

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**Management Decisions and Final Actions on
the Office of the Inspector General's Audit Recommendations**

October 1, 2010 - March 31, 2011

Director's Semiannual Report to the Congress

a New Day for Federal Service



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
MAY 2011



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

The Director

MESSAGE FROM THE DIRECTOR

The U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) has completed its Semiannual Report for the period October 1, 2010 to March 31, 2011. Working with our OIG, OPM made progress in many important areas during this period. 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.

As reported by the OIG, OPM has some areas where improvements can still be made and we are working diligently to correct these issues. For example, OPM is addressing the OIG's concerns regarding compliance with the Federal Information Security Management Act in a number of ways, including retaining an interagency agreement with the Bureau of Public Debt to assist with updating IT Security and Privacy policies, supplementing existing IT staff with full-time employees, and doubling the number of staff assigned to certification and accreditation packages to improve their overall quality. Additionally, the Chief Information Officer has submitted evidence for closure of 25 IT-related items to the OIG.

OPM is also addressing OIG concerns over financial management and reporting. We have developed an aggressive corrective action plan with specific actions targeting these deficiencies. We are continuing to reconcile, identify, and correct existing differences between OPM's internal data and information reported by the Treasury Department. At such time when no additional reductions can be identified, OPM will, in conjunction with appropriate oversight agencies, reconcile any remaining amounts to clear any differences with the Treasury Fund Balance. We are also working to ensure that adequate documentation (e.g., IPACs) to support reconciliations is maintained and available for review.

We continue to rely on the OIG to ensure firms contracted under the Federal Employees Health Benefits Program (FEHBP) are operating as they should and in compliance with contract terms and other laws and regulations. During the past six months, auditors found that FEHBP is due \$13.7 million as the result of uncovering overcharges of some services and being inappropriately charged for other services. OIG investigators found instances

where some manufacturers such as GlaxoSmithKline violated safety standards resulting in \$37 million due to the FEHBP. These types of OIG activities ensure the health and welfare of OPM's employees and annuitants and assist OPM with its FEHBP stewardship.

I commend OPM's Healthcare and Insurance (HI) organization for driving to meet a number of our challenges in the last six months. The HI staff aggressively pursued closure of many long-standing health carrier audit recommendations. In the last six months, HI has reduced the number of audit reports with open recommendations from 41 to 14, a reduction of more than 65 percent. The questioned costs associated with these audit reports was reduced from \$41.3 million to \$23.7 million, a reduction of more than 42 percent. In addition, the HI team has implemented audit resolution performance standards in the health carrier contracts, which should reduce the amount of time that it takes to resolve OIG audit findings in the future.

Also, I want to highlight the following key initiatives in progress at OPM to improve our operations and the Federal Government as a whole:

- In the Government Accountability Office (GAO) High-Risk Series report released in February 2011, GAO noted that sufficient progress has been made to remove the high risk designation from the Department of Defense (DoD) Personnel Security Clearances Area. The removal of DoD's Security Clearance program from the high risk list is directly due to actions taken by OPM since 2005. In 2005, Congress transferred DoD's background investigations program and staff to OPM, along with a backlog of several hundred thousand investigations to be merged with OPM's Federal Investigative Services. OPM has eliminated this backlog and in accordance with the Intelligence Reform and Terrorism Prevention Act demonstrated performance within FY 2010 to process the fastest 90 percent of security clearance investigations within 39 days on average.
- President Obama launched the Veterans Employment Initiative in November of 2009, with Executive Order 13518. The order created the Council on Veterans Employment to advise and assist the President on improving employment opportunities for veterans in the Federal Government. As a result of the work of the Council, on which I serve as Vice Chair, I am pleased to report that Executive branch agencies increased their hiring of veterans by a total of nearly 2,000 from FY 2009 to FY 2010, even though their total hiring fell by 11,000 during that same period. OPM, as an agency, has worked hard to provide employment opportunities for veterans. We hired 229 veterans in FY 2010, compared to 171 veterans in FY 2009. In both years, veterans constituted approximately 27 percent of OPM's total new hires. In FY 2010, we hired 113 disabled veterans — 41 more than in the previous year. Disabled veterans made up more than 13 percent of OPM's total new hires last year — more than any other agency's percentage of hires.

