



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

# Final Audit Report

Subject:

**AUDIT OF  
LONG TERM CARE PARTNERS, LLC/BENEFEDS  
RELATING TO THE FEDERAL EMPLOYEES  
DENTAL AND VISION INSURANCE PROGRAM  
PORTSMOUTH, NEW HAMPSHIRE  
2005 THROUGH JULY 2008**

Report No. 1G-LT-00-08-062

Date: November 4, 2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**AUDIT REPORT**

**Federal Employees Dental and Vision Insurance Program  
RFP OPM-01-RFP-0016, VBP Amendment**

**Long Term Care Partners, LLC/BENEFEDS  
Portsmouth, New Hampshire**

**REPORT NO. 1G-LT-00-08-062**

**DATE: November 4, 2009**

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

Michael R. Esser  
Assistant Inspector General  
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

## EXECUTIVE SUMMARY

**Federal Employees Dental and Vision Insurance Program  
RFP OPM-01-RFP-0016, VBP Amendment**

**Long Term Care Partners, LLC/BENEFEDS  
Portsmouth, New Hampshire**

**REPORT NO. 1G-LT-00-08-062**

**DATE: November 4, 2009**

The Office of the Inspector General has completed a performance audit of the 2005 through July 2008 BENEFEDS operations related to the Federal Employees Dental and Vision Insurance Program (FEDVIP), as administered by Long Term Care Partners, LLC (LTCP). BENEFEDS is the voluntary benefits portal developed by LTCP for FEDVIP, the Federal Flexible Spending Account Program, and the Federal Long Term Care Insurance Program. The primary objective of the audit was to determine if LTCP administered BENEFEDS in compliance with the contract (OPM-01-RFP-0016, Voluntary Benefits Portal Amendment) and the FEDVIP regulations, 5 CFR Part 894. The audit was conducted in Portsmouth, New Hampshire from August 11 through August 29, 2008.

The audit showed that LTCP administered BENEFEDS relating to FEDVIP in compliance with the contract and applicable regulations.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This report details the results of our audit of the BENEFEDS program relating to the Federal Employees Dental and Vision Insurance Program (FEDVIP), which is administered by Long Term Care Partners, LLC (LTCP). 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.

## **BACKGROUND**

### **LONG TERM CARE PARTNERS, LLC.**

LTCP was formed as a joint venture, owned 50 percent by John Hancock Life Insurance Company and 50 percent by Metropolitan Life Insurance Company, to provide and administer the benefits under the Federal Long Term Care Insurance Program (FLTCIP). In December 2001, a seven year contract (OPM-01-RFP-0016) expiring April 30, 2009 was awarded to LTCP and operations began on March 25, 2002. (A new contract was awarded to John Hancock upon the expiration of the original contract.)

On March 1, 2005, an amendment was made to the contract between OPM and LTCP to include the development, maintenance and administration of a voluntary benefits portal (VBP) to facilitate the provision of the FLTCIP, FEDVIP, and the Federal Flexible Spending Account (FSAFEDS) programs. The duties and responsibilities of LTCP included the following:

- a. Develop the VBP in accordance with the *LTC Partners VBP Requirements Definition-Payroll*, the *LTC Partners VBP Requirements Definition-Portal*, and the *LTC Partners VBP Solution Proposal* dated June 6, 2005;
- b. Administer a web-based enrollment system;
- c. Notify applicable carriers of enrollments, including demographic and family member information;
- d. Process applicable payroll or annuity deductions with or from the applicable agency payroll office;
- e. Remit enrollee identifying information to applicable carriers or contractors and, for other than FSAFEDS, remit deductions to applicable carriers;
- f. Take action with payroll offices and enrollees to resolve instances in which requested deductions were not remitted; and
- g. Staff a teleservice center to answer enrollment and related questions and refer detailed benefit questions to the appropriate carrier or contractor.

As a result of the development work performed for the FEDVIP, LTCP was entitled to a reimbursement of no more than \$2 million.

