

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

JUNE 2005

<u>Contents</u>	<u>Page</u>
1. Message from the Acting Director	1
2. Health and Life Insurance Carrier Audits: Audit Resolution	2
3. Collection of Disallowed Costs	2
4. Management Report on Final Action on Audits with Disallowed Costs Reporting Period Ending March 31, 2005	3
5. Status of the Insurance Audits Highlighted in the Office of the Inspector General's Report	4
6. Management Decisions Not Implemented Within One Year	5
7. Comments on Unresolved Management Decisions Over One Year Old	6
8. Significant Management Decisions October 1, 2004 through March 31, 2005 on Final Reports Issued by the Office of the Inspector General	7

MESSAGE FROM THE ACTING 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, 2004 to March 31, 2005. 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 OIG continues to play an essential role in the management and operations of OPM. We have pursued opportunities whenever they were available to strengthen and enhance OPM's OIG. For example, OPM worked with the Office of Management and Budget (OMB) in soliciting the OIG's participation in the Program Assessment and Rating Tool (PART) process in addressing its FY 2005 audit and enforcement plans for health care and health insurance issues. Through support and assistance provided by the OMB staff, the OIG produced a PART analysis that was graded among the very best governmentwide by a team of senior OMB officials. The exercise proved to be valuable in sharpening the OIG's focus on short and long-term goals directly contributing to the effectiveness of OPM's programs.

Over the past several months the OIG has made valuable contributions to the effectiveness of OPM operations through its continued use of administrative sanctions to protect the Federal Employees Health Benefits (FEHB) Program. The OIG's electronic application, known as the "e-debarment" process, became fully operational this reporting period. The system allows the OIG to expeditiously identify and target potentially sanctionable violations against the FEHB by health care providers on a nationwide basis. During this reporting period, the OIG issued almost 2,000 debarments and suspensions of health care providers. OPM management will continue to work closely with the OIG to further protect and improve service for our Federal health plan customers and deter provider wrongdoing.

Beyond its contributions to the FEHB Program, the OIG contributes to the effectiveness of OPM's operations in other ways: assisting in strengthening our computer security program; ensuring that organizations entrusted with distributing funds donated by Federal employees under the Combined Federal Campaign do so with absolute integrity; making certain of the fair presentation of OPM's consolidated financial statements and their conformance with generally accepted accounting principles; and verifying OPM's compliance with the Government Performance and Results Act. The OIG's contributions are an integral part of the Agency's success in implementing its mission. Here at OPM, we are committed to working together to achieve the President's goals of serving the American people with honor and integrity while focusing attention towards achieving a government that is citizen-centered, results-oriented and market-based in providing service to the American people.

Dan G. Blair
Acting 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, 2004, through March 31, 2005.

We began this period with 14 audit reports pending agency decisions totaling \$32.4 million. The OIG issued 21 new reports with unresolved monetary findings totaling \$32.4 million, bringing the work-in-process to \$64.8 million. Management's decisions on OIG recommendations during this period were \$43.2 million. This amount is a combination of \$41.2 million in "disallowed costs" (requiring payment to OPM) and \$2 million in "costs not disallowed" (no required payment to OPM). The balance at the end of the period totals \$21.6 million and relates to 16 audit reports.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 40 audit reports which had been previously resolved, with \$32.3 million to be collected from the insurance carriers. Management decisions were made on 19 reports requiring the insurance carriers to pay \$33 million. This brought the number of audit reports with collection action to 59, totaling \$65.3 million including interest and adjustments. During this period, we collected \$22 million relating to 11 audit reports. We also made an adjustment to audit reports totaling \$2.9 million, which leaves a balance of 48 audit reports and \$40.4 million to be collected.

The following table summarizes final action of audits with disallowed costs collection activity for the period October 1, 2004, through March 31, 2005.

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS
REPORTING PERIOD ENDING
March 31, 2005**

	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 (10/01/04)	40	\$32,335
B. 1. Audit reports on which management decisions were made during the period (10/01/2004 - 03/31/2005)	19	\$32,993
2. Interest assessed during period		0
C. Total audit reports pending final action during period (total of A and B)	59	\$65,328
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	11	\$22,025
(b) Property	0	0
(c) Other	0	\$2,842*
2. Write-offs, waiver	0	0
3. Total of 1 and 2	11	\$24,867
E. Audit reports needing final action at the end of the period (03/31/2005) (subtract D3 from C)	48	\$40,461

