U.S. Office of Personnel Management

Office of the Inspector General

Office of Audits

Final Audit Report

Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Act of 2019

Report Number 2022-IAG-002
June 23, 2022

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Executive Summary

Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Act of 2019

Report No. 2022-IAG-002 **June 23, 2022**

Why Did We Conduct the Audit?

The objective of our audit was to determine whether the U.S. Office of Personnel Management (OPM) met the requirements of the *Payment Integrity Information Act of 2019* (PIIA) related to the formulation and inclusion of the payment integrity information in the annual financial statements and accompanying materials to the annual financial statements for fiscal year (FY) 2021.

What Did We Audit?

The Office of the Inspector General completed a compliance audit of OPM's FY 2021 improper payments reporting, as defined in the U.S. Office of Management and Budget's guidance and corresponding reporting instructions. Our audit was conducted virtually from December 20, 2021, through March 17, 2022.

Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

- We determined that OPM is not in compliance with PIIA for FY 2021. As shown below, they met 9 out of the 10 PIIA requirements:

Program Name	1a. Published payment integrity information with the annual financial statement.	1b. Posted the annual financial statement and accompanying materials on the agency website.	2a. Conducted Improper Payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years.	2b. Adequately concluded whether the program is likely to make Improper Payments and Unknown Payments above or below the statutory threshold.	3. Published Improper Payment and Unknown Payment estimates for programs susceptible to significant Improper Payments in the accompanying materials to the annual financial statement.	4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	5a. Published Improper Payment and Unknown Payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	5b. Has demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate.	5c. Has developed a plan to meet the Improper Payment and Unknown Payment reduction target.	6. Reported an Improper Payment and Unknown Payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.
Retirement Services	√	√	NR	NR	√	√	√	√	√	√
Federal Employees Health Benefits Program	√	√	NR	NR	NR	NR	NR	NR	NR	NR
Risk Management and Internal Controls (RMIC)	√	√	X	√	NR	NR	NR	NR	NR	NR

Table 8. PIIA Compliance Reporting Table

√ **Compliant** X **Non-Compliant** NR **= Not Required for Program Office**

- Risk Assessments Not Completed: We determined that RMIC did not complete two risk assessments that should have been completed during FY 2021.
- Analysis of OPM's Reduction Target and Tolerable Rate: Retirement Services did not meet its reduction target for FY 2021 and did not provide documentation supporting that OPM senior management determined the tolerable improper payment and unknown payment rate.
- Outstanding Audit Findings: There are two outstanding audit findings from prior years' audits. Details can be found in Appendix I.

Abbreviations

AFR	**Agency Financial Report**
FEHB	**Federal Employees Health Benefits**
FEHBP	**Federal Employees Health Benefits Program**
FY	**Fiscal Year**
IPERA	**Improper Payments Elimination and Recovery Act of 2010**
IPERIA	**Improper Payments Elimination and Recovery Improvement Act of 2012**
OCFO	**Office of the Chief Financial Officer**
OIG	**Office of the Inspector General**
OMB	**U.S. Office of Management and Budget**
OPM	**U.S. Office of Personnel Management**
PIIA	**Payment Integrity Information Act of 2019**
RMIC	**Risk Management and Internal Control**

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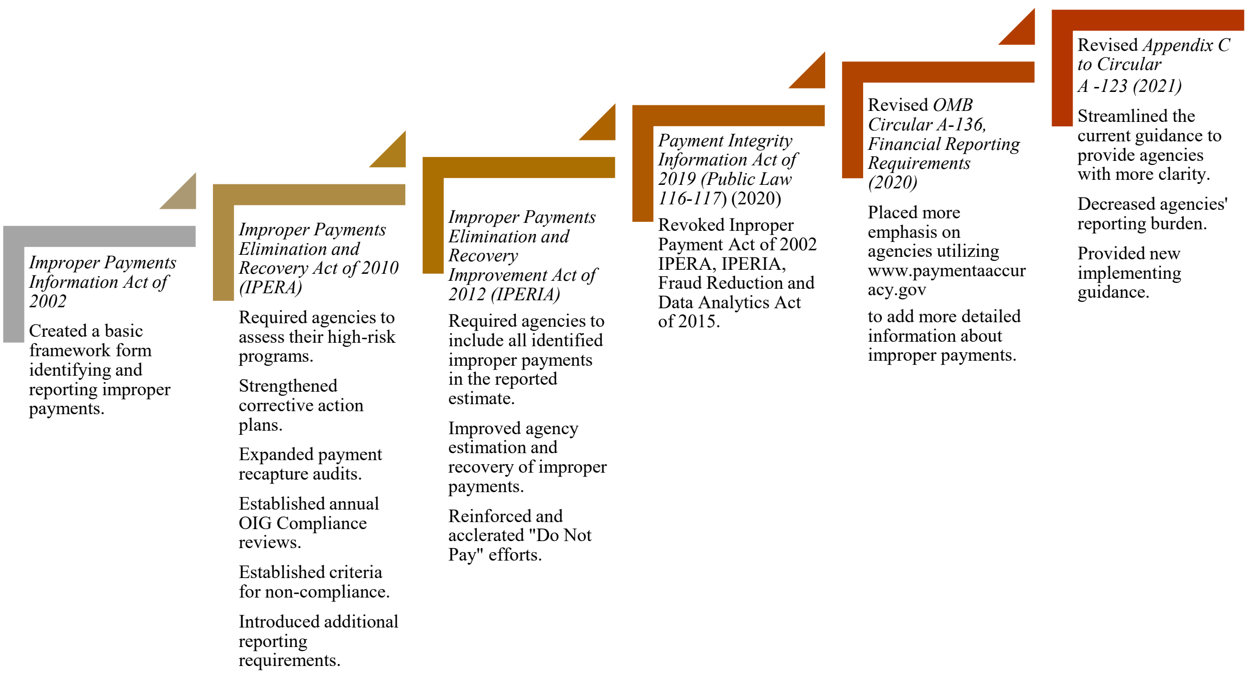
I. Background

This final audit report details the findings, conclusions, and recommendations resulting from our compliance audit of the U.S. Office of Personnel Management's (OPM) Compliance with the *Payment Integrity Information Act of 2019* for fiscal year (FY) 2021. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

Various improper payment laws, regulations, and guidance have been issued between 2002 and 2021 to strengthen executive branch agencies' improper payments reporting requirements. The chart below highlights some important distinctions in the requirements:



In addition, the U.S. Office of Management and Budget's (OMB) Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 2021, states that an agency's program is deemed susceptible to significant improper payments[1] if the annual estimated improper payments and unknown payments exceed:

(1) both 1.5 percent of program outlays and $10,000,000 of all program payments made during the FY or

(2) $100,000,000 regardless of the associated percentage of the program's total annual outlays.