- OPM is making a concerted effort to improve the retirement claims experience for federal employees. Overtime pay and staff details reduced average claims processing time to 117 days – 15 percent less since September 2010 – and we reduced the balance of pending retirement claims. OPM hired 40 new retirement claims examiners, who will be fully trained by 2012 and able to further reduce processing time. We are working closely with other federal agencies to assure that retirement claims sent to OPM contain accurate and complete information. By June 2011, OPM will begin using agency annuity estimates to assure that interim annuity payments for new retirees are close as possible to actual annuity payments. By the summer of 2011, enhancements to the OPM retirement services website will allow new retirees to check on the status of their retirement claims and know who they need to speak to if they have questions. These improvements will give new retirees more control over their retirement experience and will provide them a level of service they earned and expect.
- President Obama has challenged the federal workforce to innovate and collaborate in order to better serve the American public. OPM always seeks ways to be more efficient and effective in the ways we conduct our business. In February 2011, OPM deployed the IdeaFactory which is an online method for employees to identify problems and solutions in a safe, collaborative environment. We are realizing new efficiencies in operations through this effort. In just a short time, 14 ideas have been implemented with 23 more in the pipeline for deployment.
- OPM is investing in its employees by instituting a new OPM Mentoring program. A pilot mentoring program began in March 2011 and will be rolled out to all of OPM during the summer of 2011. Mentoring is one more tool to ensure our employees share knowledge, are well-trained, and capable to take on new roles and responsibilities. Mentoring is shaping the OPM culture for the better and will increase intra-agency collaboration and innovation as we strive to continually improve our services.

In closing, our ability to strengthen OPM's performance so we can contribute to the efficiency and effectiveness of the Federal Government as a whole depends on federal employees who are well-trained, actively engaged in developing and implementing innovative solutions, and dedicated to public service. I am proud to say OPM has such employees and that we are all committed to recruiting, retaining and honoring a world-class workforce to serve the American people.


John Berry
Director

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

May 2011

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HEALTH, LIFE and INDIVIDUAL BENEFITS AUDITS

More than 8 million lives are covered by the Federal Employees Health Benefits (FEHB), Federal Employees' Group Life Insurance (FEGLI), Federal Flexible Spending Account Program (FSAFeds), Federal Employees Dental and Vision Insurance Program (FEDVIP) and the Federal Employees Long Term Care Insurance Program (FLTCIP). These programs provide important benefits and impact current and former federal employees and their families. Together they form a key component of the federal government's compensation package, helping agencies recruit, retain and honor a world class workforce. Effective administration of these programs requires balancing resources to meet consumer expectations through our partnership, oversight and compliance efforts. Healthcare and Insurance remains committed across all aspects of its stewardship responsibilities in administering the benefit programs to the federal family.

AUDIT RESOLUTION

Federal Employee Insurance Operations' (FEIO) Audit Resolution (AR) team reconciles monetary and non-monetary audit findings identified by the Office of the Inspector General (OIG) in its audits of the FEHB, FEGLI, FSAFeds, LTC and FEDVIP programs. To maximize timely, fair and accurate resolution, work begins before the OIG releases a final audit report – to have key stakeholders evaluate draft findings to reduce the occurrence of potentially avoidable and time-consuming procedural and regulatory challenges. AR determines the amounts due the Federal Programs, recovers funds, and works with carriers, Contract and OPM officials to implement corrective actions and close the audit. Resolution (the determination of a receivable due the FEHB) and the completion of post-resolution corrective actions (report closure) remain a high priority. While each audit requires a slightly different approach, closing audits entail collaboration among the Contract Officer (CO), OIG, health plans, Office of the Actuary – for HMO's only-- and, on occasion, OPM's General Counsel or counsel from the Plan. AR reviews audit findings, supporting spreadsheets and documentation from the OIG, while evaluating the Plan's written responses, spreadsheets and other evidence including health benefits claim data. Audit Resolution also references the appropriate Contract (e.g. CS 1039), Federal Acquisition Regulation (FAR) or Rate/Reconciliation Instruction language, and solicits input and opinions from the Health Insurance Contract Officers, the OIG, the Plan(s), and the Office of the Actuary.