* 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
HealthGuard of Lancaster, Inc. Lancaster, Pennsylvania 1C-NQ-00-03-057 December 23, 2004	All outstanding audit issues have been resolved and the FEHB Program has been reimbursed \$3,246,887.
CareFirst Bluechoice, Inc. Owings Mills, Maryland 1C-2G-00-03-007 November 4, 2004	All outstanding audit issues have been resolved and the FEHB Program has been reimbursed \$2,144,462.
Global Coordination of Benefits for BCBS Plans 1A-10-00-03-102 November 9, 2004	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
Anthem BlueCross and BlueShield of Kentucky Mason, Ohio and Indianapolis, Indiana 1A-10-45-03-012 November 17, 2004	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
Information Systems General and Application Controls at Health Care Service Corporation Chicago, Illinois and Abilene and Richardson, Texas 1A-99-00-04-015 January 19, 2005	Awaiting 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

Report Date	<u>Determination</u> Date	Audit Number	Audit Name	<u>Receivables as of</u> March 31, 2005
07/25/2001	10/12/2001	10-03-01-027	BCBS of New Mexico	\$ 108,962
04/02/2002	02/19/2003	10-05-01-050	BCBS of Georgia	686,056
11/13/2000	08/31/2001	10-06-99-055	BCBS of Maryland	1,201,941
03/10/2003	09/23/2003	10-07-02-010	BCBS of Louisiana	323,151
11/29/2001	08/31/2002	10-09-01-032	BCBS of Alabama	349,210
01/28/2002	06/14/2002	10-10-01-098	Blue Shield of Idaho	1,214
10/01/2002	09/25/2003	10-15-02-007	Blue Shield of Tennessee	132,773
02/14/2003	09/25/2003	10-27-02-022	BCBS of New Hampshire- Manchester	229,921
08/27/2001	12/11/2001	10-30-01-018	BCBS of Colorado	395,487
02/10/2003	09/30/2003	10-32-02-003	BCBS of Michigan	66,381
11/25/2002	09/25/2003	10-36-02-031	Capital Blue Cross Harrisburg	196,288
01/06/2000	09/06/2000	10-39-98-012	BCBS of Kentucky & Indiana	1,659,966
07/24/2002	02/19/2003	10-40-02-006	BCBS of Mississippi	144,019
05/10/2000	02/05/2001	10-41-99-017	BCBS of Florida	5,102,139
02/10/2000	08/31/2000	10-44-99-048	BCBS of Arkansas	15,171
04/04/2000	02/05/2001	10-49-99-016	Horizon BCBS of New Jersey	1,325,782
01/31/2002	08/29/2002	10-54-01-092	Mountain State BCBS of Parkersburg	11,788
10/22/2001	09/03/2002	10-56-01-049	BCBS of Arizona	307,589
12/10/2001	12/18/2001	10-58-01-079	BCBS of Oregon	128,301
05/14/2001	10/12/2001	10-59-01-022	Anthem BCBS of Maine	105,417
02/22/2001	08/08/2001	10-69-01-001	Regence Blue Shield	11,165
07/18/2000	12/27/2000	10-78-99-049	BCBS of Minnesota	165,325
02/15/2001	08/31/2001	10-84-01-002	BCBS of Utica, New York	11,553
12/20/2000	08/31/2001	10-85-99-054	CareFirst BCBS	216,126
05/07/2001	09/30/2001	10-88-01-021	BC of Northeast Pennsylvania	69,661
09/12/2002	02/19/2003	10-89-02-027	BCBS of Delaware	47,767
04/04/2002	02/19/2003	10-92-01-097	BCBSA Operation Center	26,827
02/12/2002	10/30/2002	10-97-01-045	Blue Cross of California	575,869
			Subtotal	\$13,615,849

Other Insurance Carriers

Report Date	<u>Determination</u> Date	Audit Number	Audit Name	<u>Receivables as of</u> March 31, 2005
08/04/1999	03/31/2000	Y7-03-98-006	BCBSNCA – as an underwriter	\$ 424,667
07/30/1999	03/31/2000	YA-03-98-007	BCBSNCA – as an underwriter	6,296,552
08/03/1999	03/31/2000	YP-03-98-009	BCBSNCA – as an underwriter	1,595,074
04/02/2002	09/30/2003	YQ-00-02-028	Alliance Health Plan	4,349,355
02/27/2002	09/20/2002	M5-00-01-046	California Care	135,354
10/23/2001	09/30/2003	88-00-01-095	Rocky Mountain HMO	3,456,605
			Subtotal	\$ 16,257,607
			Grand Total	\$ 29,873,456*

* Management Decisions pending on \$5,387,973.

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$24,485,483 for which a management decision was not implemented within one year, 52 percent, or \$12,665,648, 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. The remaining 48 percent, or \$11,819,835, 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, 2004 THROUGH MARCH 31, 2005
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	AMOUNT RECOVERED
National Alliance of Postal and Federal Employees Washington, DC YQ-00-03-110 July 28, 2004	Unallowable Subcontract & Related Charges Overhead Allocations Excess Letter of Credit Drawdowns Lost Investment Income	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 Audit Report. We will attain final resolution through continued negotiations or the legal process.	We have not determined the total amount to be recovered on these audits because negotiations are still in progress.