[1] An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

Programs that are not likely to have an annual amount of improper payments plus an annual amount of unknown payments[2] above the statutory threshold are considered Phase 1. If a program in Phase 1 determines that it is likely to annually make improper payments plus unknown payments above the statutory threshold, then the program will move into Phase 2 the following year.

Under OMB guidance, agencies must have performed the following with respect to improper payment reporting:

a. Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement of the agency for the most recent FY in accordance with applicable guidance;
b. Posted the annual financial statement and accompanying materials on the agency website and included a link to paymentaccuracy.gov within its annual financial statement;
c. Conducted improper payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years;
d. Concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold;
e. Published improper payment and unknown payment estimates[3] for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement;
f. Published corrective action plans for each program with an estimate above the statutory threshold that was published in the accompanying materials to the annual financial statement;
g. Published an improper payment and unknown payment reduction target[4] for each program with an estimate above the statutory threshold that was published in the accompanying materials to the annual financial statement;

[2] An unknown payment could be proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.
[3] Improper payment and unknown payment estimates are statistically valid estimates of the total improper payments made annually in a program plus a statistically valid estimate of the total unknown payments made annually in a program. The estimate is determined by taking the collective amount in improper payments and unknown payments divided by the amount in program outlays for a given program in a given FY. It is based on dollars rather than number of occurrences. The improper payment estimate is reported on paymentaccuracy.gov as both a percentage and a dollar amount.
[4] A reduction target is the estimated improper payment and unknown payment level the program predicts they will achieve in the following FY. A reduction target may be lower, constant, or higher than the current year improper payment and unknown payment estimates.

h. Demonstrated improvements to payment integrity or reached a tolerable[5] improper payment and unknown payment rate;

i. Developed a plan[6] to meet the improper payment and unknown payment reduction target; and

j. Reported an improper payment and unknown payment estimate of less than 10 percent for each program with an estimate that was published in the accompanying materials to the annual financial statement.

If an agency does not meet one or more of these reporting requirements, it is not compliant with PIIA.

In addition, OMB Circular A-123 Appendix C and Circular A-136 require agencies to:

- Categorize their improper payment estimates based on OMB's improper payment categories;
- Perform risk assessments on all programs with annual outlays greater than $10,000,000 to determine whether the program is likely to make improper payments plus unknown payments at least every three years;
- Ensure high-priority programs submit semi-annual or quarterly actions to reduce improper payments that are reported by programs in the Payment Integrity Scorecard;
- Identify the accountable official that oversees efforts to reduce improper payments for high priority programs;
- Recover improper payments by conducting recovery audits on programs that expend $1 million or more annually if conducting such audits is cost-effective;
- Distribute funds recovered through payment recapture audits for authorized purposes;
- Establish internal controls to reduce improper payment rates; and
- Use the Do Not Pay Initiative[7] to verify eligibility for Federal payments to help reduce and eliminate payment errors before they occur.

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[5] The tolerable rate for a program is determined by agency senior management and often includes improper payments which are unavoidable and beyond the agency's ability to reduce as well as improper payments and unknown payments which are cost prohibitive or sometimes mission prohibitive for the agency to prevent.

[6] The OIG should consider whether the program has a plan to meet the improper payment and unknown payment reduction targets they have established for the following FY.

[7] The "Do Not Pay Initiative" is used to help agencies determine eligibility to confirm that the right recipient obtains the right payment for the right reason at the right time.

Each agency's Inspector General is required to review relevant improper payment and unknown payment reporting, including the payment integrity section of the agency's annual fiscal year financial statements and any accompanying material, and records pertaining to the programs within an agency to assess compliance with PIIA and OMB guidance. In addition, the OIG is required to determine if the agency's corrective action plans are robust and focused on the appropriate root causes of improper payments, effectively implemented, and prioritized within the agency, to allow it to meet reduction targets. The Inspector General is required to complete its review and determination and publish its final report within 180 days after the agency publishes its Annual Financial Statement and the Accompanying Materials to the Annual Financial Statement, whichever is later. If the 180th day falls on a weekend, the review, determination, and report should be completed by the next business day.

Risk Management and Internal Control

OPM's Risk Management and Internal Control (RMIC) office is responsible for ensuring that OPM includes the payment integrity section in the Agency Financial Report (AFR) and on the paymentaccuracy.gov website. RMIC also works to ensure that OPM's program offices comply with OMB's Data Call instructions. OMB's DATA Call requires agencies to answer a logically based questionnaire. The agencies' responses determine which data will be published on the paymentaccuracy.gov website.

As part of RMIC's improper payment reporting responsibilities, the office must also conduct risk assessments every three years for programs considered to be at a lower risk for improper payments. Based on the guidance from OMB, risk assessments are used to determine whether programs are in Phase 1 or Phase 2. During FY 2021, risk assessments for Payroll and Vendor Payments were due to be completed by RMIC.

OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 2021, states that an agency's program is required to have a risk assessment if it has annual outlays over $10,000,000 for all program or activity payments reported. As a result, the program will fall into one of two possible classifications: Phase 1 or Phase 2. Two of OPM's earned benefit programs, Retirement Services and the Federal Employees Health Benefits Program (FEHBP), met OMB's statutory threshold.

Retirement Services Program

OPM's Retirement Services issues annuity payments on a recurring monthly basis to eligible individuals. Retirement Services' improper payments rate is calculated by dividing the underpayments (determined by statistical sampling) plus overpayments (the actual value) by total outlays. To determine the underpayment value, Retirement Services' Quality Assurance office uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases for the Federal Employees Retirement System and Civil Service Retirement System completed by the statistician and provided to the Office of the Chief Financial Officer's (OCFO) Trust Fund office. To determine overpayments, Retirement Services calculates the total actual value of verified improper overpayments made to annuitants. The verification process consists of a review by Retirement Services specialists to determine if the payments made to annuitants or their survivors were allowable.

During FY 2021, Retirement Services was in Phase 2 and considered a high-risk program. As a result, in accordance with OMB guidance, the program was required to develop a *Sampling and Estimation Methodology Plan* and publish their high dollar improper payment amounts quarterly in a Payment Integrity Scorecard on paymentaccuracy.gov. FY 2021 was the first year that Retirement Services established a tolerable rate, which included a calculation of improper payments plus actual unknown payments, and the program reported a rate of 0.40 percent on paymentaccuracy.gov.

