

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**Management Decisions and Final Actions on the
Office of the Inspector General's Audit Recommendations
April 1, 2013 – September 30, 2013**

Director's Semiannual Report to the Congress

a New Day for Federal Service



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
JANUARY 2014

MESSAGE FROM THE DIRECTOR

Overview

I am pleased to respond to the United States Office of Personnel Management's (OPM) Office of the Inspector General (OIG) Semiannual Report to the U. S. Congress for the period of April 1, 2013, to September 30, 2013. In accordance with Section 5 of Public Law 95-452, as amended, we transmit our report of management decisions and final actions taken on OIG audit recommendations to the U. S. Congress.

OPM concurs with the OIG that the need exists for immediate, strong, and continuing oversight of Revolving Fund programs. OPM supports passage of the Security Clearance Oversight and Reform Enhancement (SCORE) Act to provide adequate funding for oversight of Revolving Fund operations.

OPM's Response to the Inspector General's Findings

OPM remains focused on our mission—to recruit, retain, and honor a world-class workforce to serve the American people. OPM is grateful to the OIG for the audit findings and recommendations made during this reporting period. The OIG findings and recommendations help us make decisions and take actions to speed process and program improvements in support of our mission.

OPM took important steps this reporting period to reconcile monetary and non-monetary OIG audit findings that strengthen stewardship of the benefit programs and make other improvements. For example:

Federal Employees Health Benefits Program (FEHBP)

During the 6-month reporting period, we successfully closed 17 audit reports. OPM closed 39 monetary recommendations, 35 non-monetary recommendations, and recovered \$10.2 million dollars. As a result, OPM continues to reduce the number of outstanding unimplemented audit recommendations while increasing the balance of funds recovered for taxpayers.

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

Multi-State Plan Program

Under the Affordable Care Act (ACA), OPM is designated to implement and oversee the Multi-State Plan Program (MSPP). OPM published rules in the Federal Register to explain to consumer groups and health insurance issuers how the program will operate. The final regulation established the guidelines on fraud and abuse prevention and provided for phased expansion of the program to all 50 states. Additionally, OPM developed new technology to collect, review, and certify that all rates and benefits offered by each Multi-State Plan are in compliance with applicable state and federal laws. OPM is promoting competition in the new health insurance marketplaces by providing consumers high-quality, private insurance plan choices.

Benefits Coverage for Same Sex Spouses

On July 26, 2013, the Supreme Court ruled that section 3 of the Defense of Marriage Act (DOMA) is unconstitutional. As a result of this decision, OPM is now able to extend benefits to legally married same-sex spouses of Federal employees and annuitants. Health insurance and dental and vision insurances are now available to these spouses, their children and stepchildren. These spouses and children are eligible family members under the Federal Employees Group Life Insurance Program (FEGLI). Spouses are now qualified relatives eligible to apply for Federal Long Term Care Insurance (FLTCIP). Employees in legal same-sex marriages can use their flexible spending accounts for expenses for spouses, children and stepchildren.

Quality Background Investigations

OPM is working with the Office of the Director of National Intelligence (ODNI) and other Executive Branch agencies, in accordance with E.O. 13467, and within the framework of the Suitability and Security Clearance Performance Accountability Council (PAC). One of our priorities is to put in place more robust policies, processes, and procedures, including procedures for evaluating investigative quality and sufficiency. Significant activities undertaken to improve quality include:

- Quality Center of Excellence
- Quality Assessment Working Group (QA WG)
- Contract Oversight Initiatives
- Training Accreditation and Workshops
- Lean Six Sigma

Our continuous improvement initiatives serve to enhance the quality of all aspects of the background investigations program. OPM is committed to full and transparent

cooperation on engagements, audits, and investigations that help ensure fairness, accountability, and resolution of employee misconduct and contractor fraud.

Personnel Investigations Processing System (PIPS)

Our Federal Investigative Services (FIS) team worked diligently to resolve the vulnerabilities identified by the OIG in its Federal Information Security Management Act (FISMA) audit of the Personnel Investigations Processing System (PIPS).

We have performed an extensive review of the system security plan to validate security control categories. Through analysis and collaborative efforts, we determined there were a number of inappropriately categorized security controls requiring updates. The security controls in question have been updated to reflect the proper categorization in accordance with regulations. An independent test of all security controls for the system is scheduled for FY 2014.

Retirement Services Systems Modernization (RSSM)

As of October 2013, the balance of retirement claims had fallen to fewer than 15,000 claims, and OPM was near its goal of a steady state of processing as many claims as we received. Information technology improvements, however, are required to drive dramatically better performance. The Retirement Services Systems Modernization (RSSM) strives to improve outdated retirement services information technology systems. The project will achieve business process improvements by infusing current innovative methods from private industry. Previous efforts to modernize retirement systems were unsuccessful as they focused on achieving automation improvements, whereas this effort will focus on changing business models and creating a sustainable IT architecture.

