Final Audit Report

AUDIT OF THE METLIFE FEDERAL DENTAL PLAN
AS ADMINISTERED BY
THE METROPOLITAN LIFE INSURANCE COMPANY
FOR CONTRACT YEARS 2009 THROUGH 2013

Report Number 1J-0F-00-14-075
June 2, 2015

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EXECUTIVE SUMMARY

Audit of the MetLife Federal Dental Plan as Administered by the Metropolitan Life Insurance Company for Contract Years 2009 through 2013

Report No. 1J-OF-00-14-075

June 2, 2015

Why Did We Conduct the Audit?

The main objective of the audit was to determine if the costs charged to the Federal Employees Dental and Vision Insurance Program and services provided to MetLife Federal Dental Plan (Plan) subscribers were in accordance with the terms of the Metropolitan Life Insurance Company’s (MetLife) contract with the U.S. Office of Personnel Management and Federal regulations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the responsibilities of the Plan in regards to cash management, performance guarantees, rate proposals, administrative expenses, and claims processing for contract years 2009 through 2013. Our audit was conducted from September 15 through 26, 2014, at MetLife’s offices in Oriskany, New York and Bridgewater, New Jersey. Additional audit work was completed 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 performance guarantees, administrative expenses, and claims processing. Our audit identified three areas requiring improvement.

1. **Performance Guarantees** – The Plan’s 2009 through 2013 annual performance results were inaccurately reported to OPM due to calculation errors.

2. **Administrative Expenses** – The Plan’s administrative expenses reported in its 2009 through 2013 certified annual accounting statements were understated by $1,610,920.

3. **Claims Processing** – The Plan’s 2009 through 2013 benefit brochures erroneously listed a covered benefit as being excluded.

Michael R. Esser
Assistant Inspector General for Audits
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<tr>
<td>Act</td>
<td>Federal Employee Dental and Vision Benefits Enhancement Act of 2004</td>
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<td>ADA</td>
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<td>FAR</td>
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<td>OIG</td>
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I. INTRODUCTION AND BACKGROUND

Introduction
This final report details the findings and conclusions resulting from our audit of the MetLife Federal Dental Plan (Plan) as administered by the Metropolitan Life Insurance Company (MetLife) for contract years 2009 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.

Background
The Federal Employees Dental and Vision Insurance Program (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 the overall responsibility to maintain the FEDVIP website, act as a liaison and facilitate the promotion of FEDVIP through Federal agencies, be responsive to the carrier’s requests for information and assistance, and perform functions similar to an insurance commission to include the review and approval of rates, forms, and education material.

OPM’s Contracting Office contracts with MetLife to administer the Plan, which provides dental insurance coverage to Federal beneficiaries. MetLife’s responsibilities under Contract Number OPM-06-00060-6 (the Contract) are carried out at its offices located in Oriskany, New York and Bridgewater, New Jersey. Section I.11 of the Contract includes a provision, Inspection of Services – Fixed Price, which allows for audits of the Plan’s operations. Compliance with the laws and regulations applicable to the FEDVIP, including establishing and maintaining a system of internal controls, is the responsibility of MetLife’s management.

Our previous audit of the Plan (Report Number 2A-II-00-09-019), dated January 12, 2010, covered testing of application controls over claim benefit payments, premiums, and cash management activities for contract years 2007 and 2008. All recommendations from the prior audit have been satisfactorily resolved.

The initial results of our current audit were discussed with plan officials during our exit conference on September 25, 2014. A draft report was provided to MetLife for review and comment on December 22, 2014. MetLife’s response to the draft report was considered in the preparation of this final report and is included as an Appendix.
II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives
The primary purpose of this audit was to obtain reasonable assurance that MetLife has administered the Plan in compliance with the Contract.

Our audit objectives included:

Cash Management
- To determine if the premium earned, as reported in the Plan’s annual accounting statements, reconciled to the monthly premium invoices.
- To determine if the premium received, as documented in the Plan’s premium received schedule, reconciled to the Plan’s bank statements and the funds transfer reports generated by BENEFEDS (an enrollment and premium processing system for FEDVIP).
- To determine if the paid claims disbursements, as reported in the Plan’s annual accounting statements, reconciled to the Plan’s bank statements and operational claim reports.

