative cost loading of ■ percent and a maximum profit loading of ■ percent for the life of the Contract. These maximum loadings were exceeded with the 2013 rate proposal.

Additionally, with a fixed-price, prospectively rated insurance contract, there still has to be truth in negotiations, which includes the Plan proposing an accurate rate.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████, Auditor-In-Charge

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August 26, 2016

VIA ELECTRONIC MAIL

[REDACTED]
Group Chief
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United States Office of Personnel Management
Washington, DC 20415

Re: United Concordia Companies, Inc. (UCCI) Response to Draft Audit Report No. 1J-0G-00-16-017
Audit of the Federal Employees Dental and Vision Insurance Program Operations
as Administered by United Concordia Dental for Contract Years 2011 through 2013

This letter is in response to your July 29, 2016 correspondence providing a cover letter and the draft audit report of the Federal Employees Dental and Vision Insurance Program Operations as Administered by United Concordia Dental for Contract Years 2011 through 2013. United Concordia Companies, Inc. (UCCI) is providing a response to each of the recommendations in bold font. Thank you for the opportunity to respond.

I. Audit Findings and Recommendations

A. ANNUAL ACCOUNTING STATEMENT REVIEW

1. Submission of Annual Accounting Statements

Procedural

Recommendation 1

We recommend that the contracting officer ensure that the Plan submits AAS for FEDVIP operations each year that are both certified and audited in accordance with the Contract.

UCCI Response

UCCI agrees with Recommendation 1. A process has been established to ensure both certified and audited AAS are submitted to the contracting officer on an annual basis.

-- CAUTION --

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Report No. 1J-0G-00-16-017

2. Overstated Premiums and Expenses

Procedural

Recommendation 2

We recommend that the contracting officer direct the Plan to include only income and expenses that are incurred by the Plan in its administration of FEDVIP. The Plan should not report BENEFEDS and OPM's administrative service charges and expenses as its own operational costs.

UCCI Response:

UCCI agrees with Recommendation 2. The Plan will include only income and expenses that are incurred by the Plan in its administration of FEDVIP. The Plan will not report BENEFEDS and OPM administrative service charges and expenses as its own operational costs.

The 2015 Annual Accounting Statement reported only the premiums received from BENEFEDS, which were net of any administrative service charges from BENEFEDS and OPM.

C. FRAUD AND ABUSE PROGRAM REVIEW

1. Ineffective Fraud and Abuse Program

Procedural

Recommendation 3

We recommend that the contracting officer require the Plan implement new policies and procedures to improve its fraud and abuse program, and ensure that all potential fraud cases are reported to OPM. OPM recently issued guidance to all FEDVIP carriers which requires specific fraud, waste, and abuse standards to be met. The contracting officer should ensure that the Plan complies with these new standards by 2017.

UCCI Response:

UCCI agrees with Recommendation number 3.

**Deleted by OIG
Not Relevant to Final Report**

The SIU is working with the Contracting Officer to obtain direction and clarification on the reporting requirements. Once finalized, the Policy & Procedure Manual will be updated to ensure compliance with these standards by 2017.

Recommendation 4

We recommend that the contracting officer direct the Plan to submit an annual cost/benefit analysis of its fraud and abuse program to OPM, and that the contracting officer disallow any charges to the FEDVIP that exceed actual benefits.

UCCI Response:

UCCI disagrees with Recommendation number 4. The contract is a fixed price contract, and there are no provisions within the contract to provide an annual cost/benefit analysis of the Company's fraud/abuse program. The Company's costs allocated to the FEDVIP program are allowable and allocated in accordance with the terms of the contract and the cost principles of the Federal Acquisition Regulations (FAR).

**Deleted by OIG
Not Relevant to Final Report**

The investigations conducted by UCCI have resulted in significant savings/recoveries and multiple convictions (i.e., dentists and members). Any recoveries specific to FEDVIP are credited to the applicable line of business.

D. PERFORMANCE GUARANTEES REVIEW

1. Compliance with Performance Standards

Procedural

Recommendation 5

We recommend that the contracting officer review the Plan's customer service improvements and monitor its customer service performance levels to ensure that the Plan meets its performance requirements.

UCCI Response:

UCCI agrees with Recommendation 5.

**Deleted by OIG
Not Relevant to Final Report**

Management will continue to closely monitor the department's performance to ensure all customer service guarantees meet the established contractual standards. It should be noted during subsequent years following this audit period, all FEDVIP customer service performance guarantees with financial penalties have been achieved.

E. RATE PROPOSAL REVIEW

1. Inaccurate Completion Factor and Retention

Procedural

Recommendation 6

We recommend that the contracting officer require the Plan to modify its FEDVIP rate proposal model to include more than six months of claims experience in projecting the following year's rates, or reduce the completion factor when annualizing the claims experience to account for the higher use of benefits in the beginning of each contract year.

UCCI Response:

UCCI historically has used the proposal model provided by OPM to project the following year's rates and follows all instructions provided with the model. Specifically, the model calls for a combined completion and seasonality factor. UCCI combines those two separate factors for use in the OPM model. The seasonality pattern of higher early claims is reflected in the projections made by UCCI. Should OPM revise their model as recommended, UCCI will follow all revisions implemented. UCCI notes its disagreement with any suggestion in Recommendation 6 that any overcharges were made as a result of following the OPM model.

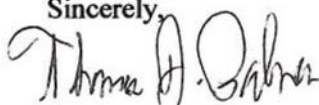
Recommendation 7

We recommend that the contracting officer and the Plan ensure that the premium rate proposals comply with the maximum administrative cost and profit loading listed in the Contract.

UCCI Response:

UCCI disagrees with the premise of Recommendation 7 that our contract established maximum administrative cost and profit loadings. This arrangement is a prospectively rated insurance contract. There is no maximum administrative cost or profit loading established in the contract or otherwise. Similarly, there would be no maximum loss should the premium rates in force not cover claims, administrative costs, taxes and assessments.

Thank you for your attention to this matter. Should you have questions, please contact [REDACTED] at [REDACTED] or via email at [REDACTED]@ucci.com.

Sincerely,


Tom Palmer
Senior Vice President Sales
United Concordia Companies, Inc.



Report Fraud, Waste, and Mismanagement

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