Each audit is unique. A Plan's response to a monetary finding may indicate their agreement or disagreement with the finding. Overpayments may be repaid by check, by certifying that funds have been returned to the FEHB, or via Letter-Of-Credit transaction/adjustment. A plan may agree with an overpayment but, after unsuccessfully attempting to collect it, declare it to be uncollectible or may contest it based on other circumstances. Plan responses may also contest audit findings by describing errors, oversight or other extenuating circumstances it believes are at play, or may question the interpretation of contract language in support of its actions.

All such responses, which are frequently accompanied by voluminous support, must be reviewed in detail – due process that prolongs final resolution and appropriate corrective actions.

A plan's agreement with a finding, or that an overpayment was made, does not necessarily mean that monies can or will be collected. Plans are contractually required to exercise due diligence in

recovering overpayments and provide updates on their progress in remediating audit findings. Factors contributing to timely, successful closure of findings within a final audit report may include: prompt, diligent action by Plans to recover overpayments and resolve findings; appropriate resourcing; effective internal controls; age of overpayment when audited; and interpretation of contract provisions and other subsidiary laws or agreements in place.

During the first half of fiscal year 2011, FEIO made substantial progress in its efforts to close aged audits. Insurance Operations (IO), including Contracting Officers and Audit Resolution staff:

- ❖ Collaborated with Plans and OIG to fully resolve 29 open, aged audits, recovering \$26.5 million and appropriately allowing \$9.9 million
- ❖ Implemented streamlined procedures for resolution of most audits within 180 days
- ❖ Briefed FEHB, FEGLI, FEDVIP and FSAFeds representatives on the new process
- ❖ Sought legal counsel and guidance for the most difficult resolutions
- ❖ Enhanced CO and Contract Specialists' oversight responsibilities
- ❖ Elevated AR, within IO to report directly to the Assistant Director
- ❖ Creating additional positions within IO to improve responsiveness to audits

Under our new configuration contracting staff is taking a more active role in their oversight responsibilities through continuous involvement in the entire IG audit process.

We began this period with 7 audit reports pending agency decisions totaling \$54.8 million. The OIG issued 8 new reports with unresolved monetary findings totaling \$13.7 million, bringing the work-in-progress to \$68.5 million under 15 audit reports. IO Management's decisions on OIG recommendations during this period were \$61.6 million covering 10 audit reports. This amount is a combination of \$60.4 million in "disallowed costs" (requiring payment to OPM) and a net (\$1.1) million in "costs not disallowed" (payment to OPM not required). The balance at the end of the period totals \$6.9 million pertaining to 5 audit reports.

COLLECTION OF DISALLOWED COSTS

This six month period (October 1, 2010 through, March 31, 2011) has been exceptionally productive for FEIO and AR. At the beginning of the period there were 37 audit reports which had been previously resolved, with \$44.5 million to be collected from the insurance carriers. IO Management's decisions were rendered on an additional 5 reports requiring the insurance carriers to pay \$60.4 million. Including \$35 thousand in interest adjustments (\$0.04 million), this brought the number of audit reports with collection action to 42, representing \$104.9 million. During this period, we collected \$26.5 million relating to 23 audit reports. We also made an adjustment to the original debt totaling \$9.9 million, leaving a balance of 19 audit reports and \$68.5 million to be collected.

We also made significant progress on audit reports more than six months old pending corrective action (Appendix VII of the OIG's Semiannual Report). The prior SAR (April 1, 2010 – September 30, 2010) listed 37 final FEHBP audit reports still pending corrective action. During the current period 5 new reports were added and AR successfully closed 23 final FEHBP audit reports. This reduced the number of final FEHBP audit reports still pending corrective action to 19, a nearly 49% reduction. During the 12 month period, April 1, 2010 – March 31, 2011, AR closed 46 audits, recovering \$46.9 million and appropriately allowing another \$27.1 million, totaling \$74.0 million. As a result, the average age of our outstanding audits has decreased by nearly 27% or by more than 13 months during the last year. Review and development of corrective action plans will continue to be integral to our oversight, compliance and monitoring of the operations of contracts.

These results are the direct result of enhanced collaboration with both internal and external stakeholder groups (OIG, Office of the Actuary, Plans and others).

AUDITS OVER ONE YEAR OLD PENDING CORRECTIVE ACTION AND FINAL CLOSURE

Our last management response noted a pending agreement to settle the majority of the remaining aged BCBS audits. The table below demonstrates the results of those efforts. We are pleased to report our completion of this settlement, which resulted in the closure of 29 audits, the recovery of \$7.1 million and the appropriate allowance of a like amount. The remaining audits below are pending agency action or other review. Details on open recommendations have been reported to Congress in prior Semiannual and Management Response Reports. Plans have been informed of corrective actions that must be taken, but actions have not yet been completed.

