



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

Final Audit Report

Subject:

AUDIT OF THE FEDERAL EMPLOYEES DENTAL AND VISION INSURANCE PROGRAM OPERATIONS AS ADMINISTERED BY METROPOLITAN LIFE INSURANCE COMPANY BRIDGEWATER, NEW JERSEY

Report No. 2A-II-00-09-019

Date: January 12, 2010

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-06-00060-6**

**Metropolitan Life Insurance Company As Administrator
Bridgewater, New Jersey**

REPORT NO. 2A-II-00-09-019

DATE: January 12, 2010

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

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-06-00060-6**

**Metropolitan Life Insurance Company As Administrator
Bridgewater, New Jersey**

REPORT NO. 2A-II-00-09-019

DATE: January 12, 2010

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations at Metropolitan Life Insurance Company (MetLife) in Bridgewater, New Jersey. MetLife provides dental insurance benefits under the FEDVIP program. The audit covered the testing of application controls over claim benefit payments, premiums, and cash management activities for contract years 2007 and 2008. We identified one procedural finding related to MetLife's Explanation of Benefits (EOB) statement. Except for this finding, we determined that the dental benefits were administered in accordance with Contract OPM-06-00060-6 and the FEDVIP regulations, 5 CFR Part 894. Our audit issue is summarized below.

CLAIM BENEFIT PAYMENTS

• **Lack of Clarity in the Explanation of Benefits Statement** **Procedural**

MetLife's EOB statements are not as detail-oriented/user-friendly as they could be. Consequently, members may have difficulty determining amounts allowed and paid by the health carriers for services provided, as well as their payment responsibility for covered services.

PREMIUMS

The premium costs charged by MetLife were in compliance with the terms of Contract OPM-06-00060-6, as well as the applicable Federal regulations.

CASH MANAGEMENT ACTIVITIES

MetLife's handling of FEDVIP funds was in accordance with the terms of Contract OPM-06-00060-6, as well as the applicable Federal regulations.

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDING AND RECOMMENDATIONS	6
A. CLAIM BENEFIT PAYMENTS	6
1. Lack of Clarity in the Explanation of Benefits Statement.....	6
B. PREMIUMS.....	7
C. CASH MANAGEMENT ACTIVITIES.....	7
IV. MAJOR CONTRIBUTORS TO THIS REPORT	8
SCHEDULE A – Summary of Program Operations	
APPENDIX: (MetLife’s response, dated September 23, 2009, to the draft audit report)	

I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) as administered by Metropolitan Life Insurance Company (MetLife). 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

FEDERAL EMPLOYEES DENTAL AND VISION PROGRAM

The Federal Employee Dental and Vision Benefits Enhancement Act of 2004, Public Law 108-496, 118 Statute 4001, was signed into law 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 and vision insurance services for a term of 7 years:

Dental

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

Vision

- BlueCross BlueShield Association;
- United HealthCare (formerly Spectera, Inc.); and
- Vision Service Plan

The duties and responsibilities of insurance carriers participating in the FEDVIP program include the following:

1. To provide payments or benefits to an eligible individual if such individual is entitled thereto under the terms of the contract;
2. With respect to disputes regarding claims for payments or benefits under the terms of the contract –
 - a. to establish internal procedures designed to expeditiously resolve such disputes;
 - b. to establish, for disputes not resolved through procedures mentioned above, procedures for one or more alternative means of dispute resolution involving independent third-party review under appropriate circumstances by entities mutually acceptable to OPM and the carrier;

3. To make available to each individual eligible to enroll in a dental benefits plan, information on services and benefits to enable the individual to make an informed decision about electing coverage;
4. To maintain accounting records that contain such information and reports as OPM may require;
5. To furnish such reasonable reports as OPM determines to be necessary to enable it to carry out its functions; and
6. To permit OPM and representatives of the Government Accountability Office to examine such records of the carrier as may be necessary to carry out the purposes of the contract.

METLIFE

MetLife administers dental benefits under the FEDVIP. The contract number OPM-06-00060-6 between OPM and Metlife was awarded on August 29, 2006. Incorporated by reference into this contract are Solicitation OPM-RFP-06-00060 and Amendments 001, 002 and 003.

