

**Office of the Inspector General
U.S. Office of Personnel Management**

**Oversight of the Federal Employees
Health Benefits Program's Contract
Section 2.3(g) – Erroneous Payments Clause**

**Audit Report
2025-CAAG-010
March 30, 2026**





RESULTS IN BRIEF

Oversight of the Federal Employees Health Benefits (FEHB) Program’s Contract Section 2.3(g) – Erroneous Payments Clause

Why We Did This Audit

- We conducted this audit because, at the time of our review, recommendations from our 2018 management advisory (4A-HI-00-18-026), which identified three significant issues with the erroneous payments clause in Section 2.3(g) of FEHB Program carrier contracts, had not been implemented.
- This led us to evaluate how well the Office of Personnel Management’s (OPM) Office of Healthcare and Insurance (H&I) monitored carriers’ recovery of erroneous FEHB Program payments from 2021 to 2023, as required by Section 2.3(g).
- We also sought to assess the effectiveness of the erroneous payments clause by reviewing carriers’ policies, survey feedback, supporting documents, and recent Office of the Inspector General audit results to determine if contract changes are needed.

What We Found

We identified **three findings** and **two program improvement areas** related to the erroneous payments clause in FEHB Program carrier contracts. Specifically, our review:

- Found **insufficient oversight** of carrier recovery efforts by H&I.
- Determined that **carriers impose restrictive time limits** on recovering overpayments in provider contracts.
- Noted that **contract revisions were limited** to carriers on standard FEHB contracts, excluding others.

These issues **increase the risk of financial loss and weaken overall program integrity**.

Additionally, we observed that **Postal Service Health Benefits Program contracts are nearly identical** to FEHB contracts. Therefore, we determined that H&I should **consider applying the findings and recommendations equally to that program** as well.

What We Recommend

OIG recommends that H&I:

1. Implement policies and procedures to **monitor carrier compliance** with contract Section 2.3(g).
2. Carriers should **not include or apply limits in provider agreements** for FEHB Program claims that conflict with Section 2.3(g) or 5.U.S.C. § 8902(m)(1).
3. **Changes made to Standard Contracts be extended to carriers** with “Special Provisions” language in their contracts as well.



MEMORANDUM

Date: March 30, 2026

To: The Honorable Scott Kupor
Director

From: Michael R. Esser 
Deputy Inspector General, Performing the Duties of the Inspector General

Subject: Final Audit Report on the Oversight of the Federal Employees Health Benefits Program's Contract Section 2.3(g) – Erroneous Payments Clause for Contract Years 2021 Through 2023 [Report Number 2025-CAAG-010]

Attached is our final audit report detailing the results of our performance audit of the Oversight of the Federal Employees Health Benefits (FEHB) Program's Contract Section 2.3(g) – Erroneous Payments Clause for Contract Years 2021 through 2023. The objective of our audit was to determine whether the U.S. Office of Personnel Management's (OPM) Office of Healthcare and Insurance (H&I) had sufficient internal controls, including written policies and procedures, to monitor and measure carriers' (fee-for-service carriers and experience-rated health maintenance organizations) recovery efforts of erroneous health benefit payments to the FEHB Program, as per Section 2.3(g) of the carrier's contract. Additionally, we assessed the effectiveness of the current erroneous payments clause to determine if revisions are needed, based on carriers' policies, survey responses, supporting documentation, and recent Office of the Inspector General (OIG) audit findings.

A draft audit report was submitted to H&I to elicit comments on our findings, conclusions, and recommendations. The comments on the draft report were considered in preparing the final report and are attached, as appropriate, in the Appendix to the report. For specific details on these issues, please refer to the "Results and Recommendations" section of the attached report.

This final report is being issued by the OIG to OPM officials for resolution of the findings and recommendations contained herein. As part of this process, OPM may release the report to authorized representatives of the audited party. Further release outside of OPM requires the advance approval of the OIG.

The Inspector General Act of 1978, as amended, 5 U.S.C. § 404(e), requires that we submit all final reports making recommendations for corrective action to congressional committees of jurisdiction. Reports can also be provided to individual Members of Congress upon request.

Additionally, if the OIG undertook the audit based upon a request or complaint from an outside entity, the OIG must provide the report to that entity. Finally, the Inspector General Act of 1978, as amended, 5 U.S.C. § 420, requires us to make redacted versions of our final reports available to the public on our webpage.

In accordance with the U.S. Office of Management and Budget (OMB) Circular A-50 and Public Law 103-355, all audit findings must be resolved (agreement reached on actions to be taken on reported findings and recommendations; or, in the event of disagreement, determination by the agency follow-up official that the matter is resolved) within six months of the date of this report. The OMB circular also requires that agency management officials provide a timely response to the final audit report indicating whether they agree or disagree with the audit findings and recommendations. Where agency management agrees, the response should include planned corrective actions and target dates for achieving them. If agency management disagrees, the response must include the basis in fact, law, or regulation for the disagreement.

To help ensure that the OMB Circular A-50 timeliness requirement for resolution is achieved, and since the OIG exercises oversight concerning the progress of corrective actions, we request that H&I coordinate with the Office of the Director to provide this initial response to us within 90 days of the issuance of the final report.

If the corrective action has not been completed at the time of the initial response, we also ask that the Office of the Director provide us with a report on the status every March and September thereafter until the corrective action has been completed.

Please contact me at 606-2143 if you have any questions regarding this final report, or your staff may wish to contact Eric W. Keehan, Acting Deputy Assistant Inspector General for Audits, at 606-9515, or Michael C. Weaver, at 606-2170.