BlueCross and BlueShield Audits

Report Date	Audit Number	Status	Audit Name
1/18/2008	10-07-07-16	CLOSED	BCBS of Louisiana
2/27/2007	10-09-05-087	CLOSED	BCBS of Alabama
10/01/2002	10-15-02-007	CLOSED	BCBS OF TENNESSEE
7/25/2007	10-15-05-046	CLOSED	BCBS OF TENNESSEE
2/20/2008	10-18-06-052	CLOSED	WellPoint BCBS (IN, KY, OH)
7/28/2004	10-2-9-02-047	CLOSED	BCBS of TEXAS
03/24/2006	10-32-05-034	CLOSED	BCBS OF MICHIGAN
8/28/2007	10-33-06-037	CLOSED	BCBS OF North Carolina
05/03/2004	10-41-03-031	Corrective Action Pending	BCBS OF FLORIDA*
10/12/2007	10-41-06-054	Corrective Action Pending	BCBS OF FLORIDA*
12/14/2007	10-42-07-004	CLOSED	BCBS - KANSAS CITY
06/05/2006	10-47-05-009	CLOSED	BSBC OF WISCONSIN
12/15/2004	10-55-04-010	CLOSED	INDEPENDENCE BCBS
1/31/2007	10-58-06-038	CLOSED	Regence BCBS of Oregon
1/3/2007	10-69-06-025	CLOSED	Regence BCBS of Washington
09/15/2006	10-78-05-005	CLOSED	BCBS OF MINNESOTA
01/09/2009	10-83-08-018	CLOSED	BCBS of Oklahoma
07/27/2005	10-85-04-007	CLOSED	BCBS GLOBAL COB
02/07/2006	99-00-04-027	CLOSED	Global Duplicate Claim Pymts
3/29/2007	99-00-05-023	CLOSED	Global COB Pymts (BCBS Plans)
3/20/2008	99-00-06-001	CLOSED	Global COB Pymts (BCBS Tier 5)
9/5/2008	99-00-07-043	CLOSED	Health Care Service Corporation
6/25/2008	99-00-08-007	CLOSED	Global COB Pymts (2006)
9/11/2008	99-00-08-008	CLOSED	Global Duplicate Claims (2003-2005)
8/11/2008	99-00-08-009	CLOSED	Global COB (2005)

*these audits are pending OIG action before their resolution can become final.

HMO audits generally involve complex calculations related to the methodology used to establish rates for Similarly Sized Subscriber Groups (SSSG). The SSSG methodology is then used to verify whether the FEHB Program received correctly discounted rates. Disputes regarding the appropriate selection of SSSGs can involve complex legal issues and the resolution involves coordination and action between the CO, the OIG, the Office of the Actuary, Audit Resolution and may involve the Office of the General Counsel. (The resolution timeline on such audits varies by its level of complexity). In addition, the CO is working with the Actuaries and the OIG to improve common understanding of the Rate Instructions. Meanwhile OPM is developing a new framework for establishing community rated health plan rates and resolving audit findings for HMO's. OPM is also considering a switch from the SSSG methodology altogether toward the use of a Medical Loss Ratio (MLR). This would ensure the FEHB plan's competitive pricing from the proportion of claims a plan spends from the total premiums it received.

Other Insurance Carriers

Report Date	Audit Number	Status	Audit Name
3/26/2009	1B-45-00-08-16	Corrective Action Pending	Coventry Health Care / MHBP
07/20/2010	2A-II-00-09-065	CLOSED	MetLife
01/25/2011	1J-0A-00-10-031	CLOSED	FEDVIP as Administered by Vision Services
07/22/2010	1C-MK-00-10-005	CLOSED	Blue Choice
10/15/2010	1C-P2-00-10-008	CLOSED	Presbyterian Health Plan
10/28/2010	1C-3A-00-10-027	CLOSED	AultCare Health Plan
12/14/2010	1C-WJ-00-10-041	CLOSED	Group Health of South Central Wisconsin
1/18/2008	1C-3U-00-05-085	Corrective Action Pending	United HealthCare of Ohio
9/15/2008	1C-6Q-00-07-029	Corrective Action Pending	Universal Care, Inc
6/12/2008	1C-G2-00-07-044	Corrective Action Pending	Arnett HMO Health Plan

'CLOSED' audits include all final reports where both monetary and non-monetary recommendations have been satisfactorily resolved during the reporting period. Variances may exist when compared with 'final action/recovery' reporting.