OPM seeks to provide the best possible customer service experience to retirees and survivors while improving efficiencies and generating cost savings. The timely processing of retirement claims is one of the most direct ways that OPM meets its strategic goal to honor Federal service.

Modernizing Information Technology

OPM is establishing a 100-day IT plan that will detail OPM's effort to utilize new technologies in order to maximize resources and drive efficient customer-focused solutions. The plan will promote the strategic use of enterprise-data to better serve the needs of our customers and stakeholders. At the same time, many bad actors are equally interested in getting access to OPM enterprise-data, and OPM must improve our information security controls in the face of reduced or flat IT budgets. The Plan will provide a roadmap to ensure a strong information security platform that is adaptable and

attainable, while maintaining a deeper understanding of the data security threats we face as an agency. The plan will further define near, middle, and long-term strategies for implementing customer-focused technology improvements that help promote process and program improvements that help OPM achieve our mission to recruit, retain, and honor a world-class and diverse workforce that serves the American people.

Veterans Hiring

Under OPM's leadership of the President's Veterans Employment Initiative, the number of veterans in the Federal workforce continues to climb. Based on the most recent data available, the Government hired approximately 195,000 new employees in FY 2012 of which approximately 56,000 were veterans, equaling 28.9 percent of total hires. As it stands now, approximately 30% of all Federal employees are veterans of the United States Armed Forces. The commitment to hiring veterans honors their service and sacrifice to our country and provides a return on the investment America made in the training, development, and education of our nation's veterans.

Performance Information

During this period, the OIG noted OPM's need to strengthen controls of the collection, review, and reporting of performance information in the Agency Performance Report (APR). We are taking corrective actions to improve the transparency of procedures and establish change control procedures. We are conducting quality assurance reviews and identifying OPM approving officials that must certify modifications to performance targets when they are needed.

Enforcement Activities

The OIG highlights a number of instances of fraud in OPM's benefit and Revolving Fund programs. OPM does not tolerate fraud. OPM works hard to prevent fraud through a robust integrity assurance program, multiple levels of review, and workforce education and training. We work hand in hand with the OIG to ensure allegations of employee misconduct or contractor fraud are prosecuted to the fullest extent of the law.

The OIG describes the implementation of the OPM Suspension and Debarment program which is reducing fraud in OPM programs. 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 Federal Acquisition Regulation Suspension and Debarment program is provided to all OPM programs.

Conclusion

The OIG report for this period helps us identify weaknesses and recommendations to strengthen our programs. I sincerely want to thank the Inspector General and OIG staff for continuing to provide independent review of OPM activities, and helping us to better serve the American people.

Sincerely,

A handwritten signature in blue ink that reads "Katherine Archuleta". The signature is fluid and cursive, with a long horizontal stroke at the end.

Katherine Archuleta
Director

MANAGEMENT RESPONSE
TO THE INSPECTOR GENERAL’S SEMIANNUAL REPORT
TO CONGRESS
November 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. Healthcare and Insurance (HI) remains committed across all aspects of its stewardship responsibilities in administering the benefit programs to the Federal family.

Audit Resolution

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, LTC 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 are involved throughout the audit process and evaluate draft findings to reduce potentially avoidable, costly, and/or time-consuming procedural and regulatory challenges.

AR determines the amounts due the Federal Programs, recovers funds, and works with carriers, Contract, and OPM officials to implement corrective actions and close the audit. Resolution (the determination of a receivable due the FEHB) and the completion of post-resolution activities (recoveries, implementation of corrective actions, and 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 Counsel from the Carrier. 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. Audit Resolution 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 Carrier(s), and the Office of the Actuary.

Each audit is unique. A Carrier's response to a monetary finding may indicate their agreement or disagreement with the finding. Overpayments are typically repaid by check or by certifying that funds have been returned to the FEHB via Letter-Of-Credit transaction/adjustment. A Carrier 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. Carriers 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.

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

A Carrier's agreement with a finding, or concurrence that an overpayment was made, does not necessarily mean that monies can or will be collected. Carriers 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 Carriers 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 continued its focus on closing audit recommendations including those that were generated prior to this reporting period. We are pleased that Insurance Operations (IO), including COs and AR staff has:

- ❖ Collaborated with key stakeholders to fully resolve 17 open audits
- ❖ Closed 39 Monetary Recommendations
- ❖ Closed 35 Non-monetary recommendations
- ❖ Recovered \$10.2 million and allowed \$4.0 million

Healthcare and Insurance values its collaboration with the OIG which helps ensure that participating Carriers 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.