Attachment

Contents

Background	1
Results and Recommendations	4
1. H&I Should Take a Proactive Role in Section 2.3(g) Oversight	4
2. Some Carriers Include Restrictive Time Limits on Overpayment Recoveries in Their Provider Contracts.....	8
3. H&I’s Proposed Amendments Do Not Fully Address the Management Advisory Recommendation	11
4. Program Improvement – Management Advisory Findings Should be Applied to All FEHB Program Carrier Contracts.....	14
5. Program Improvement – Not All Carriers Understand the Definition of Erroneous Payment.....	17
Appendix A: Objective, Scope, and Methodology.....	19
Appendix B: H&I Response to Draft Report.....	21

Background

This report details the results of our performance audit of the U.S. Office of Personnel Management's (OPM) Office of Healthcare and Insurance's (H&I) oversight of the Federal Employees Health Benefits (FEHB) Program contracts. The audit specifically focused on H&I's oversight of the contract's erroneous payments clause found in Section 2.3(g) during contract years 2021 through 2023. 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.

H&I is responsible for administering and overseeing the FEHB Program. This includes contracting, program development, and managing OPM's healthcare and insurance benefits. The Federal Employees Insurance Operations office within H&I handles contract operations for insurance programs, including plan performance assessment, audit resolution, compliance, contract administration, support, and updates to carrier letters and brochures.

The FEHB Program, established by the Federal Employees Health Benefits Act of 1959, Pub. L. No. 86-382, was created to provide health insurance benefits for federal employees, annuitants, and eligible family members. It became effective in 1960 and is the largest employer-sponsored group health insurance program in the world, covering more than 8 million members. The provisions of the Act are implemented by OPM through regulations codified in Title 5, Chapter I, Part 890 of the Code of Federal Regulations.

As part of its administrative duties, H&I engages in contracts with various health insurance carriers that offer service benefits, indemnity benefits, and comprehensive medical services. The carriers are categorized into three main types: fee-for-service carriers, experience-rated health maintenance organizations, and community-rated health maintenance organizations.¹ H&I has developed distinct standard contracts tailored for each carrier type. Although these contracts share similarities, they differ according to the specific business model of the carrier. Notably, all carrier contracts

¹ Experience-rated carriers process claims on behalf of the FEHB Program but are not at risk for the actual claims cost. Premiums are retrospectively developed based on actual healthcare usage and claims history of the group. Fee-for-service carriers are also considered experience-rated carriers. Community-rated carriers offer fully insured products and are at risk for processed claims. Premium rates are developed based on a prospective projection of future claims using prior claims costs adjusted for trends in the market and expected utilization.

include Section 2.3(g), the erroneous payments clause, which is currently under review in this audit.

The erroneous payments clause requires the carriers to proactively identify erroneous overpayments through comprehensive, statistically valid reviews and a robust internal control program and follow specific steps to recover them. If a carrier determines that a member's claim has been paid in error for any reason, except in the case of fraud or abuse, it is the carrier's responsibility to make a prompt and diligent effort to recover the overpayment. Carriers are required to maintain records of unrecovered overpayment collection activities to demonstrate adherence to the steps outlined in Section 2.3(g). For claim overpayments exceeding \$10,000, carriers have an added obligation to undertake further recovery efforts. Section 2.3(g) includes a provision allowing carriers to charge the contract for erroneous benefit payments made in good faith only if they demonstrate that they made a prompt and diligent effort to recover those payments but deemed them unrecoverable.

Beyond the contractual duties carriers must perform under Section 2.3(g), it is H&I's responsibility to ensure carriers comply with those duties. Specifically, Federal Acquisition Regulation (FAR) 1.602-1 states, "Contracting Officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships." Additionally, contract Section 2.3(g)(11) allows OPM to request evidence from carriers to show that appropriate steps were taken to promptly recover erroneous payments.

The most recent OIG report addressing issues with Section 2.3(g) was issued in 2021.² In this management advisory, we recommended that OPM:

- modify Section 2.3(g) and 2.3(g)(ii) of the contracts between OPM and FEHB Program experience-rated insurance carriers to provide expectations for how carriers are to proactively identify overpayments and to define what it means by egregious errors;
- modify Section 2.3(g) to require carriers report on collection efforts, including how promptly collection efforts commenced once the erroneous payment was identified and the causes of the claim payment errors; and
- review the recovery process in Section 2.3(g) to determine if the use of benefit offsets, after the initial written notification is sent, would be more cost effective.

² OPM OIG, FEHB Program Integrity Risks Due to Contractual Vulnerabilities ([4A-HI-00-18-026](#), April 1, 2021).

The recommendations resulting from this management advisory are deemed priority recommendations by the OIG and are still unresolved to date.

We discussed our audit results with H&I at an exit conference on September 30, 2025. A draft report, dated the same day, was issued to seek their comments. H&I's response is included as appendix B of this report.

Results and Recommendations

We identified three findings and two program improvement areas related to the erroneous payments clause under FEHB Program contract Section 2.3(g). These gaps collectively expose the FEHB Program to financial losses and weaken program integrity.

The Postal Service Health Benefits Program, established under the Postal Service Reform Act of 2022, Pub. L. No. 117-108, has carrier contracts that are nearly identical to those of the FEHB Program. While our audit of contract Section 2.3(g) focused solely on FEHB Program carrier contracts, H&I should consider applying these findings and recommendations equally to the newly implemented Postal Service Health Benefits Program.

1. H&I Should Take a Proactive Role in Section 2.3(g) Oversight

H&I is not effectively monitoring and evaluating the recovery efforts of carriers in relation to FEHB Program contract Section 2.3(g) to ensure the return of erroneous health benefit payments to the FEHB Program. Specifically, we found that H&I performs no formal oversight of contract Section 2.3(g) outside of audit resolution activities and that it lacks written policies and procedures for the monitoring of carriers' compliance with Section 2.3(g).

Insufficient Oversight Efforts

Our review found that H&I only reviews evidence of carriers' efforts to recover erroneous payments when resolving claims overpayment recommendations resulting from OIG audits. It is only through the audit resolution process that H&I requests evidence of carrier compliance with contract Section 2.3(g).

