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 2023-IAG-002
May 22, 2023

Executive Summary

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

Report No. 2023-IAG-002 **May 22, 2023**

Why Did We Conduct the Audit?

The objective of our audit was to determine whether the U.S. Office of Personnel Management (OPM) complied with the *Payment Integrity Information Act of 2019* (PIIA) for fiscal year (FY) 2022.

What Did We Audit?

The Office of the Inspector General completed a compliance audit of OPM's FY 2022 improper payments reporting, as defined in the U.S. Office of Management and Budget's guidance and corresponding reporting instructions. Our audit was conducted in Washington, D.C. from December 7, 2022, through March 22, 2023.

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What Did We Find?

We determined that OPM is in compliance with PIIA for FY 2022. As shown below, they met all 10 PIIA requirements:

PIIA Compliance Reporting Table
Requirements listed below the table.

Program Name	1a	1b	2a	2b	3	4	5a	5b	5c	6
Retirement Services	√	√	NR	NR	√	√	√	√	√	√
Federal Employees Health Benefits Program	√	√	√	NR	NR	NR	NR	NR	NR	NR
Risk Management and Internal Control	√	√	√	√	NR	NR	NR	NR	NR	NR

√ = **Compliant** NR = **Not Required for Program Office**

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.

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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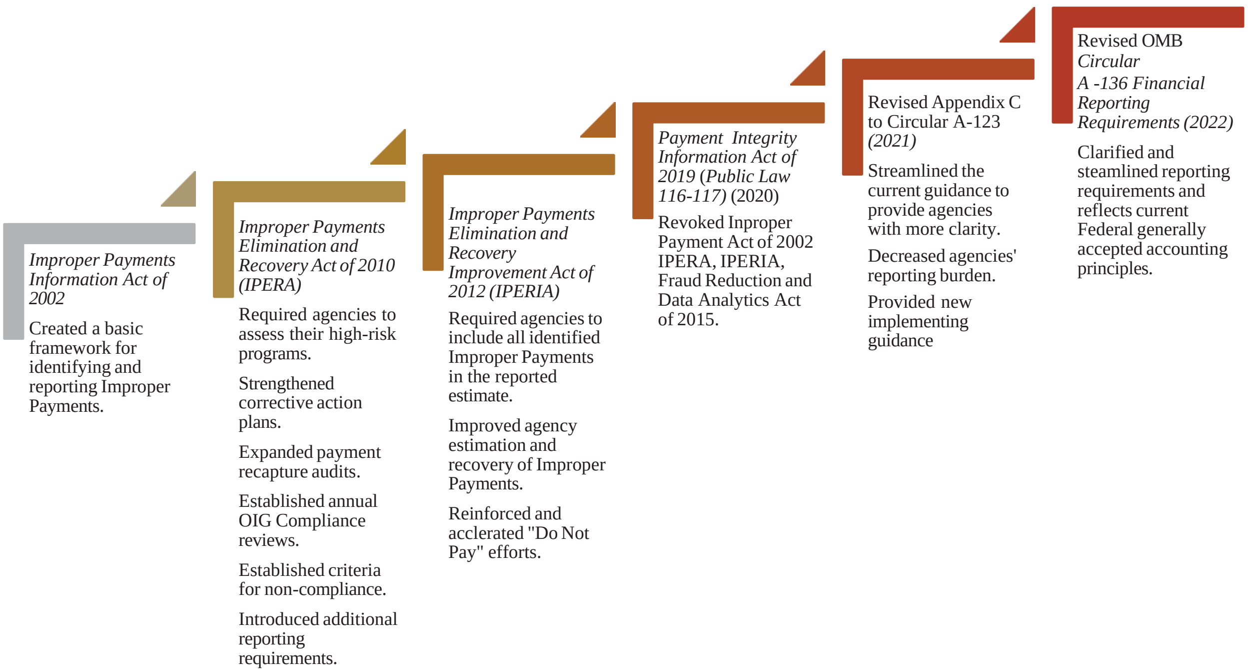
I. Background

This final audit report details the findings, conclusions, and recommendations resulting from our audit of the U.S. Office of Personnel Management's (OPM) compliance with the *Payment Integrity Information Act of 2019* for fiscal year (FY) 2022. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401-424).