## **BENEFEDS**

BENEFEDS is the voluntary benefits portal developed by LTCP. BENEFEDS consists of the systems and business structures necessary to administer the enrollment and/or premium administration functions associated with multiple voluntary Federal benefits, including the FEDVIP, the FSAFEDS, and the FLTCIP. There are three major components to BENEFEDS:

- An enrollment website ([www.BENEFEDS.com](http://www.BENEFEDS.com))
- A premium administrations system; and
- A customer service system.

## **FEDERAL EMPLOYEES DENTAL AND VISION INSURANCE PROGRAM**

The Federal Employees Dental and Vision Benefits Enhancement Act of 2004 resulted in the signing of Public Law 108-496, 118 Statute 4001, on December 23, 2004. This law established a dental benefits and vision benefits program for Federal employees, annuitants, and their eligible family members. The following 10 FEDVIP carriers all signed contracts with OPM to provide dental or vision insurance services:

### **Dental**

- Aetna Life Insurance Company
- Government Employees Hospital Association, Inc.
- MetLife Inc.
- United Concordia Companies, Inc.
- Group Health, Inc.
- CompBenefits
- Triple-S, Inc.

### **Vision**

- BlueCross BlueShield Association
- Spectera, Inc.
- Vision Service Plan

The first effective date of coverage was December 31, 2006. Eligible individuals must enroll through BENEFEDS to enroll in a dental and/or vision plan.

This was our first audit of BENEFEDS' program operations.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The objectives of our audit of LTCP/BENEFEDS relating to FEDVIP was to determine compliance with the contract (OPM-01-RFP-0016, VBP Amendment) and the FEDVIP regulations, 5 CFR Part 894.

Our specific audit objectives for this audit were as follows:

#### **Administrative Expenses**

- To determine if the start-up costs LTCP incurred for the development of BENEFEDS relating to FEDVIP were allowable and actual.
- To determine whether administrative expenses charged to FEDVIP were allowable based on the contract and Federal Acquisition Regulations 31.201-2.
- To obtain an understanding of LTCP's cost accounting system and verify that expenses charged to FEDVIP were reasonable and correctly allocated.

#### **Premiums**

- To determine if the FEDVIP premiums were collected and paid to appropriate carriers and if the fees deducted from the premiums were calculated correctly.

#### **Cash Management**

- To determine if FEDVIP funds were held in an interest bearing bank account separate from LTCP's other lines of business.

### **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 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.

We reviewed BENEFEDS' premium amounts collected and disbursed for contract year 2007 through July 2008 and program costs incurred for contract years 2005 through July 2008. During this period, BENEFEDS collected approximately \$588 million in premiums and disbursed approximately \$550 million to participating health carriers. LTCP and OPM received approximately \$23 million and \$11 million, respectively, to administer the FEDVIP program. Additionally, LTCP was reimbursed \$2 million for the development of the FEDVIP portion of the BENEFEDS voluntary benefits portal.

In planning and conducting our audit, we obtained an understanding of LTCP/BENEFEDS' 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 for 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/BENEFEDS' 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/BENEFEDS' system of internal controls taken as a whole.

In conducting the audit, we relied to varying degrees on computer-generated data provided by LTCP/BENEFEDS. 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 doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether LTCP/BENEFEDS had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. The results of our tests indicate that, with respect to the items tested, LTCP/BENEFEDS complied with all provisions of the contract and the federal procurement regulations.

## **METHODOLOGY**

To test LTCP/BENEFEDS compliance with the contract, we reviewed the following areas:

### **Administrative Expenses**

- To determine if LTCP/BENEFEDS was in compliance with the contract provisions relative to program start-up costs, we reviewed:
  - The development cost cap determined by OPM in the contract between LTCP and OPM;
  - A summary of all the start-up costs relating to the development work for FEDVIP. We did a cursory review of all the start-up invoices for reasonableness. To determine if these invoices were actual, allowable, and reasonable, we judgmentally selected, based on highest dollar amount, one invoice totaling \$437,500 out of a universe of seven invoices totaling \$2 million for review; and
  - The amount and the method that LTCP was reimbursed for their development costs regarding FEDVIP.
- To determine if the administrative expenses were actual, necessary, and reasonable, we reviewed:
  - A list and a description of all FEDVIP cost centers to determine if they appeared to be allowable based on their function;