According to FAR 1.602-2, H&I's responsibilities as contracting officer of FEHB Program contracts include, but are not limited to:

- ensuring compliance with all contract terms, and
- safeguarding the interests of the United States in contractual relationships.

By relying solely on OIG audits, H&I is not fully meeting its responsibilities under the FAR to ensure compliance with contract Section 2.3(g) or to safeguard FEHB Program funds. While OIGs serve a critical role as independent oversight bodies, they are not intended to be the sole mechanism for program oversight. Rather, they function as internal watchdogs that complement, but do not replace, the agency's own

responsibility to maintain effective internal controls and oversight practices to protect taxpayer resources and uphold the integrity of federal programs.

Under principles 16 and 17 of the U.S. Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government, H&I has a clear responsibility to establish and operate monitoring activities related to contract Section 2.3(g) that ensures the effectiveness of its internal control systems. These responsibilities should include, but are not limited to:

- integrating monitoring activities into day-to-day operations,
- conducting ongoing monitoring to assess performance in real-time,
- performing separate evaluations to provide independent assessments of control effectiveness,
- evaluating and documenting the results of monitoring activities,
- taking timely and appropriate corrective actions when deficiencies are identified, and
- using the results of monitoring to inform decision-making and strengthen program oversight.

These activities are essential to ensuring carrier compliance with contractual requirements, identifying risks, and safeguarding federal funds.

Without sufficient internal oversight, H&I risks failing to detect and correct erroneous payments, noncompliance with contract provisions, and other control deficiencies in a timely manner. This could not only result in financial losses to the FEHB Program but also in diminished program integrity and increased audit findings.

Recommendation 1 We recommend that H&I develop an internal oversight strategy by establishing formal monitoring activities related to carrier compliance with contract Section 2.3(g). This should include integrating oversight into routine operational processes, conducting periodic evaluations of carrier performance, thoroughly documenting results, and implementing timely corrective actions as needed.

H&I Response

H&I concurs with the recommendation and states that it is implementing an internal oversight strategy and has revised Section 2.3(g) for plan year 2026 to improve carrier compliance and recovery procedures for erroneous payments. H&I will monitor carrier contract compliance, and carriers will have 30 working days to recover erroneous payments. Additionally, H&I

is considering collecting claim-level data to identify potential erroneous payments and enhancing financial disclosures from carriers to require generally accepted accounting principles.

OIG Comments

While these steps are positive, we have several observations and suggestions to strengthen the proposed approach.

First, the proposed 30-working-day window for carriers to recover erroneous payments may not be practical, as carriers often rely on reimbursements from providers, which can take significantly longer and sometimes do not occur at all. A rigid timeframe could lead to inaccurate compliance reporting and unnecessary administrative burden.

Second, although considering claim-level data collection is a good step, H&I does not have access to carriers' internal contractual arrangements with providers, making it difficult to independently determine whether a claim was paid correctly. To address these limitations and improve oversight, we suggest requiring carriers to submit quarterly aging reports that include claims identified as erroneous; recovery status at 30, 60, and 90+ days; and amounts ultimately written off as unrecoverable. This approach would ensure carriers actively monitor and report recovery efforts, provide H&I with actionable data to identify trends and systemic issues, and support compliance with GAO's Standards for Internal Control in the Federal Government (principles 16 and 17), which emphasize integrating monitoring activities into operations and documenting results. Additionally, this recommendation aligns with FAR 1.602-2, which requires contracting officers to ensure compliance with all contract terms and safeguard the interests of the United States in contractual relationships. Implementing quarterly aging reports alongside the other planned revisions would create a more robust and realistic oversight framework, enabling H&I to fulfill its FAR responsibilities and safeguard FEHB Program funds effectively.

Lack of Policies and Procedures

During our review, we found that H&I does not maintain written policies and procedures for monitoring carriers' compliance with Section 2.3(g) of the FEHB Program contract, as confirmed in its response to our pre-audit information request.

According to principle 12 of GAO's Standards for Internal Control in the Federal Government, H&I should implement control activities through policies that document internal control responsibilities and ensure consistent application of its oversight practices.

The absence of formal policies and procedures limits H&I's ability to define and institutionalize a consistent framework for assessing carrier compliance with Section 2.3(g). Establishing such guidance is essential to strengthening program oversight, enhancing internal management controls, and promoting accountability among personnel responsible for monitoring carrier efforts to identify and return overpayments.

In response to our information request, H&I provided a document titled Audit Resolution and Compliance Guidance for Resolving Claims Audits, which is intended to support individual claim reviews. However, our audit determined that this guidance does not sufficiently outline operational or monitoring processes related to carrier compliance with Section 2.3(g), nor does it explain the rationale and methodology used by H&I to manage this responsibility.

We acknowledge that H&I personnel, specifically within the Audit Resolution and Compliance group, review carrier documentation during the resolution of OIG audit recommendations to assess whether carriers have made prompt and diligent efforts to recover erroneous payments. However, Audit Resolution and Compliance's role is limited to OIG audit findings and does not encompass a broader comprehensive oversight of this contract requirement outside of OIG audits.

Without formal policies and procedures, H&I staff responsible for contract oversight may be required to make decisions without appropriate training, guidance, and supervisory review. This lack of structure increases the risk of carrier noncompliance, inconsistent oversight practices, decisions that may conflict with contractual requirements, and potential carrier complaints.

Recommendation 2 We recommend that H&I develop and implement formal, written policies and procedures to guide the monitoring of carrier compliance with contract Section 2.3(g). These procedures should clearly define roles and responsibilities,

outline the methods for evaluating carrier efforts to identify and return overpayments, and establish documentation and supervisory review requirements.

H&I Response

H&I concurs with the recommendation and plans to develop formal policies and procedures that define monitoring roles, reporting responsibilities, and compliance due dates. H&I is already implementing an internal oversight strategy, including revising contract Section 2.3(g) for plan year 2026 to require carriers to begin recovery of erroneous payments within 30 working days, establish offsets, and use collections when appropriate. Additionally, carriers will be required to maintain detailed records of unrecovered erroneous payments for audit purposes.

