

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, 2005 to September 30, 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 is a critically essential component in the management of this Agency and our programs. We continue to work with the OIG to strengthen and enhance our programs and operations. Over the past several months the OIG has made valuable contributions to the effectiveness of OPM operations through its audit activities of health insurance carriers aimed at protecting the Federal Employees Health Benefits Program (FEHBP). In particular, from April to September 2005 the OIG completed 20 audits on organizations participating in the FEHBP, recommending monetary adjustments in aggregate of \$35 million due the FEHBP. In addition, the OIG continues to examine the pharmacy drug benefits provided through the FEHBP. To date, the OIG work has identified several problematic issues including illegal kickbacks, large rebates paid by pharmaceutical distributors to FEHBP health insurance carriers that were not recredited to the FEHBP, questionable business practices by administrators of pharmacy benefit plans, and improper prescription practices by physicians. 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 FEHBP, the OIG continues to contribute to the effectiveness of OPM's operations in other ways such as 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; and enhancing OPM's internal management of its programs such as the Agency's Work Life program. Here at OPM, we understand that the American people expect the Federal government to achieve results and better utilize their tax dollars. For this reason, we are committed to working together to achieve the President's goals of serving the American people with honor and integrity while focusing attention at achieving a government that is citizen-centered, results-oriented and market-based in providing service to the American people.

Linda M. Springer
Director

**MANAGEMENT RESPONSE
TO THE INSPECTOR GENERAL'S SEMIANNUAL REPORT
TO CONGRESS
NOVEMBER 2005**

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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 April 1, 2005, through September 30, 2005.

We began this period with 16 audit reports pending agency decisions totaling \$21.5 million. The OIG issued 13 new reports with unresolved monetary findings totaling \$37.1 million, bringing the work-in-process to \$58.6 million. Management's decisions on OIG recommendations during this period were \$22.5 million. This amount is a combination of \$21.0 million in "disallowed costs" (requiring payment to OPM) and \$1.5 million in "costs not disallowed" (no required payment to OPM). The balance at the end of the period totals \$36.1 million and relates to 14 audit reports.

One audit report with questioned costs of \$474,698 was reported for which no management decision was made within six months of issuance. While this report was not resolved within six months of issuance, the report was resolved by September 30, 2005 and all funds have been recovered.

COLLECTION OF DISALLOWED COSTS

At the beginning of the period there were 48 audit reports which had been previously resolved, with \$40.4 million to be collected from the insurance carriers. Management decisions were made on 15 reports requiring the insurance carriers to pay \$25.5 million. This brought the number of audit reports with collection action to 63, totaling \$66.1 million including interest and adjustments. During this period, we collected \$10.3 million relating to 28 audit reports. We also made an adjustment to audit reports totaling \$9.5 million, which leaves a balance of 35 audit reports and \$46.3 million to be collected.

The following table on final action of audits with disallowed costs provides a summary of collection activity for the period April 1, 2005, through September 30, 2005.

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS
REPORTING PERIOD ENDING
September 30, 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 (04/01/2005)	48	\$40,461
B. 1. Audit reports on which management decisions were made during the period (04/01/2005 - 09/30/2005)	15	25,538
2. Interest assessed during period	0	117
C. Total audit reports pending final action during period (total of A and B)	63	\$66,116
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	28	\$10,272
(b) Property	0	0
(c) Other	0	9,462*
2. Write-offs, waiver	0	0
3. Total of 1 and 2	28	\$19,734
E. Audit reports needing final action at the end of the period (09/30/2005) (subtract D3 from C)	35	\$46,382

* 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
Kaiser Foundation Health Plan, Inc. Southern California Region Oakland, California 1C-62-00-04-018 September 28, 2005	Awaiting Plan's response to the outstanding audit issues. We expect to resolve all outstanding issues within the 180 day standard.
Independent Health Association Buffalo, New York 1C-QA-00-05-001 September 15, 2005	The FEHB Program has been reimbursed \$1,243,717.
Global Coordination of Benefits For BlueCross and BlueShield Plans 1A-10-85-04-007 July 27, 2005	Reviewing Plan's response to the outstanding issues. We expect to resolve the outstanding issues within the 180 day standard.
CareFirst BlueCross and BlueShield (DC Area and Overseas Claims) 1A-10-85-03-103 August 19, 2005	Awaiting Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.
Group Health Incorporated New York, New York 1D-80-00-04-058 June 20, 2005	Reviewing Plan's response to the outstanding issues. We expect to resolve all outstanding issues within the 180 day standard.

MANAGEMENT DECISIONS NOT IMPLEMENTED WITHIN ONE YEAR

Blue Cross and Blue Shield Audits

<u>Determination Date</u>	<u>Report Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of September 30, 2005</u>
09/06/2000	01/06/2000	10-39-98-012	BCBS of Kentucky & Indiana	\$ 1,469,989
02/05/2001	05/10/2000	10-41-99-017	BCBS of Florida	4,018,970
08/31/2001	11/13/2000	10-06-99-055	BCBS of Maryland	66,542
08/31/2001	12/20/2000	10-85-99-054	CareFirst BCBS	34,066
12/11/2001	08/27/2001	10-30-01-018	BCBS of Colorado	153,396
02/19/2003	04/04/2002	10-92-01-097	BCBSA Operation Center	6,623
09/25/2003	10/01/2002	10-15-02-007	Blue Shield of Tennessee	186,355
09/25/2003	02/14/2003	10-27-02-022	BCBS of New Hampshire- Manchester	64,324
03/19/2004	05/14/2003	10-33-02-008	BCBS of North Carolina	87,243
03/19/2004	04/23/2003	10-50-02-032	Anthem BCBS of Connecticut	174,725
08/10/2004	01/06/2004	10-01-03-014	Empire BCBS	9,305
Subtotal				\$ 6,271,538

Other Insurance Carriers

<u>Determination Date</u>	<u>Report Date</u>	<u>Audit Number</u>	<u>Audit Name</u>	<u>Receivables as of September 30, 2005</u>
03/31/2000	08/04/1999	Y7-03-98-006	BCBSNCA - as an underwriter	\$ 426,623
03/31/2000	07/30/1999	YA-03-98-007	BCBSNCA - as an underwriter	6,327,274
03/31/2000	08/03/1999	YP-03-98-009	BCBSNCA - as an underwriter	1,602,301
09/20/2002	02/27/2002	M5-00-01-046	California Care	135,354
09/30/2003	04/02/2002	YQ-00-02-028	Alliance Health Plan	4,359,363
09/30/2003	10/23/2002	88-00-01-095	Rocky Mountain HMO	3,469,665
07/14/2004	04/03/1998	ED-00-97-002	Keystone Heath Plan East	1,048,170
Subtotal				\$ 17,368,750
Grand Total				\$ 23,640,288 *

* Management Decisions pending on \$1,557,232.

COMMENTS ON UNRESOLVED MANAGEMENT DECISIONS OVER ONE YEAR OLD

Of the \$22,083,056 for which a management decision was not implemented within one year, 89 percent, or \$19,559,989, 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. Another 8 percent, or \$1,724,545, of the balance has been adjusted since September 30, 2005, and the remaining 3 percent, or \$798,522, 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, 2005 THROUGH SEPTEMBER 30, 2005
ON FINAL REPORTS ISSUED
BY THE OFFICE OF THE INSPECTOR GENERAL**

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