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 PORTSMOUTH, NEW HAMPSHIRE

Report No. 1G-LT-00-08-047

Date: August 6, 2009

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EXECUTIVE SUMMARY

Federal Long Term Care Insurance Program
RFP OPM-01-RFP-0016

Long Term Care Partners, LLC
Portsmouth, New Hampshire

REPORT NO. 1G-LT-00-08-047 **DATE: August 6, 2009**

This report details the results of our audit of the Federal Long Term Care Insurance Program (FLTCIP) operations at Long Term Care Partners, LLC (LTCP) in Portsmouth, New Hampshire. The audit covered claim benefit payments, administrative expenses and cash management for the period of October 1, 2006 through July 31, 2008. In addition, we reviewed the Statement of Operations and Changes in Fund Balance (Experience Fund) for the period October 1, 2006 through September 30, 2007. The report questions a total of $459,033. Of this amount, $301,416 relates to cash management activities and $157,617 to administrative expenses. Lost investment income on the questioned costs subject to lost investment income amounts to $16,918.

The questioned items are summarized below:

CLAIM PAYMENTS

- **The Claims System Does Not Accurately Track Claim Payments** **Procedural**

  The LTCP Claims System is not programmed to show adjustments resulting from benefit checks that have been voided or cancelled.

CASH MANAGEMENT

- **Delay in Transfer of FLTCIP Premiums** **Procedural**

  John Hancock retained premiums collected from enrollees in a general account for several days before transferring the funds to its FLTCIP Separate Account, which delays the investment of the funds. In addition, the funds were commingled with funds from John Hancock's other lines of business while in this general account.

- **Overstatement of the Experience Fund's 2007 Financial Statements** **$301,416**

  The Federal Long Term Care Program Experience Fund's Statement of Fiduciary Operations and Changes in Fund Balance financial statement for fiscal year 2007 is overstated by $301,416.

ADMINISTRATIVE EXPENSES

- **Unallowable Lobbying Costs** **$10,638**

  LTCP did not deduct the lobbying costs from its AHIP membership dues for fiscal years 2002 through April 2009. As a result, the FLTCIP was overcharged $10,638 for unallowable expenses.

- **Costs of Other Federal Program Charged to FLTCIP** **$146,979**

  LTCP charged $146,979 to the FLTCIP that should have been charged to BENEFEDS.

LOST INVESTMENT INCOME ON AUDIT FINDINGS

The FLTCIP is due $16,918 for lost investment income on the findings presented in the report that are subject to the recovery of lost investment income.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Long Term Care Insurance Program (FLTCIP or Program) operations at Long Term Care Partners, LLC (LTCP). LTCP is a joint venture between John Hancock Life Insurance Company (John Hancock) and Metropolitan Life Insurance Company (MetLife) (referred to as the Carriers), located in Portsmouth, New Hampshire. 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

The Program was established by the Long Term Care Security Act (Public Law 106-265), which was signed by the President on September 19, 2000. The Act directed OPM to develop and administer a long term care insurance program for Federal employees and annuitants, current and retired members of the uniformed services, and qualified relatives.

In December 2001, OPM awarded a seven year contract to LTCP to offer long term care insurance coverage to eligible participants. Operations began on March 25, 2002, and the contract expired on April 30, 2009. (A new contract was awarded to John Hancock upon the expiration of the original contract.) LTCP, with OPM oversight, is responsible for all administrative functions of the Program, including marketing and enrollment, underwriting, policy issuance, premium billing and collection, and claims administration.

Program assets are held in the "Experience Fund". Premiums received by LTCP are deposited into the Experience Fund and invested by the Carriers. Investment income, net of Carrier management fees, is retained in the Experience Fund. Claims paid by LTCP are deducted from the Experience Fund, and liabilities for "incurred but not reported claims" ("IBNR") are accrued and reported in the financial statements.

Operating expenses incurred by LTCP for the administration of the Program are reimbursed from the Experience Fund to the Carriers, subject to expense guarantees stipulated in the contract and according to defined timelines and funds availability. Interest on any outstanding balance owed to the Carriers accrues at the rate of return earned by the Experience Fund.

Compliance with laws and regulations applicable to the Program is the responsibility of LTCP management. Also, management of LTCP is responsible for establishing and maintaining a system of internal controls.