OIG Comments

While the revision to Section 2.3(g) implemented for plan year 2026 is a positive step, we encourage H&I to prioritize the development and implementation of written policies and procedures as soon as possible, independent of contract changes. These policies should not only define roles and reporting responsibilities but also establish clear methods for evaluating carrier compliance, documentation standards, and supervisory review requirements. Doing so will align with principle 12 of GAO's Standards for Internal Control in the Federal Government, which emphasize implementing control activities through documented policies to ensure consistent application and accountability. Additionally, we suggest that these policies and procedures integrate oversight into routine operations rather than relying solely on audit resolution activities. Implementing these measures promptly will strengthen internal controls, reduce the risk of inconsistent practices, and enhance H&I's ability to safeguard FEHB Program funds.

2. Some Carriers Include Restrictive Time Limits on Overpayment Recoveries in Their Provider Contracts

Some carriers include restrictive time limits in their provider contracts or apply state laws that limit the timeframe for recovering overpayments. These practices conflict with the

carriers' federal obligations under the FEHB Program contract and could result in unrecovered erroneous payments posing a financial risk to the program.

Under contract Section 2.3(g), carriers are required to make prompt and diligent efforts to recover any erroneous payments, defined as claims "paid in error for any reason (except in the case of fraud or abuse) The recovery of any overpayment must be treated as an erroneous benefit payment ... **regardless of any time period limitations in the written agreement with the provider.**" (emphasis added)

Additionally, 5 U.S.C. § 8902(m)(1) provides that FEHB Program contract provisions related to benefits and payments preempt any state or local law that relates to health insurance, including those that impose time limits on overpayment recovery. Carriers are therefore expected to ensure that their provider agreements and recovery practices align with these federal requirements.

Our review found that some carriers include contractual time limits in their provider agreements, often 12 months, that restrict the period during which overpayments can be recovered. In other cases, carriers operating in states with restrictive recovery statutes apply those limits to FEHB Program claims, either directly or by incorporating them into provider contracts. These practices may prevent carriers from recovering erroneous payments beyond the specified timeframe, even when such recovery is required under the FEHB Program contract.

These practices undermine the integrity of the FEHB Program by allowing carrier- or state-imposed limitations to override federal requirements. When carriers fail to pursue recoveries beyond restrictive timeframes, they risk noncompliance with their contractual obligations under Section 2.3(g), potentially resulting in unrecovered erroneous payments. This not only exposes the FEHB Program to financial losses but also weakens program oversight and accountability, as it allows inconsistent recovery practices to persist across carriers.

Recommendation 3 We recommend that H&I require all FEHB Program carriers ensure that they do not include or apply restrictive time limits in their provider agreements that conflict with federal obligations under Section 2.3(g) or 5 U.S.C. § 8902(m)(1) to recover erroneous payments. Specifically, we recommend that H&I do the following:

- Require carriers to review and revise provider contracts to ensure that any time limits for overpayment recovery explicitly exclude FEHB Program claims where such limits

would conflict with Section 2.3(g) of the FEHB Program contracts.

- Direct the inclusion of standard contract language in provider agreements that preserves the carrier's ability to recover FEHB Program overpayments in accordance with federal requirements, regardless of state law or commercial norms.
- Issue a Carrier Letter clarifying that FEHB Program claims are subject to federal law and that improper payment recovery efforts must not be limited by state-imposed or contractually agreed-upon timeframes.

Implementing these actions will help ensure that carriers maintain full recovery rights for FEHB Program claims, comply with the contract and federal law, and protect FEHB Program funds from avoidable losses.

H&I Response

H&I partially concurs with the recommendation. H&I agrees that carriers should not include restrictive provisions in provider agreements that hinder the recovery of erroneous payments. H&I notes that carriers must comply with the requirements of Section 2.3(g) in their contracts regarding reviews for identifying and efforts to recover erroneous payments. These requirements apply regardless of any limitations carriers may negotiate in their contracts with providers as they establish discounted rates. If carriers cannot demonstrate compliance with Section 2.3(g)'s requirements to recover erroneous payments, those erroneous payments will not be allowed to be charged to the FEHB Program, and carriers must reimburse the FEHB Program.

H&I does not concur that issuing a Carrier Letter is necessary. Carriers and their contracted providers are aware that FEHB claims are subject to federal law and that erroneous payment recovery efforts are not subject to state law. A Carrier Letter will not affect the enforceability of recovery efforts against carriers or contracted providers. Similarly, H&I does not believe that a Carrier Letter will impact the enforceability of recovery efforts

for erroneous payments made to providers with whom carriers do not have provider agreements.

OIG Comments

We agree that federal law and FEHB Program contract provisions preempt state-imposed recovery limits; however, this does not eliminate the practical risk created when carriers voluntarily include restrictive time limits in provider agreements. These contractual provisions can prevent carriers from recovering erroneous payments even when federal law allows it, leaving carriers to rely on the “good faith error” clause to charge unrecovered amounts to the FEHB Program. While this satisfies compliance requirements, it creates a dynamic where providers have little incentive to cooperate with recovery efforts because the carrier bears no ultimate financial risk since unrecovered amounts can still be charged to the program. This lack of accountability undermines program integrity and increases the likelihood of systemic unrecovered payments. Issuing a Carrier Letter and requiring carriers to include standard language in provider agreements that exempts FEHB claims from restrictive recovery limits would address this gap, reinforce federal preemption under 5 U.S.C. § 8902(m)(1), and strengthen program oversight. We encourage OPM to reconsider these actions to ensure carriers and providers maintain meaningful accountability and protect FEHB Program funds from avoidable losses.

3. H&I’s Proposed Amendments Do Not Fully Address the Management Advisory Recommendation

Our 2021 management advisory included three recommendations regarding the erroneous payments clause in the FEHB Program carrier contracts.³ The report specifically stated that “Contract Section 2.3(g) Erroneous Payments, as written, is too broad, does not require any type of routine recovery reporting, and may be costing the FEHB Program for recovery efforts that could be handled in a more efficient manner.”