In an effort to recapture identified improper payments from annuitants, Retirement Services has developed the following three types of recovery methods:

- Off-roll debts are collected when the debtor is not on the annuity roll or their entitlement is insufficient to recover the debt on a reasonable recovery schedule;
- On-roll debts are collected when OPM withholds a portion of the debtor's monthly benefits until their entire debt is collected; and
- Reclamations are recovery actions to recoup improper payments from an annuitant's financial institution. OPM utilizes the U.S. Department of Treasury's reclamation process.

The recaptured amounts are tracked by the OCFO's Trust Fund office using the *Treasury Report on Receivables and Debt Collection Activities*.

Federal Employees Health Benefits Program

OPM's Healthcare and Insurance Audit Resolution and Compliance office is responsible for calculating the improper payments rate for the FEHBP. Prior to FY 2015, the OIG provided Healthcare and Insurance with a spreadsheet listing all audit report findings and determinations, and which carriers were impacted. Since FY 2016, Healthcare and Insurance has used their own spreadsheet to consolidate all the data needed to calculate the improper payments. Healthcare and Insurance retrieves this information from the OIG's published audit and investigative data and states that it calculates improper payments using the following formula:

$$\frac{\text{Audit Determinations[8] from OIG questioned costs + Fraud Investigation Recoveries}}{\text{Outlays (Experience-Rated Carriers + Community-Rated Carriers Premium Payments)}}$$

The OIG's Office of Audits uses a risk matrix to determine which FEHBP carriers to audit in any given year based on a variety of criteria, but most carriers go unaudited each year, therefore excluding them from that year's calculation of improper payments related to audits. For the carriers audited by the OIG, the overpayments or underpayments identified in final audit report recommendations are the starting point for determining the improper payments calculation. Healthcare and Insurance's Audit Resolution and Compliance office reviews the OIG's recommendations and makes determinations on whether to disallow and/or allow these amounts. The questioned costs that are disallowed are established as receivables to be collected from FEHBP carriers and are included in the improper payment calculation. For example, if the OIG questions $50,000 in health benefit payments and the Audit Resolution and Compliance office determines that $30,000 is allowable and $20,000 is disallowed, the amount of the receivable is $20,000 and that amount is included in the improper payments reporting.

For investigative recoveries, when the FEHBP receives an award as the result of a civil settlement or criminal judgement, the OIG provides OPM's offices of Audit Resolution and Compliance and the Chief Financial Officer with a memorandum detailing the amount of the FEHBP award and the allocation to specific FEHBP carriers. The U.S. Department of the Treasury's Report of Receivables captures the FEHBP's overpayments, as well as the amount recaptured or recovered from health benefit carriers, which the OCFO provides to Healthcare and Insurance. As a result, only the recaptured/recovered amount (which is often less than the full amount of the improper payment) is used in reporting improper payments.

FY 2021 was the first year that the OIG included improper payment amounts on the investigative recoveries spreadsheet that is provided to Healthcare and Insurance. As a result, the OIG was informed by Healthcare and Insurance that the improper payments listed on the OIG spreadsheets were not going to be reported in the AFR, that they were only reporting on confirmed fraud as defined by OMB guidance. Confirmed fraud is a subcategory of improper payments and does not constitute the full amount that is recorded. During FY 2021, the FEHBP was in Phase 1 and was only required to report on Compliance, Actions to Recover, and Fraud in Paymentaccurracy.gov. according to OMB guidance.

During our FY 2017 improper payments reporting audit[9], we identified potential issues with the methodologies used by OPM to develop their improper payments rates. As a result, we performed a separate performance audit that focused on analyzing the methodologies used by the Federal Employees Health Benefits and Retirement Services programs. The report on the *Audit*

[8] Total receivable amount established after Healthcare and Insurance's determination to disallow overpayments and allow underpayments questioned in OIG experience rated and community rated audits of FEHBP carriers.

[9] *Audit of the U.S. Office of Personnel Management's Fiscal Year 2017 Improper Payments Reporting, Report Number 4A-CF-00-18-012,* dated May 10, 2018.

of the U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies, Report Number 4A-RS-00-18-035, was issued on April 2, 2020, and included 12 recommendations, of which 8 are resolved and 4 remain open**.**

OPM's improper payments and overpayments for FY 2021 are summarized in the following table:

Table: FY 2021 Improper Payments Summary[10]							
Program	**Total Outlays ($ millions)**	**Gross Improper Payments ($ millions)**	**Overpayments ($ millions)**	**Underpayments ($millions)**	**Unknown payments ($ millions)**	**2021 Tolerable Rate**	**2021 Improper Payments Percent**
Retirement Services	83,707.16	319.81	228.28	91.53	10.86	0.40%[11]	0.38%

Since the FEHB program is on a three-year risk assessment cycle and is in Phase 1, this information is not required to be reported on paymentaccuracy.gov. The FEHB was only required to report on Compliance, Actions to Recover, and Fraud in paymentaccurracy.gov.

Previous Office of the Inspector General Reports

During the audit of OPM's FY 2020 Improper Payments Reporting, Report No. 4A-CF-00-21-008, we determined that OPM's reporting of improper payments was in compliance with IPERA and PIIA. Based on testing performed during this year's audit, we determined that one recommendation issued in the FY 2020 Improper Payments Reporting Final Report remains open, one recommendation is resolved, and two recommendations were closed during this audit. The status of the four recommendations is outlined in Appendix I.

[10] Data collected from Table 1 "Improper Payment Summary" on paymentaccuracy.gov, 2021 dataset, "All Programs Results" tab.
[11] The tolerable rate includes improper payment and unknown payment percentages. The tolerable rate of 0.3949 was rounded on Paymentaccuracy.gov to 0.40 percent.

II. Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether OPM met the requirements of the *Payment Integrity Information Act of 2019* related to the formulation and inclusion of the payment integrity information in the annual financial statements and accompanying materials to the annual financial statements for FY 2021.

The recommendations included in this final report address the objective.

Scope and Methodology

We conducted this compliance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

We performed our audit fieldwork virtually from December 20, 2021, through March 17, 2022. The scope of our audit covered:

- OPM's payment integrity section of the FY 2021 AFR and https://paymentaccuracy.gov/resources/, to determine whether OPM was in compliance with PIIA.

- OPM's risk assessment methodology, improper payment rate estimates, sampling and estimation plan(s), corrective action plan(s), and efforts to prevent and reduce improper payments.

