

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**Management Decisions and Final Actions on
the Office of the Inspector General's Audit Recommendations
October 1, 2012 – March 31, 2013**

Director's Semiannual Report to the Congress

a New Day for Federal Service



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
MAY 2013

MESSAGE FROM THE ACTING DIRECTOR

Introduction

The United States Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has completed its Semiannual Report for the period of October 1, 2012, to March 31, 2013. Working alongside the OIG during this period, OPM made progress in many important areas. I am transmitting the report to the U.S. Congress as required by law, along with the OPM management response, which demonstrates how we have worked and continue to work with the OIG to make improvements.

OPM's Response to the Inspector General's Findings

The Inspector General's report highlights key challenges for OPM in the months ahead. While continuing to achieve its mission, OPM has taken steps to eliminate weaknesses in our programs and remains committed to improving program performance in the future. For example:

Federal Employees Health Benefits Program (FEHBP)

Our Healthcare and Insurance team is strengthening its collaboration with the OIG to ensure that participating plans have strong internal controls in place, and that our contracting officers provide effective oversight and administration of these vital benefit programs. OPM and OIG leadership have partnered to develop new procedures and strengthen existing ones.

During the 6-month reporting period, we successfully closed 27 audit reports. For the 12-month period from April 1, 2012, to March 31, 2013, we closed 46 audits, recovering \$29.3 million. As a result, we've markedly reduced the number of unimplemented audit recommendations while recovering funds due to taxpayers.

Information Security

During the last six months, the Chief Information Officer (CIO) has made considerable progress in implementing a centralized information security structure. The CIO has hired three professional Information System Security Officers (ISSOs) to handle security for a number of critical IT systems. The ISSOs have improved the quality of system security and addressed outstanding audit findings. Additionally, the ISSOs have mitigated and closed a significant number of Plans of Actions and Milestones that were over 120 days old. The CIO will continue to pursue funding to hire additional ISSOs. Our goal is to

continue to strengthen information security at OPM through the ongoing centralization and consolidation of all information security functions in the agency under the CIO.

Improper Payments

Both OPM and the OIG take very seriously our responsibility to identify and recover erroneous payments made to deceased annuitants. In keeping with that responsibility, we have developed and are following an improper payment plan. Due to our constant surveillance for potential improper payments and the reporting of deaths, we continue to reduce the number of cases that exceed \$30,000, resulting in fewer referrals to the OIG. We miss fewer deaths due to weekly and annual death matches with the Social Security Administration. Surveys of retirees to identify current information and additional staff have also helped us to better identify fraud, waste, and abuse.

Suspension and Debarment Program

The IG's message focuses on the development of a Suspension and Debarment program for OPM for non-FEHB activities with a special attention on the background investigations program administered by the Federal Investigative Service (FIS).

OPM's Federal Acquisition Regulations (FAR) Suspension and Debarment program was formally established upon the issuance of OPM Contracting Policy 9.4 on March 20, 2013. Since that time, OPM has begun reviewing potential debarment cases, including cases stemming from FIS contracts. OPM's case reviews may result in the debarment of contract companies and/or in prohibiting specific individuals from being employed by, or doing business with, OPM as well as other Federal agencies. Training on the roles and responsibilities of all parties in carrying out OPM's FAR Suspension and Debarment program is being provided to all OPM program offices.

Accomplishments

As we continue to strengthen our programs, OPM remains focused on its mission—to recruit, retain, and honor a world-class workforce to serve the American people. We accomplish this mission by supporting agencies with personnel services and policy leadership including staffing tools, guidance on labor-management relations, and programs to improve workforce performance.

As Acting Director, my goal is to continue in the tradition of my predecessor, within current fiscal constraints. Among the highlights:

Retirement Claims Processing

During the reporting period, OPM continued to make measurable progress in reducing the retirement claims backlog. As of the end of March 2013, the retirement claims inventory stood at 36,603 claims—a 40% reduction since January 2012. This reduction took place despite an unprecedented surge in Federal retirements—approximately 43 percent more than were received for the same period in 2012. This achievement can be attributed to the hiring of additional people, process improvements as a result of our Lean Six Sigma efforts, and the use of overtime. Processing retirement claims promptly is perhaps the most direct way that OPM meets its strategic goal to honor Federal service.

