UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Management Decisions and Final Actions on the Office of the Inspector General's Audit Recommendations April 1, 2010 - September 30, 2010

Director's Semiannual Report to the Congress

a New Day for Federal Service

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
NOVEMBER 2010

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 April 1, 2010, to September 30, 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.

In 2009, the President issued an Open Government directive. OPM is working hard to implement that directive and is committed to fostering an environment that values openness. We share information, learn, and collaborate with the public and our stakeholders to generate innovative ideas and methods that allow us to make bold changes and improve policies, processes, and procedures. This type of forward thinking will help us strengthen some key areas of our operations and address challenges including some of those identified by the OIG in its audit reports.

During this reporting period, the OIG highlighted deficiencies within our Benefits Financial Management System (BFMS). The Chief Financial Officer and Retirement and Benefits group have taken a number of steps to address these deficiencies since the OIG issued its report. For example, the OIG found that system owners lacked an understanding of the suite of applications included in BFMS. OPM now has a clearly defined list of BFMS applications and ensures security controls are tested for these systems.

OIG auditors noted that OPM's background investigation function has an adequate quality assurance process in place, but provided recommendations to further strengthen this program. As a result, OPM made additional enhancements to reinforce the quality assurance program. OPM established regional quality review teams, amplified random audits of closed cases, conducts quarterly inspections to audit contractor timeliness and quality, and increased monthly audits on contractor/federal personal source re-contact program. These are just a few of our improvements thanks to the auditing work of our OIG and rapid response of investigative managers and employees.

Discovering fraud and abuse is also a primary concern as OPM safeguards the interests of 7.9 million Federal Employee Health Benefits Program (FEHBP) participants (comprised of 2.2 million employees, 1.9 million annuitants, and 3.8 million dependants) and approximately 4 million Federal Employee Group Life Insurance (FEGLI) participants.

For example, OIG investigators discovered that some companies were falsely promoting their products for non-approved applications. Novartis Vaccines and Diagnostics, Inc., and AstraZeneca both entered settlement agreements for these reasons—Novartis paid FEHBP $1.9 Million for promoting off-label, non-FDA approved uses for its drug Tobramycin (TOBI) and AstraZeneca paid $4.9 million for making false allegations in its marketing of its drug Seroquel. These types of investigations not only impose penalties on the accused but safeguard the health and welfare of Federal employees, annuitants, and their families.

Reducing the number of aged audit findings is a problem for many throughout the Federal government due to limited resources and/or complexity of the issues. OPM is not immune to that problem. As I mentioned in my last Management Response, I created an Internal Oversight and Compliance office to assist program offices with audit resolution and directed program offices to double their efforts in this area while maintaining current workloads and obligations. We are seeing remarkable results from these efforts. In the past six months, we closed over a dozen aged audits, some dating back to 2004. I am very proud of all those involved in getting this done.

In closing, OPM strives to be the model in the Federal government for the timely resolution of audit issues and for challenging the efficiency and effectiveness of OPM operations. We have a responsibility to all our customers and stakeholders not only to accomplish our mission but remain sensitive to their changing needs and demands. We look forward to accomplishing more great things over the next six months. God bless America and its Federal workforce.

John Berry
Director

MANAGEMENT RESPONSE

TO THE INSPECTOR GENERAL'S SEMIANNUAL REPORT

TO CONGRESS

November 2010

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HEALTH AND LIFE INSURANCE CARRIER AUDITS

The FEHB, FEGLI, FSAFeds, FEDVIP and LTC impact the lives of nearly 8 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. Healthcare and insurance remains committed across all aspects of its stewardship responsibilities in administering the benefit programs to the federal family.

AUDIT RESOLUTION

Healthcare and Insurance's Audit Resolution (AR) team reconciles questioned costs identified in OIG 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 – to have key stakeholders evaluate draft findings to reduce the occurrence of potentially avoidable and 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 entail collaboration between the Contract Officer, OIG, health plans, Office of the Actuary – HMO's only (the Office of the Actuary is only involved in the rates/resolution of HMO audits) 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. 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 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 the interpretation of contract language in support of its actions.

