



**UNITED STATES OFFICE OF  
PERSONNEL MANAGEMENT**

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

**DECEMBER 2002**

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## MESSAGE FROM THE DIRECTOR

The Office of the Inspector General (OIG) of the U.S. Office of Personnel Management has completed its Semiannual Report for the period April 1, 2002, to September 30, 2002. 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 is a critically essential component in the management of this agency and our programs, especially the Federal Employees Health Benefits Program (FEHBP). The results of the OIG efforts this reporting period alone provide staggering evidence that the Federal Government benefits immeasurably from a strong and effective Inspector General. The OIG is to be especially congratulated for their efforts in the estimated \$63.9 million recovery to the FEHBP from the settlement proceeds in the PacifiCare Health Systems false claims case. OPM Inspector General Patrick E. McFarland notes in the Foreword to his report for this period that this is the 27<sup>th</sup> semiannual report that his office has issued under the reporting provisions of the Inspector General Act. The projected recovery of funds identified in those 27 semiannual reports approaches \$1 Billion.

One of our highest priorities at the Office of Personnel Management this year has been to maintain quality and cost in the FEHB Program. Our success rested on four initiatives:

- we challenged FEHB carriers to contain costs, maintain quality and keep the program a model of consumer choice and on the cutting edge of employer-provided health benefits;
- we challenged our negotiating team to conduct tough negotiations on behalf of the Federal Government and FEHB subscribers;
- we initiated a comprehensive outside audit to review the potential costs of Federal and State mandates over the past decade to identify and understand the true cost of mandated services, and
- we maintained a respectful and full engagement with the Inspector General and have supported all of his efforts to investigate fraud and waste within the FEHB and other programs.

Supporting and maintaining positive relations with the IG are essential, and I was pleased recently to sign and send to the Office of Management and Budget final regulations implementing the suspension and debarment provisions of P.L. 105-266, as well as proposed regulations implementing the financial sanctions authorities contained in that law. Clearly, one of the best investments we can make in Government is in our Inspectors General, and here at OPM, we will continue to rely on their expertise in all of our program areas.

I again 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, April 1, 2002, through September 30, 2002.

We began this period with 12 audit reports pending agency decisions totaling \$17.2 million. The OIG issued 26 new reports with unresolved monetary findings totaling \$118.5 million, bringing the work-in-process to \$135.7 million. Management's decisions on OIG recommendations during this period were \$127.7 million. This amount is a combination of \$67 million in "disallowed costs" (requiring payment to OPM) and \$60.7 million in "costs not disallowed" (no required payment to OPM). It should be noted that the "disallowed costs" does not include \$145,119 in additional interest assessed by the Program Office; and that the "costs not disallowed" amount includes approximately \$56.3 million that would not have been questioned if the OIG had proper or adequate information prior to issuing the final audit report. The balance at the end of the period totals \$8 million and relates to 10 audit reports.

One of the 10 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 56 audit reports which had been previously resolved, with \$194.4 million to be collected from the insurance carriers. Management decisions were made on 19 reports requiring the insurance carriers to pay \$64.9 million. This brought the number of audit reports with collection action to 75, totaling \$259.5 million including interest and adjustments. During this period, we collected \$133.6 million relating to 32 audit reports. We also adjusted audit reports totaling \$46.5 million, which leaves a balance of 43 audit reports and \$125.9 million to be collected.

The following table on final action of audits with disallowed costs provides a summary of collection activity for the period April 1, 2002, through September 30, 2002.

**RETIREMENT AND INSURANCE SERVICE  
MANAGEMENT REPORT ON FINAL ACTION  
ON AUDITS WITH DISALLOWED COSTS**

**REPORTING PERIOD ENDING  
September 30, 2002**

	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 (04/01/02)	<b>56</b>	<b>\$194,419</b>
B. 1. Audit reports on which management decisions were made during the period (04/01/02 - 09/30/02)	<b>19</b>	<b>64,953</b>
2. Interest assessed during period		<b>172</b>
C. Total audit reports pending final action during period (total of A and B)	<b>75</b>	<b>\$259,544</b>
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	<b>32</b>	<b>\$133,624</b>
(b) Property	0	0
(c) Other	0	<b>46,515<sup>1</sup></b>
2. Write-offs, waiver	0	0
3. Total of 1 and 2	<b>32</b>	<b>\$133,624</b>
E. Audit reports needing final action at the end of the period (03/31/02) (subtract D3 from C)	<b>43</b>	<b>\$125,920</b>

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<sup>1</sup>This represents adjustments to original debt.

