



**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 FISCAL YEAR 2019 IMPROPER
PAYMENTS REPORTING**

Report Number 4A-CF-00-20-014

May 14, 2020

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Fiscal Year 2019 Improper Payments Reporting

Report No. 4A-CF-00-20-014

May 14, 2020

Why Did We Conduct The Audit?

The objective of our audit was to determine if the U.S. Office of Personnel Management (OPM) is compliant with the Improper Payments Information Act, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), for Fiscal Year (FY) 2019.

What Did We Audit?

The Office of the Inspector General completed a compliance audit on OPM's FY 2019 improper payments reporting, as defined in the U.S. Office of Management and Budget's guidance and corresponding reporting instructions. Our audit was conducted from December 12, 2019, through April 7, 2020, at OPM's headquarters located in Washington, D.C.



Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

1. We determined that OPM is in compliance with IPERA's six requirements for FY 2019, as identified in the chart below:

| A | Performance and Accountability Report/ Agency Financial Report | Risk Assessment | Improper Payment Estimate | Corrective Action Plan | Reduction Targets | Recovery Efforts | Total Non-Compliances |
|-----|--|-----------------|---------------------------|------------------------|-------------------|------------------|-----------------------|
| OPM | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

 Compliance
  Non compliance

2. IPERIA includes additional reporting requirements, such as utilizing the Do Not Pay portal and approval for both the improper payments rates and reduction targets. We determined that OPM is in compliance with IPERIA's additional reporting requirements.
3. Area for Improvement: We identified one area where OPM can improve its internal controls over improper payments reporting. Specifically, the Retirement Services and Healthcare and Insurance programs have not reviewed and updated their determination that a payment recapture audit program is not cost effective since 2011.
4. Outstanding Audit Findings: There are three outstanding audit findings from prior years' audits, two remain open and one is resolved but not yet closed. 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 |
| PAR | Performance and Accountability Report |

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our compliance audit of the U.S. Office of Personnel Management’s (OPM) Fiscal Year (FY) 2019 Improper Payments Reporting. The audit was performed by OPM’s Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

On July 22, 2010, and January 10, 2013, the President signed into law the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), respectively, which amended the Improper Payments Information Act of 2002. IPERIA redefined “significant improper payments” and strengthened executive branch agency reporting requirements.

The U.S. Office of Management and Budget (OMB) issued improper payments guidance to assist agencies in implementing improper payment laws, including OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular A-136, *Financial Reporting Requirements*. OMB issues routine updates, including a June 26, 2018, update to OMB Circular A-123 through Memorandum M-18-20, and a June 28, 2019, revision to OMB Circular A-136.

An agency’s program is deemed susceptible to significant improper payments¹ if the total amount of overpayments plus underpayments exceeds both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or, \$100,000,000 regardless of improper payments percentage of total program outlays.

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

- a. “Published an AFR [Agency Financial Report] or PAR [Performance and Accountability Report] for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- b. Conducted a program specific risk assessment for each program or activity that conforms with [the] Section 3321 note of Title 31 U.S.C. (if required);
- c. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);

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.

- d. Published programmatic corrective action plans in the AFR or PAR (if required);
- e. Published, and is meeting², annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- f. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.”

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

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

- Categorize their improper payment estimates based on OMB’s new improper payment categories;
- Perform risk assessments on all low risk programs at least every three years to assess their risk for improper payments;
- Develop indicators of improper payments for programs deemed high-priority, as required by OMB;
- Identify the accountable official that oversees efforts to reduce improper payments for high-priority programs;
- Expand payment recapture audits to all types of payments and activities with more than \$1 million in annual outlays, if cost effective;
- Recover improper payments by conducting recovery audits on programs that expend \$1 million or more annually, if conducting such audits is cost-effective;
- Distribute funds recovered through payment recapture audits for authorized purposes;
- Establish internal controls to reduce improper payment rates; and

² Inspectors General determine compliance with reduction targets by determining the robustness and validity of the agency’s sampling methodology, and examining point estimates, precision rates and confidence intervals.

- Use the Do Not Pay List.³ to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur.

Each agency's Inspector General is required to review improper payments reporting in the AFR or PAR to determine compliance with IPERIA. OMB requires that the Inspector General review the agency's annual AFR or PAR, which includes evaluating the accuracy and completeness of agency reporting, and evaluating agency performance in reducing and recapturing improper payments. 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 by May 15, 2020. OPM issued its FY 2019 AFR on November 18, 2019.