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

Reporting Period Highlights

HI and FEIO have continued to drive positive results this period.

Prior to the reporting period, AR resolved (made determinations) on 16 audits representing \$13.5 million to be collected from Carriers. AR will close these audits as funds and pertinent

documentation is received that satisfactorily addresses non-monetary recommendations, uncollectible, and plan-contested amounts.*

During the reporting period, resolutions were made on 8 additional audits representing \$16.9 million to be collected from Carriers. This totals 24 audits with monetary recommendations representing \$30.4 million. As of September 30, we recovered \$10.2 million and made adjustments to original debt of \$3.5 million in 14 FEHB audits. The total receivable for all open FEHB audits as of the end of the reporting period was \$16.7 million.*

AR successfully closed 17 Insurance audit reports during the 6 month reporting period. This includes activity across the FEHB and Individual Benefits and Life arenas. For the 12 month period, October 1, 2012 – September 30, 2013, 44 audits were closed, recovering \$22.9 million and appropriately allowing another \$9.6 million for a total of \$32.5 million. As a result, the receivable on audits older than one year has continued to drop, from \$5.6 million to \$2.0 million since October 1, 2012, the number of one year old audits with an open receivable has been reduced from 7 to 4 and the average age of these audits decreased by 44.9%. 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.

Audits Over One Year Old Pending Corrective Action and Final Closure

FEIO has worked diligently and effectively to reduce the number of aged BlueCross BlueShield audits pending final closure. OPM stakeholders meet monthly to discuss open recommendations for all audits and Health Plans are informed of corrective actions that must be taken to address internal control weaknesses.

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
03/28/2012	1A-99-00-11-055	Closed 11/12/13	Global Coordination of Benefits for BlueCross and BlueShield Plans
07/16/2012	1A-99-00-12-001	Corrective Action Pending	Global Omnibus Budget Reconciliation Act of 1993 Claims for BlueCross and BlueShield Plans

* The number of audits was revised per the CFO's: "Management Report on Final Action on Audits with Disallowed Costs Reporting Period Ending September 30, 2013." This report reflects only FEHB Program audits with monetary findings.

Community Rated Plan Audits

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 Carriers to identify SSSGs can lead to protracted and complex standoffs involving legal issues, and the resolution may require coordination and action between the CO, the OIG, the Office of the Actuary, Audit Resolution 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 Carriers’ understanding of the rate instructions.

In 2013, OPM began use of the Medical Loss Ratio (MLR) for Non-Traditional Community Rated Carriers, as a replacement for an examination of SSSGs in determining whether the FEHB Program received competitive rates from HMO Carriers. 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. Use of the MLR may simplify the process and make it easier to implement, document, audit, and resolve. No Community Rated Carrier Audits older than one year were open as of the end of this reporting period.

Other Insurance Carrier Audits

Report Date	Audit Number	Status	Audit Name
03/12/2012	1B-31-00-10-038	Corrective Action Pending	Government Employees Health Association, Inc.
08/09/2012	1B-31-00-11-066	Corrective Action Pending	Information Systems General and Application Controls at Government Employees Health Association, Inc.

Overall, as of this report there is a total of \$1.8 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. Our emphasis on more timely resolutions (with greater focus on resolving issues during an audit’s draft phase) shortens and simplifies the overall resolution process. Significantly, it allows audit reports to be used as a tool to enhance FEIO Management’s oversight and Carrier’s compliance.

Special Audits

In addition to auditing FEHB activities, the OIG also audits the Federal Employees’ Group Life Insurance (FEGLI) program, the Flexible Spending Accounts (FSAFEDS) program, Federal Long Term Care Insurance Program (FLTCIP), and Federal Employees Dental and Vision Benefit Program (FEDVIP).

This reporting period the OIG audited the FEDVIP operations as administered by FEP Blue Vision. The audit identified one procedural finding. OPM is taking appropriate corrective action(s).

Information Systems Audits

The OIG performs independent oversight of OPM's internal information technology and security program. This includes annual audits of major IT systems to ensure sufficient controls are in place to protect system operations and the privacy of individuals. The work of the OIG extends to the general and application controls of private health insurance carriers, as discussed previously.

During this reporting period, the OIG conducted an audit of OPM's USA Staffing System. This system enables OPM to design custom assessment tools, job application questionnaires, and job vacancy announcements for government jobs. The OIG issued no findings or recommendations as a result of this audit.