Various improper payment laws, regulations, and guidance have been issued between 2002 and 2022 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 5, 2021, states that an agency's program is deemed susceptible to significant improper payment[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 fiscal year 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 payments reporting:

a. Published payment integrity information within 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 for which an estimate above the statutory threshold 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.

g. Published an improper payment and unknown payment reduction target[4] for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;

h. Demonstrated improvements to payment integrity or reach 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;

[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.
[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.

- 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.

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 180 days after the agency published 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 2022, risk assessments for the Federal Employee Health Benefits Program (FEHBP) and the Travel Card program were due to be completed by RMIC as part of the 3-year risk assessment cycle. RMIC conducted the FEHBP risk assessment; however, they did not conduct the Travel Card risk assessment because the program no longer exceeds the statutory threshold of $10,000,000 in total annual outlays.

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

[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.

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 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 uses a variety of methods to identify deceased annuitants including the U.S. Social Security Administration's death data information and Treasury's Do Not Pay list. When Retirement Services learns that an annuitant is deceased, they remove, or drop, the annuitant from the annuity roll. Retirement Services may also suspend an annuity in situations where it suspects that the annuitant is deceased but has not yet confirmed his or her death in order to stop additional payments from being disbursed. Prompt identification of death and any associated improper payment is required for other OPM offices, such as the OCFO and OIG, to do their part to recover improper payments already paid out.

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 a 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 2022, Retirement Services remained in Phase 2 and was considered a high-risk program. As a result, Retirement Services used its *Sampling and Estimation Methodology Plan*, developed in FY 2021, to report on estimated improper payments for FY 2022. Retirement Services established a tolerable rate, which included a calculation of improper payments plus actual unknown payments, and the program reported a rate of 0.38 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:

<u>Audit Determinations</u>[8] <u>from OIG questioned costs</u> <u>+</u> <u>Fraud Investigation Recoveries</u>
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, thereby 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 judgment, the OIG provides OPM's offices of Audit Resolution and Compliance and the Chief Financial Officer with a memorandum detailing the amount of the

[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.

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. Healthcare and Insurance informed the OIG that the improper payments listed on the OIG spreadsheets were not going to be reported in the AFR, and instead they were only reporting 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 in the OIG spreadsheets. During FY 2022, the FEHBP was in Phase 1 and was not required to report on any improper payment information on paymentaccuracy.gov based on the answers to OMB's Data Call logically based questionnaire. However, a risk assessment was conducted in FY 2022 and RMIC determined that the FEHBP is in Phase 2, which means, per OMB Circular A-123, Appendix C, that the FEHBP will report an improper payment and unknown payment estimate in FY 2023.

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 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.

[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.

OPM's reported improper payments and overpayments for FY 2022 are summarized in the following table:

Table: FY 2022 Improper Payments Summary[10]							
Program	**Total Outlays ($ millions)**	**Gross Improper Payments ($ millions)**	**Overpayments ($ millions)**	**Underpayments ($ millions)**	**Unknown Payments ($ millions)**	**2022 Tolerable Rate**	**2022 Improper Payments Percent**
Retirement Services	$87,898.92	$325.81	$244.68	$81.13	$12.13	0.38%[11]	0.37%

Previous Office of the Inspector General Reports

During the audit of OPM's FY 2021 Improper Payments Reporting, Report No. 2022-IAG-002, we determined that:

- OPM's reporting of improper payments was not in compliance with PIIA because OPM did not conduct improper payment risk assessments for two programs with annual outlays greater than $10,000,000 at least once in the last three years. The two risk assessments should have been completed during FY 2021.
- 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.
- There were two outstanding audit findings from prior years' audits.

Based on testing performed during this year's audit, we closed four prior years' recommendations, and two recommendations remain open. The status of the six recommendations is outlined in Appendix I.

[10] Data collected from paymentaccuracy.gov, 2022 dataset, "All Programs Results" tab.
[11] The tolerable rate includes improper payment (0.37 percent) and unknown payment (0.01 percent) rates.

II. Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether OPM complied with PIIA for FY 2022.

