

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**Management Decisions and Final Actions on the
Office of the Inspector General's Audit Recommendations
April 1, 2011 - September 30, 2011**

Director's Semiannual Report to the Congress

a New Day for Federal Service



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
NOVEMBER 2011

MESSAGE FROM THE DIRECTOR

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has completed its Semiannual Report for the period April 1, 2011, to September 30, 2011. Working with our OIG, OPM made progress in many important areas during this period. 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.

OPM is focused on its mission – to recruit, retain and honor a world-class workforce to serve the American people. We do so by supporting U.S. agencies with personnel services and policy leadership including staffing tools, guidance on labor-management relations and programs to improve work force performance. Our accomplishments these past six months show that we remain solidly committed to that mission.

Among the highlights:

- OPM's Federal Training and Development Wiki was recognized by the Training Officers Consortium with an innovation award in January of 2011. Our Wiki is a collaborative website that shares highly-linked and easily updatable content to meet the needs of the federal learning and development community.
- The Federal Employee Health Benefits Program, which insures over eight million Americans and is managed by OPM, announced a very low health care premium increase. Our most popular plan raised rates just 1.6%. Overall, our 2012 premiums will rise by an average of 3.8% - less than is predicted for similar plans. Thanks to our Health and Insurance staff (HI), federal employees and their families will continue to receive health coverage at very affordable rates.
- OPM's Federal Employee Viewpoint Survey results continue to improve. We have moved into the top ten best agencies for four main human resource indexes. Our survey response rate of 73% put us well above the Government-wide response rate of 49%. Out of 37 surveyed agencies, we ranked 5th in our level of job satisfaction. I am very pleased by these results and appreciate the input from all of our staff.

The Inspector General's (IG) message focuses on the need for OPM to stop improper payments to deceased annuitants. Although improper payments in this program are already less than two-tenths of one percent of annual payments, I agree that our goal is to

make no improper payments at all. I have been working closely with the IG to achieve this. In fact, we have already implemented 10 of the 14 recommendations from the IG's previous reports on this issue. Action has been taken on all \$600 million in improper payments made in the past 5 years, including \$113 million currently in collection. To maintain focus on ending improper payments, I have named four senior members of my staff who will work directly with me to resolve the final four open recommendations.

We encourage anyone who is receiving improper payments to contact us immediately. Taking payment for or providing false information regarding a deceased annuitant is a felony, and will be prosecuted where appropriate.

The OIG has also helped OPM to strengthen and address other areas of identified weaknesses. For example, OPM's Chief Information Officer (CIO) has worked to respond to the OIG's concerns regarding our security testing. Since September of 2011 they have independently tested 54 common security controls and these controls are published on the OPM Intranet for all system owners to use. Designated Security Officers have been trained on the usage of controls, and systems owners are already incorporating them into security plans. This means that controls identified as common no longer require testing by individual system owners. In FY 2012, OPM plans to identify additional security controls that are good candidates for common controls.

OPM and the OIG continue to ensure that our Federal Employees Health Benefits Program (FEHBP) providers adhere to federal guidelines and that our customers are receiving premium care. As a result of the OIG's efforts, OPM has over \$47 million in recommended audit recoveries and safer services. The OIG issued 402 disbarments or suspensions of healthcare providers and investigated inappropriate and fraudulent uses of prescription medicines. For example, Serono Laboratories entered a settlement agreement of \$44.3 million regarding allegations that they paid health care providers to promote the drug Rebif, an injectable Multiple Sclerosis treatment. OIG efforts help ensure our FEHBP customers get the best treatment possible – treatment based on the needs of the patient, not marketing campaigns.

Additionally, we made it a priority to close a number of our backlogged or aged recommendations. Through the collaborative efforts of many at OPM, we have closed approximately 35% of our backlog—that is over 250 recommendations closed this reporting period alone. Some of these recommendations date back a few years and were challenging to correct but program offices such as HI, the Combined Federal Campaign, CIO, CFO, and IOC put forth tremendous efforts to track and address these recommendations.

I want to thank the OIG staff for continuing to provide independent review to OPM activities, and help us better serve the American people.

John Berry
Director

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

November 2011

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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 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. 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, 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 corrective actions (report closure) remain a high priority. While each audit requires a slightly different approach, closing audits entails collaboration among the Contract Officer (CO), OIG, health plans, Office of the Actuary – for HMO's only-- and, on occasion, OPM's General Counsel or counsel from the Plan. AR reviews audit findings, supporting spreadsheets and documentation from the OIG, and evaluates the Plan's written responses, spreadsheets and other evidence 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 solicits input and opinions from the Health Insurance Contract Officers, 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 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. A plan may agree with an overpayment but, after unsuccessfully attempting to collect it, declare it to be uncollectible or may contest it based on other circumstances. Plan responses may also contest audit 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.

All such responses, which are frequently accompanied by voluminous evidence, must be reviewed in detail. Such due process prolongs final resolution and appropriate corrective actions.