All three recommendations remain open and unresolved to date. In response, H&I has taken steps toward resolution by establishing an erroneous payment tiger team to

³ OPM OIG, FEHB Program Integrity Risks Due to Contractual Vulnerabilities ([4A-HI-00-18-026](#), April 1, 2021).

address the issues identified in the management advisory. The tiger team has drafted proposed amendments to Section 2.3(g) of the standard contract.

Our review of the proposed amendments brought one concern to light, specifically regarding management advisory recommendation 8, which recommended modifying Section 2.3(g) to require carriers to report on their collection efforts. This includes reporting on how promptly recovery was initiated after identifying an erroneous payment and the cause(s) of the payment errors.

We found the proposed amendment does not fully address this recommendation. While it introduces a timeframe for initiating recovery upon discovery of an overpayment, it does not require carriers to report on their collection efforts, how promptly the carrier initiated collection once identified, or the cause(s) of claim payment errors.

Recommendation 8 is closely aligned with finding 1 and recommendation 1 of this report, which emphasizes the importance of ongoing oversight by H&I through monitoring and evaluation of carrier documentation. Such oversight is essential to ensure carrier compliance with contract requirements.

Without clearly defined language outlining carrier reporting responsibilities, H&I will be unable to fully meet its obligations under FAR 1.602-2, which include ensuring compliance with contract terms and safeguarding the interests of the United States.

Recommendation 4 We recommend that H&I further modify Section 2.3(g) of the FEHB Program contract to require carriers to regularly report on their erroneous payment collection efforts. This report should include (but not be limited to):

- the timeliness of recovery initiation after identifying an erroneous payment, and
- the underlying cause(s) of the payment errors.

This information will enable H&I to more effectively monitor and evaluate carrier compliance with the contract.

H&I Response

H&I does not concur with the recommendation, stating that it is already in place and enforced through existing contract requirements. H&I notes that reporting requirements related to erroneous payment recovery are covered under Section 1.9 of the standard contract, making additional reporting under

Section 2.3(g) duplicative. Section 1.9 requires carriers to report the average number of days to begin recovery actions, allowing Contracting Officers to determine whether carriers are performing adequately and to take follow-up action when needed.

H&I further states that it receives a report of improper payments as part of the statistically valid sample used to determine the annual Improper Payment estimate required by the Payment Integrity Information Act of 2019. Improper payments may include erroneous payments under Section 2.3(g). As part of the report, carriers must include a corrective action plan for any improper payments identified, and the plan must identify the root cause of the improper payment. FEHB and Postal Service Health Benefits Contracting Officers, in coordination with H&I's Audit Resolution and Compliance, work to ensure the root causes identified are addressed and corrected.

OIG Comments

We continue to contend that the recommendations in the management advisory were not fully addressed. While H&I asserts that existing provisions sufficiently address reporting on erroneous payment recoveries, our review indicates that current requirements do not provide the level of transparency needed to evaluate carrier compliance with Section 2.3(g). The reporting under Section 1.9 focuses solely on the timeliness of initiating collection efforts and does not capture the broader activities necessary to determine whether carriers maintain effective systems and processes to identify, track, and resolve erroneous payments. Without comprehensive reporting, H&I cannot fully meet its responsibilities under FAR 1.602-2 to ensure compliance with contract terms and safeguard federal funds, nor can it align with GAO Standards for Internal Control, which emphasize monitoring and documentation to strengthen oversight. This lack of visibility increases the risk of systemic weaknesses in recovery practices and potential financial losses to the FEHB Program.

4. Program Improvement – Management Advisory Findings Should be Applied to All FEHB Program Carrier Contracts

During discussions with the tiger team regarding its proposed changes that originated from the management advisory, it became evident that the changes applied only to the standard contracts and not to contracts that include special provisions.

All FEHB Program carriers, whether fee-for-service, experience-rated health maintenance organizations, or community-rated health maintenance organizations, sign a standard contract. These standard contracts include a Part IV – Special Provisions section, which allows for negotiated modifications between the carrier and OPM. While most carriers accept the standard contract, a small number have special provisions.

Notably, the largest carrier in the FEHB Program, which accounts for 67 percent of all FEHB Program member contracts and encompasses 70 percent of all premium dollars in 2023, has a contract that includes special provisions, including modifications to Section 2.3(g). These modifications specifically address situations where the carrier's provider contracts include time limitations that restrict the recovery of erroneous benefit payments.

The modification to contract Section 2.3(g)'s introductory paragraphs for this carrier present a contradictory framework. Specifically, it states that "any overpayment must be treated as an erroneous benefit payment ... regardless of any time period limitations in the written agreement with the provider." However, the following paragraph allows health plans with such time-limited provider agreements to participate in a carrier-sponsored program designed to identify and recover overpayments within the contractual time limits. This creates ambiguity and weakens the enforcement of recovery obligations. In practice, if the carrier fails to promptly identify the overpayment, misclassifies it as a valid payment, or receives no response from the provider, the time-limited provisions may prevent recovery altogether, exposing the FEHB Program to avoidable financial losses.

As a result, while the tiger team has made progress in updating standard contract language, its efforts will remain incomplete unless it reviews and updates the special provisions in this carrier's contract. Without doing so, the team will have addressed only a fraction, approximately 30 percent, of the FEHB Program population impacted by the management advisory.

Recommendation 5 We recommend that H&I task the tiger team with reviewing Part IV – Special Provisions, specifically Section 2.3(g), of the largest FEHB Program carrier's contract (and any others with

special provisions encompassing Section 2.3(g)). The team should ensure that any necessary changes identified in reports 4A-HI-00-18-026 and 2025-CAAG-010 are incorporated into this contract to maintain consistency and uphold program integrity across all FEHB Program carriers.