To accomplish our audit objective noted above, we:

- Interviewed program representatives from the OCFO, Healthcare and Insurance, and Retirement Services;

- Reviewed the payment integrity section of the agency's FY 2021 financial statements and any accompanying material to assess the agency's compliance with PIIA and related OMB guidance;

- Reviewed information on https://paymentaccuracy.gov/ through the annual OMB payment integrity data call;

- Reviewed applicable Federal laws, OMB guidance, and OPM's policy and procedures;

- Analyzed the source data to determine the completeness of payment integrity information in the financial statements and accompanying materials;

- Concluded whether OPM met each of the 10 PIIA compliance requirements for each of the reported programs;

- Analyzed OPM's corrective actions to address the open audit recommendations identified in the FY 2015 through FY 2020 Improper Payments Reporting final audit reports; and

- Evaluated whether OPM published payment integrity information in the financial statements and accompanying materials for FY 2021. In determining compliance, we evaluated OPM's:

  a) Accuracy, completeness and timeliness of improper payment risk assessments and whether appropriate conclusions were reached in determining if a program is likely to make improper payments and/or unknown payments above or below statutory thresholds.

  b) Retirement Services' sampling and estimation methodology plans for adequacy and traced improper payment and unknown payment estimates to their supporting documentation and whether the sampling and estimation plans used were appropriate given program characteristics.

  c) Corrective action plans to determine whether they are adequate and focused on the true causes of improper payments and unknown payments, adequately addressing the causes, effectively implemented, prioritized within OPM, and reducing improper payments.

  d) Published reduction targets and whether they were appropriately aggressive and realistic given program characteristics.

  e) Demonstrated improvement to payment integrity and whether they established a tolerable rate.

  f) Plan to meet improper payment and unknown payment reduction targets, focused on the actions the programs will take during the following year to meet the improper payment and unknown payment reduction targets that they have established for the following FY.

  g) Published improper payment and estimates, which should be less than 10 percent to be in compliance with PIIA.

In planning our work and gaining an understanding of the internal controls over OPM's improper payment reporting process, we considered, but did not rely on, OPM's internal control structure to the extent necessary to develop our audit procedures. These procedures were substantive in nature. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objective. The purpose of our audit was not to provide an opinion on internal controls but merely to evaluate controls over improper payments reporting.

Our audit included such tests and analysis of OPM's improper payments reporting process, including documented policies and procedures, numerical data and narratives reported in the AFR, accompanying sites such as https://paymentaccuracy.gov/resources/ and OMB Max Supplemental, and other applicable information, as we considered necessary under the circumstances.

Due to the OMB requirement for agency Inspectors General to publish a report within 180 days after the publication date of the Annual Financial Statement of the Agency and the Accompanying Materials to the Annual Financial Statement of the Agency, whichever is later, we assessed and cited prior OIG work, as necessary, in evaluating the accuracy and completeness of OPM's improper payments reporting. We made determinations as to the level of work required based on the related reporting guidance, internal controls over improper payments, and the overall body of prior work in this area.

During the period from October 1, 2020, through April 30, 2021, Retirement Services performed quality assurance reviews of 840 Federal Employees Retirement System and Civil Service Retirement System retirement and survivor cases. Retirement Services' methodology for the 840 quality assurance reviews performed consisted of selecting 30 annuitants each from 4 categories[12], totaling 120 cases per month, for seven months. From the 840 reviews, we judgmentally selected 28 samples, from January 1 through March 31, 2021, representing the highest 'Net Interim Pay' amount and determined that the information included is suitable for Retirement Services to develop a statistical estimate plan to determine the improper payment estimates for the following year. The samples selected during our review were not statistically based. Consequently, the results from our samples were not projected to the populations tested.

In conducting our audit, we relied to varying degrees on computer-generated data. To assess the reliability of computer-processed data, we obtained annuitant payments and identifying information from OPM's Annuity Roll Processing System. We did not evaluate the effectiveness of the general application controls over computer-processed performance data.

[12] The four Annuitants' categories are (1) Civil Service Retirement System, Civil Service Active; (2) Civil Service Retirement System, Civil Service Final; (3) Federal Employees Retirement System, Civil Service Active; and (4) Federal Employees Retirement System, Civil Service Final.

III. Audit Findings and Recommendations

The sections below detail the results of our audit of OPM's FY 2021 improper payments reporting for compliance with PIIA.

1. Payment Integrity Information Act of 2019 Reporting Requirements

Based on our review of OPM's FY 2021 AFR, the paymentaccuracy.gov website, and accompanying materials to the annual financial statement provided by the agency, we determined that OPM is not in compliance with PIIA:

Criteria for Compliance	Criteria Met?
1a.) Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement of the agency for most recent FY in accordance with OMB guidance.	Compliant
1b.) Posted the annual financial statement and accompanying materials required under guidance of OMB on the agency website.	Compliant
2a.) Conducted Improper Payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years.	Non-Compliant
2b.) Adequately concluded whether the program is likely to make Improper Payments and Unknown Payments above or below the statutory threshold.	Compliant
3) Published Improper Payment and Unknown Payment estimates for programs susceptible to significant Improper Payments and Unknown Payments in the accompanying materials to the annual financial statement.	Compliant
4) Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant
5a.) Published an Improper Payment and Unknown Payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant
5b.) Demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate.	Compliant
5c.) Developed a plan to meet the Improper Payment and Unknown Payment reduction target.	Compliant
6) Reported an Improper Payment and Unknown Payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Compliant

2. Risk Assessments Not Completed

We determined that in FY 2021, RMIC did not meet the PIIA requirement to complete risk assessments for two programs. RMIC is responsible for conducting risk assessments to determine whether the total annual improper payments plus unknown payments for a program are collectively above or below the statutory threshold for the given year. The risk assessments for OPM's Payroll and Vendor Payments programs were last completed in FY 2018 and should have been completed during FY 2021. In January 2022, RMIC provided the completed risk assessments for OPM's Payroll and Vendor Payments programs and provided work instructions for the risk assessments. However, RMIC stated that the work instructions need "to be updated to reflect the new tool that [they] use to reflect the March 2021 Appendix C guidance."

OPM did not meet the PIIA requirement to complete risk assessments.

Public Law 116-117, *Payment Integrity Information Act Of 2019*, states that "A review under paragraph (1) shall be performed for each program and activity that the head of an executive agency administers not less frequently than once every [three] fiscal years."

