Final Audit Report

Audit of the Federal Employees Dental and Vision Insurance Program Operations as Administered by Delta Dental of California for Contract Years 2014 through 2016

Report Number 1J-OM-00-18-002
August 28, 2018
EXECUTIVE SUMMARY

Audit of the Federal Employees Dental and Vision Insurance Program Operations as Administered by Delta Dental of California

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 for contract years 2014 through 2016 were in accordance with Contract Number OPM01-FEDVIP-01AP-3 and applicable Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of Delta Dental of California’s (Plan) annual accounting statements, claims processing, fraud and abuse program, and premium rate proposals as they relate to FEDVIP operations for contract years 2014 through 2016. We completed all audit work at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

What Did We Find?

We determined that the Plan needs to strengthen its procedures and controls related to annual accounting statements.

Specifically, the Plan’s administrative expenses reported in its 2015 and 2016 certified annual accounting statements were overstated by [redacted].

In addition, our review determined that the Plan had sufficient policies and procedures in place to:

- Accurately process claims;
- Reduce fraud, waste, and abuse; and
- Accurately develop its 2014 through 2016 premium rates.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>Act</td>
<td>Federal Employee Dental and Vision Benefits Enhancement Act of 2004</td>
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<td>AAS</td>
<td>Annual Accounting Statements</td>
</tr>
<tr>
<td>Contract</td>
<td>Contract Number OPM01-FEDVIP-01AP-3</td>
</tr>
<tr>
<td>FAR</td>
<td>Federal Acquisition Regulation</td>
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<td>FEDVIP</td>
<td>Federal Employees Dental and Vision Insurance Program</td>
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<td>OIG</td>
<td>Office of the Inspector General</td>
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<td>OPM</td>
<td>U.S. Office of Personnel Management</td>
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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 Delta Dental of California (Plan) for contract years 2014 through 2016. 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 contracts with the Plan to provide dental coverage to Federal beneficiaries enrolled in the Plan under the FEDVIP. The Plan’s responsibilities under Contract Number OPM01-FEDVIP-01AP-3 (Contract) are carried out at its office located in Rancho Cordova, California. 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 limited-scope audit of the Plan (Report No. 1J-0K-00-17-037, dated August 15, 2017) covered the Plan’s premium rate proposal for 2018. All findings from that audit have been satisfactorily resolved.

The initial results of this audit were discussed with Plan officials during an exit conference on March 1, 2018. A draft report was provided to the Plan on April 5, 2018, 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

OBJECTIVES

The main objective of the audit was to determine whether costs charged to the FEDVIP and services provided to its members for contract years 2014 through 2016 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 premiums received and dental benefits paid were accurately reported in the annual accounting statements (AAS).
- To determine if the Plan’s administrative expenses were allowable, allocable, and reasonable in compliance with the Contract and Federal Acquisition Regulation (FAR) Subpart 31.2. Additionally, to determine the Plan’s allocation methodology for administrative expenses and verify that the correct percentage was used.

Claims Processing Review
- To determine if the Plan paid claims in accordance with the terms of the Contract, its annual benefit brochures, and its internal policies and procedures.
- To determine eligibility of dependents over the age of 22 and if claims were properly paid.

Fraud and Abuse Program Review
- To determine if the Plan’s fraud and abuse program is sufficient and if potential fraud cases are being reported to OPM.

Premium Rate Proposals Review
- To determine if the Plan accurately developed its 2014 through 2016 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 finding and conclusion based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on the audit objective.

This performance audit included reviews of the Plan’s AAS, claims processing, fraud and abuse program, and premium rate proposals as they relate to FEDVIP operations for contract years 2014 through 2016. We completed all audit work at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

The Plan reported the following premium revenue, dental benefits paid, administrative expenses, and profit for contract years 2014 through 2016 in its AAS:

<table>
<thead>
<tr>
<th>Contract Year</th>
<th>Premium Revenue</th>
<th>Benefits Paid</th>
<th>Administrative Expenses</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
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<td>2015</td>
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<td>2016</td>
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<tr>
<td>Total</td>
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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 Code of Federal Regulations Part 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 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 for contract years 2014 through 2016 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 Plan’s premiums received and dental benefits paid to determine if they were accurately reported in the AAS.
- We met with Plan personnel to determine what allocation methodology was used for administrative expenses and recalculated the percentages based on direct and indirect costs to verify that the correct percentage was applied. Additionally, we reconciled administrative expenses reported in the AAS to the cost centers and trial balance to determine if the Plan’s administrative expenses were allowable, allocable, and reasonable in compliance with the Contract and FAR Subpart 31.2.

**Claims Processing Review**

- Using the “RANDBETWEEN” function in Excel, we selected a random sample of 50 claims per year (2014 through 2016), 150 total claims with an amount paid of $[redacted] (from a universe of 853,033 claims paid greater than $0, totaling $[redacted]), to determine if they were properly paid in accordance with the terms of the Contract, the Plan’s annual benefit brochures, and its internal policies and procedures.
- We identified and reviewed all dental claims paid for dependents over the age of 22 to determine if the dependents were eligible for coverage due to a disability or incapable of self-support.

**Fraud and Abuse Program Review**

- We met with the Plan to gain an understanding of its fraud and abuse program and reviewed policies and procedures for fraud and abuse to ensure that they complied with OPM’s standards, to determine if the Plan has a sufficient program to help prevent fraud and abuse. Additionally, we reviewed the Plan’s Fraud and Abuse Cost Savings Report to determine if it reported potential fraud cases to OPM.
• We met with the Plan to obtain an overview of its debarment program and reviewed its policies and procedures to determine if the Plan has sufficient controls in place to ensure claims are not paid to debarred providers.