A plan's agreement that a finding was correctly identified as an overpayment does not necessarily mean that monies can or will 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.

During fiscal year 2010, Healthcare and insurance has intensified its efforts to close aged audits. Contracting Officers and Audit Resolution staff continue to:

- Review and update procedures with all stakeholders to resolve audits more efficiently
- Shorten recovery timeframes extended to carriers
- Negotiate individual and global settlements with health insurance carriers
- Review, clarify and update Contract language to strengthen oversight and effectiveness and address cross-cutting issues
- Review plans' internal controls to assist in their efforts to reduce the occurrence of overpayments and to increase compliance to the contract
- Seek legal counsel and guidance for the most difficult resolutions
- Re-vamp resolution procedures to increase the effectiveness of our internal relationships
- Explore creative resolution strategies, where permissible
- Leverage support from other resources throughout Healthcare and Insurance
- Work with Health Plans to establish self-review for plan operations to improve contract compliance

In addition Audit Resolution has hired two new Auditors, increasing our staff in response to the volume of new final audit reports, and is partnering with the OIG to attend preparatory meetings, OIG audits and exit conferences to show a united front. Starting in 2011, OPM is requiring Carriers to exercise more oversight in administering the contracts and to be more proactive in preventing non-compliance with contracts. Contracting staff will take a more active role in their oversight responsibilities through continuous involvement in the entire IG audit process. Training, communication and rollout activities are currently being planned.

We began this period with 5 audit reports pending agency decisions totaling $20.4 million. The OIG issued 11 new reports with unresolved monetary findings totaling $57.6 million, bringing the work-in-progress to $78.0 million and relates to 16 audit reports. Management's decisions on OIG recommendations during this period were $23.3 million and related to 9 audit reports. This amount is a combination of $24.2 million in "disallowed costs" (requiring payment to OPM) and a net ($.9) million in "costs not disallowed" (no required payment to OPM). The balance at the end of the period totals $54.8 million and relates to 7 audit reports.

The table titled: "Status of the Insurance Audits Highlighted in the Office of the Inspector General's Report" summarizes insurance audit resolution activity for those audits released during the period April 1, 2010 through, September 30, 2010.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 45 audit reports which had been previously resolved, with $58.5 million to be collected from the insurance carriers. Management decisions were made on 5 reports requiring the insurance carriers to pay $23.5 million. Including $0.04 million in interest and adjustments, this brought the number of audit reports with collection action to 50, totaling $82.0 million. During this period, we collected $20.4 million relating to 13 audit reports. We also made an adjustment to the original debt totaling $17.2 million, which leaves a balance of 37 audit reports and $44.5 million to be collected.

With regard to audit reports more than six months old pending corrective action (Appendix VII to OIG's Semiannual Report), we believe that, through Healthcare and Insurance's diligent efforts, great strides were made to reduce the number of audits pending corrective action. The prior SAR (October 1, 2009 – March 31, 2010) listed 46 final FEHBP audit reports still pending corrective action. During the current SAR period (April 1, 2010 – September 30, 2010) AR closed 14 final FEHBP audit reports that were still pending corrective action. This reduced the number of final FEHBP audit reports still pending corrective action to 32. Four (4) final FEHBP audit reports still pending corrective action were newly added to the summary. During the 12 month period, September 30, 2009 – September 30, 2010, Audit Resolution has Recovered or appropriately allowed over $55.0 million, reducing total disallowed costs by over 28% and lowering the number of audit reports pending final action by nearly one third. As a result, the average age of our outstanding audits has decreased as well. Review and development of corrective action plans will continue to be a tool for oversight, compliance and monitoring of the operations of contracts.

AUDITS OVER ONE YEAR OLD PENDING CORRECTIVE ACTION AND FINAL CLOSURE

The following audits are pending agency action or are under judicial, legal, or other review. Details on the recommendations that have not been closed have been reported in previous Semiannual and Management Response to Semiannual Reports to Congress. Plans have been informed of corrective actions that must be taken, but for various reasons the actions have not been completed.