Appendix C of the OMB Circular A-123, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 2021, states that agencies must complete risk assessments "to determine whether the total annual [improper payments] PLUS the [unknown payments] for a program are collectively above or below the statutory threshold for the given year. If the assessment determines that it is likely that the program's [improper payments] plus the program's [unknown payments] are above the statutory threshold then, the following year the program should produce a statistically valid estimate of the programs [improper payments] and [unknown payments]. If the [improper payment] risk assessment demonstrates that the program is not likely to make [improper payments] and [unknown payments] above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another [improper payment] risk assessment in three years."

Failing to complete the risk assessment for the program offices results in OPM not being in compliance with PIIA for FY 2021.

Recommendation 1:

We recommend that OPM ensure that risk assessments are completed every three years, or as needed, in accordance with applicable laws and regulations.

OPM's Response:

OPM concurs with the recommendation. "OPM will ensure the risk assessments are completed every three years, or as needed."

OIG Comments:

OPM subsequently provided the completed risk assessments for OPM's Payroll and Vendor Payments that were due for completion in FY 2021. During the FY 2022 PIIA audit, the OIG will determine if required risk assessments were completed timely. As a result, this recommendation is considered resolved; however, closure will be determined during the FY 2022 audit.

Recommendation 2:

We recommend that OPM update its policies and procedures to include all requirements pertaining to risk assessments, as outlined in current laws and regulations.

OPM's Response:

OPM concurs with the recommendation. "OPM should regularly update its policies and procedures. In January 2022, OCFO revised its FY2022 [Improper Payments] Risk Assessment Scoring Tool to include all requirements to risk assessment as outlined in the current laws and regulations."

OIG Comments:

OPM provided an updated Improper Payments Risk Assessment Scoring Tool for the two risk assessments completed in January 2022. However, RMIC's work instructions, dated October 2017, do not reflect the new procedures for completing the risk assessments using the Improper Payments Risk Assessment Scoring Tool. Closure will be determined during the audit resolution process once the revised work instructions are provided.

3. Analysis of OPM's Reduction Target and Tolerable Rate

We determined that Retirement Services complied with PIIA, 3352 subsection (c) and (d), requirements to report on what actions the agency is taking to reduce improper payments, and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement,* even though they did not meet its FY 2021 estimated improper payment rate. However, no documentation was provided to support that OPM senior management determined the tolerable improper payment and unknown payment rate, and that the identified improper payments and unknown payments are in fact unavoidable and would be cost prohibitive or sometimes mission prohibitive for the agency to reduce or prevent.

Reduction Target Not Met

As defined in OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement, Memorandum M-21-19, dated March 2021, a reduction target is the estimated improper payment and unknown payment level a program predicts they will achieve in the following FY. Retirement Services' estimated reduction target percentage, which is also considered the estimated improper payment rate, was 0.35 percent for FY 2021. The FY 2021 actual improper payment rate was 0.3820 percent and the unknown rate was 0.0129 percent, totaling 0.40 percent (rounded)[13] . The actual improper and unknown payment rate includes a total increase of $34.1 million, or 0.05 percent (rounded)[14], over the estimated improper payment amount of $296.57 million. The $34.1 million consisted of a $23.24 million, or 0.032 percent, increase in improper payments and $10.86 million, or 0.0129 percent, for unknown payments. The $23.24 million includes underpayments of $15.47 million. Each year, OPM's statistician provides an estimate based on the underpayments identified in the quality assurance reviews. During FY 2021, there was an error that was projected across the entire population, which caused a significant increase in the underpayment amount.

Public Law 116-117, *Payment Integrity Information Act of 201*, 3351(2)(E), *Compliance,* states that the agency "has demonstrated improvements and developed a plan to meet the reduction targets" in its improper payments reduction targets.

OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 2021, Section 6, *Compliance*, Subsection 5c., *Developed a plan to meet the [improper Payment] and [unknown Payment] reduction target*, advises that "If the program reported an [improper payment] and [unknown payments] estimate above the statutory threshold in the [Current Year] and established an [improper payment] and [unknown payments] reduction target for the following FY, the program is responsible for developing a plan to meet the reduction target established. The program should maintain and update the plan

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[13] The improper payment and unknown payment percentage of 0.40 represents OPM's tolerable rate. The tolerable rate of 0.3949 was rounded on paymentaccuracy.gov to 0.40 percent.
[14] The improper payment percentage change variance of 0.0449 was rounded to 0.05 percent to reflect the amounts on paymentaccuracy.gov.

to meet the [improper payment] and [unknown payments] reduction target …[and] will be able to demonstrate improvements in payment integrity that occurred over the course of the FY."

Failing to meet or improve the improper payment and unknown payment rates can affect the accuracy and reliability of future reduction targets.

Recommendation 3:

We recommend that Retirement Services provide supporting documentation to substantiate that adjusting their FY 2021 reduction target further would be cost and mission prohibitive.

OPM's Response:

OPM did not concur with the recommendation. "There is no cost associated with setting or adjusting a reduction target. The OMB Circular A-123 Appendix C defines reduction target as the 'estimated IP and UP level the program predicts they will achieve in the following FY. A reduction target may be lower, constant, or higher than the current year Improper Payment and Unknown Payment estimate.'"

OIG Comments:

During the audit OPM provided a Sampling and Estimation Methodology Plan. We traced a sample of Retirement Services' improper payment and unknown payment estimates to their supporting documentation and determined that the Sampling and Estimation Methodology Plan was adequate. While OMB Circular A-123, Appendix C states that "reduction target[s] may be lower, constant, or higher than the current year improper payment and unknown payment estimate," the plan does not include any cost benefit analysis results to show that it would be cost or mission prohibitive to achieve a reduction target below the current improper payment and unknown payment rates. Specifically, no documentation has been provided to show that Retirement Services has systematically quantified and compared the total costs to the total benefits of revising their reduction target. Moreover, Retirement Services has not provided support as to why a cost benefit analysis would not be beneficial in determining whether the reduction target should be lower, constant, or higher than the current year improper payment and unknown payment estimate and supporting that they are at their maximum reduction target. As a result, this recommendation remains open. Closure will be determined during the audit resolution process once the Sampling and Estimation Methodology Plan includes a determination and support that it is cost or mission prohibitive to go below the current improper payment and unknown payment rates.

Lack of Documentation for the Tolerable Rate

No documentation was provided to support that OPM senior management determined the tolerable improper payment and unknown payment rate, and that the identified improper payments and unknown payments are in fact unavoidable and would be cost prohibitive or sometimes mission prohibitive for the agency to reduce or prevent.

OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement, Memorandum M-21-19, dated March 2021, section 8, Appendix 1A, Definitions for Purposes of this Guidance, Tolerable Improper Payment and Unknown Payment Rate, states, “The [improper payment] and [unknown payment] estimate [is] achieved with a balance of payment integrity risk and controls. The tolerable [improper payment] and [unknown payment] rate for a program is determined by agency senior management and often includes [improper payments] which are unavoidable and beyond the agency’s ability to reduce as well as [improper payments] and [unknown payments] which are cost prohibitive or sometimes mission prohibitive for the agency to prevent.”

Retirement Services did not provide documentation to support that OPM’s senior management determined the tolerable improper payment and unknown payment rate and that an analysis was done and conclusions were reached to support that improper payments that are unavoidable and beyond OPM’s ability to reduce, as well as improper payments and unknown payments that are cost prohibitive or sometimes mission prohibitive for the agency to prevent. Instead, Retirement Services stated that the response to the OMB Data Call calculated the tolerable rate and stated that it was cost prohibitive. The OMB Data Call included several questions pertaining to whether further expenditures to reduce improper payments would cost more than the amount those expenditures would save in preventing or recovering improper payments with respect to internal controls, human capital, information systems, and other infrastructure. Retirement Services stated, “OMB utilized a drop-down menu where agencies could only select ‘Yes’ or ‘No’ [to data call questions]. Retirement Services selected ‘Yes’ because the [improper payment and unknown payment reduction target and tolerable improper payment and unknown payment] rates are equal.”

Retirement Services also stated that their “Improper Payment Rate was calculated by a tool in the OMB survey. The Improper Payment Rate shown in the survey is 0.38205811784798. This rounds to 0.38. The OMB survey also calculated the Estimated Future Improper Payment + Unknown Payment as 0.38256647397753 which also rounds to 0.38.” In addition, “Retirement Services stated that [they] met [a] tolerable rate [of] 0.38 percent for FY 2021.” However, it does not include the unknown payment percentage of 0.0129. The FY 2021 actual improper payment rate was 0.38 percent and unknown rate was 0.0129 percent, totaling 0.40 percent (rounded), which represents the tolerable rate.

“A ‘Yes’ to this question resulted in the following answer which is shown on paymentaccuracy.gov. … The program’s current year improper payment and unknown payment rate of .40% has been achieved with a balance of payment integrity risk and controls. The improper payment and unknown payment rate of .40% represents the lowest rate that can be achieved without disproportionally increasing another risk. Lowering the improper payment and unknown payment rate beyond the current level would be **cost prohibitive** because further expenditures to reduce improper payments and unknown payment by applying additional mitigation strategies or corrective actions for improper payments and unknown payment prevention would cost more to implement than the amount that would be saved. This was not an area for free text as in the previous fiscal year. This information was prepopulated by OMB based on the answer."

We noted that OMB Data Call question 5 allowed Retirement Services space to enter "Unit-Free-Text" to further elaborate on whether the agency has what is needed with respect to internal controls, human capital, information systems, and other infrastructure to reduce improper payments and unknown payments to the tolerable rate (i.e., a level below which further expenditures to reduce improper payments would cost more than the amount those expenditures would save in prevented or recovered improper payments). However, Retirement Services responded "N/A" to the Free text. We believe that RS should have used this space to explain why further expenditures to reduce improper payments would cost more than the amount those expenditures would save in prevented or recovered improper payments. Since FY 2021 was the first year that Retirement Services was required to establish a tolerable rate, no historical comparisons have been established and no documentation was provided to support that the rate identified is in fact the lowest tolerable improper payment rate that the program can withstand. In addition, OPM did not provide support to show that their tolerable rate "calculated" in the OMB Data Call was determined by OPM senior management.

Retirement Services' senior management failing to determine the tolerable rate can affect the agency's ability to prevent and reduce improper payments and unknown payments.

Recommendation 4:

We recommend that Retirement Services provide documentation to support that OPM senior management determined the tolerable improper payment and unknown payment rates.

OPM's Response:

OPM did not concur with the recommendation. "On October 14, 2022, the OIG requested the agency management's performance measures for FY 2021. This was provided in an email from Human Resources to the OIG on December 8, 2021. We concluded that the documentation provided was evaluated and deemed acceptable when the OIG determined that the Retirement Services is compliant with the element below.

5b. Demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate."

OIG Comments:

The email that was provided on December 8, 2021, did not show evidence that OPM's senior management determined the tolerable improper payment and unknown payment rate for fiscal year 2021. The OIG found OPM to be compliant with requirement 5b - Demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate for the Compliance with the Payment Integrity Information Act of 2019 because this was the first year that OPM established their tolerable improper payment and unknown payment rate. As a result, OPM reached their baseline rate in FY 2021, which we determined was compliant. However, there was no prior year's tolerable improper payment and unknown payment rate to compare it to. Going forward (e.g., FY 2022), we will be able to compare the current year's rate to their baseline rate to determine compliance with requirement 5b. Our concern, as outlined in our finding, is that there is no supporting documentation that shows that OPM's senior management established or approved the tolerable improper payment and unknown payment rate for FY 2021.

4. Outstanding Audit Findings

During our audit, we identified the following two open findings and recommendations, from prior years' audits. One of the findings is resolved and one remains open:

A. Recovery Audits

We determined that Retirement Services and Healthcare and Insurance have not reviewed and updated their determination that a payment recapture audit program is not cost-effective since 2011.

We reviewed OPM's AFRs from FY 2012 through 2021 and noted that OPM has consistently reported that it is "not cost-effective to hire payment [recovery auditors] … ." In 2011, OPM determined that validation, recovery, and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of the individual programs. This is based on a report submitted to OMB and the OPM Office of the Inspector General[15], which contained an analysis and justification stating that conducting a payment recapture audit program was not cost effective.

In prior years, OPM stated, "'current program conditions' strongly suggest that a payment recapture audit program would not be cost effective, nor would it lead to improved overpayment recovery." However, OPM agreed with our recommendation and stated that "Healthcare and Insurance, Retirement Services and Risk Management and Internal Controls (RMIC, OCFO) will work together to plan and complete a periodic analysis in accordance with OMB Circular A-123 Appendix C reporting requirements." They also stated, "the analysis will allow OPM to explore additional possibilities for increased efficiencies and improvements to the Program."

[15] Agency Response to OMB M-11-04 Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits, issued February 8, 2011.

