



**UNITED STATES OFFICE OF
PERSONNEL MANAGEMENT**

**MANAGEMENT RESPONSE
TO THE INSPECTOR GENERAL'S SEMIANNUAL REPORT
TO CONGRESS**

MAY 2002

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MESSAGE FROM THE DIRECTOR

The Office of the Inspector General (OIG) of the U.S. Office of Personnel Management (OPM) has completed its Semiannual Report for the period October 1, 2001, to March 31, 2002. I am transmitting the Report to Congress as required by law, along with the Management Response containing additional information on certain portions of the report where further clarification may be helpful.

This has, indeed, been a productive period here at the Office of Personnel Management as we have strived together towards achieving the President's goal of a Government that is citizen-centered, results-oriented and market-based. This goal cannot be reached, however, without every part of OPM, and every person in Government devoting themselves to excellence. There is no doubt that in the Office of the Inspector General, the task is well underway. This Agency continues to set the example for Government in working effectively with the Office of the Inspector General to maximize efficiency and to identify and eliminate fraud, waste and abuse. During this period alone, working in tandem with our Retirement and Insurance Service and the Office of the General Counsel, the Office of the Inspector General played a key role in bringing to closure the largest false claims case in the history of the Federal Employees Health Benefits Program. As the Inspector General notes, the return to the Federal Government in this case of over \$87 million dollars is more than six times the total OIG budget. The OIG has issued 15 reports this period which contain recommendations for more than \$10 million in recovery to the Federal Employees Health Benefits (FEHB) program. While impressive by themselves, the total impact of OIG audits and recoveries, and their indirect effect in reducing health insurance premiums and bringing about carrier efficiencies and improved controls provides direct benefits to the United States Government and the U.S. taxpayer. At a time when controlling costs in the FEHB program is essential, the value of a strong and effective Office of the Inspector General working together with OPM program offices could not be more clear.

The significance of an aggressive Office of the Inspector General and an equally committed OPM staff extends far beyond the scope and framework of a cost/benefit analysis. I believe the efforts of the Office of the Inspector General and professional OPM staff serve to safeguard Federal employee and annuitant confidence and trust in the FEHB program. The loss of that trust would be devastating to the Federal Government and the American taxpayer. I am proud to serve with OPM Inspector General Patrick McFarland to ensure the integrity of OPM program responsibilities.

I am also pleased to note the OIG initiative to more fully utilize evolving computer technology to analyze health benefit charges and identify and deal with health care fraud and recover overcharges to the Federal Employees Health Benefits Program. The potential benefit of this initiative in the multi-billion dollar FEHB Program is extraordinary, and we are committed to working closely with the Office of the Inspector General to pursue its full development.

As I complete my first year here at the Office of Personnel Management, I look back with pride in our accomplishments to date in meeting the President's goals to best serve the American people. There is much to be done, however, and I look forward to continuing our joint efforts with the Office of the Inspector General to achieving a better OPM and a better Government.

Kay Coles James
Director

HEALTH AND LIFE INSURANCE CARRIER AUDITS

AUDIT RESOLUTION

The resolution of audit report findings issued by the OIG continues to be a priority. The charts at the end of this management report summarize insurance audit resolution activity for the period October 1, 2001, through March 31, 2002.

We began this period with 24 audit reports pending agency decisions totaling \$69 million. The OIG issued 12 new reports with unresolved monetary findings totaling \$10.3 million, bringing the work-in-process to \$79.3 million. Management's decisions on OIG recommendations during this period were \$62.1 million. This amount is a combination of \$43.2 million in "disallowed costs" (requiring payment to OPM) and \$18.9 million in "costs not disallowed" (no required payment to OPM). It should be noted that the "disallowed costs" does not include \$758,259 in additional interest assessed by the Program Office; and that the "costs not disallowed" amount includes approximately \$10.7 million that would not have been questioned if the OIG had been provided proper or adequate information by the carriers prior to issuing the final audit report. The balance at the end of the period totals \$17.2 million and relates to 12 audit reports.