- Descriptions of all natural accounts relating to the FEDVIP cost centers to determine if the expenses captured by these accounts appeared to be allowable costs; and
  - Management fees to determine if they were actual and correctly reported to OPM.
- To obtain an understanding of the LTCP/BENEFEDS cost accounting system and verify that expenses charged to FEDVIP were reasonable and correctly allocated, we reviewed:
    - The cost accounting processes and procedures; and
    - A sample of the natural account invoices to determine that the expenses charged to FEDVIP were allocable and reasonable. We judgmentally selected our sample from the natural account transaction detail for the 12 months ending September 30, 2007. We selected 5 out of 23 natural accounts with the highest expense totals for fiscal year 2007 and then selected the 5 months with the highest costs (1 month for each of the 5 natural accounts). The total amount of the sample was \$371,850 out of a universe of \$1,995,208.

### Premiums

- To determine if the FEDVIP premiums were collected and paid to appropriate carriers and if the fees deducted from the premiums were calculated correctly, we:
  - Reviewed agreements between OPM and LTCP/BENEFEDS to determine the components of the premiums;
  - Obtained an understanding of the processes and procedures for collecting premiums from payroll offices, deducting any administrative fees, and paying the FEDVIP carriers;
  - Reviewed LTCP reports and bank statements to determine the amount of FEDVIP premiums collected from the payroll offices. We judgmentally selected the period July 23, 2008 to July 31, 2008 because it was the last week of our audit scope, and another period around a similar time in the prior year (July 18, 2007 to July 26, 2007). For the sample period July 18, 2007 to July 26, 2007, the sum of the premiums collected was \$1,339,769 out of a universe total of \$311,982,427 in premiums collected in the year 2007. For the sample period July 23, 2008 to July 31, 2008, the sum of the premiums collected was \$16,304,653 out of a universe total of \$275,665,170 in premiums collected from January through July 2008. We also used these sample periods to review all LTCP fees, OPM fees, and the payments to the FEDVIP carriers;
  - Determined if administrative fees were properly deducted and transferred to the appropriate accounts; and
  - Reviewed bank statements to determine the FEDVIP carriers' portion of the premiums collected.

## Cash Management

- Finally, to determine if LTCP/BENEFEDS was in compliance with the contract provisions relative to cash management activities, we reviewed bank accounts and flowcharts relating to all FEDVIP funds.

Because the samples we selected and reviewed in performing the audit were not statistically based, 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.

Additionally, we also reviewed the financial statements and workpapers completed by LTCP's Independent Public Accountants to identify any potential program concerns relating to BENEFEDS and FEDVIP.

### **III. AUDIT RESULTS**

Based on our review of administrative expenses, premium payments, and cash management activities, we found that the FEDVIP operations for 2005 through July 2008, as administered by LTCP/BENEFEDS, were administered in accordance with the contract and regulations.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Special Audits Group**

██████████ Auditor-In-Charge

██████████ Auditor

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██████████ Senior Team Leader

██████████ Group Chief ██████████

Long Term Care Partners, LLC/BENEFEDS  
 Portsmouth, New Hampshire

Summary of Program Operations  
 Contract Years 2005 - July of 2008

	2005	2006	2007	2008*	Total
<b>Revenue</b>					
Premiums collected	\$0	\$0	\$311,982,427	\$275,665,170	\$587,647,597
<b>Expenses</b>					
Premium disbursements to health carriers	\$0	\$0	\$289,442,151	\$259,855,105	\$549,297,256
OPM administrative expenses	0	0	5,932,945	5,237,330	11,170,275
LTCP administrative expenses	0	0	12,311,859	10,611,127	22,922,986
<b>Total expenses</b>	<b>\$0</b>	<b>\$0</b>	<b>\$307,686,955</b>	<b>\$275,703,562</b>	<b>\$583,390,517</b>
<b>Start-up Costs</b>					
Start-up costs to develop the BENEFEDS portal	\$842,439	\$1,157,561	\$0	\$0	\$2,000,000

\*Through July 31, 2008 only.