The OIG also conducted an audit of the OPM's Personnel Investigations Processing System, utilized by OPM to process hundreds of thousands of background investigations each year. Three audit issues were closed and documentation has been submitted to the OIG in December 2013 to close the remaining issue. To close the three audit issues, OPM evaluated, verified, and tested system controls, and revised the existing Plan of Action and Milestone (POA&M) Weakness Completion Plan. To address the remaining issue, OPM developed a detailed action plan to remediate all overdue POA&M items.

On July 19, 2013, the OIG issued the final audit report on IT security controls for OPM's Serena Business Manager, used to design, develop, test, and implement applications used by multiple OPM organizational units. To close the two identified audit issues, OPM is auditing user account access across all applications and implementing access agreement forms.

Internal Audits

The OIG focuses on improving the efficiency and effectiveness of OPM operations and internal controls. For instance, the OIG issued a report assessing the relevance and reliability of OPM performance information. The OIG found that OPM needs to strengthen controls over the collection, review and reporting of performance information in the Annual Performance Report (APR). As of December 2013, corrective actions have been initiated by OPM and sent to the OIG for review to address the five issues identified in the audit. For example, the Chief Financial Officer (CFO) updated the OPM Financial Management Manual to address findings regarding internal controls. Federal Investigative Services also worked with CFO to clarify language in the FY 2012 Annual Performance Report. Additionally, Retirement Services developed and tested a new measure related to OPM retirement claims processing timeliness.

Enforcement Activities

The OIG highlights a number of instances of fraud in OPM's benefit and Revolving Fund programs. OPM does not tolerate fraud. OPM works hard to prevent fraud through a robust integrity assurance program, multiple levels of review, and workforce education and training. We work hand in hand with the OIG to ensure allegations of employee misconduct or contractor fraud are prosecuted to the fullest extent of the law.

The OIG describes the implementation of the OPM Suspension and Debarment program which is reducing fraud in OPM programs. 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 Federal Acquisition Regulation Suspension and Debarment program is provided to all OPM programs.

Status of the Audits Highlighted in the Office of the Inspector General's Semiannual Report

Resolution Activity for Audits Released from April 1, 2013, through September 30, 2013

	Report, Report Number, and Date	Status
1	MVP Health Care – Central Region Schenectady, New York 1C-M9-00-12-056 April 1, 2013	CLOSED. All outstanding audit issues have been fully resolved.
2	Coventry Health Care of Kansas, Inc. Kansas City, Missouri 1C-HA-00-12-069 June 3, 2013	CLOSED. All outstanding audit issues have been fully resolved.
3	Global Audit of Continuous Stay Claims for BlueCross and BlueShield Plans Washington, D.C. 1A-99-00-13-004 August 20, 2013	In Progress. Corrective Actions and/or recoveries have been initiated and resolution is closely monitored by FEIO.
4	Florida Blue Jacksonville, Florida 1A-10-41-12-050 September 10, 2013	In Progress. Corrective Actions and/or recoveries have been initiated and resolution is closely monitored by FEIO.
5	Capital District Physicians' Health Plan Albany, New York 1D-SG-00-13-010 May 30, 2013	CLOSED. All outstanding audit issues have been fully resolved.
6	Information Technology Security Controls for OPM's USA Staffing System Washington, DC 4A-HR-00-13-024 June 21, 2013	CLOSED. No findings or recommendations were issued.

	Report, Report Number, and Date	Status
7	Information Technology Security Controls for OPM's Personnel Investigations Processing System Washington, DC 4A-IS-00-13-022 June 24, 2013	Three audit issues are CLOSED. Documentation was submitted to the OIG to close the remaining issue in December 2013.
8	Information Technology Security Controls for OPM's Serena Business Manager Washington, DC 4A-CI-00-13-023 July 19, 2013	In Progress. Corrective Actions have been initiated and resolution is closely monitored by the Office of the Chief Information Officer.
9	Information Systems General and Application Controls at BlueCross BlueShield of Tennessee Chattanooga, Tennessee 1A-10-05-13-002 August 6, 2013	In Progress. Corrective Actions have been initiated and resolution is closely monitored by FEIO.
10	Information Systems General and Application Controls at WellPoint Roanoke, Virginia 1A-10-00-13-012 September 10, 2013	In Progress. Corrective Actions have been initiated and resolution is closely monitored by FEIO.
11	Assessing the Relevance and Reliability of OPM's Performance Information Washington, DC 4A-CF-00-12-066 April 1, 2013	In Progress. Corrective Actions have been initiated by Retirement Services, the Chief Financial Officer, and Federal Investigative Services. As of December 2013, documentation was submitted to the OIG and is under review.
12	Federal Employees Dental and Vision Insurance Program Operations Chicago, IL; Latham, NY; and San Antonio, TX 1J-0C-00-13-025 September 17, 2013	In Progress. Corrective Actions have been initiated and resolution is closely monitored by FEIO.



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