MANAGEMENT RESPONSE
TO THE INSPECTOR GENERAL’S SEMIANNUAL REPORT
TO CONGRESS
JUNE 2003

Contents

1. Message from the Director 1
2. Health and Life Insurance Carrier Audits 2
3. Collection of Disallowed Costs 2
6. Management Decisions Over One Year 6
7. Comments on Unresolved Management Decisions Over One Year Old 7
8. Significant Management Decisions on Reports Issued for the Period Ending March 31, 2003 8
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, 2002 to March 31, 2003. 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.

The Office of the Inspector General continues to play a critical role in the management and operations of the Office of Personnel Management, especially the Federal Employees Health Benefits Program (FEHBP). We have pursued opportunities whenever they were available to strengthen and enhance OPM’s OIG, including, as the Inspector General’s report references, promulgating final regulations to implement provisions of the Federal Employees Health Care Protection Act which address OPM’s new administrative sanctions authority, and proposing regulations implementing the Act’s civil monetary penalty provisions. The FEHBP is greatly improved by making these additional authorities available to protect Federal enrollees from unscrupulous health care providers.

We recently acknowledged the OIG capacity to ensure that FEHB carriers maximize savings associated with the effective use of pharmacy benefits managers through which pass $6 billion in prescription drug costs. Our recent “Call Letter” to FEHB carriers highlighted an expanded OIG oversight role to ensure their ability to conduct independent audits of plan pharmacy benefits managers.

The Office of the Inspector General’s value reaches well beyond the FEHBP however, and this reporting period they played a critical role in identifying insufficient internal controls at the United Way of the National Capital Area which served as the fiscal manager for the Combined Federal Campaign (CFC). The OIG audit findings provided assurance to the thousands of donors in the National Capital Area that their contributions would be safeguarded, and contributed significantly to the development of new uniform accounting guidelines and the strengthening of accountability for all 362 CFCs around the country.

I look back with pride in our accomplishments to date in meeting the President’s goals to best serve the American people, while at the same time looking forward with confidence that, with the joint efforts of the Office of the Inspector General, we are on a solid path to meet the challenges of the future.

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, 2002, through March 31, 2003.

We began this period with 10 audit reports pending agency decisions totaling $8 million. The OIG issued 16 new reports with unresolved monetary findings totaling $32.6 million, bringing the work-in-process to $40.6 million. Management’s decisions on OIG recommendations during this period were $9.3 million. This amount is a combination of $8.7 million in “disallowed costs” (requiring payment to OPM) and $.6 million in “costs not disallowed” (no required payment to OPM). It should be noted that the “disallowed costs” does not include $65,711 in additional interest assessed by the Program Office. The balance at the end of the period totals $31.3 million and relates to 15 audit reports.

One of the 15 outstanding audit reports, which totals $2.1 million, exceeded the six-month standard for resolving audit findings in accordance with OMB Circular A-50. The OIG has requested that we postpone resolution of this audit report.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 43 audit reports which had been previously resolved, with $125.9 million to be collected from the insurance carriers. Management decisions were made on four reports requiring the insurance carriers to pay $7.2 million. This brought the number of audit reports with collection action to 47, totaling $133.1 million including interest and adjustments. During this period, we collected $16 million relating to seven audit reports. We also adjusted three audit reports totaling $77.8 million, which leaves a balance of 37 audit reports and $39.3 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, 2002, through March 31, 2003.
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS

REPORTING PERIOD ENDING
March 31, 2003

A. Audit reports with management decisions on which final action had not been taken at the beginning of the period (10/01/02)

Number of Audit Reports 43 Disallowed Costs (in thousands) $125,920

B. 1. Audit reports on which management decisions were made during the period (10/01/02 - 03/31/03)

Number of Audit Reports 4 Disallowed Costs (in thousands) 7,192

2. Interest assessed during period

C. Total audit reports pending final action during period (total of A and B)

Number of Audit Reports 47 Disallowed Costs (in thousands) $133,112

D. Audit reports on which final action was taken during the period

1. Recoveries
   (a) Collections and offsets

Number of Audit Reports 7 Disallowed Costs (in thousands) $16,021

   (b) Property

       Number of Audit Reports 0 Disallowed Costs (in thousands) 0

   (c) Other

       Number of Audit Reports 3 Disallowed Costs (in thousands) 77,833¹

2. Write-offs, waiver

¹This represents adjustments to original debt.
Number of Audit Reports 0 Disallowed Costs (in thousands) 0

3. Total of 1 and 2

Number of Audit Reports 10 Disallowed Costs (in thousands) $93,854

E. Audit reports needing final action at the end of the period (03/31/03) (subtract D3 from C)

Number of Audit Reports 37 Disallowed Costs (in thousands) $39,258
STATUS OF THE INSURANCE AUDITS
HIGHLIGHTED IN THE
OFFICE OF THE INSPECTOR GENERAL'S REPORT

REPORT, REPORT NUMBER, AND DATE
Aetna U.S. Healthcare – Ohio
Blue Bell, Pennsylvania
1C-RD-00-01-076
October 16, 2002

STATUS
All outstanding audit issues have been resolved and the FEHB Program has been reimbursed $5,597,915.

