



**UNITED STATES OFFICE OF
PERSONNEL MANAGEMENT**

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

JUNE 2003

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MESSAGE FROM THE DIRECTOR

The Office of the Inspector General (OIG) of the U.S. Office of Personnel Management (OPM) has completed its Semiannual Report for the period October 1, 2002 to March 31, 2003. 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.

The Office of the Inspector General continues to play a critical role in the management and operations of the Office of Personnel Management, especially the Federal Employees Health Benefits Program (FEHBP). We have pursued opportunities whenever they were available to strengthen and enhance OPM's OIG, including, as the Inspector General's report references, promulgating final regulations to implement provisions of the Federal Employees Health Care Protection Act which address OPM's new administrative sanctions authority, and proposing regulations implementing the Act's civil monetary penalty provisions. The FEHBP is greatly improved by making these additional authorities available to protect Federal enrollees from unscrupulous health care providers.

We recently acknowledged the OIG capacity to ensure that FEHB carriers maximize savings associated with the effective use of pharmacy benefits managers through which pass \$6 billion in prescription drug costs. Our recent "Call Letter" to FEHB carriers highlighted an expanded OIG oversight role to ensure their ability to conduct independent audits of plan pharmacy benefits managers.

The Office of the Inspector General's value reaches well beyond the FEHBP however, and this reporting period they played a critical role in identifying insufficient internal controls at the United Way of the National Capital Area which served as the fiscal manager for the Combined Federal Campaign (CFC). The OIG audit findings provided assurance to the thousands of donors in the National Capital Area that their contributions would be safeguarded, and contributed significantly to the development of new uniform accounting guidelines and the strengthening of accountability for all 362 CFCs around the country.

I look back with pride in our accomplishments to date in meeting the President's goals to best serve the American people, while at the same time looking forward with confidence that, with the joint efforts of the Office of the Inspector General, we are on a solid path to meet the challenges of the future.

Kay Coles James
Director

HEALTH AND LIFE INSURANCE CARRIER AUDITS

AUDIT RESOLUTION

The resolution of audit report findings issued by the OIG continues to be a priority. The charts at the end of this management report summarize insurance audit resolution activity for the period October 1, 2002, through March 31, 2003.

We began this period with 10 audit reports pending agency decisions totaling \$8 million. The OIG issued 16 new reports with unresolved monetary findings totaling \$32.6 million, bringing the work-in-process to \$40.6 million. Management's decisions on OIG recommendations during this period were \$9.3 million. This amount is a combination of \$8.7 million in "disallowed costs" (requiring payment to OPM) and \$.6 million in "costs not disallowed" (no required payment to OPM). It should be noted that the "disallowed costs" does not include \$65,711 in additional interest assessed by the Program Office. The balance at the end of the period totals \$31.3 million and relates to 15 audit reports.

One of the 15 outstanding audit reports, which totals \$2.1 million, exceeded the six-month standard for resolving audit findings in accordance with OMB Circular A-50. The OIG has requested that we postpone resolution of this audit report.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 43 audit reports which had been previously resolved, with \$125.9 million to be collected from the insurance carriers. Management decisions were made on four reports requiring the insurance carriers to pay \$7.2 million. This brought the number of audit reports with collection action to 47, totaling \$133.1 million including interest and adjustments. During this period, we collected \$16 million relating to seven audit reports. We also adjusted three audit reports totaling \$77.8 million, which leaves a balance of 37 audit reports and \$39.3 million to be collected.

The following table on final action of audits with disallowed costs provides a summary of collection activity for the period October 1, 2002, through March 31, 2003.

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS**

**REPORTING PERIOD ENDING
March 31, 2003**

- A. Audit reports with management decisions on which final action had not been taken at the beginning of the period (10/01/02)

Number of Audit Reports **43** Disallowed Costs (in thousands) **\$125,920**

- B. 1. Audit reports on which management decisions were made during the period (10/01/02 - 03/31/03)

Number of Audit Reports **4** Disallowed Costs (in thousands) **7,192**

2. Interest assessed during period

- C. Total audit reports pending final action during period (total of A and B)

Number of Audit Reports **47** Disallowed Costs (in thousands) **\$133,112**

- D. Audit reports on which final action was taken during the period

1. Recoveries

- (a) Collections and offsets

Number of Audit Reports **7** Disallowed Costs (in thousands) **\$16,021**

- (b) Property

Number of Audit Reports **0** Disallowed Costs (in thousands) **0**

- (c) Other

Number of Audit Reports **3** Disallowed Costs (in thousands) **77,833¹**

2. Write-offs, waiver

¹This represents adjustments to original debt.

Number of Audit Reports **0** Disallowed Costs (in thousands) **0**

3. Total of 1 and 2

Number of Audit Reports **10** Disallowed Costs (in thousands) **\$93,854**

E. Audit reports needing final
action at the end of the period
(03/31/03) (subtract D3 from C)

Number of Audit Reports **37** Disallowed Costs (in thousands) **\$39,258**

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

REPORT, REPORT NUMBER, AND DATE

Aetna U.S. Healthcare – Ohio

Blue Bell, Pennsylvania

1C-RD-00-01-076

October 16, 2002

STATUS

All outstanding audit issues have been resolved and the FEHB Program has been reimbursed \$5,597,915.