As of this report there is a total of \$13.5 million outstanding pertaining to audits for which full Recoveries and Corrective Actions were not completed within one year. A quarter of this (\$3.3 million), relate to audits pending OIG review. The remaining \$10.2 million relates to health benefit overpayment issues, which FEIO and the Carriers are in the process of collecting. Contractually, Carriers must follow normal business practices and make a diligent effort to collect the overpayments. But until the funds have been recovered, or it has been determined that the funds are uncollectible and must be written-off, the receivable must remain on OPM's book of record. With few exceptions our new emphasis on more timely resolutions, with greater emphasis on resolving issues in an audit's draft phase, will shorten and simplify the overall resolution process and will further allow the audit reports to be used as a tool to enhance management's oversight and carrier's compliance.

The following table provides a summary of collection activity for the period October 1, 2010, through March 31, 2011.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH
DISALLOWED COSTS** Reporting Period Ending March 31, 2011**

Action	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 (10/1/2010)	37	\$44,476
B. 1. Audit reports on which management decisions were made during the period (10/1/2010-3/31/2011)	5	\$60,435
2. Interest assessed during period	<u>0</u>	<u>\$35</u>
C. Total audit reports pending final action during period (total of A and B)	42	\$104,946
D. Audit reports on which final action was taken during the period		
1. Recoveries		
(a) Collections and offsets	23	\$26,519
(b) Property	0	0
(c) Other	0	\$9,921*
2. Write-offs, waiver	<u>0</u>	<u>0</u>
3. Total of 1 and 2	23	\$36,440
E. Audit reports needing final action at the end of the period (3/31/2011) (subtract D3 from C)	19	\$68,506

* This represents adjustments to original debt.

**Information from the preceding tables is provided by the CFO and derived from OPM's Audit Report and Receivables Tracking System (ARRTS).

STATUS OF THE INSURANCE AUDITS HIGHLIGHTED IN THE OFFICE OF THE INSPECTOR

GENERAL'S SEMIANNUAL REPORT (resolution activity for audits released from October 1, 2010 through March 31, 2011)

REPORT, REPORT NUMBER, AND DATE	STATUS
AultCare Health Plan Canton, Ohio 1C-3A-00-10-027 October 28, 2010	All outstanding issues have been resolved and the FEHB Program has been reimbursed \$3,957,347
PersonalCare Insurance of Illinois, Inc. Downers Grove, Illinois 1C-GE-00-10-050	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Global Claims where Amounts Paid Exceeded Covered Charges for BlueCross and BlueShield Plan Washington, DC 1A-99-00-10-030 January 11, 2011	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
WellPoint, Inc. Mason, Ohio 1A-99-00-10-013	Reviewing the Plan's response to the outstanding issues. We expect to resolve all issues and/or initiate Corrective Actions in a timely manner.
Information Systems General and Application Controls at Coventry Health Care as Underwriter for Mail Handlers Benefit Plan Associated Benefit Plan and Rural Carrier Benefit Plan Scottsdale, Arizona 1B-45-00-10-017 December 14, 2010	Reviewing the Plan's response to the outstanding issues. We will coordinate corrective actions taken by the Plan until all recommendations have been completed.
Federal Employees Dental and Vision Insurance Program Operations as Administered by Vision Service Plan Rancho Cordova, California 1J-OA-00-10-031 January 25, 2011	All outstanding issues have been resolved

SIGNIFICANT MANAGEMENT DECISIONS October 1, 2010 THROUGH March 31, 2011 ON FINAL REPORTS ISSUED BY THE OFFICE OF THE INSPECTOR GENERAL

REPORT AND REPORT NUMBER	AUDIT FINDINGS	MANAGEMENT RESULTS	RECOVERED

Although no Contracting Officers Final Decisions were issued during this period, two audits, Group Health Cooperative, 1C-54-00-09-048, and Lovelace Health Plan, 1C-Q1-00-10-026, are pending review with the Office of the General Counsel.



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