Performance Guarantees
- To determine if the Plan’s performance results that were reported to OPM reconcile, used the appropriate measurement, and were accurately supported by source documentation.

Rate Proposals
- To determine if the Plan’s enrollment and claims, that were reported to OPM as part of the annual rate renewal process, were accurate and supported by source documentation.

Administrative Expenses
- To determine if the Plan’s administrative expenses were actual, allocable, reasonable, and allowable in compliance with the Contract and Subpart 31.2 of the Federal Acquisition Regulation (FAR 31.2).

Claims Processing
- To determine if the Plan paid claims in accordance with the terms of the Contract.
- To determine if claim overpayment recoveries were processed correctly in the Plan’s claims system and reported to OPM in the Plan’s annual accounting statements.
To determine if fraud recoveries by the Plan’s Special Investigation Unit (SIU) were processed correctly in the Plan’s claims system and reported to OPM in the Plan’s annual accounting statements.

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.

The audit covered contract years 2009 through 2013. MetLife administers the Plan from its offices located in Oriskany, New York and Bridgewater, New Jersey. The audit fieldwork was conducted at MetLife’s offices from September 15 through 26, 2014. Additional audit work was completed at our Cranberry Township, Pennsylvania, and Washington, D.C. offices.

In conducting our 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 audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

We considered the Plan’s internal control structure in planning the audit procedures. We gained an understanding of the management procedures and controls to the extent necessary to achieve our audit objectives. We relied primarily on substantive testing rather than tests of internal controls. The audit included tests of accounting records and other auditing procedures we considered necessary to determine compliance with the Contract and Federal regulations. 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. Since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on MetLife’s system of internal controls taken as a whole.

To accomplish our audit objectives, we performed the following procedures:

Cash Management
- We verified the calculations used by the Plan to determine the required premium for each Plan option and rating region. Then, we compared those amounts to what was reported to OPM in the Plan’s 2009 through 2013 annual accounting statements.
Additionally, we reconciled the premium rates that were used to calculate the billings to the rates provided by OPM’s Office of Actuaries for contract years 2009 through 2013.

- For contract years 2009 through 2013, we judgmentally selected a sample of 20 weeks of premiums received (totaling $141,210,122 out of a universe of $1,728,490,312) from the Plan’s premiums received schedule and reconciled the cash deposits to supporting bank statements and the funds transfer reports generated by BENEFEDS. Our sample methodology included selecting the two highest weeks of premium received and the two lowest weeks of premium received from each contract year.

- For contract years 2009 through 2013, we judgmentally selected a sample of 30 batch transactions for claim payments totaling $13,333,911 (out of a universe of 80,281 transactions totaling $1,492,193,744) from the Plan’s financial system and reconciled the transactions to the Plan’s bank statements and operational claims reports. Our sample methodology included selecting the three highest dollar and three lowest dollar transactions from each contract year.

Performance Guarantees

- We reviewed all of the performance guarantee results submitted by the Plan to OPM for contract years 2009 through 2013 by reconciling performance data to source documentation, ensuring that the source documentation was appropriate for each measuring method, and verifying the calculations the Plan used to determine its results.

Rate Proposals

- We reviewed the rate proposals for the two most recent contract years under review (2012 and 2013) to verify that the enrollment and claims reported to OPM reconciled to source documentation.

Administrative Expenses

- For the most recent contract year under review (2013), we selected a sample of 100 transactions totaling $926,893 (out of a universe of 2,286 transactions totaling $8,396,353) from the Plan’s general ledger and reconciled the transactions to supporting documentation to determine if they were in compliance with FAR 31.2. Our sample methodology included a random sample of 75 accounts payable transactions (totaling $919,859) from the general ledger and a judgmental sample of the 25 highest dollar transactions (totaling $7,034) that were charged to the two natural accounts for travel, meals, and entertainment.