Based on the guidance from OMB, risk assessments are conducted every three years for programs considered to be at a lower risk for improper payments. During FY 2019, OPM's Risk Management and Internal Control group conducted risk assessments of the Travel Reimbursements and Travel Card programs. These two program areas were last assessed in 2016 and do not need to be reassessed until 2022.

During our FY 2017 improper payments reporting audit⁴, 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 (FEHB) 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.

Two of OPM's earned benefit programs, Retirement Services and the FEHB, are by definition susceptible to significant improper payments.

³ The "Do Not Pay List" is an initiative to prevent Federal agencies from making certain improper payments by directing agencies to review current pre-payment and pre-award procedures to ensure the recipients are eligible.

⁴ *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.*

RETIREMENT SERVICES PROGRAM

OPM's Retirement Services issues annuity payments on a recurring monthly basis to eligible individuals. Retirement Services' improper payments rate is calculated by dividing the underpayments (determined by statistical sampling) plus overpayments (the actual value) by total outlays. To determine the underpayment value, Retirement Services uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases for the Federal Employees Retirement System and Civil Service Retirement System completed by the 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.

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 Federal Employees Health Benefits Program (FEHBP). From FY 2011 to FY 2015, the OIG provided Healthcare and Insurance with a spreadsheet listing all audit report findings and determinations, and which carriers were impacted. Since FY 2016, Healthcare and Insurance has used their own spreadsheet to consolidate all the data needed to calculate the improper payments. Healthcare and Insurance

retrieves this information from the OIG's published audit and investigative data and states that it calculates improper payments using the following formula:

$$\frac{\text{Audit Determinations}^5 - \text{from OIG questioned costs} + \text{Fraud Investigation Recoveries}}{\text{Outlays (Experience-Rated Carriers + Community-Rated Carriers Premium Payments)}}$$

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

For investigative recoveries, when the FEHBP receives an award as the result of a civil settlement or criminal judgement, the OIG provides OPM's offices of Audit Resolution and Compliance and the Chief Financial Officer with a memorandum detailing the amount of the FEHBP award and the allocation to specific FEHBP carriers. The U.S. Department of the Treasury's Report of Receivables captures the FEHBP's overpayments, as well as the amount recaptured or recovered from health benefit carriers, which the OCFO provides to Healthcare and Insurance. As a result, the recaptured/recovered amount is used in reporting improper payments. In many cases, this may not be the full amount of the improper payment.

OPM's reported improper payments and overpayments recaptured for FY 2019 are summarized in the following tables:

⁵ Total receivable amount established after HI's determination to disallow overpayments and allow underpayments questioned in OIG experience rated and community rated audits of FEHBP carriers.

| Table 1: FY 2019 Improper Payments Summary ⁶ | | | | | |
|--|------------------------------------|--|-----------------------------------|------------------------------------|---------------------------------------|
| Program | Total Outlays (\$ millions) | Gross Improper Payments (\$ millions) | Overpayments (\$ millions) | Underpayments (\$ millions) | 2019 Improper Payments Percent |
| Retirement Services | 80,646.60 | 284.42 | 212.13 | 72.29 | 0.35% |
| Federal Employees Health Benefits | 55,081.92 | 54.94 | 54.94 | 0.00 | 0.10% |

| Table 2: FY 2019 Overpayments Recaptured Summary ⁷ | | |
|--|--|---|
| Program | FY 2019 Amount Identified for Recovery (\$ in millions) | FY 2019 Improper Payment Amount Recovered (\$ in millions) |
| Retirement Services | 212.13 | 206.98 |
| Federal Employees Health Benefits | 54.94 | 43.23 ⁸ |

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

During the audit of OPM’s FY 2018 Improper Payments Reporting, Report No. 4A-CF-00-19-012, we determined that OPM’s reporting of improper payments was in compliance with IPERA and IPERIA. However, we identified one area of improvement that, when addressed, could have a positive impact on OPM’s improper payments reporting. In addition, based on testing performed during this year’s audit, we determined that of the four recommendations issued in the FY 2018 Improper Payments Reporting Final Report, Recommendation 2 could be closed. The status of the remaining three recommendations is outlined in Appendix I.

⁶ Data collected from Table 1 “Improper Payment Summary” on page 129 of OPM’s FY 2019 AFR.

⁷ Data collected from section 5.0 “Recapture of Improper Payments Reporting” on page 140 of OPM’s FY 2019 AFR.

