

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**Management Decisions and Final Actions on the
Office of the Inspector General's Audit Recommendations**

October 1, 2009 - March 31, 2010

Director's Semiannual Report to the Congress

A New Day for the Civil Service



**UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
MAY 2010**



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the Director

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, 2009, to March 31, 2010. 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.

At OPM, we strive to meet our responsibilities for establishing, implementing and overseeing the Federal government's human resources policies; background security investigations; merit system compliance; and administration of a broad range of benefits for our 2.9 million civilian employees, 2.5 million retirees, their families and survivors. I am firmly committed to protecting and improving these vital services and ensuring that we apply best practices.

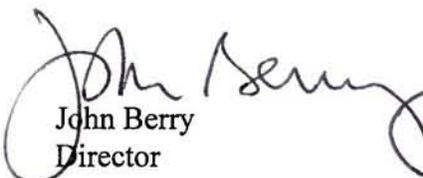
Shortly after becoming OPM Director in April 2009, I tasked the agency's senior leadership with developing a simplified model for restructuring the agency's executive offices and program divisions. The primary reason for reorganizing OPM was to enable our customers and OPM employees, to see in clear, plain English the functions that we perform and the organizations responsible for implementing them. As a result, our existing staff and functions are now better aligned and new staff have been added. For example, we hired a Chief of IT Security to fill a key need and plan to increase the number of Federal employees and contractors involved in supporting IT security functions. OPM is working aggressively to improve its policies and procedures and strengthen the IT security governance program overall, which is one of OIG's noted concerns.

I also created three new offices to help improve the agency's operations. I established an independent Ombudsman to address issues raised by employees and customers of OPM. I also established the Internal Oversight and Compliance office that will undertake reviews and assessments of OPM operations, as well as assist program offices with responses to and follow up on audits conducted by the OIG and Government Accountability Office. I'm pleased to report, that since November 2009, we reduced the number of OIG audit reports with pending actions more than six months old from 70 to 58. Finally, I established the Office of Planning and Analysis and included \$7 million to start a data warehouse to analyze the claims experience of participants in the Federal Employee Health Benefits Program (FEHBP). We hope to identify trends in employee health issues and potentially drive down costs through a better understanding of the Federal employee and retiree population's most common health care needs.

The oversight provided by the OIG helps OPM ensure it remains accountable to our customers and stakeholders, and that we meet the highest standards of public integrity. They are a strategic ally in identifying operational challenges as well as opportunities for improved performance. Through the efforts of the OIG this reporting period, adjustments for the FEHBP program in the amount of \$23.3 million were identified as a result of carrier overcharges and administrative errors. OIG investigators also continue to aggressively pursue criminal activity. Their work ranges from investigating Federal employees who are "Doctor Shopping" in order to illegally obtain controlled substances, to pharmaceutical companies like Alpharma, Inc., who were caught enticing doctors with kickbacks and other payments for falsely misrepresenting the effectiveness of their drug, Kadian. These investigations and others led to 45 arrests, 46 indictments, and 70 convictions with close to \$4.5 million in monetary recoveries due to OPM. The OIG audits and investigations are critical to our stewardship over FEHBP.

One of my top priorities is the annual OIG audit of OPM's consolidated financial statements and consolidated financial balance sheets. I am proud of the fact that OPM received yet another clean audit opinion on our FY 2009 financial statements, with no material weaknesses.

I close this reporting period confident that the OPM team will meet the challenges ahead. OPM's new organizational alignment positions us to drive forward to implement innovative employment practices and protect our merit principles, while ensuring we are complying with sound management practices. Our alliance with the OIG will help ensure that critical controls are in place to ensure consistent, reliable and accurate operations. As a result, I believe we are well positioned to transform the Federal government into the best workplace with the best workforce in the Nation.