Our previous audit of LTCP (Report No. 1G-LT-00-07-055, dated August 4, 2008) questioned an issue that is still occurring in our current audit. The issue relates to the commingling of LTCP funds with funds from the Carriers' other lines of business. All other issues from the audit were satisfactorily resolved.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The purpose of the audit was to determine whether charges to the Program and claims services provided to Program members were in accordance with the terms of the contract and applicable regulations. The audit objectives are presented below.

- **Long Term Care Benefit Claim Payments**

  To determine whether LTCP complied with the contract provisions relative to claim payments.

- **Cash Management:**

  Experience Fund Revenues

  To determine whether premiums were properly deposited into the Experience Fund and invested by the Carriers.

  To determine whether the Carriers invested and reinvested all FLTCIP funds on hand until needed to discharge the obligations incurred under the contract.

  Experience Fund Expenses

  To determine whether reimbursements to the Carriers from the Experience Fund were in accordance with the terms of the contract, including any subsequent modification, and applicable regulations.

- **Administrative Expenses**

  To determine if the administrative expenses charged to the FLTCIP were actual, necessary, and reasonable.

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 audit 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 our audit objectives.

We reviewed the LTCP audited statements of Fiduciary Operations and Changes in Fund Balance (Experience Fund) and the Operations and Changes in Member's Equity for the year ended September 30, 2007. In addition, we reviewed the investment income for the period of October 1, 2006 through July 31, 2008. Finally, we reviewed internal statements of the

Fiduciary Operations and Changes in Fund Balance and the Operations and Changes in Member's Equity from October 1, 2007 through July 31, 2008.

For fiscal year 2007, premiums and investment income to the Experience Fund totaled $341 million and expenses from the Experience Fund totaled $79 million. The expenses included such things as on-going expenses and liabilities (profit charges, deferred acquisition cost (DAC) tax, interest expense, OPM administrative expenses, and claim payments). The Plan paid $14,136,832 in long term care claim payments during fiscal year 2007 and $17,183,979 from October 1, 2007 through July 2008, resulting in total claim payments of $31,320,811 for the period reviewed. In addition, LTCP charged the FLTCIP administrative expenses of $17,585,200 during fiscal year 2007 and $17,083,210 from October 1, 2007 through July 2008, resulting in total paid administrative expenses of $34,668,410 for the period reviewed.

We reviewed $2,223,594 in claim payments made from October 1, 2006 through July 31, 2008, for proper adjudication. We also reviewed $25,687,016 in Experience Fund disbursements (i.e., profit charges, DAC taxes, interest expenses, OPM administrative expenses, and on-going expense reimbursements). The on-going expense reimbursements included administrative expenses incurred by LTCP and the Carriers that were charged to the Program.

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

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

We also conducted tests to determine whether LTCP and the Carriers had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that LTCP and the Carriers had not complied, in all material respects, with those provisions.

METHODOLOGY

To test LTCP's compliance with the contract provisions relative to long term care claim payments, we selected and reviewed a judgmental sample of the 150 highest dollar value claims from a universe of 14,191 claims. Of the $31,320,811 in claim payments made from October 1, 2006 through July 31, 2008, we reviewed a total of $2,223,594. We also reviewed LTCP's CARE Policy Administration System for eligibility and coverage (e.g., insured's personal information screen, coverage summary screen, and copy of signed policy application), and supporting documents (e.g., copies of claims, explanations of benefits, approvals of claim payments, the paid claim check numbers, and amounts in the applicable bank statements) to determine the allowability of these payments.

To determine if the premiums collected were properly deposited into the Experience Fund, we judgmentally selected and reviewed the activity occurring during the month of July 2007 for each carrier. We reviewed the bank statements and verified that the amount collected by LTCP was transferred to the carrier's separate accounts. To address an audit issue reported in a previous audit, we also reviewed and verified whether the premiums collected by LTCP, from October 1, 2006 through July 31, 2008, were properly deposited into the John Hancock General Account and then transferred to the John Hancock Separate Account in a timely manner. Finally, to determine whether the funds received were properly invested, we selected and reviewed the Carriers' schedules of investment income for the 4th quarter of fiscal year 2007 and the month of July 2008.