Three of the 12 outstanding audit reports, totaling \$8.1 million, exceeded the six-month standard for resolving audit findings in accordance with OMB Circular A-50. The OIG has specifically requested that we postpone any resolution of these audit reports until further notice.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 75 audit reports which had been previously resolved, with \$212.4 million to be collected from the insurance carriers. Management decisions were made on 32 reports requiring the insurance carriers to pay \$43.2 million. This brought the number of audit reports with collection action to 107, totaling \$255.9 million including interest and adjustments. During this period, we collected \$49.7 million relating to 29 audit reports. We also adjusted 22 audit reports totaling \$11.7 million, which leaves a balance of 56 audit reports and \$194.4 million to be collected.

The following table on final action of audits with disallowed costs provides a summary of collection activity for the period October 1, 2001, through March 31, 2002.

**RETIREMENT AND INSURANCE SERVICE
MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS**

**REPORTING PERIOD ENDING
March 31, 2002**

	Number of Audit Reports	Disallowed Costs (in thousands)
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period (10/01/01)	75	\$212,399
B. 1. Audit reports on which management decisions were made during the period (10/01/01 - 03/31/02)	32	43,161
2. Interest assessed during period		334
C. Total audit reports pending final action during period (total of A and B)	107	\$255,894
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	29	\$49,735
(b) Property	0	0
(c) Other	22	11,740 ¹
2. Write-offs, waiver	0	0
3. Total of 1 and 2	51	\$61,475
E. Audit reports needing final action at the end of the period (03/31/02) (subtract D3 from C)	56	\$194,419

¹This represents adjustments to original debt.

**STATUS OF THE INSURANCE AUDITS
HIGHLIGHTED IN THE
OFFICE OF THE INSPECTOR GENERAL'S REPORT**

<u>REPORT, REPORT NUMBER, AND DATE</u>	<u>STATUS</u>
Fallon Community Health Plan Worcester, Massachusetts 1C-JV-00-01-005 January 15, 2002	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
CIGNA HealthCare of Virginia, Inc, Raleigh, North Carolina 1C-W2-00-01-014 January 28, 2002	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
BlueCross BlueShield of Alabama Birmingham, Alabama 1A-10-09-01-032 November 29, 2001	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
California Care Woodland Hills, California 1D-M5-00-01-046 February 27, 2002	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
Claims Administrator Corporation as Administrator for Mail Handlers Benefit Plan Rockville, Maryland 1B-45-00-01-096 January 24, 2002	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

**STATUS OF THE INSURANCE AUDITS
HIGHLIGHTED IN THE
OFFICE OF THE INSPECTOR GENERAL'S REPORT**

REPORT, REPORT NUMBER, AND DATE

STATUS

Audit of Information System General and
Application Control at Aetna U.S. Healthcare
Hartford, Connecticut
1C-JN-00-01-007
November 1, 2001

Reviewing Plan's response to the outstanding issues. We will coordinate corrective actions taken by the Plan on a quarterly basis until all recommendations have been resolved.