Multi-State Plan Program Regulations and Preparations

In March 2013, OPM issued its final rule establishing the standards for the Multi-State Plan Program (MSPP) under the Affordable Care Act. The MSPP will promote competition in the new health insurance marketplaces by providing consumers with additional choices of a high-quality, private insurance plans. The MSPP builds on OPM's extensive experience with the Federal Employees Health Benefits program and is well on its way to a successful implementation.

Hiring of Veterans

Veteran new hires in the Federal workforce have risen from 24% in 2009 to 28.9% in 2012—the highest it has been in 20 years. Hiring more veterans not only honors their service, but also allows the Government to retain the investments made in the men and women who are America's veterans.

Hiring of Minorities and Persons with Disabilities

OPM has assisted agencies in recruiting and developing an increasingly diverse and inclusive Federal workforce. At the leadership level, 5.4 percent of new hires in the Senior Executive Service were Hispanic, 12.4 percent African-American, and 37 percent women. The share of senior executives from each of those groups has never been higher.

We have also lifted hiring of Americans with disabilities to a new high of 7.96% of all new hires. Including veterans who are 30% or more disabled, people with disabilities now represent 14.7% of all new hires—also an all-time high.

Performance Management and Goals, Engagement, Accountability, and Results (GEAR) Implementation

During the reporting period, we have continued to bring labor and management together on implementing the GEAR framework to help improve both employee and

organizational performance. Five agencies, including OPM, are placing increased emphasis on using the GEAR framework recognizing that every successful organization must have clear, aligned goals, engaged employees and supervisors, and accountability for every employee at every level.

Federal Domestic Violence Policy

On April 18, 2012, the President issued a Memorandum to promote the health and safety of Federal employees by acting to prevent the impact of domestic violence in the Federal workplace, and by supporting and assisting Federal employees whose working lives are affected by such violence.

In February 2013, as a result of an interagency working group, OPM issued Government-wide guidance to address the effects of domestic violence, sexual assault, and stalking on the Federal workforce. Each agency has been tasked with developing or modifying an agency-specific policy consistent with the new guidance. OPM, in partnership with the Departments of Justice and Health and Human Services, offered a series of three webinars addressing issues relating to the guidance.

Combined Federal Campaign (CFC) Oversight

For over 50 years, OPM has administered the CFC, connecting millions of Federal employees with tens of thousands of charities. To preserve and continue this spirit of giving, OPM is proactively pursuing regulatory changes recommended by an advisory committee of stakeholders and non-profit industry experts. These proposed changes will make the CFC more efficient, more transparent, and more accountable, while continuing the commendable tradition of charitable donations by Federal, postal, and military service personnel.

The OIG has been helpful to OPM in addressing identified weaknesses and in strengthening our programs. I want to thank the OIG staff for continuing to provide independent review of OPM activities, helping us better serve the American people.

Sincerely,



Elaine Kaplan
Acting Director

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

May 2013

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HEALTH, LIFE and INDIVIDUAL BENEFITS AUDITS

More than 8 million lives are covered by the Federal Employees Health Benefits (FEHB), Federal Employees Group Life Insurance (FEGLI), Federal Flexible Spending Account Program (FSAFeds), Federal Employees Dental and Vision Insurance Program (FEDVIP), and the Federal Employees Long Term Care Insurance Program (FLTCIP). These programs provide important benefits and impact current and former Federal employees and their families. Together they form a key component of the Federal Government's compensation package, helping agencies recruit, retain, and honor a world-class workforce. Effective administration of these programs requires balancing resources to meet consumer expectations through our partnership, oversight, and compliance efforts. The U.S. Office of Personnel Management's (OPM's) Healthcare and Insurance (HI) remains committed, across all aspects of its stewardship responsibilities, in administering the benefit programs to the Federal family.