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. These 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 from December 7, 2022, through March 22, 2023, at OPM headquarters, located in Washington, D.C. The scope of our audit covered:

- OPM's payment integrity information reported in its FY 2022 AFR and https://paymentaccuracy.gov, 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 OPM's FY 2022 financial statements and any accompanying material to assess OPM'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 policies 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 2018 through FY 2021 Improper Payments Reporting final audit reports;
- Determined whether an issue is significant in the context of OPM and the OIG's objective for its review and should have a substantial impact on the payment integrity information in OPM's financial statements and or accompanying material; and
- Evaluated whether OPM published payment integrity information in the financial statements or accompanying materials for FY 2022. 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 are appropriately aggressive and realistic given program characteristics.

  e) Actions to demonstrate improvement to payment integrity or that they reached a tolerable improper payment and unknown payment rate for Retirement Services.

  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 they have established for the following FY.

g) Published improper payment rate 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 issue 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, 2021, through April 1, 2022, 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 October 2021, through April 2022, representing the highest 'Net Regular Pay' amount and determined that the information included was suitable for Retirement Services to develop a statistical estimate plan to determine the improper payment estimates for FY 2022. 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 believe the

[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.

data was sufficient to achieve our audit objectives. We did not evaluate the effectiveness of the general application controls over computer-processed performance data.

III. Audit Findings and Recommendations

The sections below detail the results of our audit of OPM’s FY 2022 improper payments reporting for compliance with PIIA.

1. Payment Integrity Information Act of 2019 Reporting Requirements

Based on our review of OPM’s FY 2022 AFR, the paymentaccuracy.gov website, and accompanying materials to the annual financial statement provided by OPM, we determined that OPM complied with the 10 reporting requirements of PIIA.

OPM is compliant 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 accompany 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.	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 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. Outstanding Audit Findings

During our audit, we identified the following two findings and recommendations, from prior years' audits, which remain open.

A. 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. For FY 2021, Retirement Services did not meet its reduction target and did not provide supporting documentation to substantiate that adjusting their reduction target further downward, from 0.35 percent, would be cost or mission prohibitive.

In FY 2021, our office reported that Retirement Services' estimated reduction target percentage, which is also considered the estimated improper payment rate, was 0.35 percent. The FY 2021 actual improper payment rate was 0.3820 percent and the unknown rate was 0.0129 percent, totaling 0.40 percent (rounded). The actual improper and unknown payment rate included a total increase of $34.1 million, or 0.05 percent (rounded), 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 included 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 also a large underpayment error identified that was projected across the entire population. The error caused a significant increase in the underpayment amount due to the identification of a one-time annuity payment of $36,187 that significantly increased the estimated standard error for the Federal Employees Retirement System by 0.02 percent, to 0.11 percent, over the FY 2020 rate of 0.09 percent.

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", no documentation was 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 FY 2021 improper payment and unknown payment estimate and supporting that they are at their maximum reduction target.

During this year's audit, Retirement Services maintained their position from FY 2021 that they do not concur with the finding. They did not provide supporting documentation to substantiate that adjusting their reduction target further downward, from 0.35 percent, would be cost or mission prohibitive.

Public Law 116-117, *Payment Integrity Information Act of 2019*, 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 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." OMB Circular A-123 Appendix C further states that "If a program establishes a reduction target that does not decrease (e.g., a target that is constant or increasing), the program should be able to clearly explain the reason(s) for establishing such a target."

By failing to meet or improve the improper payment and unknown payment rates, and by not supporting the reason for not reducing their target rates further downward, OPM could be missing an opportunity to reduce improper payments in accordance with OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 5, 2021.

Recommendation 1 (Rolled forward from FY 2021):

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

OPM's Response:

"' We do not concur. Public Law 116-117, *Payment Integrity Information Act of 2019*, 3351(2)(E), *Compliance*, states that the agency 'has demonstrated improvements and developed a plan to meet the reduction targets and developed a plan to meet the reduction targets; and (F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 3352(c).' The OIG has found that Retirement Services is compliant with this requirement. Support to substantiate that adjusting the reduction target further is

cost or mission prohibitive is not listed as a criterion for setting a reduction target under the OMB Circular A-123, Appendix C guidelines. A reduction target is a goal for the 'following fiscal year...and may be lower, constant, or higher than the current year improper payment and unknown payment estimate.'"

OIG Comment:

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 5, 2021, supports our position that a program must explain a constant or increasing reduction target.

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. Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, states, "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 payment rates from FYs 2013 through 2022 have remained virtually stagnant at between 0.35 percent and 0.38 percent.