- For contract years 2009 through 2013, we selected a judgmental sample of 17 cost centers (out of a universe of 43 cost centers) that the Plan used to charge expenses to
the FEDVIP and submitted a questionnaire to Plan personnel to certify each cost center’s allowability, allocability, and reasonableness. Our sample methodology included selecting all 10 indirect cost centers for corporate overhead and all 7 direct cost centers that were listed in the Plan’s general ledger but not included in the “approved” cost center list provided by the Plan during pre-audit.

- For contract years 2009 through 2013, we selected a judgmental sample of 17 natural accounts (out of a universe of 230 natural accounts) that the Plan used to charge expenses to the FEDVIP and submitted a questionnaire to Plan personnel to certify each natural account’s allowability, allocability, and reasonableness. Our sample methodology included selecting all natural accounts with descriptions that appear to contain unallowable costs under the terms of the Contract and FAR 31.2.

- Using the Plan’s cost accounting reports for 2013, the most recent contract year under review, we reconciled all out-of-system adjustments for direct expenses to supporting documentation in order to determine if the adjustments were compliant with FAR 31.2.

Claims Processing

- For the most recent contract year under review (2013), we judgmentally selected a sample of 120 claims totaling $769,971 (out of a universe of 2,813,054 claims totaling $346,706,726) from the Plan’s claims system to verify that the claims were processed in accordance with the terms of the Contract and the Plan’s policies and procedures. Our sample methodology included selecting the 10 highest paid claims from each month.

- For the most recent contract year under review (2013), we judgmentally selected a sample of 25 claim overpayment recoveries totaling $44,470 (out of a universe of 2,854 claim overpayment recoveries totaling $571,384) from the Plan’s claims system to verify that the recoveries were properly supported and credited to the FEDVIP. Our sample methodology was based on the 25 highest dollar recoveries.

- We reviewed all SIU claim recoveries that the Plan reported to OPM in its SIU activity report for contract year 2013, the most recent contract year under review, to verify that the recoveries were properly supported and credited to the FEDVIP.

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.
A. **CASH MANAGEMENT**

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that premiums earned, premiums received, and claim payments were properly accounted for and reported to OPM.

B. **PERFORMANCE GUARANTEES**

1. **Inaccurate Performance Reporting**

   The Plan’s 2009 through 2013 annual performance results were inaccurately reported to OPM due to calculation errors.

   Part I, Section C (VI)(B)(28) of the Contract lists the Plan’s proposed performance guarantees with general descriptions and measuring methods for each guarantee. Additionally, it states, “MetLife and OPM will need to mutually agree upon appropriate performance guarantees and MetLife’s expectation is that such guarantees would be set forth in a written agreement between MetLife and OPM.”

   To satisfy the Contract’s requirement for a written agreement, MetLife submits to OPM an annual letter certifying the Plan’s performance guarantees for the current contract year, along with a proposal for the next contract year’s guarantees and goals, which is approved by OPM. We reviewed the 2008 (to identify the 2009 proposed guarantees and goals) through 2012 performance guarantee letters and determined that the guarantees and goals were the same for each year. The guarantees were a blend of quantitative and qualitative measures, such as claims processing accuracy, call center abandonment rate, and provider network development. There were a total of 10 guarantees (8 quantitative and 2 qualitative measures) for each year.

   We reconciled the Plan’s 2009 through 2013 annual performance results, as reported to OPM, to source documentation to determine if the results were accurate. We found that the Plan’s performance met or exceeded the goals for all guarantees for each year. However, of the 40 guarantees with quantitative measures (8 per year for five years), we identified 20 instances, across all years, where the Plan’s reported results differed from the source documentation. These variances ranged from a fraction of a percentage up to one percent and...
included performance areas such as payment accuracy, claim disposition, call center services, and customer satisfaction surveys.

Upon notification of the reconciliation variances, MetLife stated, “A calculation error on an internal business unit spreadsheet resulted in minor discrepancies between the performance result and the number reported to OPM. The current process is for the monthly results to be compiled in a spreadsheet for quarterly reporting to OPM. The results are reviewed against the data in the spreadsheet before reporting to OPM.” Therefore, MetLife was reporting annual performance results using rounded monthly and quarterly summary data instead of directly tabulating its results from source documentation.

We acknowledge that the discrepancies were minor in amount. However, should MetLife continue calculating annual performance from rounded numbers, there is a risk that it could misreport the results for a guarantee that it failed to achieve.