AUDIT RESOLUTION

The Federal Employee Insurance Operations' (FEIO) Audit Resolution (AR) team reconciles monetary and non-monetary audit findings identified by the Office of the Inspector General (OIG) in its audits of the FEHB, FEGLI, FSAFeds, FLTCIP and FEDVIP programs. Additionally, AR facilitates the resolution of Government Accountability Office (GAO), Internal Oversight and Compliance (IOC) and other audits or reviews of HI programs. To maximize timely, fair, and accurate resolution, work begins before the OIG releases a final audit report. Key stakeholders evaluate draft findings to reduce potentially avoidable or time-consuming procedural and regulatory challenges.

AR determines the amounts due the Federal programs, recovers funds, and works with carriers and OPM officials to implement corrective actions and close audits. Resolution (the determination of a receivable due the FEHB) and the completion of post-resolution corrective actions (report closure) remain a high priority. While each audit type requires a different approach, closing audits entails collaboration among the contract officer (CO), OIG, health plan (plan), Office of the Actuary – for Health Maintenance Organizations (HMO) only – and, on occasion, OPM's General Counsel or the plan's counsel. AR reviews audit findings, supporting documentation, and spreadsheets from the OIG, and evaluates the plan's written responses and other submissions including health benefits claim data. AR also references the appropriate contract (e.g., CS 1039), Federal Acquisition Regulation (FAR), or rate/reconciliation instruction language, and may solicit input and opinions from the COs, the OIG, the plan(s), and the Office of the Actuary.

Each audit is unique. A plan's response to a monetary finding may indicate its agreement or disagreement with the finding. Overpayments may be repaid by check, by certifying that funds have been returned to the FEHB, or by letter-of-credit transaction/adjustment. A plan may agree with an overpayment but, after unsuccessfully attempting to collect it, declare it to be uncollectible or may contest audit findings based on other circumstances. A plan may contest findings by describing errors, oversight or other extenuating circumstances it believes are at play, or may question the interpretation of contract language in support of its actions.

Plan responses, which may be accompanied by voluminous evidence, must be reviewed in detail. Such due process can prolong corrective actions and final resolution.

A plan's agreement with a finding, or concurrence that an overpayment was made, does not necessarily mean that monies can or will be collected. Plans are contractually 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 findings within a final audit report may include prompt, diligent action by plans to recover overpayments and resolve findings; appropriate resourcing; effective internal controls; age of overpayment when audited; third-party contracts, resource constraints, and interpretation of contract provisions and other subsidiary laws or agreements in place.

During this reporting period, FEIO continues its focus on closing audit recommendations including those generated prior to the reporting period. FEIO have achieved the following during FY13:

- ❖ Collaborated with key stakeholders to fully resolve 27 open audits
- ❖ Closed 72 monetary recommendations
- ❖ Closed 56 non-monetary recommendations
- ❖ Recovered \$12.7 million and allowed \$5.6 million

HI is strengthening its collaboration with the OIG to ensure that participating plans have strong internal controls in place, and that our COs provide effective oversight and administration of these vital benefit programs. FEIO and OIG leadership have partnered to develop new, and strengthen existing, procedures to resolve audits in a manner that is clear, supportable, and reflects the many factors that must be considered in resolving the diversity of findings identified in the Experience Rated, Community Rated, Special Audit and Information Systems final reports.

CO's discretion is a key aspect of IO's oversight of the benefit programs. Collaborating with all stakeholders, including OIG, COs must consider many technical, cost, and performance issues in determining appropriate audit resolution actions, including the closure of audit recommendations. COs weigh not only the nature and severity of audit findings, but also costs to the program for implementation, reasonable timeframes for remediation, the size and reach of a benefit plan and its possible impacts on participants, some of whom reside in areas underrepresented by health care providers. In this context service availability and pragmatic considerations may prove pivotal in deciding to require implementation of an audit finding.

We began FY2013 with one audit report pending agency decision totaling approximately \$0.6 million. The OIG issued 12 new reports with unresolved monetary findings totaling \$12.0 million, bringing the work-in-progress to \$12.6 million under 13 audit reports. This amount consists of \$13.1 million in "disallowed costs" (requiring payment to OPM) and a net (\$0.5) million in "costs not disallowed" (payment to OPM not required).