H&I Response

H&I does not concur with the recommendation. The Tiger Team was specifically tasked with evaluating the recommendations in the management advisory relating to standard contract Section 2.3(g). The Tiger Team completed that work and proposed contract amendments to the standard contract language. The management advisory did not contain any recommendations directed at any specific section of any carrier's contract. H&I notes that contracts for insurance under the FEHB are established through bilateral negotiation with carriers, and the standard contract language serves as the starting point for these negotiations.

OIG Comments

While we appreciate H&I's clarification that the tiger team focused on the standard contract language for Section 2.3(g), limiting updates to the standard contract alone does not resolve the material risk identified in this audit. The largest FEHB Program carrier, which represents approximately 67 percent of all member contracts and 70 percent of premium dollars, operates under special provisions that modify Section 2.3(g) and create an exception framework inconsistent with the intent of the standard contract and federal requirements.

Specifically, while subsection (i) requires recovery of overpayments "regardless of any time period limitations in the written agreement with the provider," subsection (ii) then allows this carrier to satisfy Section 2.3(g) by participating in an "action plan" that is expressly constrained by provider contract time limits. This internal inconsistency weakens enforcement of recovery obligations and enables a scenario in which erroneous payments remain unrecovered once provider-contract time limits expire, even though federal standards require continued recovery efforts.

Leaving these special provisions unreviewed and unaligned with the revised standard contract language creates a dual standard of compliance, one for most carriers and another for the largest carrier, undermining consistency, oversight, and accountability across the FEHB Program. This inconsistency impairs H&I's ability to meet its responsibilities under FAR 1.602-2 to ensure compliance with contract terms and safeguard federal funds and conflicts with GAO's Standards for Internal Control (principles 12, 16, and 17), which emphasize documented control activities, integrated monitoring, and timely corrective actions. The practical consequence is heightened exposure to systemic unrecovered erroneous payments, diminished program integrity, and potential financial losses borne by the FEHB Program.

We further recommend that H&I review and update Part IV – special provisions for this carrier to ensure parity with the standard contract language. At minimum, H&I should do the following:

1. Eliminate exception pathways that tie compliance to provider-contract time limits.
2. Insert a uniform carve-out clause that preserves FEHB Program recovery rights notwithstanding any provider agreement restriction (e.g., "Notwithstanding any contrary term in provider agreements, the carrier shall maintain full recovery rights for FEHB Program claims in accordance with Section 2.3(g) and applicable federal law.>").
3. Require routine reporting under Section 2.3(g) that demonstrates timeliness of recovery initiation and documents root causes of payment errors (complementing, not duplicating, Section 1.9's aggregate timeliness metric).
4. Establish supervisory review and escalation protocols when provider-contract limits impede recovery, including corrective actions to reduce recurrence.

Taking these steps will close the enforcement gap created by special provisions, restore consistency across carriers, and strengthen H&I's internal controls and contractual oversight in alignment with federal requirements.

5. Program Improvement – Not All Carriers Understand the Definition of Erroneous Payment

Not all carriers have a correct understanding of the definition of erroneous payment as outlined in FEHB Program contract Section 2.3(g).

In our review of survey responses, we identified one carrier that clearly misinterpreted the term “erroneous payment.” In its response, the carrier stated that an erroneous payment was one that exceeds “the amount payable under the Plan. This term does not include erroneous payments caused by untimely or inaccurate eligibility.” While this example represents only one carrier, the misunderstanding may not be limited to just that carrier.

This interpretation significantly deviates from the contractual definition, which states that an erroneous payment is a claim that “has been paid in error for any reason (except in the case of fraud or abuse).”

It is essential that H&I ensure that all carriers understand that “for any reason” is inclusive and unambiguous. If carriers redefine “erroneous payment” to exclude claims paid due to untimely or inaccurate eligibility information, regardless of fault, they may fail to pursue recovery of such payments. This could result in unrecovered overpayments and financial losses to the FEHB Program.

Recommendation 6 We recommend that H&I regularly issue a Carrier Letter to reinforce carrier responsibilities under contract Section 2.3(g), including a clear and unambiguous definition of what constitutes an erroneous payment.

H&I Response

H&I does not concur with the recommendation. The carrier contract clearly and unambiguously defines what constitutes an erroneous payment in Section 2.3(g). Carriers are aware of their responsibilities under this section and understand what constitutes an erroneous payment. The purpose of Carrier Letters is to clarify issues that may not be covered by statutory, regulatory, or contract language, not to restate the requirement for carriers to adhere to the contract.

OIG Comments

While we appreciate H&I’s position that Section 2.3(g) clearly defines erroneous payments and outlines carrier responsibilities, the inconsistencies observed in carrier practices and survey

responses received demonstrate that clarity in the contract language alone has not ensured uniform understanding or application. A Carrier Letter would serve as a proactive measure to reinforce expectations, reduce misinterpretation and promote consistent recovery practices. This approach aligns with GAO Standards for Internal Control, which emphasize clear communication to support effective oversight, and would help mitigate the risk of unrecovered payments and financial losses to the FEHB Program.

Appendix A: Objective, Scope, and Methodology

Our primary objective was to determine whether H&I had sufficient internal controls, including written policies and procedures, in place in contract years 2021 through 2023 to monitor and measure the prompt and diligent efforts of carriers to ensure recovery and return of erroneous health benefit payments to the FEHB Program, in accordance with Section 2.3(g) of the FEHB Program carrier contracts.

Additionally, we assessed the effectiveness of the current erroneous payments clause and whether revisions are needed to Section 2.3(g) based on the carriers' written policies and procedures, survey responses, and supporting documentation as well as recent OIG audit findings regarding carriers' claim overpayment recovery efforts.

We conducted this performance audit in accordance with the generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during our audit provided a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was conducted by OIG staff located in our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida from March 11, 2025, through September 30, 2025.