BlueCross and BlueShield Audits

Report Date	Determination Date	Audit Number	Audit Name
1/18/2008	4/18/2008	10-07-07-16	BCBS of Louisiana
2/27/2007	8/10/2007	10-09-05-087	BCBS of Alabama
10/01/2002	09/25/2003	10-15-02-007	BCBS OF TENNESSEE
7/25/2007	1/14/2008	10-15-05-046	BCBS OF TENNESSEE
2/20/2008	8/8/2008	10-18-06-052	WellPoint BCBS (IN, KY, OH)
7/28/2004	2/22/2005	10-2-9-02-047	BCBS of TEXAS
03/24/2006	09/15/2006	10-32-05-034	BCBS OF MICHIGAN
8/28/2007	3/10/2008	10-33-06-037	BCBS OF North Carolina
05/03/2004	03/11/2005	10-41-03-031	BCBS OF FLORIDA
10/12/2007	4/18/2008	10-41-06-054	BCBS OF FLORIDA
12/14/2007	6/5/2008	10-42-07-004	BCBS - KANSAS CITY
06/05/2006	09/15/2006	10-47-05-009	BSBC OF WISCONSIN
12/15/2004	09/26/2005	10-55-04-010	INDEPENDENCE BCBS
1/31/2007	6/4/2007	10-58-06-038	Regence BCBS of Oregon
1/3/2007	6/28/2007	10-69-06-025	Regence BCBS of Washington
09/15/2006	03/15/2007	10-78-05-005	BCBS OF MINNESOTA
07/27/2005	11/10/2005	10-85-04-007	BCBS GLOBAL COB
02/07/2006	08/15/2006	99-00-04-027	Global Duplicate Claim Pymts
3/29/2007	9/24/2007	99-00-05-023	Global COB Pymts (BCBS Plans)
3/20/2008	9/8/2008	99-00-06-001	Global COB Pymts (BCBS Tier 5)
9/5/2008	3/5/2009	99-00-07-043	Health Care Service Corporation
6/25/2008	1/12/2008	99-00-08-007	Global COB Pymts (2006)
9/11/2008	3/19/2009	99-00-08-008	Global Duplicate Claims (2003-2005)
8/11/2008	2/18/2009	99-00-08-009	Global COB (2005)

Many BlueCross BlueShield audits are very complex and have findings that the carriers contest and which cut across many different audits. Each audit must be reviewed individually to ensure any applicable agreements or other issues are considered. Some are the subject of unresolved legal and/or contractual challenges which are found in many audits and are potentially precedent-setting, complicating resolution. Open recommendations in BCBS' pending audits primarily fall in the following areas: Provider Agreements, Coordination of Benefits with Medicare, erroneous payments to other federal entities and assertions of Due Diligence in the Plan's efforts to recover overpayments, which have not been accepted by the Contracting Officer. Many of these audits required Corrective Action Plans to be written, reviewed and implemented. Action Plans have been put into place and are being monitored and adjusted to strengthen the Plans' Internal Control program and reduce the likelihood of future overpayments. Contract amendments have been made to clarify points of contention and we are in the process of negotiating a global settlement agreement to close the majority of the remaining aged audits. We are reviewing BCBS' position to determine if the amounts are reasonable and acceptable based on the type of audit finding.

Other Insurance Carriers

Report Date	Determination Date	Audit Number	Audit Name
1/18/2008	7/7/2008	1C-3U-00-05-085	United HealthCare of Ohio
9/15/2008	3/19/2009	1C-6Q-00-07-029	Universal Care, Inc
6/12/2008	12/9/2008	1C-G2-00-07-044	Arnett HMO Health Plan
6/25/2008	8/8/2008	1C-SV-00-07-056	Coventry Health Care of Iowa*

The information above comes from OPM's Audit Report and Receivables Tracking System (ARRTS).
*This audit was closed 10/19/2010

HMO 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 the appropriate selection of SSSGs can involve complex legal issues and the resolution involves coordination and action between the Contracting Officer, the OIG, the Office of the Actuary, Audit Resolution and may involve the Office of the General Counsel. OPM has held several discussions with the plans and internal stakeholders regarding the four remaining audits above and is rapidly working toward resolution. In addition, the CO is working with the Actuaries and the OIG to foster a greater shared understanding of the Rate Instructions and OPM is working to create a better framework for establishing community rated health plan rates and resolving audit findings for HMO's.