OMB Circular A-123 Appendix C states that for agencies with programs that expend more than one million dollars in a fiscal year, a recovery audit is a required element of their internal controls over payments if an audit program is cost-effective. All Programs in Phase 1 or Phase 2 with more than 1 million dollars in annual outlays, at a minimum, should be aware of the following potential requirements to complete and maintain documentation for the Recovery Audit Cost Effectiveness Analysis. If an agency determines that it would be unable to conduct a cost-effective recovery audit for certain programs, the analysis will need to be repeated only if circumstances change within the program that might make a recovery audit cost-effective.

The U. S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states, "Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review."

While OPM complied with OMB Circular A-123 Appendix C by completing an analysis of the cost-benefit of implementing a payment recapture audit program and by reporting its determination to OMB and the OIG, this was done over 10 years ago. By not reviewing and updating the analysis used to determine whether or not a payment recapture audit program is cost effective, OPM and the program offices are not following guidance and best practices and are potentially eschewing a method to return improper payments to the trust funds.

During this year's audit, OPM provided a corrective action plan stating Healthcare and Insurance, Retirement Services, and OCFO conducted its analysis in FY 2021. Their corrective action plan was sufficient to resolve our recommendation; however, OPM did not provide evidence supporting that the analysis was conducted.

Recommendation 5 (Rolled Forward from FYs 2019 and 2020):

We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a recovery audit, and retain and provide documentation to support their analysis and conclusion.

OPM's Response:

OPM does not concur with the recommendation. "In the FY's 2019 and [2020] reports, we concurred with the recommendation; however, we have changed our decision to non-concur upon further review of OMB Circular A-123, Appendix C Guidance issued

March 5, 2021. The criteria in the updated guidance no longer requires agencies to perform a recovery audit if the agency has other mechanisms to identify and recapture overpayments. The update Guidance States, 'Agencies may exclude payments from certain programs from recovery audit activities if the agency determines that recovery audits are not a cost-effective method for identifying and recapturing overpayments or if other mechanisms to identify and recapture overpayments are already in place.' As referenced in our analysis, both Healthcare and Insurance and Retirement Services have efficient and effective recovery mechanisms in place for identifying and recovering overpayments. Therefore, we believe we have met the criteria and this recommendation can be closed."

OIG Comments:

Retirement Services and Healthcare and Insurance provided a *Recovery Audit Analysis Cost-Effectiveness for a Recovery Audits and Activities Program FY2021* memorandum on March 23, 2022, with an overall conclusion that recovery audits are not cost-effective for their programs. However, no supporting documentation was provided to support Retirement Services and Healthcare and Insurance's conclusions for not being cost-effective, such as a cost-benefit analysis. As a result, this recommendation is considered resolved; however, closure will be determined during the audit resolution process once the supporting documentation is provided.

B. Improper Payments Rate

In FY 2017, our office reported that while Retirement Services met its improper payments reduction targets, the overall intent of the Improper Payments Information Act of 2002, as amended by IPERA, IPERIA, and PIIA, which is to reduce improper payments, had not been met. This year we determined that although Retirement Services did not meet their reduction target (see finding *Analysis of OPM's Reduction Target and Tolerable Rate on page 14),* they did meet PIIA's requirement to report improper payment and unknown payment estimates of less than 10 percent for FY 2021.

Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, reiterates this point by stating, "When the Federal Government makes payments to individuals and businesses as program beneficiaries, grantees, or contractors, or on behalf of program beneficiaries, it must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time. The purpose of this order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government … ."

In addition, Public Law 116-117 was enacted "To improve efforts to identify and reduce Governmentwide improper payments … ."

Retirement Services' improper payments rates from FYs 2013 through 2021 have remained virtually stagnant at between 0.35 percent and 0.38 percent.

Improper Payment Rates for Fiscal Years 2013-2021								
2013	2014	2015	2016	2017	2018	2019	2020	2021
0.36%	0.38%	0.38%	0.37%	0.38%	0.36%	0.35%	0.36%	0.38%

Source: paymentaccuracy.gov FY 2021 Dataset

Retirement Services stated that they "will continue to work with the OIG as well as other Federal agencies to implement cost-effective activities to detect, pursue and reduce fraudulent, wasteful, and abusive activities that result in improper payments. Some of our current activities include Data Matches, Fraud Branch, Audits, [and] International Direct Deposit."

Recommendation 6 (Rolled Forward from FYs 2017 to 2020):[16]

We recommend that Retirement Services develop and implement additional cost-effective corrective actions, aimed at the root causes of improper payments, to further reduce the improper payments rate.

OPM's Response:

OPM concurs with the recommendation. "An upgrade to the current legacy system is needed to properly categorize the root causes of improper payments. A Retirement Services Information Technology Modernization Plan has been created. OPM is in the process of obtaining funding via the Technology Modernization Fund (TMF). OPM has submitted an Initial Project Proposal (IPP). The TMF Board has approved the IPP and has requested OPM move forward with developing the full plan. The full plan is currently under review."

[16] A similar recommendation is in our office's Audit of the *U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies* report, Report Number 4A-RS-00-18-035, issued April 2, 2020. The resolution of this recommendation will be tracked using the corrective action plan from that audit recommendation.

Appendix I

Improper Payments Reporting Outstanding Recommendations		
Recommendation	**Recommendation History**	**Current Status**
We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program and retain documentation to support their analysis and conclusion.	Rolled Forward from FY 2019 Recommendation 1 and FY 2020 Recommendation 2	Resolved, See recommendation 5 in this report.
We recommend that OPM continue to implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefits program's improper payments are properly categorized in OPM's annual AFR and paymentaccuracy.gov website.	FY 2015 Recommendation 1, FY 2016 Recommendation 10, FY 2018 Recommendation 3, FY 2019 Recommendation 2, and FY 2020 Recommendation 3	Closed on March 10, 2022
We recommend that Retirement Services develop and implement additional cost-effective corrective actions, aimed at the root cause(s) of improper payments, in order to further reduce the improper payments rate.	Rolled Forward from FY 2017 Recommendation 2, FY 2018 Recommendation 4, FY 2019 Recommendation 3, and FY 2020 Recommendation 4	Open, See recommendation 6 in this report.
We recommend that Retirement Services strengthen their internal controls to ensure that the improper payments information is supported, reviewed, and validated prior to issuance to the OCFO.	FY 2018 Recommendation 1 and FY 2020 Recommendation 1	Closed on February 28, 2022

Appendix II

Boxes in Appendix II and Appendix III represent information deleted by OIG, which is not relevant to the Final Report.