John Berry
Director

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

May 2010

<u>Contents</u>	<u>Page</u>
Health and Life Insurance Carrier Audits: Audit Resolution	2
Collection of Disallowed Costs	3
Management Report on Final Action on Audits with Disallowed Costs Reporting Period Ending March 31, 2010	4
Status of the Insurance Audits Highlighted in the Office of the Inspector General's Report	5
Management Decisions Not Implemented Within One Year	7
Comments on Unresolved Management Decisions Over One Year Old	8
Significant Management Decisions October 1, 2009 to March 31, 2010 on Final Reports Issued by the Office of the Inspector General	9

HEALTH AND LIFE INSURANCE CARRIER AUDITS

The Federal Employee's Health Benefit (FEHB), Federal Employee's Group Life Insurance (FEGLI), Flexible Spending Account (FSA), Federal Employee's Dental and Vision Insurance Program (FEDVIP) and Long Term Care (LTC) programs impact the lives of nearly eight million current and former federal employees and their families. Effective administration of these programs requires balancing resources to meet consumer expectations through our partnership, oversight and compliance efforts. Insurance Operations remains committed across all aspects of its stewardship responsibilities in administering the benefit programs to the federal family.

AUDIT RESOLUTION

Insurance Operations' Audit Resolution (AR) team reconciles questioned costs identified in Office of Inspector General (OIG) audits of the FEHB, FEGLI, FSAFeds, FEDVIP and LTC programs. Once the OIG releases a final audit report, work begins to resolve findings, determine the amounts due the Federal Programs, recover funds, and work with carriers and Contract and OPM Officials to implement corrective actions and close the audit. Resolution (determination of receivable) and post-resolution corrective actions (report closure) remain a high priority. While each audit requires a slightly different approach, closing audits entails collaboration between the Contract Officer, OIG, health plans, Office of the Actuary (HMO's), and, on occasion, OPM's General Counsel or counsel from the Plan. AR reviews audit findings, supporting spreadsheets and other documentation from the OIG, while evaluating the Plan's written responses, spreadsheets and health benefits Claim data. Audit Resolution also references the appropriate Contract (e.g. 1039), Federal Acquisition Regulation (FAR) or Rate/Reconciliation Instruction language, and solicits input and opinions from the Health Insurance Group Contract Officers, the OIG, the Plan(s), and the Office of the Actuary.

Each audit is unique. A Plan's response to a monetary audit finding may indicate their agreement or disagreement with the finding. Overpayments may be repaid by check, by certifying that funds have been returned to the FEHB, or via Letter-Of-Credit transaction/adjustment. Plan responses may also contest audit findings, describe extenuating circumstances or question contract language that is believed to ameliorate the assessment of its actions.

A Plan's agreement that a finding was correctly identified as an Overpayment does not guarantee it can be collected. Plans are required to exercise due diligence in recovering overpayments and provide updates on their progress in remediating audit findings. Factors contributing to timely, successful closure of a final audit report include: Age of overpayment when audited, assessment of due diligence demonstrated and interpretation of contract provisions and other subsidiary laws or agreements in place. A plan may also agree with an Overpayment, but declare it to be uncollectible or may contest it based on other circumstances. All such responses, which are frequently accompanied by voluminous support, must be reviewed in detail – due process that elongates final resolution and appropriate corrective actions.

Insurance Operations is intensifying its efforts to close out aged audits. Contracting Officers and Audit Resolution staff are:

- ❖ Reviewing and updating procedures with all stakeholders to resolve audits more efficiently
- ❖ Shortening recovery timeframes extended to carriers
- ❖ Negotiating individual global settlements with health insurance carriers
- ❖ Reviewing, clarifying and updating Contract language to strengthen oversight and effectiveness and address cross-cutting issues
- ❖ Reviewing plans' internal controls to assist in their efforts to reduce the occurrence of overpayments
- ❖ Seeking legal counsel and guidance for the most difficult resolutions
- ❖ Exploring creative resolution strategies, where permissible
- ❖ Expanding staff and training dedicated to audit resolution

We began this period with 12 audit reports pending agency decisions totaling \$10.6 million. The OIG issued nine new reports with unresolved monetary findings totaling \$23.3 million, bringing the work-in-process to \$33.9 million relating to 21 audit reports. Management's decisions on OIG recommendations during this period were \$13.4 million relating to 16 audit reports. This amount is a combination of \$13.3 million in "disallowed costs" (requiring payment to OPM) and a net \$.1 million in "costs not disallowed" (no required payment to OPM). The balance at the end of the period totals \$20.4 million relating to five audit reports.