RECOVERY AND ADJUSTMENTS TO DISALLOWED COSTS

FEIO and AR have had another productive reporting period.

Prior to the reporting period, AR resolved (made determinations on) 23 audits representing \$19.5 million to be collected from insurance carriers. AR will close these audits as funds are received and pertinent documentation, which satisfactorily addresses non-monetary recommendations and uncollectible and plan-contested amounts, is verified.* During the reporting period, resolutions were made on 14 additional audits representing \$12.8 million to be collected from insurance carriers. During these two periods, resolutions totaled 37 audits with monetary recommendations representing \$32.3 million. As of March 31, we recovered \$12.9 million and made adjustments to original debt of \$5.9 million in 30 audits. The total receivable for all open FEHB audits as of the end of the reporting period was \$13.5 million.*

AR successfully closed 27 insurance audit reports during the 6-month reporting period. This includes activity across FEHB and individual benefits audits. For the 12-month period, April 1, 2012 – March 31, 2013, 46 audits were closed, recovering \$29.3 million and appropriately allowing another \$55.3 million for a total of \$84.5 million. As a result, the receivable on audits older than 1 year has dropped from \$14.6 million to \$2.7 million since April 1, 2012; the number of one year old audits with an open receivable has been reduced from 9 to 4; and the average age of these audits decreased from 1,011 days to 428 days. This is the result of enhanced collaboration with internal and external partners and unwavering organizational commitment.

Review and development of corrective action plans will continue to be integral to our oversight, compliance, and monitoring of the operations of contracts.

* This information is derived from the CFO report titled, “Management Reports on Final Action on Audits with Disallowed Costs Reporting Period Ending March 31, 2013.” This report reflects only FEHB Program audits with monetary findings.

AUDITS OVER ONE YEAR OLD PENDING CORRECTIVE ACTION AND FINAL CLOSURE

As noted above, FEIO has worked diligently and effectively to reduce the number of aged BlueCross BlueShield audits pending final closure. The BlueCross BlueShield audits listed below are receiving special attention as we work to address the issues in each. Nine audits previously on this list were part of a global settlement, which was completed in December, returning over \$4 million to the FEHBP. Details on the remaining open recommendations have been reported in prior Semiannual and Management Response Reports. Health Plans have been informed of corrective actions that must be taken, although not all actions have yet been completed.

BlueCross and BlueShield Audits

Report Date	Audit Number	Status	Audit Name
01/11/2012	1A-99-00-11-022	Corrective Action Pending	Global Duplicate Claim Payments for BlueCross BlueShield Plans
02/02/2012	1H-01-00-11-011	Corrective Action Pending	BlueCross BlueShield's Mail Order Pharmacy Operations as Administered by CVS Caremark
03/28/2012	1A-99-00-11-055	Corrective Action Pending	Global Coordination of Benefits for BlueCross and BlueShield Plans

HMOs, another class of audits, generally involve complex calculations related to the methodology used to establish rates for Similarly Sized Subscriber Groups (SSSG). The SSSG methodology is then used to verify whether the FEHB Program received correctly discounted rates. Disputes regarding interpretation of the guidance used by plans to identify SSSGs can lead to protracted and complex legal standoffs, and the resolution may require coordination and action between the CO, the OIG, the Office of the Actuary, AR, and the Office of the General Counsel. Actions required to resolve these audits vary by level of complexity. The CO may evaluate the need for amending contract language and must also collaborate with the Actuaries and the OIG to improve clarity and the plans' understanding of the Rate Instructions.

In 2012, OPM began transitioning to the use of a Medical Loss Ratio (MLR) for Non-Traditional Community Rated plans as a replacement for an examination of SSSGs in determining whether the FEHB Program received competitive rates from HMO plans. The MLR methodology uses a ratio of incurred claims to earned premiums over a specific period as opposed to a detailed examination of the rates, benefits, discounts, and premiums used by a SSSG. By 2014, OPM will fully implement MLR for Non-Traditional Community Rated Plans. Use of the MLR is expected to simplify the process and may make it easier to implement, document, audit, and resolve.