A plan's agreement with a finding, or 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; and interpretation of contract provisions and other subsidiary laws or agreements in place.

During this reporting period, FEIO continued to focus on closing aged audits and formalizing Audit Resolution's new timeline procedures. Insurance Operations (IO), including Contracting Officers and Audit Resolution staff:

- ❖ Collaborated with Plans and OIG to fully resolve 12 open audits, recovering \$45.0 million and appropriately allowing \$8.6 million (per CFO)
- ❖ Implemented streamlined procedures for resolving most audits within 180 days
- ❖ Expanded AR's scope in reporting and internal control activities
- ❖ Sought legal counsel and guidance for the most difficult resolutions
- ❖ Enhanced CO and Contract Specialists' oversight responsibilities
- ❖ Created additional positions within IO to improve responsiveness to audits
- ❖ Explored new approaches to resolve global audits

Under our new configuration, contracting staff is taking a more active role in their oversight responsibilities through continuous involvement in the entire IG audit process.

We began this period with 5 audit reports pending agency decisions totaling \$6.9 million. The OIG issued 12 new reports with unresolved monetary findings totaling \$47.0 million, bringing the work-in-progress to \$54.0 million under 17 audit reports. IO Management's decisions on OIG recommendations during this period were \$44.2 million covering 12 audit reports. This amount is a combination of \$42.2 million in "disallowed costs" (requiring payment to OPM) and a net (\$2.0) million in "costs not disallowed" (payment to OPM not required). The balance at the end of the period totals \$9.7 million pertaining to 5 audit reports.

COLLECTION OF DISALLOWED COSTS

This six month period (April 1, 2011 to September 30, 2011) has been quite productive for FEIO and AR. At the beginning of the period there were 19 audit reports which had been previously resolved, with \$68.5 million to be collected from the insurance carriers. IO Management rendered decisions on an additional 10 reports requiring the insurance carriers to pay \$43.8 million. Including \$331 thousand in interest adjustments (\$0.33 million), this brought the number of audit reports with collection action to 29, representing \$112.6 million. During this period, we recovered \$45.0 million relating to 19 audit reports. We also made adjustments to the original debt totaling \$8.6 million, leaving a balance of 10 audit reports and \$59.0 million to be collected.

During the current period AR successfully closed 12 final FEHBP audit reports. This reduced the number of final FEHB audit reports still pending corrective action to 10, a nearly 48% reduction. During the 12 month period, October 1, 2010 – September 30, 2011, AR closed 35 audits, recovering \$71.5 million and appropriately allowing another \$18.6 million, totaling over \$90.0 million. As a result, the average age of audits greater than one year old decreased by over 10% in the last 6 months. Review and development of corrective action plans will continue to be integral to our oversight, compliance and monitoring of the operations of contracts.

These results were made possible through enhanced collaboration with both internal and external stakeholder groups (OIG, Office of the Actuary, Health Plans and others).

AUDITS OVER ONE YEAR OLD PENDING CORRECTIVE ACTION AND FINAL CLOSURE

Audit Resolution has worked diligently to reduce the number of aged BlueCross BlueShield audits pending final closure. The two audits listed below are receiving special attention in this next semiannual period as we work to address the issues in each. Details on open recommendations have been reported to Congress in prior Semiannual and Management Response Reports and Health Plans have been informed of corrective actions that must be taken, although actions have not yet been completed.

BlueCross and BlueShield Audits

Report Date	Audit Number	Status	Audit Name
6/23/2009	1A-99-00-08-065	Corrective Action Pending	Global Enrollment Audit (2008)
7/20/2009	1A-99-00-09-011	Corrective Action Pending	Global COB 2007 audit (FY 2009)

Another class of audits, covering HMOs, generally involves 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 the appropriate selection of SSSGs can involve complex legal issues and the resolution involves coordination and action between the CO, the OIG, the Office of the Actuary, Audit Resolution and may involve the Office of the General Counsel. Actions required to resolve these audits vary by level of complexity. Additionally, the CO must collaborate with the Actuaries and the OIG to improve clarity and understanding of the Rate Instructions. In FY 2012 OPM will begin transitioning from the SSSG methodology to the use of a Medical Loss Ratio (MLR). This will help ensure the FEHB plan's competitive pricing from the proportion of claims a plan spends from the total premiums it received.

Other Insurance Carriers

Report Date	Audit Number	Status	Audit Name
3/26/2009	1B-45-00-08-16	Corrective Action Pending	Coventry Health Care / MHBP
1/18/2008	1C-3U-00-05-085	Corrective Action Pending	United HealthCare of Ohio
9/15/2008	1C-6Q-00-07-029	Final Resolution Pending	Universal Care, Inc
6/12/2008	1C-G2-00-07-044	Corrective Action Pending	Arnett HMO Health Plan

Overall, as of this report there is a total of \$12.9 million outstanding pertaining to audits for which full Recoveries and Corrective Actions were not completed within one year. Contractually, Carriers must follow normal business practices and make a diligent effort to collect the overpayments. But 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 emphasis on resolving issues in an audit's draft phase) will 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.