REPORT, REPORT NUMBER, AND DATE
HealthPartners, Inc.
Minneapolis, Minnesota
1C-HQ-00-02-019
January 8, 2003

STATUS
Reviewing Plan’s response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

REPORT, REPORT NUMBER, AND DATE
BlueCross BlueShield of Michigan
Detroit, Michigan
1A-10-32-02-003
February 10, 2003

STATUS
Awaiting Plan’s response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

**REPORT, REPORT NUMBER, AND DATE**
National Alliance of Postal and Federal Employees
as Sponsor for the Alliance Health Benefit Plan
Washington, D.C.
1B-YQ-00-02-028
February 11, 2003

**STATUS**
Awaiting Plan’s response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

**REPORT, REPORT NUMBER, AND DATE**
KPS Health Plans
Bremerton, Washington
1D-VT-00-02-004
November 25, 2002

**STATUS**
Awaiting 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
Audit of Information System General and Application Controls at Merck-Medco Managed Care (presently, Medco Health Solutions, Inc.) A BlueCross BlueShield Association Contractor Franklin Lakes, New Jersey 1A-10-00-02-039 February 4, 2003

STATUS
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 completed.
### MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

#### Blue Cross and Blue Shield Audits

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Determination Date</th>
<th>Audit Number</th>
<th>Audit Name</th>
<th>Receivables as of March 31, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>07/25/2001</td>
<td>10/12/2001</td>
<td>10-03-01-027</td>
<td>New Mexico</td>
<td>$258,598</td>
</tr>
<tr>
<td>11/13/2000</td>
<td>08/31/2001</td>
<td>10-06-99-055</td>
<td>Maryland</td>
<td>$2,820,466</td>
</tr>
<tr>
<td>12/16/1999</td>
<td>07/25/2000</td>
<td>10-13-98-001</td>
<td>BS of Highmark, Inc.</td>
<td>$300,000</td>
</tr>
<tr>
<td>06/02/1999</td>
<td>03/31/2000</td>
<td>10-18-97-004</td>
<td>Community Mutual Insurance Co.</td>
<td>$734,723</td>
</tr>
<tr>
<td>06/21/2001</td>
<td>12/01/2001</td>
<td>10-24-01-031</td>
<td>South Carolina</td>
<td>$5,832</td>
</tr>
<tr>
<td>01/06/2000</td>
<td>09/06/2000</td>
<td>10-39-98-012</td>
<td>Kentucky &amp; Indiana</td>
<td>$1,809,781</td>
</tr>
<tr>
<td>05/10/2000</td>
<td>02/05/2001</td>
<td>10-41-99-017</td>
<td>Florida</td>
<td>$6,048,396</td>
</tr>
<tr>
<td>02/10/2000</td>
<td>08/31/2000</td>
<td>10-44-99-048</td>
<td>Arkansas</td>
<td>$30,342</td>
</tr>
<tr>
<td>04/04/2000</td>
<td>02/05/2001</td>
<td>10-49-99-016</td>
<td>New Jersey</td>
<td>$4,008,401</td>
</tr>
<tr>
<td>10/18/2000</td>
<td>09/26/2001</td>
<td>10-55-96-032</td>
<td>Philadelphia, Pennsylvania</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>05/14/2001</td>
<td>10/12/2001</td>
<td>10-59-01-022</td>
<td>Maine</td>
<td>$210,834</td>
</tr>
<tr>
<td>02/22/2001</td>
<td>08/08/2001</td>
<td>10-69-01-001</td>
<td>Regence Blue Shield</td>
<td>$22,331</td>
</tr>
<tr>
<td>02/15/2001</td>
<td>08/31/2001</td>
<td>10-84-01-002</td>
<td>Utica, New York</td>
<td>$23,107</td>
</tr>
<tr>
<td>05/07/2001</td>
<td>09/30/2001</td>
<td>10-88-01-021</td>
<td>Northeast Pennsylvania</td>
<td>$153,424</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Subtotal</strong> $20,467,637</td>
</tr>
</tbody>
</table>

#### Other Insurance Carriers

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Determination Date</th>
<th>Audit Number</th>
<th>Audit Name</th>
<th>Receivables as of March 31, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/04/1999</td>
<td>03/31/2000</td>
<td>Y7-03-98-006</td>
<td>BCBSNCA</td>
<td>$413,646</td>
</tr>
<tr>
<td>07/30/1999</td>
<td>03/31/2000</td>
<td>YA-03-98-007</td>
<td>BCBSNCA</td>
<td>$6,123,288</td>
</tr>
<tr>
<td>08/03/1999</td>
<td>03/31/2000</td>
<td>YP-03-98-009</td>
<td>BCBSNCA</td>
<td>$1,554,325</td>
</tr>
<tr>
<td>01/22/1998</td>
<td>09/30/1998</td>
<td>R8-00-96-031</td>
<td>TakeCare Health Plan</td>
<td>$62,204</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Subtotal</strong> $8,153,463</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Grand Total</strong> $28,621,100²</td>
</tr>
</tbody>
</table>

The information above comes from OPM's Audit and Receivables Tracking System (AARTS) reports. The receivables listed were determined more than one year and one month prior to 3/31/03, making them over one year delinquent.

² Management Decisions pending on $5,679,767
COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the $22,941,333 for which a management decision was not implemented within one year, 39 percent, or $8,888,186, 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. Eight percent, or $1,809,781, relate to cases that the resolution has been postponed at the request of the Office of the Inspector General. The remaining 53 percent, or $12,243,366, 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, 2002 THROUGH MARCH 31, 2003
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL

REPORT AND
REPORT NUMBER
Humana Medical Plan, Inc.
Miami, Florida
1C-EE-00-01-025
April 4, 2002

AUDIT FINDINGS
Defective Pricing
Lost Investment Income

MANAGEMENT RESULTS
Initial negotiations with the Carrier 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 resolution through continued Negotiations or the legal process.

RECOVERED AMOUNT
We have not determined total amount to be recovered on these audits because negotiations are still in progress. We will attain Final audit report.