The "Status of the Insurance Audits Highlighted in the Office of the Inspector General's Report" table summarizes insurance audit resolution activity for those audits released during the period October 1, 2009, through March 31, 2010.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 54 audit reports which had been previously resolved, with \$62.4 million to be collected from the insurance carriers. Management decisions were made on 17 reports requiring the insurance carriers to pay \$13.4 million. Including \$0.1 million in interest and adjustments, this brought the number of audit reports with collection action to 71, totaling \$76.0 million. During this period, we collected \$13.6 million relating to 26 audit reports. We also made an adjustment to the original debt totaling \$3.9 million, which leaves a balance of 45 audit reports and \$58.5 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, 2009, through March 31, 2010.

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS
REPORTING PERIOD ENDING
March 31, 2010**

	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 (10/1/2009)	54	\$62,426
B. 1. Audit reports on which management decisions were made during the period (10/1/2009– 3/31/2010)	17	\$13,435
2. Interest assessed during period	<u>0</u>	<u>\$ 120</u>
C. Total audit reports pending final action during period (total of A and B)	71	\$75,981
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	26	\$13,565
(b) Property	0	0
(c) Other	0	\$ 3,925*
2. Write-offs, waiver	<u>0</u>	<u>0</u>
3. Total of 1 and 2	26	\$17,490
E. Audit reports needing final action at the end of the period (3/31/2010) (subtract D3 from C)	45	\$58,491

* This represents adjustments to original debt.

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

REPORT, REPORT NUMBER, AND DATE	STATUS
Health Net of Arizona, Inc. Woodland Hills, California 1C-A7-00-09-030 November 4, 2009	All outstanding audit issues have been resolved and the Program has been reimbursed \$80,747.
TakeCare Insurance Company, Inc. Tamuning, Guam 1C-JK-00-09-045 February 22, 2010	Awaiting the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Global Duplicate Claim Payment for BlueCross and BlueShield Plans Washington, D.C. 1A-99-00-09-036 October 14, 2009	Reviewing the Plan's response to the outstanding issues. We expect to Resolve all issues and/or initiate Corrective Actions in a timely manner.
Horizon BlueCross BlueShield of New Jersey Newark, New Jersey 1A-10-49-09-025 February 12, 2010	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Global Coordination of Benefits BlueCross and BlueShield Plans Washington, D.C. 1A-99-00-10-009 March 31, 2010	Awaiting Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.

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

REPORT, REPORT NUMBER, AND DATE	STATUS
CareFirst BlueChoice Owings Mills, Maryland 1D-2G-00-09-028 February 25, 2010	All outstanding audit issues have been resolved and the Program has been reimbursed \$107,358.
Information Systems General and Application Controls at BlueCross BlueShield of Alabama Birmingham, Alabama 1A-10-09-09-020 November 5, 2009	Reviewing the 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.
Federal Long Term Care Partners, LLC/BENEFEDS Relating to the Federal Employees Dental and Vision Insurance Program Portsmouth, New Hampshire 1G-LT-00-08-062 November 4, 2009	This audit generated no findings.
Federal Employees Dental and Vision Insurance Program Operations as Administered by Metropolitan Life Insurance Program Bridgewater, New Jersey 2A-II-00-09-019 January 12, 2010	Awaiting the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