Improper Payment Rates for Fiscal Years 2013-2022									
2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
0.36%	0.38%	0.38%	0.37%	0.38%	0.36%	0.35%	0.36%	0.38%	0.37%

Source: OPM annual Agency Financial Report and/or paymentaccuracy.gov Datasets

Identifying the root causes of improper payments is key to developing mechanisms that will assist a program in preventing future improper payments. Retirement Services stated that an upgrade to their current legacy system is needed to properly categorize the root causes of improper payments. A Retirement Services Information Technology Modernization Plan was created and OPM sought to obtain funding via the Technology Modernization Fund but Retirement Services informed us they were denied funding. Retirement Services' leadership is working to prioritize and identify funding in FY 2024.

Recommendation 2 (Rolled Forward from FYs 2017 to 2021):[13]

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:

"We concur. An upgrade to the current legacy system is needed to properly categorize the root causes of improper payments. Retirement Services and CIO leadership are working on modernization initiatives for FY23. OPM is committed to modernizing RS IT infrastructure and is currently working to prioritize and identify funding in FY 2024."

[13] 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 Status of Recommendations		
Recommendation	**Recommendation History**	**Current Status**
We recommend that OPM ensure that risk assessments are completed every three years, or as needed, in accordance with applicable laws and regulations.	FY 2021 Recommendation 1	Closed on March 22, 2023.
We recommend that OPM update its policies and procedures to include all requirements pertaining to risk assessments, as outlined in current laws and regulations.	FY 2021 Recommendation 2	Closed on March 22, 2023.
We recommend that Retirement Services provide supporting documentation to substantiate that adjusting their FY 2021 reduction target further would be cost and mission prohibitive.	Rolled forward from FY 2021 Recommendation 3	Open, see recommendation 1 in this report.
We recommend that Retirement Services provide documentation to support that OPM senior management determined the tolerable improper payment and unknown payment rates.	FY 2021 Recommendation 4	Closed on March 22, 2023.
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.	Rolled forward form FY 2019 Recommendation 1, FY 2020 Recommendation 2, and FY 2021 Recommendation 5	Closed on March 22, 2023.
We recommend that Retirement Services develop and implement additional cost-effective corrective actions, aimed at the root causes of improper payment, to further reduce improper payment rate.	Rolled forward from FY 2017 Recommendation 2, FY 2018 Recommendation 4, FY 2019 Recommendation 3, FY 2020 Recommendation 4, and FY 2021 Recommendation 6	Open, see recommendation 2 in this report.

Appendix II

Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

[April 5, 2023]

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

From: Erica D. Roach ERICA ROACH Digitally signed by ERICA ROACH Date: 2023.04.05 20:58:38 -04'00'
Acting Chief Financial Officer, OPM

Through: Margaret P. Pearson Margaret P. Pearson 04/04/2023
Associate Director, Retirement Services

Subject: Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Action of 201[9] Report Number 2023-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 of Personnel Management's Compliance with the Payment Integrity Information Action of 201[9], Report Number 2023-IAG-002.

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

Recommendation #1 (Rolled forward from FY 2021): We recommend that Retirement Services provide supporting documentation to substantiate that adjusting their FY 2021 reduction target further would be cost and mission prohibitive.

Management Response: We do not concur. Public Law 116-117, *Payment Integrity Information Act of 2019*, 3351(2)(E), *Compliance*, states that the agency "has demonstrated improvements and developed a plan to meet the reduction targets and developed a plan to meet the reduction targets; and **(F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 3352(c).**" The OIG has found that Retirement Services is compliant with this requirement. Support to substantiate that adjusting the reduction target further is cost or mission prohibitive is not listed as a criterion for setting a reduction target under the OMB Circular A-123, Appendix C guidelines. A reduction target is a goal for the "following fiscal year...and may be lower, constant, or higher than the current year improper payment and unknown payment estimate."

Recommendation #2 (Rolled Forward from FYs 2017 to 2022): 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. Retirement Services and CIO leadership are working on modernization initiatives for FY23. OPM is committed to modernizing RS IT infrastructure and is currently working to prioritize and identify funding in FY 2024.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact **Deleted by OIG. Not relevant to report**.

Report Fraud, Waste, and Mismanagement

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Room 6400
Washington, DC 20415-1100