Other Insurance Carriers

Report Date	Audit Number	Status	Audit Name
09/08/2011	1H-80-00-10-062	Corrective Action Pending	Group Health Incorporated's Pharmacy Operations*
02/01/2012	1J-0L-00-11-033	Corrective Action Pending	Federal Employees Dental and Vision Insurance Program as Administered by OPM
03/12/2012	1B-31-00-10-038	Corrective Action Pending	Government Employees Health Association, Inc.
03/13/2012	1C-RL-00-12-033	<i>Closed</i> on 4/15/13	Grand Valley Health Plan, Inc.
03/14/2012	1A-10-00-11-052	Corrective Action Pending	Information Systems General and Application Controls at Medco Health Solutions, Inc.*

Overall, as of this report, there is a total of \$2.7 million outstanding pertaining to audits for which full recoveries and corrective actions were not completed within one year. Contractually, carriers must follow standard business practices and make diligent efforts to collect overpayments. However, until the funds have been recovered, or it has been determined that the funds are uncollectible and must be written-off, the receivable must remain on OPM's book of record. With few exceptions our new emphasis on more timely resolutions (with greater focus on resolving issues during an audit's draft phase) should shorten and simplify the overall resolution process. Significantly, it will also better allow audit reports to be used as a tool to enhance management's oversight and carrier's compliance.

STATUS OF THE INSURANCE AUDITS HIGHLIGHTED IN THE OIG'S SEMIANNUAL REPORT

(resolution activity for audits released from October 1, 2012, through March 31, 2013)

REPORT, REPORT NUMBER, AND DATE	STATUS
PacifiCare of Texas, Inc. Cypress, California 1C-GF-00-12-030 November 1, 2012	CLOSED. All outstanding audit issues have been fully resolved.
Coventry Health Care, Inc. Columbia, Maryland 1C-IG-00-12-049 February 21, 2013	Under review. All monies recovered. We expect to resolve all remaining issues and/or initiate corrective actions in a timely manner.

* All open recommendations on these audits are non-monetary (i.e., there were no monetary recommendations or all funds have been recovered).

REPORT, REPORT NUMBER, AND DATE	STATUS
Global Assistant Surgeon Claims Overpayments for BlueCross and BlueShield Plans Washington, D.C. 1A-99-00-12-055 February 21, 2013	Under review. We expect to resolve all issues and/or initiate corrective actions in a timely manner.
Global Coordination of Benefits for BlueCross and BlueShield Plans Washington, D.C. 1A-99-00-12-029 March 20, 2013	Under review. We expect to resolve all issues and/or initiate corrective actions in a timely manner.
Triple-S Salud, Inc. San Juan, Puerto Rico 1D-89-00-12-036 March 18, 2013	CLOSED. All outstanding audit issues have been fully resolved.
Information Systems General and Application Controls at Hawaii Medical Service Association Honolulu, Hawaii 1D-97-00-12-012 October 17, 2012	Under review. We expect to resolve all issues and/or initiate corrective actions in a timely manner.
Information Systems General and Application Controls at EmblemHealth New York, New York 1D-80-00-12-045 December 10, 2012	Under review. We expect to resolve all issues and/or initiate corrective actions in a timely manner.
Information Systems General and Application Controls at Aetna, Inc. Hartford, Connecticut 1C-22-00-12-065 March 18, 2013	Under review. We expect to resolve all issues and/or initiate corrective actions in a timely manner.
Federal Flexible Spending Account Program's Operations as Administered by OPM 4A-RI-00-12-024 February 6, 2013	CLOSED. All outstanding audit issues have been fully resolved.
Mail Handlers Benefit Plan's Pharmacy Operations as Administered by Caremark PCS Health Northbrook, Illinois 1B-45-00-12-017 December 13, 2012	CLOSED. All outstanding audit issues have been fully resolved.



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