To determine the appropriateness of the disbursements from the Experience Fund, we judgmentally selected and reviewed a sample of the 18 highest reimbursements from fiscal year 2007. These disbursements were related to profit charges, DAC taxes, State Street (the Carriers' investment account) fees, asset profit, OPM expenses, and on-going expenses. Of the universe of $55,764,645 in reimbursements to the Carriers for fiscal year 2007, we reviewed a total of $25,687,016. We reviewed the Carriers' bank statements for the Separate Accounts and verified that the amounts reimbursed to the Carriers agreed to the expenses incurred and the liabilities due.

To determine if the administrative expenses were actual, necessary, and reasonable, we selected 20 of 108 natural expense accounts from 11 cost centers paid during the period October 1, 2006 through September 30, 2007 for potential review. The accounts were selected based on highest dollar amount and account name. From the 20 accounts, we selected 27 monthly transactions for detailed review based on the highest monthly transaction amounts. From 27 monthly transactions, we selected 42 invoices. The total value of the invoice sample was $1,269,598 out of a universe of $17,580,105.

Additionally, we selected a second sample of 10 out of 120 natural expense accounts paid during the period October 1, 2007 through July 31, 2008. Like the first sample, these accounts were also selected based on highest dollar amount and account name. From the 10 accounts, we selected 10 monthly transactions for detailed review based on the highest monthly transaction amounts. From 10 monthly transactions, we selected 26 invoices. The total value of the invoice sample was $859,204, from a universe of $14,486,709. For both samples, we reviewed each account description to ensure that only allowable costs were charged to the account.

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 provisions of the contract (OPM-01-RFP-0016), Public Law 106-265, and Federal Acquisition Regulations to determine the allowability, allocability, and reasonableness of the administrative expenses charged against the contract.

The results of our audit were provided to LTCP in the form of audit inquiries and discussed with LTCP officials throughout the audit and at the exit conference. In addition, a draft report, dated March 3, 2009, was provided to LTCP for review and comment. LTCP's comments on the draft report were considered in preparing the final report and are included as an Appendix to this report.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. CLAIM PAYMENTS

1. The Claims System Does Not Accurately Track Claim Payments — Procedural

The LTCP's claims system is not programmed to show adjustments resulting from benefit checks that have been voided or cancelled. As a result, the claims paid amount recorded in the claim system could be potentially overstated and not in agreement with the paid claims amount recorded in LTCP's accounting system.

We noted this discrepancy during our review of the claims system when it appeared that two payments were made for one claim. However, upon further review we found that when benefit checks are voided, LTCP makes a manual entry on the "Transfer Report to the Bank Transactions" spreadsheet. Then, at the end of each month, LTCP reconciles all claim checks issued, paid, outstanding, and voided. This reconciliation agrees the check book balance, the general ledger account balance, and the "Transfer Report to the Bank Transactions" spreadsheet to the bank statement and bank reconciliation statement. However, the claim system is not automatically programmed to reconcile or adjust for voided checks or other types of adjustments. Consequently, its balance will not agree with the amount recorded in the accounting system.

We believe the claim system should be programmed to account for voided checks, as well as for other claim adjustments. This would ensure that the system accurately reflects and accounts for claims actually paid and would tie in with the claims paid amount entered into the accounting system. It would also prevent the possibility of the voided payments not being corrected, which would result in the overstatement of the claims expense in the financial statements.

LTCP Comments:

LTCP agrees with this finding. They said that they identified this issue on a list of items that will be included in a future release, scheduled for later this year and contingent on Contract renewal.

Recommendation 1

We recommend that the contracting officer require LTCP to enhance its claim system to include adjustments for voided checks and other items, as appropriate.

B. CASH MANAGEMENT

1. Delay in Transfer of FLTCIP Premiums — Procedural

John Hancock's cash management procedures direct LTCP to transfer premiums collected from enrollees into John Hancock's general account, where they are held for several days before John Hancock transfers the funds to its FLTCIP Separate Account. This process delays the investment of the funds and results in the loss of investment income. Additionally, as this was an issue in our previous audit that had not been corrected as of July 31, 2008, we also concluded that amounts contained in the general account continued to be commingled with funds from John Hancock's other lines of business. Contract OPM-01-RFP-0016, Part IV, section A(a)(3) requires the Contractor (John Hancock and Met Life) to account for FLTCIP funds separately from its other lines of business.