**Recommendation 1**

We recommend that the Contracting Officer require MetLife to update its policies and procedures to ensure that the Plan’s annual performance results are calculated from raw data and not the monthly and quarterly results that have been rounded.

**MetLife’s Comments:**

MetLife agrees with the recommendation and has updated its procedures accordingly.

**OIG Comments:**

We obtained and reviewed the Plan’s updated procedures and believe they are sufficient to address our recommendation, pending the Contracting Officer’s approval.

**C. RATE PROPOSALS**

The results of our review showed that the Plan had sufficient policies and procedures in place to ensure that its claims and enrollment data reported to OPM as part of the annual rate proposal process was accurate.
D. **ADMINISTRATIVE EXPENSES**

1. **Misstated Expenses in the Annual Accounting Statements**

   The Plan’s administrative expenses reported in its 2009 through 2013 certified annual accounting statements were understated by $1,610,920.

   Part IV, Section K.9(a) of the Contract requires MetLife to prepare and submit to OPM an annual accounting statement 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 Subpart 31.2 of the FAR and the terms of the Contract.

   Finally, Part IV, Section K.9(a)(3) of the Contract states that, based on the results of a government audit, the Plan’s annual accounting statements should be adjusted by amounts found to be improperly allocated, unallowable, overpaid, or underpaid.

   We conducted a review of the Plan’s administrative expenses reported to OPM for 2009 through 2013, including samples of its general ledger transactions, cost centers, natural accounts, and out-of-system adjustments, to determine if the expenses were allowable in accordance with Subpart 31.2 of the FAR and the terms of the Contract. While completing our review, MetLife provided us with a financial analysis it conducted internally, in late 2013 and early 2014 (revised in January 2015 in response to our draft report), on its 2009 through 2013 administrative expenses. MetLife’s analysis identified $2,111,715 in expenses that were unallowable, unallocable, and/or unreasonable, as well as $3,722,635 in allowable expenses that were incurred but not charged or reported to OPM (net understatement of $1,610,920). We reviewed the details supporting MetLife’s analysis, including the calculations, allocation methodology, and additional shared cost centers, to determine if the information presented was reliable. We also identified $316,714 in unallowable costs from our review of a sample of expenses, which matched MetLife’s analysis. Based on these reviews, we found MetLife’s analysis to be reliable, thereby requiring prior period adjustments (PPAs) to be reported to OPM for all five years.

   MetLife reported that the misstated expenses were the result of not adhering to the requirements of FAR 31.2. Additionally, MetLife stated that it did not file a PPA for the misstated annual accounting statements because, “Based on the financial reporting format in place prior to 2014, and due to the immaterial amounts of these items and the fact that they
had no impact on the premium rates for the program, MetLife did not believe it was required to send PPAs to the Contracting Officer.” Finally, MetLife stated, “In May 2014, OPM emailed MetLife a new income statement format for the certified financial statements which included a PPA exhibit. Accordingly, MetLife now has a procedure in place where the certified financial statements are reviewed and the PPA exhibit is updated for any prior period adjustments that are found.”

As a result of understated administrative expenses in MetLife’s 2009 through 2013 certified annual accounting statements, OPM relied on financial information that was inaccurate when approving each year’s premium rates.

**Recommendation 2**

We recommend that the Contracting Officer direct MetLife to revise its cost accounting policies and procedures to ensure compliance with FAR 31.2 and the terms of the Contract. If MetLife is unsure of how to account for certain expenses or a provision of the FAR, it should obtain guidance from the Contracting Officer.

**MetLife’s Comments:**

MetLife agrees with the recommendation and stated that its procedures have been updated.

**OIG Comments:**

We obtained and reviewed the Plan’s updated policies and procedures and believe they are sufficient to address our recommendation, pending the Contracting Officer’s approval.

**Recommendation 3**

We recommend that the Contracting Officer direct MetLife to file PPAs for the Plan’s misstated expenses reported to OPM in the 2009 through 2013 certified annual accounting statements.