There is a total of $21,349,890 for which full Recoveries and Corrective Actions were not completed within one year. Of that total, 16.3 percent, or $3,472,337, relate to a resolution pending OIG review and an audit that has been closed since the September 30, 2010 reporting deadline. The remaining 83.7 percent, or $17,877,553, relates to health benefit overpayment issues, which H&I and the Carriers are in the process of collecting. Contractually, the Carriers must follow normal business practices and make a diligent effort 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. With few exceptions, implementation of a more rigid timeline with greater emphasis on resolving potential issues in an audit's draft phase will shorten and simplify the overall resolution process

and will further allow the audit reports to be used as a tool to enhance management's oversight and carrier's compliance.

The following table on final action of audits with disallowed costs provides a summary of collection activity for the period April 1, 2010, through September 30, 2010.

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS REPORTING PERIOD ENDING SEPTEMBER 30, 2010

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 **(4/1/2010)**	45	$58,491
B. 1. Audit reports on which management decisions were made during the period **(4/1/2010-9/30/2010)**	5	$23,509
2. Interest assessed during period	0	$36
C. Total audit reports pending final action during period (total of A and B)	**50**	**$82,036**
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	13	$20,370
(b) Property	0	0
(c) Other	0	$17,190*
2. Write-offs, waiver	0	0
3. Total of 1 and 2	**13**	**$37,560**
E. Audit reports needing final action at the end of the period (9/30/2010) (subtract D3 from C)	**37**	**$44,476**

* 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
CareFirst BlueChoice Owings Mills, Maryland 1A-10-85-09-023 May 21, 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.
Blue Choice Reviewing the Plan's response to the outstanding issues. We expect to Rochester, New York	Resolve all issues and/or initiate Corrective Actions in a timely manner.
Altius Health Plan South Jordan, Utah 1D-9K-00-09-026 June 28, 2010	All outstanding issues have been resolved and the FEHB Program has been reimbursed $277,335.
Coventry Healthcare as Underwriter and Administrator Rockville, MD. 1B-45-00-09-062 April 14, 2010	Reviewing the Plan's response to the outstanding issues. We expect to for the Mail Handlers Health Benefits Plan Resolve all issues and/or initiate Corrective Actions in a timely manner.
Group Health Cooperative Seattle, Washington 1C-54-00-09-048 September 8, 2010	Awaiting the Plan's response to the outstanding issues.
Information Systems General and Application Controls at BlueCross BlueShield of Florida Jacksonville, Florida 1A-10-41-09-063 May 21, 2010	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.

REPORT, REPORT NUMBER, AND DATE	STATUS
Federal Employees Dental and Vision Insurance Program Operations as Administered by Government Employees Hospital Association, Inc. Lee's Summit, Missouri 1B-31-00-10-006 September 27, 2010	This audit generated no findings
Federal Employees' Group Life Insurance Program Operations at Metropolitan Life Insurance Company Oriskany, New York and Bridgewater, New Jersey 2A-11-00-09-065 July 20, 2010	All outstanding monetary issues have been resolved and the FEGLI Program has been reimbursed $708,518. Reviewing the Plan's response to the outstanding Non-Monetary issues

SIGNIFICANT MANAGEMENT DECISIONS APRIL 1, 2010 THROUGH SEPTEMBER 30, 2010 ON FINAL REPORTS ISSUED BY THE OFFICE OF THE INSPECTOR GENERAL

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	RECOVERED

No Contracting Officers Final Decisions were issued during this period.

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