LTCP premiums, collected through payroll deductions, automatic bank withdrawals, and direct payments, are deposited into commercial bank accounts. LTCP then transfers the funds to the general accounts of both Carriers, who subsequently transfer the funds to their FLTCIP Separate Accounts. MetLife's account contains only FLTCIP funds, and normally, the funds going into the account are transferred to its FLTCIP separate account on the same day received. Once in the FLTCIP Separate Account, the funds are available for investment. In contrast, we found that John Hancock held the funds in its general account from one to six days before transferring them to its FLTCIP Separate Account. The Program earns no income on the funds while held in the general account, and the funds are commingled with funds from other lines of business.

The FLTCIP contract (OPM-01-RFP-0016, section I.48 (Investment Income)) provides that the carriers are to invest and reinvest all FLTCIP funds on hand until needed for obligations incurred under the contract. It states that when the contracting officer concludes that a carrier failed to comply with this provision, the carrier is to pay to the FLTCIP fund the investment income that would have been earned, based on rates established by the Secretary of the Treasury. For the period October 1, 2006 through July 31, 2008, LTCP transferred $277,522,860 to John Hancock's general account. Of this amount, $36,127,500 was kept in John Hancock's general account for one to six days before being transferred to their Separate Account. We calculated lost investment income on the Program funds held in John Hancock's general account in accordance with the contract. However, LTCP was able to support that it was adjusting the Experience Fund for losses resulting from the transfer delays. Consequently, we are not questioning an amount related to this issue in our final report.

We were informed by LTCP that John Hancock opened an FLTCIP dedicated investment account on September 17, 2008 and no longer delays transferring Program funds from its general account to its FLTCIP Separate Account.

LTCP Comments:

In regard to commingling of Program funds with other lines of business, LTCP said that a "separate" General Account for the FLTCIP funds was established in September 2008, and the procedures recommended in the fiscal year 2006 audit report were implemented.

OIG Response

We verified that John Hancock established a "separate" General Account dedicated to the FLTCIP funds as of September 2008 and no longer delays transferring Program funds. The establishment and use of this account also addresses our concerns related to the commingling of Program funds. Therefore, no further action is necessary at this time.

2. **Overstatement of the Experience Fund's 2007 Financial Statements $301,416**

The Experience Fund balance in the Federal Long Term Care Experience Fund, Statement of Fiduciary Operations and Changes in Fund Balance financial statement for fiscal year 2007 is overstated by $301,416.

We reviewed and reconciled the FLTCIP's Experience Fund Statement, Deferred acquisition costs (DAC) tax to the DAC Tax Carrier's Schedule and found a difference of $301,416. LTCP inadvertently miscalculated MetLife's DAC tax amounts during the months of April to September of 2007. Although LTCP made the adjustment to its accounting books for fiscal year 2007, the adjustment is not reflected in the 2007 Federal Long Term Care Experience Fund's Statement of Fiduciary Operations and Changes in Fund Balance. As a result, the Experience Fund balance was overstated by $301,416.

We informed LTCP of this variance during our on-site visit. LTCP provided a revised schedule of DAC tax which supports the correction. In addition, LTCP provided documentation supporting the general ledger adjustment of $301,416 made on September 30, 2007. According to LTCP, the correction was done in fiscal year 2007 after the books were closed. Consequently, the adjustment impacted the retained earnings and liability accounts instead of the expense and liability accounts. However, because the financial statements were finalized, LTCP decided not to reflect the adjustment in fiscal year 2007 statements.

LTCP Comments:

LTCP agrees with the finding. It stated that the error of $301,416 was identified as an uncorrected misstatement in the Summary of Uncorrected Misstatements in its September 30, 2007 financial statement audit performed by its external audit firm RSM McCladrey. However, it was not disclosed in the Experience Fund Financial Statements. The variance was identified by LTCP prior to the publication of the financial statements but subsequent to the completion of fieldwork. Given that the amount of the error as compared to the 2007 Experience Fund's total premium revenue was deemed to be immaterial, LTCP decided not to make an adjustment to the financial statements. However, a correcting entry was made by LTCP to the Fund's general ledger.

OIG Response

We concur with LTCP's comments and verified that appropriate adjustments to the Fund's general ledger account were made. However, to date, we have not been provided with a copy of the subsequent year's financial statements to ensure that this overstatement was corrected.

Recommendation 2

We recommend that the contracting officer request and review a copy of the Federal Long Term Care Experience Fund, Statement of Fiduciary Operations and Changes in Fund Balance for fiscal year 2008 to verify that LTCP corrected the statements for the fiscal year 2007 overstatement.