In planning and conducting our audit, we obtained an understanding of OPM's internal control structure to help determine the nature, timing, and extent of our auditing procedures. Based on our testing, we identified significant matters involving H&I internal controls and operations pertaining to the administration of contract Section 2.3(g)'s erroneous payments clause. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on OPM H&I's system of internal controls taken as a whole.

To determine how effectively H&I is monitoring improper payment recovery efforts of carriers, we issued a pre-audit information request on November 14, 2024, requesting comprehensive supporting documentation, including written policies and procedures, an organizational chart outlining personnel responsible for oversight, a complete listing of FEHB Program claim overpayments recovered by carriers from 2021 through 2023, and any reviews performed regarding these recovery efforts.

After reviewing 2023 FEHB Program enrollment data, we found that experience-rated carriers account for nearly 90 percent of total enrollment. Due to this significant

disparity, our review focused on Section 2.3(g) of the experience-rated contracts, and we only surveyed experience-rated carriers for our fieldwork analysis.

We surveyed all experience-rated carriers and experience-rated health maintenance organizations to evaluate their interpretation and understanding of the applicable contract language, collect written policies and procedures, and identify any constraints affecting their ability to return overpayments to the FEHB Program.

The OIG's audits of OPM are designed to test compliance with applicable laws, program regulations, and related criteria. These audits are also designed to provide reasonable assurance that OPM has sufficient controls, including policies and procedures, to administer the FEHB Program and related programs and processes.

Appendix B: H&I Response to Draft Report



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

November 7, 2025

MEMORANDUM FOR: Michael C. Weaver
Acting Chief, Claims Audits and Analytics Group

FROM: D. Shane Stevens
Associate Director
Healthcare and Insurance

D. Shane Stevens
Digitally signed by D. Shane Stevens
Date: 2025.11.10 17:15:51 -05'00'

SUBJECT: Audit of the Office of Personnel Management's Oversight of the Federal Employees Health Benefits Program's Contract Section 2.3(g) – Erroneous Payment's Clause 2025-CAAG-010

Thank you for providing the Office of Personnel Management (OPM) the opportunity to respond to the Office of the Inspector General (OIG) draft report, Audit of the Office of Personnel Management's Oversight of the Federal Employees Health Benefits Program's Contract Section 2.3(g) – Erroneous Payment's Clause, Report No. 2025-CAAG-010.

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

Recommendation 1:

We recommend that H&I develop an internal oversight strategy by establishing formal monitoring activities related to carrier compliance with contract Section 2.3(g). This should include integrating oversight into routine operational processes, conducting periodic evaluations of carrier performance, thoroughly documenting results, and implementing timely corrective actions as needed.

Management Response: We concur. We are already taking steps to implement an internal oversight strategy by establishing a formalized monitoring program related to carrier compliance. HI plans to revise Section 2.3(g) for plan year 2026 and beyond. HI, as part of the standard contract oversight process, will continue to monitor carrier contract compliance for this contract Section. Under the revised Section 2.3(g), carriers will be required to begin recovery within 30 working days of identifying an erroneous payment and will be required to set up offsets and send uncollected overpayments to collections if prudent. Offsets to future claim payments will ensure the FEHB Program is made whole. The Section also states that carriers are required to maintain records for individual unrecovered erroneous payment collection activities for audit or oversight activities.

Furthermore, HI is researching the possibility of collecting and maintaining claim-level data from carriers, one use of which would be to identify potential erroneous payments.

The claim-level data will also enable us to implement President Trump's Executive Orders on preventing Fraud, Waste, and Abuse, on Transparency in Healthcare Costs, and on Most-Favored Nation Drug Pricing.

HI is also planning to enhance the financial information disclosures received from carriers and require Generally Accepted Accounting Principles (GAAP) accounting standards with legal entities closed off from potential leakages, transfers, or fraudulent conveyances that would potentially harm FEHB Program integrity. The GAAP accounting standards are expected to be required for plan year 2026 by contract enhancements and by a revised Financial Audit Guide.

OIG is authorized under the IG Act of 1978 to audit carriers to ensure appropriate compliance with contract Section 2.3(g). FEHB and PSHB Contracting Officers, in coordination with HI's Audit Resolution and Compliance, will continue to work to ensure issues identified in the OIG's exercise of this responsibility are properly and thoroughly addressed in the audit resolution process.

Recommendation 2:

We recommend that H&I develop and implement formal, written policies and procedures to guide the monitoring of carrier compliance with Section 2.3(g) of the FEHBP contract. These procedures should clearly define roles and responsibilities, outline the methods for evaluating carrier efforts to identify and return overpayments, and establish documentation and supervisory review requirements.

Management Response: We concur. We plan to develop formal written policies and procedures to clarify roles and responsibilities for monitoring compliance, establishing due dates for compliance reporting, and defining to whom reporting should be submitted.

As we indicated in our response for Recommendation 1, we are already taking steps to implement an internal oversight strategy by establishing a formalized monitoring program related to carrier compliance. HI plans to revise Section 2.3(g) for plan year 2026 and beyond. HI, as part of the standard contract oversight process, will continue to monitor carrier contract compliance for this contract Section. Under the revised Section 2.3(g), carriers will be required to begin recovery within 30 working days of identifying an erroneous payment and will be required to set up offsets and send uncollected overpayments to collections if prudent. The Section also states that carriers are required to maintain records for individual unrecovered erroneous payment collection activities for audit or oversight activities.

Furthermore, HI is researching the possibility of collecting and maintaining claim-level data from carriers, one use of which would be to identify potential erroneous payments. HI is also planning to enhance the financial information disclosures received from carriers and require GAAP accounting standards with legal entities closed off from potential leakages, transfers, or fraudulent conveyances that would potentially harm FEHB Program integrity. The GAAP accounting standards are expected to be required for plan year 2026 by contract enhancements and by a revised Financial Audit Guide.