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

REPORT DATE	DETERMINATION DATE	AUDIT NUMBER	AUDIT NAME	RECEIVABLE AS OF March 31, 2002
<u>Blue Cross and Blue Shield Audits</u>				
12/16/1999	07/25/2000	10-10-96-27	Illinois	30,181
12/16/1999	07/25/2000	10-13-98-01	Highmark	677,350
10/18/1999	08/31/2000	10-16-99-05	Wyoming	12,732
06/02/1999	03/31/2000	10-18-97-04	Community Mutual	731,174
08/16/2000	01/16/2001	10-38-00-29	Hawaii	3,086
01/06/2000	09/06/2000	10-39-98-12	Kentucky & Indiana	1,756,013
05/10/2000	02/05/2001	10-41-99-17	Florida	6,784,686
02/23/2000	09/15/2000	10-42-99-21	Kansas City	193,957
02/10/2000	08/31/2000	10-44-99-48	Arkansas	54,392
04/04/2000	02/05/2001	10-49-99-16	Horizon BCBS of New Jersey	6,186,651
09/21/1994	03/30/1995	10-59-93-06	Portland, Maine	420,149
07/07/2000	10/12/2000	10-68-00-14	Puerto Rico	6,244
07/18/2000	12/27/2000	10-78-99-49	Minnesota	4,165,156
02/23/2000	09/15/2000	10-85-98-43	Headquarters LOC Account	1,447,701
		Subtotal		\$22,469,472
<u>Other Insurance Carriers</u>				
06/14/1999	01/03/2000	32-00-97-13	NALC	253,824
08/04/1999	03/31/2000	Y7-03-98-06	BCBS NCA - Y7	407,227
07/30/1999	03/31/2000	YA-03-98-07	BCBS NCA - YA	6,022,419
06/15/2000	11/20/2000	YA-11-98-49	Alliance - Aetna	400,574
08/03/1999	03/31/2000	YP-03-98-09	BCBS NCA - YP	1,530,598
05/25/2000	11/20/2000	YP-11-98-51	NAPUS - Aetna	63,851
12/27/1999	06/29/2000	DJ-00-99-12	Health New England	924,497
09/06/1996	03/31/1997	GH-00-95-04	Key HP - Indianapolis	388,104
09/14/1995	02/27/1996	JU-00-93-24	Pilgrim Health Care	76,355
03/17/1999	09/23/1999	KA-00-93-57	Omnicare Health Plan Detroit	231,556
04/12/2000	09/07/2000	N5-00-98-45	BlueLincs HMO - Tulsa	343,902
01/22/1998	09/30/1998	R8-00-96-31	TakeCare HP of Ohio	8,666,362
08/30/1996	03/31/1997	UH-00-93-51	Cigna HP of Texas	252,847
		Subtotal		\$19,562,116
		Total		\$42,031,588 ²

² Management Decisions pending on \$8,348,009.

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$33,683,579 for which a management decision was not implemented within one year, 31 percent, or \$10,444,220, relate to appealed cases. These cases have been appealed either to the Armed Services Board of Contract Appeals or to the United States Court of Claims. Thirty-one percent, or \$10,422,375, relate to cases that the resolution has been postponed at the request of the Office of the Inspector General. Two percent, or \$846,782, relates to cases that have been closed since March 31, 2002. The remaining 36 percent, or \$11,970,202, relate to health benefit overpayment issues and the Carriers are in the process of collecting them. Contractually, the Carriers must follow normal business practices and make a concerted attempt to collect the overpayments. Therefore, until the funds have been recovered or until it has been determined that the funds are uncollectible and must be written-off, the receivable must remain on OPM's book of record.

**SIGNIFICANT MANAGEMENT DECISIONS
OCTOBER 1, 2001 THROUGH MARCH 31, 2002
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	AMOUNT RECOVERED
United HealthCare of Ohio Minneapolis, Minnesota 1C-3U-00-01-012 July 26, 2001	Defective Pricing Lost Investment Income	Initial negotiations with the Carriers were not successful. As a result, the Contracting Officer issued a Final Decision based upon the findings in the Office of the Inspector General's final audit report. We will attain final resolution through continued negotiations or the legal process.	We have not determined the total amount to be recovered on these audits because negotiations are still in progress.
Health Partners of Alabama Birmingham, Alabama 1C-DF-00-01-015	Defective Pricing Benefit Loading Error Lost Investment Income		

OPM INTERNAL AUDITS

OPM's FY 2001 Performance Results - Report No. 4A-CF-00-02-053 3/29/2002

In response to this very recent audit, the following actions are planned or underway:

- a. Develop a set of policies and procedures dealing with performance reporting processes and activities for OPM. These Standard Operating Procedures (SOP's) will address several of the recommendations included in this report, such as more consistency in the methods used to collect and report data in each of the programs, improved documentation to support reported results, and more consistency in time periods covered by performance data. We will complete these SOP's by September 30, 2002.
- b. Develop additional guidance for verification and validation of program data and reported results. However, we note that verification and validation of data are already an integral part of our GPRA implementation actions, as required by the Act. We will also continue to use our centrally conducted review process, in which we meet with each program to go over all of their data collection and verification actions and require mid-year corrective actions as needed.
- c. Revise our measurement framework so that the data sources will be able to provide adequate supporting data in future years. We will do this revision as part of a larger effort to improve our measures, and to align them closely with the measures being used to assess Governmentwide progress on the President's Management Agenda. We expect to reduce the number of individual measures used, and will ensure that we retain only those that will be available for long term use.

OPM's Travel Card Program - Report No. 4A-CF-00-01-102 11/15/2001

The following actions have been taken:

- a. Implemented a new travel system (GSA Travel and Miscellaneous Reimbursements System). This new system has credit card features that would provide travelers the option to have all or a portion of the travel reimbursement sent directly to the Bank. The system also has features that would help prevent duplicate travel payments.
- b. Published on THEO (OPM's intranet) procedures for the program offices to access EAGLES system to review travel activities of their employees.

Items in the planning stage:

- c. Update our travel policies and procedures.
- d. Match a weekly list of employee separations against our travel card holder listing to produce an exception report of terminated employees who may still be card holders. We will deactivate the cards for separated employees.

e. Allocate additional resources to the Oversight Division to expand its review of the credit card operations. Such a review would include:

- Identifying travel transactions to ascertain that they are for official duties (supported by travel orders).
- Activate and deactivate travel card as appropriate
- Coordinate travel card review with Program Offices
- Adjust limits monthly and ATM limits

OPM's Compliance with Leave Without Pay (LWOP) Regulations - Report No. 4A-CF-00-01-02 3/27/2001

We will develop a biweekly report from the Electronic Time and Attendance Management Systems (ETAMS) so that OHREEO can identify, track, and flag LWOP employees reaching 365 consecutive days. This information will be used to properly adjust life insurance, health benefits, and within grade status in accordance with 5 CFR 531, 870, and 890.

OPM'S FY 2001 & FY 2000 Consolidated Financial Statements - Report No. 4A-CF-00-01-101 02/08/2002

The Office of the Chief Financial Officer (OCFO) continues to make progress on final resolution to the recommendations made in this report. The following actions are underway:

a. Improve the quality control over annual financial statement preparation in the OCFO by:

- Increase supervision and management controls over the financial statement preparation process.
- Create and implement a set of policies and procedures to provide overall and detailed guidance for preparation of the statements.

b. Restructure the budgetary accounting structure so that it is in conformance with the Standard General Ledger (SGL).

With the implementation of Phase 1 of GFIS, we have put in place the budgetary accounting structure which is in conformance with the SGL. We continue to re-engineer the stream of budgetary accounts as we are fully implementing GFIS so that it will reflect the SGL requirements.

c. Improve account analysis and other significant reconciliation procedures:

- Contractors were hired prior to and during the implementation of GFIS to assist with account reconciliation.
- Several in-house project teams have been formed to address difficult reconciliation processes such as cash, travel, undelivered orders, and purchase orders.

d. Implementing new policies and procedures in the last three years to address many of the areas in question. We are in the process of updating our policies and procedures.

e. Implementing GFIS will bring our financial systems into compliance with the Federal Financial Managers' Improvement Act (FFMFIA). We continue to make progress. In particular, these items are being addressed:

- Full implementation of GFIS will ensure that our financial systems and accounting structure will be compliant with applicable OMB, GAO, FASAB, and JFMIP policy, circulars, directives, regulations, systems guides, and other applicable guidance will be followed and complied with.
- Management controls with both systems and other processes are continually reviewed and improved, in areas such as cash management.