C. ADMINISTRATIVE EXPENSES

1. Unallowable Lobbying Costs $10,638

LTCP did not deduct the lobbying costs from their American Health Insurance Plans (AHIP) membership dues during fiscal years 2002 through April 2009. As a result, the FLTCIP is due $10,638.

48 CFR 31.205.-22(c) states, "When a contractor seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs." Our review of account 61135, Dues & Fees, from the inception of the Program through fiscal year 2008, showed that the AHIP membership dues charged to the FLTCIP included lobbying costs and other unallowable costs.

The FLTCIP's AHIP membership dues for the 2006 Benefit Year state, "An estimated 20% of your AHIP dues are attributable to lobbying activities & grassroots efforts on behalf of members and is not deductible." Of the $10,638 in unallowable charges, $2,910 was identified based on our analysis of the charges incurred in fiscal year 2007. The remaining $7,728 was found by LTCP as a result of a review of the Dues & Fees account that it conducted in response to our draft audit report. Based on our review of the supporting documentation provided by LTCP, we agree with the overcharges it identified.

LTCP Comments

LTCP agrees that lobbying costs are non-reimbursable expenses. LTCP has reviewed all expenses charged to the Dues & Fees account from the Contract's inception through April 4, 2009, and determined that AHIP membership dues of $53,188 were charged to the FLTCIP contract during this time. Consequently, LTCP adjusted the account for $10,638 (20% of $53,188) on April 30, 2009, to reclassify the expense and charge it to its corporate cost center.

Recommendation 3

We recommend that LTCP ensure that the FLTCIP is not charged for unallowable lobbying costs in future years.

2. Costs of Other Federal Program Charged to FLTCIP $146,979

LTCP charged $146,979 to the FLTCIP that should have been charged to the BENEFEDS Contract.

Contract RFP OPM-01-RFP-0016, Part IV, section K9 Accounting and Allowable Cost (b) (ii) Administrative Expenses states, "Administrative Expenses consist of all actual, allocable, allowable, and reasonable expenses incurred in the adjudication of claims or incurred in the Carrier's overall operation of the business. Unless otherwise provided in the contract or FAR, administrative expenses include, but are not limited to, taxes, insurance and reinsurance premiums, the cost of investigation and settlement of claims, the cost of maintaining files regarding payment of claims, and legal expenses incurred in the litigation of benefit payments."

We reviewed the invoice transactions for fiscal year 2007, and found the following:

- One invoice from Carousel Industries of North America for the amount of $131,986, for Telecom equipment to prepare the BENEFEDS Call Center for Open Season.
- Two invoices from Web Performance, Inc., for $14,993, for a software maintenance contract for software to load test the BENEFEDS website.

We informed LTCP of the error through an e-mail on May 19, 2009. LTCP agrees that the costs in question were incorrectly classified as FLTCIP expenses. Subsequent to the completion of the audit, LTCP provided us documentation showing that it corrected the error in fiscal year 2009.

Our previous audit also showed that other federal program expenses were incorrectly charged to the FLTCIP. As this is still a concern in our current audit, we believe that LTCP should revise or evaluate its internal controls to prevent the costs of other federal programs from being charged to the FLTCIP going forward.

LTCP Comments

LTCP agrees with this finding and corrected for these errors during May of 2009.

Recommendation 4

As this was an audit finding in the previous audit, we recommend that LTCP improve oversight of its cost segregation practices amongst its various programs to ensure that the FLTCIP is only charged for its program-related costs.

D. LOST INVESTMENT INCOME ON AUDIT FINDINGS $16,918

The FLTCIP is due $16,918 for lost investment income on the findings subject to the recovery of lost investment income

The FLTCIP contract (OPM-01-RFP-0016, section I.48 (Investment Income)) requires, among other things, that the carriers pay the Program lost investment income on charges made against the contract which are not allowable, allocable, or reasonable. It provides that all amounts payable will bear simple interest compounded semiannually at the rates established by the Secretary of the Treasury.

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury on a fiscal year basis. The computations show that the FLTCIP is due $16,918 for lost investment income, calculated for the period from October 1, 2005 through June 30, 2009, on questioned costs for fiscal years 2006 through 2009.

LTCP Comments:

The draft report did not include a section covering lost investment income on the audit findings. Therefore, the Plan did not address lost investment income in commenting on the draft report. However, it should be noted that LTCP did return to the program amounts questioned related to unallowable lobbying costs ($10,638) and costs of other federal programs charged to the FLTCIP ($146,979) in April and May of 2009. Consequently, future years' interest calculations should be adjusted to reflect the return of these funds to the Program.