BlueCross and BlueShield Audits

<u>Report Date</u>	<u>Determination Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivable as of March 31, 2010</u>
11/09/2004	09/26/2005	10-00-03-102	BCBS GLOBAL COB (Tier 2)	\$8,380,281
03/31/2004	09/24/2004	10-00-03-013	BCBS GLOBAL COB (Tier 1)	970,034
01/18/2008	04/18/2008	10-07-07-016	BCBS of Louisiana	557,675
02/27/2007	08/10/2007	10-09-05-087	BCBS of Alabama	230,410
06/26/2006	12/01/2006	10-11-04-065	BCBS OF MASSACHUSETTS	289,389
10/01/2002	09/25/2003	10-15-02-007	BCBS OF TENNESSEE	109,099
07/25/2007	01/14/2008	10-15-05-046	BCBS OF TENNESSEE	1,329,959
02/20/2008	08/08/2008	10-18-06-052	Wellpoint BCBS (IN, KY, OH)	746,603
07/28/2004	02/22/2005	10-2-9-02-047	BCBS of TEXAS	973,540
04/25/2007	10/26/2007	10-30-05-069	ANTHEM BCBS - COLORADO	366,491
03/24/2006	09/15/2006	10-32-05-034	BCBS OF MICHIGAN	361,752
08/28/2007	03/10/2008	10-33-06-037	BCBS OF North Carolina	678,562
12/14/2007	06/09/2008	10-40-07-022	BCBS OF MISSISSIPPI	31,339
05/03/2004	03/11/2005	10-41-03-031	BCBS OF FLORIDA	1,547,076
10/12/2007	04/18/2008	10-41-06-054	BCBS OF FLORIDA	2,259,568
12/14/2007	06/05/2008	10-42-07-004	BCBS - KANSAS CITY	147,228
06/05/2006	09/15/2006	10-47-05-009	BSBC OF WISCONSIN	327,292
12/15/2004	09/26/2005	10-55-04-010	INDEPENDENCE BCBS	20,190
01/31/2007	06/04/2007	10-58-06-038	Regence BCBS of Oregon	610,144
01/03/2007	06/28/2007	10-69-06-025	Regence BCBS of Washington	58,682
09/15/2006	03/15/2007	10-78-05-005	BCBS OF MINNESOTA	1,056,412
10/17/2005	01/17/2006	10-83-05-002	BCBS OF OKLAHOMA	206,625
07/27/2005	11/10/2005	10-85-04-007	BCBS GLOBAL COB	619,025
02/07/2006	08/15/2006	99-00-04-027	GLOBAL DUPLICATE CLAIMS PAYMENTS	873,492
03/29/2007	09/24/2007	99-00-05-023	Global COB Pymts (BCBS Plans)	1,388,683
03/20/2008	09/08/2008	99-00-06-001	Global COB Pymts (BCBS Tier 5)	937,086
06/25/2008	01/12/2008	99-00-08-007	Global COB (2006)	596,636
			GROUP SUBTOTAL 1A	\$25,673,273

Other Insurance Carriers

<u>Report Date</u>	<u>Determination Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivable as of March 31, 2010</u>
06/20/2008	12/05/2005	80-00-04-058	Group Health Inc.	\$3,772,057
01/18/2008	07/07/2008	1C-3U-00-05-085	United HealthCare of Ohio	\$2,899,649
			Subtotal	\$6,671,706
			Grand Total	\$32,344,979*

* Management Decisions pending on \$4,108,071.

The information above comes from OPM's Audit Report and Receivables Tracking System (ARRTS).

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$28,236,908 for which management decisions were not implemented within one year, 13.4 percent, or \$3,772,057, relate to cases put on hold by OPM or cases that have been closed since March 31, 2010. The remaining 86.6 percent, or \$24,464,851, 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, 2009 THROUGH MARCH 31, 2010
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	AMOUNT RECOVERED
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No Contracting Officers Final Decisions were issued during this period.



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Internal Oversight and Compliance
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