April 27, 2022

Memorandum For:	Nicole Brown-Fennell Chief, OIG Internal Audits Group
From:	Douglas A. Glenn DOUGLAS GLENN Digitally signed by DOUGLAS GLENN Date: 2022.04.27 12:01:46 -04'00' Chief Financial Officer, OPM
Through:	Margaret P. Pearson MARGARET PEARSON Digitally signed by MARGARET PEARSON Date: 2022.04.26 14:24:08 -04'00' Associate Director, Retirement Services
	Laurie E. Bodenheimer LAURIE BODENHEIMER Digitally signed by LAURIE BODENHEIMER Date: 2022.04.26 09:54:56 -04'00' Associate Director, Healthcare and Insurance
Subject:	Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Action of 2019 Report Number 2022-IAG-002

Thank you for providing OPM the opportunity to respond to the Office of the Inspector General (OIG) draft report, Audit of the U.S. Office Personnel Management's Compliance with the Payment Integrity Information Action of 2019, Report Number 2022-IAG-002.

Responses to your recommendations including planned corrective actions, as appropriate, are provided below.

Recommendation #1: We recommend that OPM ensure that risk assessments are completed every three years, or as needed, in accordance with applicable laws and regulations.

Management Response: We concur. OPM will ensure the risk assessments are completed every three years, or as needed. In January 2022, OCFO completed its risk assessments and uploaded the results to the OCFO OIG Audit Teams folder. This will be shared with the OPM OIG as closure evidence to the recommendation.

Recommendation #2: We recommend that OPM update its policies and procedures to include all requirements pertaining to risk assessments, as outlined in current laws and regulations.

Management Response: We concur. OPM should regularly update its policies and procedures. In January 2022, OCFO revised its FY2022 IP Risk Assessment Scoring Tool to include all requirements to risk assessment as outlined in the current laws and regulations. The document was uploaded to the OCFO OIG Audit Team folder. This will be shared with the OPM OIG as closure evidence to the recommendation.

Recommendation #3: We recommend that Retirement Services follow PIIA, OMB A-123, Appendix C, and any applicable guidance to demonstrate improvements which help them to meet or reduce their reduction targets.

Management Response: We do not concur. The PIIA, OMB A-123, Appendix C guidance states that a reduction target must be both “aggressive” and “realistic.” The OIG did not find that the Retirement Services reduction target was inappropriate. The guidance also states that a reduction target does not have to be lower. “A reduction target may be lower, constant, or higher than the current year Improper Payment and Unknown Payment estimate.” Further, the OIG has determined that Retirement Services is compliant with the following criteria:

> 5c.) Developed a plan to meet the Improper Payment and Unknown Payment reduction target**.**

Recommendation #4: We recommend that Retirement Services provide supporting documentation to substantiate that adjusting their FY 2021 reduction target further would be cost prohibitive.

Management Response: We do not concur. There is no cost associated with setting or adjusting a reduction target. The OMB Circular A-123 Appendix C defines reduction targets as the “estimated IP and UP level the program predicts they will achieve in the following FY. A reduction target may be lower, constant, or higher than the current year Improper Payment and Unknown Payment estimate.” [redacted] The current level refers to the improper payment and unknown payment rate; therefore, we believe the OIG intended for this recommendation to be directed towards the improper payment and unknown payment rate. The OIG asserts that “Retirement Services stated that lowering the Improper Payment and Unknown Payment rate beyond the current level would be cost prohibitive…” This was a statement provided by the Office of Management and Budget (OMB) and not Retirement Services.

Recommendation #5 (Rolled Forward from FYs 2019 and 2020): We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program, retain and provide documentation to support their analysis and conclusion.

Management Response: In the FY's 2019 and 2020 reports, we concurred with the recommendation; however, we have changed our decision to non-concur upon further review of OMB Circular A-123, Appendix C Guidance issued March 5, 2021. The criteria in the updated guidance no longer requires agencies to perform a recovery audit if the agency has other mechanisms to identify and recapture overpayments. The updated Guidance states, "Agencies may exclude payments from certain programs from recovery audit activities if the agency determines that recovery audits are not a cost-effective method for identifying and recapturing overpayments or if other mechanisms to identify and recapture overpayments are already in place." As referenced in our analysis, both Healthcare and Insurance and Retirement Services have efficient and effective recovery mechanisms in place for identifying and recovering overpayments. Therefore, we believe we have met the criteria and this recommendation can be closed.

Recommendation #6 (Rolled Forward from FYs 2017 to 2020): We recommend that Retirement Services develop and implement additional cost effective corrective actions, aimed at the root causes of improper payments, to further reduce the Improper Payments rate.

Management Response: We concur. An upgrade to the current legacy system is needed to properly categorize the root causes of improper payments. A Retirement Services Information Technology Modernization Plan has been created. OPM is in the process of obtaining funding via the Technology Modernization Fund (TMF). OPM has submitted an Initial Project Proposal (IPP). The TMF Board has approved the IPP and has requested OPM move forward with developing the full plan. The full plan is currently under review.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact Katherine M. Hax, Office of the Chief Financial Officer, .

Appendix III

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

May 26, 2022

Memorandum For: Nicole Brown-Fennell
Chief, OIG Internal Audits Group

From: Douglas A. Glenn
Chief Financial Officer, OPM

DOUGLAS GLENN Digitally signed by DOUGLAS GLENN Date: 2022.05.26 16:34:20 -04'00'

Through: Margaret P. Pearson
Associate Director, Retirement Services

MARGARET PEARSON Digitally signed by MARGARET PEARSON Date: 2022.05.26 10:03:13 -04'00'

Thank you for providing OPM the opportunity to respond to the Office of the Inspector General (OIG) revised recommendations provided on May 18, 2022 to draft report, Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Action of 2018, Report Number 2022-IAG-002.

The response to your recommendation is provided below

Revised Recommendations

Recommendation 4:

We recommend that Retirement Services provide documentation to support that OPM senior management determined the tolerable improper payment and unknown payment rates.

Management Response: We do not concur. On October 14, 2022, the OIG requested the agency management's performance measures for FY 2021. This was provided in an email from Human Resources to the OIG on December 8, 2021. We concluded that the documentation provided was evaluated and deemed acceptable when the OIG determined that the Retirement Services is compliant with the element below.

> 5b. Demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact Katherine M. Hax, Office of the Chief Financial Officer,

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: https://oig.opm.gov/contact/hotline

By Phone: Toll Free Number: (877) 499-7295

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100