Recommendation 6

We recommend that the contracting officer direct the Plan to credit the FLTCIP $16,918, plus interest accruing after June 30, 2009, on the remaining audit findings to the Experience Fund for lost investment income.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[redacted], Auditor-In-Charge

[redacted], Auditor

[redacted], Group Chief (202) 606-4745

[redacted] Senior Team Leader

SCHEDULE A

Long Term Care Partners, LLC
Portsmouth, New Hampshire

Statement of Fiduciary Operations and Changes in Fund Balance
(Recreated from the IPA Financial Statements)

	Fiscal Year 2007
Revenue	
Premiums revenue	$295,625,215
Investment income	45,359,002
Total revenue	**$340,984,217**
Expenses	
Claims expenses, including changes in disabled life reserves	$30,727,625
Deferred acquisition costs tax	7,681,142
Profit charge	22,221,599
Interest expense	214,345
OPM administrative expenses	633,914
LTCP administrative expenses	17,585,200
Total expenses	**$79,063,825**
Change in fund balance	$261,920,392
Fund balance at beginning of year	782,005,782
Fund balance at end of year	**$1,043,926,174**

SCHEDULE B

LONG TERM CARE PARTNERS, LLC
PORTSMOUTH, NEW HAMPSHIRE

QUESTIONED CHARGES

QUESTIONED CHARGES	FISCAL YEAR 2007
A. CLAIM PAYMENTS	
1. The Claims System Does Not Accurately Track Claim Payments	Procedural
B. CASH MANAGEMENT	
1. Delay in Transfer of FLTCIP Premiums	Procedural
2. Overstatement of the Experience Fund's 2007 Financial Statements	$301,416
TOTAL CASH MANAGEMENT	$301,416
C. ADMINISTRATIVE EXPENSES	
1. Unallowable Lobbying Costs	$10,638
2. Cost of Other Federal Program Charged to FLTCIP	146,979
TOTAL ADMINISTRATIVE EXPENSES	$157,617
TOTAL QUESTIONED CHARGES	$459,033

SCHEDULE C

LONG TERM CARE PARTNERS, LLC
PORTSMOUTH, NEW HAMPSHIRE
LOST INVESTMENT INCOME

	FY 2005 (10/1/04-9/30/05)	FY 2006 (10/1/05-9/30/06)	FY 2007 (10/1/06-9/30/07)	FY 2008 (10/1/07-9/30/08)	FY 2009 (10/1/08-9/30/09)	Total
QUESTIONED CHARGES (Subject to Lost Investment Income)						
ADMINISTRATIVE EXPENSE CHARGES						
1. Unallowable Lobbying Costs	$1,132	$2,910	$2,182	$2,668	$1,746	$10,638
2. Costs of Other Federal Program Charged to FLTCIP	$0	$0	$146,979	$0	$0	$146,979
CUMULATIVE TOTALS	$1,132	$4,042	$153,203	$155,871	$157,617	$157,617
LOST INVESTMENT INCOME CALCULATION						
a. Prior Year's Total Questioned (Principal)	$0	$1,132	$4,042	$153,203	$155,871	
b. Prior Year's Interest	0	0	58	284	8,112	
c. Cumulative Total	$0	$1,132	$4,100	$153,487	$163,983	
Treasury Rates						
d. Average Interest Rate (per fiscal year)	4.380%	5.130%	5.510%	5.100%	5.370%	
e. Interest on Prior Years findings	$0	$58	$226	$7,828	$8,806	$16,918
Total Interest by Year	$0	$58	$226	$7,828	$8,806	$16,918

Long Term Care Partners, LLC

Long Term Care Partners, LLC
100 Arboretum Drive
Portsmouth, NH 03801-7833

2009 MAY -6 PM 3:55

April 30, 2009

[redacted] Chief
Special Audits Group
Office of the Inspector General
U. S. Office of Personnel Management
Theodore Roosevelt Building
1900 E St. NW, Room 6400
Washington, DC 20415-1100

Re: Audit Report Number 1G-LT-00-08-047

Dear [redacted],

We have received and reviewed Audit Report Number 1G-LT-00-08-047, which reported on Federal Long Term Care Insurance Program (FLTCIP) operations at Long Term Care Partners, LLC during FY2007 and FY2008 through July 31, 2008. Thank you for providing us with an opportunity to respond to the issues identified in the report.