REPORT, REPORT NUMBER, AND DATE

HealthPartners, Inc.

Minneapolis, Minnesota

1C-HQ-00-02-019

January 8, 2003

STATUS

Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

REPORT, REPORT NUMBER, AND DATE

BlueCross BlueShield of Michigan

Detroit, Michigan

1A-10-32-02-003

February 10, 2003

STATUS

Awaiting Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

REPORT, REPORT NUMBER, AND DATE

National Alliance of Postal and Federal Employees

as Sponsor for the Alliance Health Benefit Plan

Washington, D.C.

1B-YQ-00-02-028

February 11, 2003

STATUS

Awaiting Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

REPORT, REPORT NUMBER, AND DATE

KPS Health Plans

Bremerton, Washington

1D-VT-00-02-004

November 25, 2002

STATUS

Awaiting Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

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

REPORT, REPORT NUMBER, AND DATE

Audit of Information System General and
Application Controls at Merck-Medco Managed Care
(presently, Medco Health Solutions, Inc.)
A BlueCross BlueShield Association Contractor
Franklin Lakes, New Jersey
1A-10-00-02-039
February 4, 2003

STATUS

Reviewing 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.

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

Blue Cross and Blue Shield Audits

<u>Report Date</u>	<u>Determination Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of March 31, 2003</u>
07/25/2001	10/12/2001	10-03-01-027	New Mexico	\$ 258,598
11/13/2000	08/31/2001	10-06-99-055	Maryland	2,820,466
12/16/1999	07/25/2000	10-13-98-001	BS of Highmark, Inc.	300,000
06/02/1999	03/31/2000	10-18-97-004	Community Mutual Insurance Co.	734,723
06/21/2001	12/01/2001	10-24-01-031	South Carolina	5,832
08/27/2001	12/11/2001	10-30-01-018	Colorado	787,864
01/06/2000	09/06/2000	10-39-98-012	Kentucky & Indiana	1,809,781
05/10/2000	02/05/2001	10-41-99-017	Florida	6,048,396
02/10/2000	08/31/2000	10-44-99-048	Arkansas	30,342
04/04/2000	02/05/2001	10-49-99-016	New Jersey	4,008,401
10/18/2000	09/26/2001	10-55-96-032	Philadelphia, Pennsylvania	2,000,000
12/10/2001	12/18/2001	10-58-01-079	Oregon	307,022
05/14/2001	10/12/2001	10-59-01-022	Maine	210,834
02/22/2001	08/08/2001	10-69-01-001	Regence Blue Shield	22,331
07/18/2000	12/27/2000	10-78-99-049	Minnesota	333,426
02/15/2001	08/31/2001	10-84-01-002	Utica, New York	23,107
02/23/2000	09/15/2000	10-85-98-043	Letter of Credit Account	214,904
12/20/2000	08/31/2001	10-85-99-054	Washington, DC	398,186
05/07/2001	09/30/2001	10-88-01-021	Northeast Pennsylvania	153,424
			Subtotal	\$20,467,637

Other Insurance Carriers

<u>Report Date</u>	<u>Determination Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of March 31, 2003</u>
08/04/1999	03/31/2000	Y7-03-98-006	BCBSNCA	\$ 413,646
07/30/1999	03/31/2000	YA-03-98-007	BCBSNCA	6,123,288
08/03/1999	03/31/2000	YP-03-98-009	BCBSNCA	1,554,325
01/22/1998	09/30/1998	R8-00-96-031	TakeCare Health Plan	62,204
			Subtotal	\$ 8,153,463
			Grand Total	\$28,621,100²

The information above comes from OPM's Audit and Receivables Tracking System (AARTS) reports. The receivables listed were determined more than one year and one month prior to 3/31/03, making them over one year delinquent.

² Management Decisions pending on \$5,679,767

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$22,941,333 for which a management decision was not implemented within one year, 39 percent, or \$8,888,186, relate to appealed cases. These cases have been appealed either to the Armed Services Board of Contract Appeals or to the United States Court of Claims. Eight percent, or \$1,809,781, relate to cases that the resolution has been postponed at the request of the Office of the Inspector General. The remaining 53 percent, or \$12,243,366, relate to health benefit overpayment issues and the Carriers are in the process of collecting them. Contractually, the Carriers must follow normal business practices and make a concerted attempt to collect the overpayments. Therefore, until the funds have been recovered or until it has been determined that the funds are uncollectible and must be written-off, the receivable must remain on OPM's book of record.

**SIGNIFICANT MANAGEMENT DECISIONS
OCTOBER 1, 2002 THROUGH MARCH 31, 2003
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

**REPORT AND
REPORT NUMBER**

Humana Medical Plan, Inc.
Miami, Florida
1C-EE-00-01-025
April 4, 2002

AUDIT FINDINGS

Defective Pricing
Lost Investment Income

MANAGEMENT RESULTS

Initial negotiations with the Carrier were not successful. As a result, the Contracting Officer issued a Final Decision Based upon the findings in the Office of the Inspector General's Final resolution through continued Negotiations or the legal process.

RECOVERED AMOUNT

We have not determined total amount to be recovered on these audits because negotiations are still in progress. We will attain Final audit report.