FOLLOW-UP - INFORMATION SYSTEM REVIEWS

The OIG's SAR described two follow-up Information System reports the OIG issued during the six month SAR time period. After reviewing the evidence supporting the closure of APWU, Report No. 1B-47-00-11-044 (June 27, 2011, original report dated May 18, 2007), and CareFirst BlueCross BlueShield, Report No. 1A-10-85-11-029 (June 23, 2011, original report dated November 28, 2008), OIG issued findings and additional recommendations on these audits.

Healthcare and Insurance welcomes collaboration with the OIG to ensure that participating plans have strong Internal Controls in place, and that our Contracting Officers (CO) provide effective oversight and administration of these vital benefit programs. FEIO and OIG leadership are developing new and enhanced procedures to resolve Information System audits and Follow-Up Reviews in a manner that is clear, supportable and reflects the many factors that must be considered in resolving this class of audit findings.

CO's discretion is a key aspect of IO's oversight of the Benefit Programs. Collaborating with all stakeholders, including OIG, Contracting Officers must consider many technical, cost, and performance issues in 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 its possible impacts on participants, some of whom reside in areas underrepresented by health care providers and options. In this context service availability and pragmatic considerations, may prove pivotal in deciding to require implementation of an audit finding.

In the meantime, agreement between the IG auditors and the CO on the necessary actions to be taken in these audits will be obtained before recommendations are closed. This may involve developing comprehensive sets of POAMs to be completed and monitored post audit. FEIO continues its work with OIG to resolve the specific audit findings in these reports and to develop the IS resolution timeline and procedures for these audits.

The following table provides a summary of collection activity for the period April 1, 2011 to September 30, 2011.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH
DISALLOWED COSTS** Reporting Period Ending September 30, 2011**

Action	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 (4/1/2011)	19	\$68,506
B. 1. Audit reports on which management decisions were made during the period (4/1/2011-9/30/2011)	10	\$43,794
2. Interest assessed during period	<u>0</u>	<u>\$331</u>
C. Total audit reports pending final action during period (total of A and B)	29	\$112,631
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	19	\$45,011
(b) Property	0	0
(c) Other	0	\$8,636*
2. Write-offs, waiver	<u>0</u>	<u>0</u>
3. Total of 1 and 2	19	\$53,647
E. Audit reports needing final action at the end of the period (9/30/2011) (subtract D3 from C)	10	\$58,984

* This represents adjustments to original debt.

**Information from the preceding tables is provided by the CFO and derived from OPM's Audit Report and Receivables Tracking System (ARRTS).

STATUS OF THE INSURANCE AUDITS HIGHLIGHTED IN THE OFFICE OF THE INSPECTOR

GENERAL'S SEMIANNUAL REPORT (resolution activity for audits released from April 1, 2011 through September 30, 2011)

REPORT, REPORT NUMBER, AND DATE	STATUS
Aetna Open Access of Georgia Blue Bell, Pennsylvania 1C-2U-00-11-003 April 13, 2011	CLOSED -- All outstanding issues have been resolved
Keystone Health Plan East, Inc. Philadelphia, Pennsylvania 1C-ED-00-10-053 July 25, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
BlueCross BlueShield of Florida Jacksonville, Florida 1A-10-41-10-012 May 12, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
WellPoint, Inc. Mason, Ohio 1A-10-39-10-011 May 13, 2011	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 for Blue Cross and Blue Shield Plans Washington, DC 1A-99-00-10-055 June 8, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
American Postal Workers Union Health Plan Glen Burnie, Maryland 1B-47-00-11-002 September 1, 2011	CLOSED -- All outstanding issues have been resolved
Group Health Incorporated New York, New York 1D-80-00-10-046 July 27, 2011	CLOSED -- All outstanding issues have been resolved

REPORT, REPORT NUMBER, AND DATE	STATUS
Information Systems General and Application Controls at CVS Caremark Scottsdale, Arizona and Northbrook, Illinois 1H-01-00-10-057 May 17, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Follow-up Review of Information Systems General and Application Controls at CareFirst BlueCross BlueShield and the Federal Employee Program Operations Center Washington, DC 1A-10-85-11-029 June 23, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Follow-up Review of Information Systems General and Application Controls at American Postal Workers Union Health Plan Glen Burnie, Maryland 1B-47-00-11-044 June 27, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.

SIGNIFICANT MANAGEMENT DECISIONS October 1, 2010 THROUGH March 31, 2011 ON FINAL REPORTS ISSUED BY THE OFFICE OF THE INSPECTOR GENERAL

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	RECOVERED

While not yet issued, based on a review by the Contracting Officer and an evaluation from the Office of the General Counsel, Contracting Officer's Final Decision letters are being drafted for two audits.



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