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

<b><u>REPORT, REPORT NUMBER, AND DATE</u></b>	<b><u>STATUS</u></b>
Aetna U.S. Healthcare – Georgia Blue Bell, Pennsylvania 1C-2U-00-01-044 April 2, 2002	All outstanding audit issues have been resolved and the FEHB Program has been reimbursed \$4,257,498.
FHP of Utah Fountain Valley, California 1C-KU-00-97-050 May 30, 2002	The Office of the Inspector General and the Department of Justice resolved this audit report. Funds are being returned to the FEHB Program in accordance with the signed agreement with final payment due in 2003.
BlueCross BlueShield of Georgia Atlanta, Georgia 1A-10-05-01-050 April 2, 2002	Reviewing Plan’s response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
American Postal Workers Union Health Plan Silver Spring, Maryland 1B-47-00-01-080 August 20, 2002	Awaiting Plan’s response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
Health Maintenance Plan Cincinnati, Ohio 1D-R5-00-01-043 June 12, 2002	Reviewing 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**

**STATUS**

Audit of Information System General and  
Application Control at Mail Handlers Benefit Plan  
Chicago, Illinois; Rockville, Maryland; and  
Jacksonville, Florida  
1B-45-00-01-009  
June 19, 2002

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**

REPORT DATE	DETERMINATION DATE	AUDIT NUMBER	AUDIT NAME	RECEIVABLE AS OF September 30, 2002
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Blue Cross and Blue Shield Audits

11/13/2000	08/31/2001	10-06-99-055	BC/BS of Maryland	\$228,316
08/06/1998	03/31/1999	10-10-96-027	BC/BS Illinois	27,517
12/16/1999	07/25/2000	10-13-98-001	BS Highmark	691,325
06/02/1999	03/31/2000	10-18-97-004	BC/BS Community Mutual	732,904
01/06/2000	09/06/2000	10-39-98-012	BCBS Kentucky/Indiana	1,782,222
06/10/1997	02/05/2001	10-41-95-006	BC/BS Florida	6,470,297
02/23/2000	09/15/2000	10-42-99-021	BC/BS Kansas City	12,914
02/10/2000	08/31/2000	10-44-99-048	BC/BS Arkansas	45,088
04/04/2000	02/05/2001	10-49-99-016	Horizon BC/BS of New Jersey	6,025,684
02/22/2001	08/08/2001	10-69-01-001	Regence Blue Shield	30,409
07/18/2000	12/27/2000	10-78-99-049	BC/BS Minnesota	333,994
02/15/2001	08/31/2001	10-84-01-002	BC/BS Utica , New York	23,107
02/23/2000	09/15/2000	10-85-98-043	Letter of Credit Account	1,447,701
12/20/2000	08/31/2001	10-85-99-054	CareFirst BC/BS	398,314
Subtotal				\$18,249,792

Other Insurance Carriers

03/26/2001	08/31/2001	45-00-00-064	Mail Handlers Benefit Plan	2,356,229
08/04/1999	03/31/2000	Y7-03-98-006	BC/BS Wash DC	410,355
07/30/1999	03/31/2000	YA-03-98-007	BC/BS Wash DC	6,071,584
08/03/1999	03/31/2000	YP-03-98-009	BC/BS Wash DC	1,542,164
12/27/1999	06/29/2000	DJ-00-99-012	Health New England, MA	927,625
01/22/1998	09/30/1998	R8-00-96-031	TakeCare of Ohio	124,408
10/12/2000	08/08/2001	TW-00-99-058	PCA Health Plans of Texas	143,123
09/26/2000	03/14/2001	V9-00-99-050	OPTIMA Health Plan	25,765
Subtotal				\$11,601,253
Total				\$29,851,045 <sup>2</sup>

<sup>2</sup>Management Decisions pending on \$7,781,372.

**COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS  
OVER ONE YEAR OLD**

Of the \$22,069,673 for which a management decision was not implemented within one year, 41 percent, or \$9,049,680, 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 \$1,782,222, relate to cases that the resolution has been postponed at the request of the Office of the Inspector General. Eighteen percent, or \$4,068,421, relate to cases that have been closed since September 30, 2002. The remaining 33 percent, or \$7,169,350, 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  
APRIL 1, 2002 THROUGH SEPTEMBER 30, 2002  
ON FINAL REPORTS ISSUED  
BY THE OFFICE OF THE INSPECTOR GENERAL**

<b>REPORT AND REPORT NUMBER</b>	<b>AUDIT FINDINGS</b>	<b>MANAGEMENT RESULTS</b>	<b>AMOUNT RECOVERED</b>
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No Contracting Officers Final Decisions were issued during this period.