MetLife provides dental insurance benefits to Federal employees, annuitants, and their eligible family members. The contract between OPM and MetLife is for a seven year period, starting December 31, 2006 and ending December 31, 2013, with the option to renew the contract.

This was our first audit of MetLife's program operations as it relates to the FEDVIP.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit of MetLife relating to the FEDVIP was to determine compliance with Contract OPM-06-00060-6 and the FEDVIP regulations, 5 CFR Part 894.

Our specific audit objectives for this audit were as follows:

Benefit Payments/Application Controls

- To obtain an understanding of the carrier's claims processing system.
- To determine whether the carrier has appropriate controls/edits in place to prevent the payment of unallowable claims.
- To determine whether the carrier has a program in place to protect enrollees and the carrier's claims system from instances of fraud and abuse.
- To determine whether MetLife has proper application controls in place over its claim processing and check-writing systems to help ensure that FEDVIP-related transactions are valid, properly authorized, and completely and accurately processed.

Premiums

- To determine whether the FEDVIP premium costs and its relative components are derived from amounts that are allowable, allocable, and reasonable to the program.

Cash Management

- To determine whether the FEDVIP funds were properly received and accurately transferred into MetLife accounts in a timely manner.
- To determine if the FEDVIP funds are held in an interest bearing bank account separate from MetLife'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.

The audit covered application controls for benefit payments, premium costs, and cash management activities for contract years 2007 and 2008. We performed our fieldwork from March 2 to March 13, 2009, in Bridgewater, New Jersey, and from March 16 to March 20, 2009, in Oriskany, New York, where MetLife's claims system is located. Additional audit work was completed in our offices in Washington, D.C. after the on-site visits.

We reviewed the MetLife/FEDVIP financial experience report for policy years 2007 and 2008. During this period, benefit charges totaled \$332,108,278 and premiums earned totaled \$361,234,705.

In planning and conducting our audit, we obtained an understanding of MetLife/FEDVIP'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 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 MetLife/FEDVIP's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on MetLife/FEDVIP's system of internal controls taken as a whole.

In conducting the audit we relied to varying degrees on computer-generated data provided by MetLife/FEDVIP. 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 MetLife/FEDVIP 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, MetLife/FEDVIP complied with all provisions of the contract and the federal procurement regulations, except for one procedural finding related to MetLife's Explanation of Benefits (EOB) statement.

METHODOLOGY

To achieve our objectives related to benefit payments/application controls we:

- Interviewed personnel to obtain an understanding of MetLife's claims processing system.
- Documented and evaluated MetLife's policies and procedures currently in place to protect program enrollees and program systems from fraud and abuse.
- Developed 24 dental claims case scenarios based on information provided by MetLife and on the best practices of health insurance carriers. Results from the test cases were reviewed to determine whether MetLife has proper application controls in place over its claim processing and check-writing systems to ensure that FEDVIP-related transactions were valid, properly authorized, and accurately processed.

To achieve our objective related to premium costs we:

- Reviewed the "Request for Proposal" agreements between OPM and MetLife/FEDVIP to determine the components of the premiums.
- Reviewed the 2009 premium calculations to determine whether the premium costs and relative components were derived from amounts that are allowable, allocable, and reasonable.

To achieve our objectives related to cash management we:

- Selected the three months from each calendar year with the highest FEDVIP premiums received for review. The premiums received in these months amounted to \$113,731,767 from a universe of \$361,234,705. In addition, we reviewed the associated bank statements to determine if the premiums were received and accurately transferred into MetLife accounts.
- Reviewed MetLife procedures related to accounting for FEDVIP premiums to determine whether the FEDVIP funds were maintained separately from MetLife's other lines of business.

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.

We used the FEDVIP contract, the Federal Acquisition Regulations, and the laws and regulations governing MetLife/FEDVIP to determine whether MetLife's administration of the application controls for benefit payments, the premium costs, and the cash management activities were in compliance with the terms of the contract and the applicable regulations.