**MetLife’s Comments:**

MetLife agrees with the recommendation and will file a PPA exhibit with the Contracting Office for the 2009 through 2013 plan years.
OIG Comments:

We obtained and reviewed the Plan’s PPA exhibit and believe it is sufficient to address our recommendation, pending the Contracting Officer’s approval.

**Recommendation 4**

We recommend that the Contracting Officer review MetLife’s PPA procedures to verify compliance with OPM’s reporting requirements and to ensure that unallowable expenses are removed and allowable expenses are reported.

**MetLife’s Comments:**

MetLife agrees with the recommendation and will submit the 2014 FEDVIP certified financial statements using the new format provided by OPM. Additionally, it has instituted new procedures to ensure that the financial statements are reviewed and updated for any PPAs.

OIG Comments:

We obtained and reviewed the Plan’s updated procedures and believe they are sufficient to address our recommendation, pending the Contracting Officer’s approval.

E. **CLAIMS PROCESSING**

1. **Error in Benefit Brochures**

The Plan’s 2009 through 2013 benefit brochures erroneously excluded coverage for an allowable benefit, American Dental Association (ADA) code D6057, related to custom abutments.

The Plan’s benefit brochures state, “This brochure is the official statement of benefits. No oral statement can modify or otherwise affect the benefits, limitations, and exclusions of this brochure.” Section 5 of the brochure identifies covered and non-covered dental services and supplies. For the years in question, the brochure incorrectly listed ADA code D6057 as a non-covered service.

We reviewed a sample of 120 claims paid in 2013 to reconcile information in MetLife’s claims system to supporting documentation, including ADA code eligibility, payment accuracy, and member coverage eligibility. Our review identified 22 claims with payments
made for ADA code D6057, which was listed in the benefit brochures as a non-covered service. We reviewed MetLife’s rate negotiation letters submitted to OPM for 2009 through 2013 and determined that ADA code D6057 was added as a covered benefit for 2009 and therefore should have been listed as a covered benefit in the brochures. MetLife confirmed that ADA code D6057 was a covered benefit since 2009 and it was correctly programmed as a covered service in its claims system. When we pointed out the error, MetLife agreed and explained that it also found the error after publishing the 2013 benefit brochure, which it corrected for 2014. We reviewed the Plan’s 2014 benefit brochure and verified that the code was listed as a covered benefit.

As a result of listing ADA code D6057 as a non-covered service in its 2009 through 2013 benefit brochures, members enrolled in the Plan and providers administering services to Plan members likely thought that this service was not covered and may have avoided the procedure.

**Recommendation 5**

We recommend that the Contracting Officer direct MetLife to implement policies and procedures for updating the Plan’s annual benefit brochure to ensure that it accurately lists covered and non-covered benefits prior to publication.

**MetLife’s Comments:**

MetLife agrees with the recommendation and has updated its policies and procedures.

**OIG Comments:**

We obtained and reviewed the Plan’s updated policies and procedures and believe they are sufficient to address our recommendation, pending the Contracting Officer’s approval.
IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[Name], Auditor-In-Charge

[Name], Auditor

[Name], Group Chief, [Name]

[Name], Senior Team Leader
March 17, 2015

Re: Audit Report Number 1J-0F-00-14-075

The following is in response to the five recommendations contained in the draft report dated December 22, 2014.

**Recommendation 1**

MetLife is in agreement with the recommendation. MetLife has updated its procedures accordingly.

**Recommendation 2**

MetLife is in agreement with the recommendation. MetLife has updated its policies and procedures accordingly.

**Recommendation 3**

MetLife is in agreement with the recommendation. MetLife will file a Prior Period Adjustment (PPA) exhibit with the Contracting Officer covering the 2009-2013 plan years.

**Recommendation 4**

MetLife is in agreement with this recommendation. MetLife will be submitting the 2014 FEDVIP certified financial statements using the new format that OPM sent to MetLife in May 2014. MetLife has instituted a procedure whereby the certified financial statements are reviewed and the PPA exhibit is updated for any prior period adjustments that are found.
Recommendation 5

MetLife is in agreement with the recommendation. MetLife has updated its policies and procedures accordingly.

Sincerely,

Copy to: (Metlife); (Metlife)
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