**Premium Rate Proposals Review**

• We traced the data used to develop the Plan’s 2014 through 2016 premium rate proposals to support documentation to determine if the Plan accurately developed its FEDVIP premium rates.

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.
III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Annual Accounting Statement Review

1. Overstated Expenses

The Plan overstated the administrative expenses reported in its 2015 and 2016 certified AAS by

Part IV, Section K.9 (a) of the Contract requires the Plan to prepare and submit to OPM an AAS summarizing the financial results of its FEDVIP operations.

Additionally, Part IV, Section K.9 (b)(1) of the Contract states that administrative expenses incurred and reported to OPM must be in accordance with FAR Subpart 31.2 and the terms of the Contract.

Finally, Part IV, Section K.9 (a)(2) of the Contract states that, based on the results of a Government audit, the Plan’s AAS should be adjusted by amounts found to be improperly allocated, unallowable, overpaid, and underpaid.

The Plan overstated expenses in its 2015 and 2016 annual accounting statements.

We reviewed the expenses reported in the Plan’s 2014 through 2016 AAS to determine if they were allowable, allocable, and reasonable in compliance with the Contract and applicable Federal regulations. Our review identified a net overstatement of [redacted] in the 2015 and 2016 AAS based on the following errors:

- The Plan reported duplicate expenses in the amount of [redacted] in 2015 and [redacted] in 2016; and
- The Plan failed to account for [redacted] in 2015 and [redacted] in 2016 that should have been allocated to the FEDVIP under the category Other Expenses.

Upon notification of our finding, the Plan agreed and stated that it was working on corrective actions to prevent any future errors in its administrative expense reporting. The Plan stated that the errors were caused by incorrectly allocating Affordable Care Act tax expenses from another contract to all Federal Government program contracts, including FEDVIP, as well as human error.

As a result of overstated expenses in the 2015 and 2016 AAS, the Plan understated its profit which caused OPM to rely on inaccurate financial information when approving premium rates for the applicable years.
**Recommendation 1**

We recommend that the Plan submit revised AAS for 2015 and 2016 to OPM’s Contracting Office and Office of Actuaries so that accurate financial information is available to OPM in evaluating the Plan’s premium rates and prior period profits.

*Plan Response:*

*The Plan agrees with the recommendation and will provide revised AAS for 2015 and 2016 to OPM for review.*

**Recommendation 2**

We recommend that the Plan develop and implement policies and procedures to ensure that only allowable, allocable, and reasonable expenses to the FEDVIP are reported on the AAS.

*Plan Response:*

*The Plan agrees with the recommendation and states that it has updated its allocation processes to ensure that only FEDVIP related costs are allocated to the Program in the future.*

**B. Claims Processing Review**

Our review determined that the Plan has sufficient policies and procedures in place to accurately process claims.

**C. Fraud and Abuse Program Review**

Our review of the Plan’s fraud and abuse program determined that it has sufficient policies and procedures in place to help reduce fraud, waste, and abuse.

**D. Premium Rate Proposals Review**

Our review determined that the Plan has sufficient policies and procedures in place to accurately develop its 2014 through 2016 premium rates.
May 2, 2018

Group Chief
United States Office of Personnel Management
1900 E Street, N.W. Room 3435
Washington, District of Columbia 20415-7710

RE: Delta Dental Comments in regards to Report Number 1J-0M-00-18-002

Dear [Name]:

Delta Dental appreciates the opportunity to comment on the draft OIG audit findings.

As noted in the draft audit report, Delta Dental concurs with the findings. It should be noted that Delta Dental did provide OIG Auditors with an explanation and documentation of the referenced findings on February 20, 2018 as follows (Delta responses shown in blue):

- Other Expenses were overstated by [redacted amount] for ACA Fees in 2015 and 2016 that has already been allocated as administrative expenses for FEDVIP operations under Taxes and Fees.
  We have updated our allocation process to ensure that the FEDVIP does not receive an allocation for ACA taxes that are not related to the FEDVIP.
- Furniture, Equipment, and Software expenses were overstated by including [redacted amount] in unallowable expenses in the 2015 and 2016 annual accounting statements.
  We have updated our cost allocation process and instituted a double check to ensure that this does not happen going forward.
- Other Expenses were understated by [redacted amount] in 2015 and 2016.
  We have updated our cost allocation process and instituted a double check to ensure that this does not happen going forward.

The overstated ACA taxes of [redacted amount] was caused by incorrectly allocating another contract (TRDP) ACA tax expense over all Federal Government Program contracts including FEDVIP. We have now changed our process to ensure that all ACA tax expenses are allocated directly to the correct and not allocated through the expense pool.
The referenced overstated and understated expenses were caused by human error. We have instituted a double check and balance process as an internal control to ensure that this type of accounting error will be detected and corrected going forward.

As part of our Annual Accounting Statement (AAS) submission due to OPM by June 25, 2018, Delta Dental will submit revised AAS for 2015 and 2016 to incorporate the Audit findings. Additionally, we will include our updated policies and procedures put in place to ensure that only allocable expenses to the FEDVIP are reported on the AAS going forward.

Sincerely,

Delta Dental of California
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