The results of the audit were discussed with MetLife officials throughout the audit and at the exit conference. In addition, a draft report, dated August 21, 2009, was provided to MetLife for review and comment. MetLife comments to the draft report were considered in preparing the final report and are included as an Appendix to this report.

III. AUDIT FINDING AND RECOMMENDATIONS

A. CLAIM BENEFIT PAYMENTS

1. Lack of Clarity in the Explanation of Benefits Statement

Procedural

MetLife's Explanation of Benefits (EOB) statements are not as detail-oriented/user-friendly as they could be. Consequently, members may have difficulty determining amounts allowed and paid by the health carriers for services provided, as well as their payment responsibility for covered services.

We tested the benefit payment's application controls for 24 claim cases and found that the standard EOB wording of benefits paid towards a member's annual maximum benefit amount is confusing. Specifically, the statement combines the benefit amount received from MetLife and the benefit amount received from other insurance the member may possess. Ideally, to assist a member in determining the amount applied toward his or her annual maximum benefit, the EOB should only show the amount of benefits paid by MetLife towards the annual maximum benefit related to the benefit option purchased by the member.

We informed MetLife of our concern. In addition, we provided MetLife an example of a best-practice statement design that it could consider in revising its current EOB statement.

MetLife Comments:

MetLife agrees with this finding and stated that it would work to revise and improve annual maximum wording on the EOB and consider a re-design of the EOB statement to improve member understanding of covered expenses, coordination of benefits if applicable, and out-of pocket responsibility.

Recommendation 1

We recommend that the contracting office and MetLife review the EOB statement and revise the language, where necessary, so that members can easily understand the amounts paid towards the annual maximum benefit amount allowed by MetLife's dental program.

Recommendation 2

We recommend that the contracting office and MetLife consider a re-design of the EOB statement that is sent to members specifying the covered expense amount determined by MetLife, the covered expense amount determined by other insurance the member may possess, and the amount the member is responsible to pay.

B. PREMIUMS

Our review of the premium costs charged by MetLife determined they were in compliance with the terms of Contract OPM-06-00060-6, as well as the applicable Federal regulations.

C. CASH MANAGEMENT ACTIVITIES

Our review of MetLife's handling of FEDVIP funds determined it was in accordance with the terms of Contract OPM-06-00060-6, as well as the applicable Federal regulations.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[REDACTED], Auditor-In-Charge

[REDACTED] Auditor

[REDACTED] Auditor – Information Systems Audits Group

[REDACTED] Senior Team Leader

[REDACTED] Group Chief [REDACTED]

SCHEDULE A

**Federal Employees Dental and Vision Insurance Program (FEDVIP)
Bridgewater, New Jersey**

**Summary of Program Operations
Contract Years 2007-2008**

	2007	2008	Total
<u>Revenue</u>			
Premiums Received (Cash)	\$133,017,522	\$228,217,183	
Total Revenue	\$133,017,522	\$228,217,183	\$361,234,705
<u>Expenses</u>			
Claim Benefits Paid	\$132,567,417	\$199,540,861	
Total Expenses	\$132,567,417	\$199,540,861	\$332,108,278



'09 SEP 28 RCVD

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September 23, 2009

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Group Chief, Special Audits Group
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Office of the Inspector General
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Re: FEDVIP Draft Audit Report
Report # 2A-II-00-09-019

Dear [Redacted]

The purpose of this letter is to respond to the FEDVIP audit finding in [Redacted]
[Redacted] draft report, # 2A-II-00-09-019, dated August 21, 2009 on
contract OPM-06-0060-6.

Lack of Clarity in the Explanation of Benefits Statement ("EOB")

We are in agreement with the two recommendations made in the audit findings document. MetLife will work to: (1) revise and improve annual maximum wording on the EOB so that members can more easily understand their benefit usage; and, (2) consider a re-design of the EOB statement to improve member understanding of covered expenses, coordination of benefits, if applicable, and out-of-pocket responsibility.

Please advise if you have any questions.

Sincerely,

[Redacted Signature Block]

Cc: [Redacted]