

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, 2006 to March 31, 2007. 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.

Since we last reported, OPM made measurable progress in ensuring our Federal Employees Health Benefit Plan (FEHBP) carriers are compliant with federal regulations, policies and laws and in combating fraud, waste and abuse. Most notably is the Office of the Inspector General's (OIG) participation in the health care fraud claim settlement case against Medco Health Solutions, Inc., of Franklin Lakes, New Jersey. The Medco settlement is the largest monetary settlement from a single investigation, resulting in \$97 million returned to the trust fund. The OIG also issued 21 FEHBP audit reports for this reporting period which contained recommendations for monetary adjustments in an aggregate amount of \$36.9 million due to OPM.

The OIG's ongoing program of information security audits has also immensely helped the Agency. Protecting personally identifiable information (PII) and our technology assets are key to maintaining the public trust as well as maintaining the integrity of our data. The OIG's assistance is invaluable in helping OPM ensure PII protection is adequate and to ensure that information system internal controls are in place and functioning. These audits help pinpoint weaknesses in our infrastructure and promote solutions to combating internal and external threats so we can continue to effectively deliver services to our customers.

Audits of the OPM Financial Statements and the Combined Federal Campaign (CFC) remain OIG priorities. We received a clean audit opinion on our FY06 Financial Statements and received recommendations to strengthen our financial management operations. We have instituted many corrective actions in response to recommendations made by OPM's external financial statement auditor, and are working vigorously to implement others. Similarly, with respect to the oversight of CFC operations, the OIG continues to offer recommendations aimed at improving overall management of the Federal program and local CFC campaigns.

The OIG's investigative activities focusing on potential fraud involving OPM's administration of retirement, health benefits, and life insurance continue to deter and expose crimes against the Government and Federal beneficiaries. Indeed, the OIG's investigations, like its audit activities, frequently result in the repayment of monies to OPM's trust funds to the benefit of the Government and annuitants, health care users, and life insurance beneficiaries.

I am pleased that we have accomplished so much but we still have challenges ahead. The OPM OIG has and will continue to play a significant role in achieving the Agency's goals. This report

represents our collective, good faith efforts to ensure we remain leaders in the Federal community.

Linda M. Springer
Director

**MANAGEMENT RESPONSE
TO THE INSPECTOR GENERAL'S SEMIANNUAL REPORT
TO CONGRESS
MAY 2007**

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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, 2006 through March 31, 2007.

We began this period with six audit reports pending agency decisions totaling \$22.5 million. The OIG issued 16 new reports with unresolved monetary findings totaling \$36.8 million, bringing the work-in-process to \$59.3 million and relates to 22 audit reports. Management's decisions on OIG recommendations during this period were \$27.8 million and related to ten audit reports. This amount is a combination of \$27.0 million in "disallowed costs" (requiring payment to OPM) and \$.8 million in "costs not disallowed" (no required payment to OPM). The balance at the end of the period totals \$31.5 million and relates to 12 audit reports.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 31 audit reports which had been previously resolved, with \$39.3 million to be collected from the insurance carriers. Management decisions were made on 17 reports requiring the insurance carriers to pay \$27.9 million. This brought the number of audit reports with collection action to 48, totaling \$67.2 million including interest and adjustments. During this period, we collected \$28.7 million relating to 18 audit reports. We also made an adjustment to one audit report totaling \$2.2 million, which leaves a balance of 29 audit reports and \$36.2 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, 2006, through March 31, 2007.