OIG is authorized under the IG Act of 1978 to audit carriers to ensure appropriate compliance with contract Section 2.3(g). FEHB and PSHB Contracting Officers, in coordination with HI's Audit Resolution and Compliance, will continue to work to ensure issues identified in the OIG's exercise of this responsibility are properly and thoroughly addressed in the audit resolution process.

Recommendation 3:

We recommend that H&I require all FEHBP carriers ensure that they do not include or apply restrictive time limits in its provider agreements that conflict with federal obligations under Section 2.3(g) or 5 United States Code Section 8902(m)(1) to recover erroneous payments. Specifically, we recommend that H&I:

- Require carriers to review and revise provider contracts to ensure that any time limits for overpayment recovery explicitly exclude FEHBP claims where such limits would conflict with Section 2.3(g) of the FEHBP contracts.
- Direct the inclusion of standard contract language in provider agreements that preserves the carrier's ability to recover FEHBP overpayments in accordance with federal requirements, regardless of state law or commercial norms; and
- Issue a Carrier Letter clarifying that FEHBP claims are subject to federal law and that improper payment recovery efforts must not be limited by state-imposed or contractually agreed-upon timeframes.

Management Response: We partially concur. In general, we concur that carriers should not include restrictive limits in their provider agreements. As a point of reference, carriers must comply with the requirements of Section 2.3(g) in their contract regarding reviews for identifying and efforts to recover erroneous payments. These requirements exist regardless of limitations carriers may negotiate in their contracts with providers as they establish discounted rates. If the carriers cannot demonstrate compliance with Section 2.3(g)'s requirements to recover erroneous payments, those erroneous payments will not be allowed to be charged to the FEHB Program, and the carriers must reimburse the FEHB Program. In other words, our contract already incentivizes carriers to not include restrictions in their provider agreements that limit their ability to recover funds, while allowing them flexibility in their negotiations to obtain the lowest discounted rates possible.

However, OPM does not concur that a Carrier Letter as described is necessary. Carriers and their contracted providers are aware that FEHB claims are subject to federal law and that erroneous payment recovery efforts are not subject to state law. A Carrier Letter will not have any effect on the enforceability of recovery efforts against carriers or contracted providers. Similarly, OPM does not believe that a Carrier Letter will have any effect on the enforceability of recovery efforts for erroneous payments made to providers with whom carriers do not have provider agreements.

Recommendation 4:

We recommend that H&I further modify Section 2.3(g) of the FEHBP contract to require carriers to regularly report on its erroneous payment collection efforts. This report should include (but not limited to):

- The timeliness of recovery initiation after identifying an erroneous payment, and
- The underlying cause(s) of the payment errors.

This information will enable H&I to more effectively monitor and evaluate carrier compliance with the contract.

Management Response: We do not concur as this recommendation is already in place and is being enforced. Section 2.3(g) is directed at ensuring carriers maintain systems and processes to identify and correct erroneous payments. Incorporating reporting requirements in this section is duplicative of reporting requirements in Section 1.9 of the Standard Contract.

Section 1.9 of the Standard Contract requires Carriers to report the average number of working days it takes to begin collection action following identification of an erroneous payment. This provides insight as to whether Carriers are performing adequately to recover erroneous payments. If Carriers are not performing adequately, the Contracting Officer follows up with additional oversight to identify the underlying causes of the payment errors.

Furthermore, HI receives a report of improper payments as part of the statistically valid sample used to determine the annual Improper Payment estimate required by the Payment Integrity Information Act of 2019. Improper payments may include erroneous payments under Section 2.3(g). As part of the report, carriers must include a Corrective Action Plan (CAP) for any improper payments identified and the CAP must identify the root cause of the improper payment. FEHB and PSHB Contracting Officers, in coordination with HI's Audit Resolution and Compliance, work to ensure the root causes identified are addressed and corrected.

Recommendation 5:

We recommend that H&I task the Tiger Team with reviewing Part IV – Special Provisions, specifically Section 2.3(g), of the largest FEHBP carrier's contract (and any others with Special Provisions encompassing Section 2.3(g)). The team should ensure that any necessary changes identified in the MAR, and in this report, are incorporated into this contract to maintain consistency and uphold program integrity across all FEHBP carriers.

Management Response: We do not concur. The Tiger Team was specifically focused on evaluating the recommendations in the Management Advisory Report (MAR) relating to Standard Contract Section 2.3(g). The Tiger Team completed that work and proposed contract amendments to the Standard Contract language. The MAR did not contain any recommendations directed at any specific section of any carrier's contract. Our contracts

for insurance under the FEHB are through bilateral negotiation with carriers. The Standard Contract language is the beginning of the negotiation process.

Recommendation 6 Dropped from Final Report

**Redacted by OIG
Not Relevant to Final Report**

Recommendation 7:

We recommend that H&I regularly issue a Carrier Letter to reinforce carrier responsibilities under contract Section 2.3(g), including a clear and unambiguous definition of what constitutes an erroneous payment.

Management Response: We do not concur. The carrier contract clearly and unambiguously states what constitutes an erroneous payment in Section 2.3(g). Carriers are aware of their responsibilities under contract Section 2.3(g) and are aware of what constitutes an erroneous payment. The purpose of Carrier Letters is to clarify issues that may not be covered by statutory, regulatory, or contract language, not to restate the requirement for carriers to follow the contract.

Issuing a Carrier Letter once or regularly that repeats the Standard Contract language or reminds carriers to follow the contract is neither necessary to reinforce contract requirements nor a good use of limited resources.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact Delon G. F. Pinto, Acting Chief, Audit Resolution and Compliance, 202-606-2753, and Delon.Pinto@opm.gov.



Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement within the government are issues of concern for all stakeholders, including the Office of the Inspector General staff, agency employees, and the general public. We actively seek reports regarding any instances of inefficiency, wasteful practices, fraud, and mismanagement related to OPM programs and operations. Allegations can be reported to us via multiple channels:

By Internet: <https://oig.opm.gov/>

By Phone: (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