Audit Finding A1: Claims System Does Not Accurately Track Claim Payments
This procedural issue addresses the fact that our claims system is not programmed to correctly reflect the processing of void checks and related adjustments. We agree with this finding, and have identified this issue on a list of items to be included in a future release, scheduled for later this year and contingent on Contract renewal. In the meantime, we will continue to account for these by means of our current process.

Audit Finding B1: Delay in Transfer of FLTCIP Premiums
With respect to Audit Finding B1, Delay in Transfer of FLTCIP Premiums, we agree that during the period in question, October 1, 2006 through July 31, 2008, the cash management procedures of FLTCIP premiums as performed by John Hancock were as described in the draft audit report. However, we don't agree that the procedures in place resulted in lost investment income to the Plan. As shown in the "Interest and Balances_JH.xls" file which we provided to you on January 29, 2008, and again in August, 2008, the FY2007 FLTCIP Experience Fund liability to John Hancock was reduced by an interest credit of $105,388 to offset the impact of the delay in transferring the funds to the Separate Account. Additionally, for the period October 1, 2007 through September 30, 2008, $12,590 was credited. The total interest credit applied during the period in question of $117,978 exceeded the amount of lost investment income of $41,309 identified in the audit report by $76,669. An equivalent amount ($117,978) of interest income was recorded in the Experience Fund financial statements for the same period. Moreover, during the timeframe in which the cash management procedures as described in the report were in place (from August 28, 2003 through September 17, 2008), a total credit of $1,317,667 has been applied to the liability balance owed to John Hancock. This amount of interest income is significantly higher than the combined total of lost investment

income ($276,869) identified in the FY2005 final audit report ($41,907), the FY2006 audit report ($193,653), and the draft FY2007/2008 audit report ($41,309).

With regard to the commingling of FLTCIP premiums with funds from other lines of John Hancock's Business, which was described in the draft report, a "separate" General Account for the FLTCIP funds was established in September 2008, as was noted in the draft report, and the procedures recommended in the FY2006 audit report have been implemented. The Bank of America account name is "John Hancock Life Insurance Company Federal Long Term Care Clearing Account," and the account number is 0046 2242 3553. A copy of the October 2008 bank statement is included with this letter.

Audit Finding B2: Overstatement of 2007 Financial Statements

With respect to Audit Finding B2, we agree that the FY2007 Experience Fund Financial Statements were overstated by $301,416 due to an error in the calculation of MetLife's DAC tax for the period of April to September 2007. This error was identified as an uncorrected misstatement in the Summary of Uncorrected Misstatements, September 30, 2007 provided by our external audit firm, RSM McGladrey. However, it was not disclosed in the Experience Fund Financial Statements themselves. The variance was identified by us prior to the publication of the financial statements, but subsequent to the completion of fieldwork. It was decided that given the amount of the error as compared to the total Premium Revenue of the Experience Fund for 2007, the impact of the known variance was immaterial and an adjustment was not made to the Financial Statements. However, a correcting entry was made by LTCP to the Fund's general ledger. A copy of the Summary of Uncorrected Misstatements is included with this letter.

Audit Finding C1: Unallowable Lobbying Costs

With respect to this finding, we have reviewed 48 CFR 31.205.22(c), and agree that lobbying costs are a non-reimbursable expense. A review of account 61135, Dues and Fees, from Contract inception through 4/30/09 indicates that AHIP membership dues of $53,188.14 have been charged to the FLTCIP contract during this period. Consequently, an adjustment of $10,637.63 (20% of the total) has been made to reclassify this expense and charge it to our corporate cost center. A copy of the adjustment is attached.

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Not Relevant to the Final Report

We appreciate the opportunity to respond to the draft report, and hope that our responses have provided the information and clarification needed to resolve these issues.

If you have any questions, or require further information, please don't hesitate to contact me at [redacted]

Sincerely,

Linda S. Roth, CFO

Linda S. Roth, CFO
Long Term Care Partners, LLC

Enclosures

cc: [redacted]
FSA, Life and Long Term Care Insurances Group
Insurance Services Programs

[redacted] Chief
Program Planning and Evaluation Group

[redacted]
Deputy Chief Financial Officer

[redacted]
Auditor-in-Charge
Special Audits Group