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS
REPORTING PERIOD ENDING
March 31, 2007**

	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 (10/1/2006)	31	\$39,302
B. 1. Audit reports on which management decisions were made during the period (10/1/2006 - 3/31/2007)	17	\$27,815
2. Interest assessed during period	0	100
C. Total audit reports pending final action during period (total of A and B)	48	\$67,217
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	18	\$28,760
(b) Property	0	0
(c) Other	1	\$2,210*
2. Write-offs, waiver	0	0
3. Total of 1 and 2	19	\$30,970
E. Audit reports needing final action at the end of the period (3/31/2007) (subtract D3 from C)	29	\$36,247

* 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

Kaiser Foundation Health Plan, Inc.
Mid-Atlantic States
Rockville, Maryland
1C-E3-00-05-063
January 12, 2007

STATUS

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

MD – Individual Practice Association, Inc.
Rockville, Maryland
1C-JP-00-04-091
March 22, 2007

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

Global Coordination of Benefits
For BlueCross and BlueShield Plans
1A-99-00-05-023
March 29, 2007

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

BlueCross BlueShield of Alabama
Birmingham, Alabama
1A-10-09-05-087
February 27, 2007

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

Government Employees Hospital Association, Inc.
Lee's Summit, Missouri
1B-31-00-06-044
February 6, 2007

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

Information Systems General and
Application Controls at BlueCross Blueshield
of Arizona
Phoenix, Arizona
1A-10-56-06-007
November 16, 2006

Information Systems General and
Application Controls at WellPoint, Inc.
Virginia, Maine, New Hampshire and Connecticut
1A-10-63-06-032
March 12, 2007

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.

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 Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of March 31, 2007</u>
11/09/2004	09/26/2005	10-00-03-102	BCBS Global COB (Tier 2)	\$ 8,405,280
03/31/2004	09/24/2004	10-00-03-013	BCBS Global COB (Tier 1)	1,437,013
12/01/2004	09/26/2005	10-06-03-033	Carefirst BCBS (Maryland Service Area)	4,087
10/01/2002	09/25/2003	10-15-02-007	BCBS of Tennessee	109,947
08/23/2004	02/22/2005	10-17-02-048	BCBS of Illinois	183,967
05/04/2004	02/22/2005	10-18-03-003	Anthem BCBS - Ohio	942,276
07/28/2004	02/22/2005	10-29-02-047	BCBS of Texas	1,084,383
03/01/2004	09/30/2004	10-39-03-004	Anthem BCBS (Indiana Claims & Admin)	4,748
05/10/2000	02/05/2001	10-41-99-017	BCBS of Florida (Jacksonville, FL)	4,117,687
05/03/2004	03/11/2005	10-41-03-031	BCBS of Florida	794,456
11/17/2004	09/26/2005	10-45-03-012	Anthem BCBS - Kentucky	930,491
12/15/2004	09/26/2005	10-55-04-010	Independence BCBS	20,190
08/02/2004	02/11/2005	10-61-04-009	Anthem BCBS of Nevada	443,859
10/17/2005	01/17/2006	10-83-05-002	BCBS of Oklahoma	692,642
08/19/2005	02/08/2006	10-85-03-103	Carefirst BCBS (DC Service Area)	273,568
07/27/2005	11/10/2005	10-85-04-007	BCBS Global COB	1,633,948
			Subtotal	\$21,078,542

Other Insurance Carriers

Report Date	<u>Determination Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of March 31, 2007</u>
02/11/2003	09/30/2003	YQ-00-02-028	Alliance Health Plan	\$ 2,430,000
07/28/2004	03/08/2005	YQ-00-03-110	Alliance Health Plan	570,000
06/20/2005	12/05/2005	80-00-04-058	Group Health Incorporated	3,856,603
			Subtotal	\$ 6,856,603
			Grand Total	\$27,935,145*

* Management Decisions pending on \$692,642.

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$27,242,503 for which a management decision was not implemented within one year, 26 percent, or \$7,117,687, 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 74 percent, or \$20,124,816, 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, 2006 THROUGH MARCH 31, 2007
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

**REPORT AND
REPORT NUMBER**

AUDIT FINDINGS

MANAGEMENT RESULTS

**AMOUNT
RECOVERED**

No Contracting Officers Finals Decisions were issued during this period.