⁸ The Healthcare and Insurance amount recovered includes \$20.75 million in recoveries and \$22.48 million in adjustments (totaling \$43.23 million), representing activity spanning current and prior years. These adjustments represent reductions to the agency’s Receivable, based on a review of carrier actions and contract requirements.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine if OPM complied with the Improper Payment Information Act, as amended by IPERA and IPERIA, for FY 2019. The recommendations included in this final report address this 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.

The scope of our audit covered OPM's FY 2019 improper payments reporting in OPM's AFR. We performed our audit from December 12, 2019, through April 7, 2020, at OPM's headquarters located in Washington, D.C.

To accomplish our audit objective noted above, we:

- Reviewed OPM's website to ensure that the AFR was published;
- Analyzed OPM's corrective actions to address the open audit recommendations identified in the FY 2015, FY 2016, FY 2017, and FY 2018 Improper Payments Reporting final audit reports;
- Reviewed and analyzed FY 2019 risk assessments conducted by OPM's OCFO to determine if their methodology was logical and if the results were valid;
- Reviewed and analyzed supporting documentation to ensure the offices of Healthcare and Insurance and Retirement Services' estimated improper payments methodologies were supported, and recalculated the improper payments estimates to verify that the estimates reported were accurate;
- Reviewed Healthcare and Insurance and Retirement Services' corrective actions in the AFR to ensure they discussed robust and effective corrective actions to reduce improper payments;

- Compared the FY 2019 projected improper payments estimate, as reported by OPM in the FY 2018 AFR, to the actual improper payment rate, as reported by OPM in the FY 2019 AFR, to determine whether reduction targets for Healthcare and Insurance and Retirement Services were met;
- Reviewed Healthcare and Insurance and Retirement Services' improper payments estimates to determine if the gross improper payment rate was less than 10 percent;
- Obtained and reviewed source documentation for all numerical data on improper payments as documented in the AFR tables;
- Assessed the reasonableness of OPM's plan to recapture improper payments; and
- Interviewed program representatives from the OCFO, Retirement Services, and Healthcare and Insurance.

In planning our work and gaining an understanding of the internal controls over OPM's improper payments 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 mainly 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 the 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, and other applicable information, as we considered necessary under the circumstances. The results of our tests indicate that OPM is in compliance with IPERA and IPERIA. However, we identified one new and three previously reported areas where OPM can improve on its internal controls over improper payments reporting.

We did not sample improper payments for testing. In conducting the audit, we relied to varying degrees on computer-generated data. Due to the nature of the audit, we did not verify the reliability of the data generated by the systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective. 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 2019 improper payments reporting for compliance with IPERA and IPERIA.

1. IPERA Reporting Requirements

Based on our review of OPM's FY 2019 AFR, the www.paymentaccuracy.gov website, and other documentation provided by the agency, we determined that OPM is in compliance with the six reporting requirements of IPERA:

| Criteria for Compliance | Criteria Met? |
|---|---------------|
| 1) Published and posted its FY 2019 AFR on Agency website | Yes |
| 2) Conducted program-specific risk assessments | Yes |
| 3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment | Yes |
| 4) Published programmatic corrective action plans in the AFR | Yes |
| 5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments | Yes |
| 6) Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR | Yes |

2. IPERIA Reporting Requirements

Based on our review of the reporting requirements for IPERIA, such as OMB's approval for both the improper payments rate and the reduction targets, we determined that OPM is in compliance with IPERIA for FY 2019.

3. Area for Improvement

During our audit, we identified one area where OPM can improve its internal controls over improper payments reporting.

A. Recovery Audits

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

We reviewed OPM's Annual Financial Reports from FY 2012 through 2019 and noted that OPM has consistently reported that it is "not cost-effective to hire payment recovery auditors" In 2011, OPM determined that validation, recovery, and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of the individual programs. This is based on a report submitted to OMB and our Office of the Inspector General⁹, which contained an analysis and justification stating that conducting a payment recapture audit program was not cost effective. This is still the basis of the program offices' current determination.

OMB Circular A-123 Appendix C states that for agencies with programs that expend more than \$1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if an audit program is cost-effective. Furthermore, OMB Circular A-123 Appendix C states that if it is determined that a payment recapture audit program is not cost-effective, the agency should notify OMB and the agency's Inspector General of the determination and include a justification and analysis used to reach the decision.

GAO-14-704G, Standards for Internal Control in the Federal Government, states, "Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks." GAO-14-704G also suggests a review of policies, procedures, and related control activities if there is a significant change in an entity's process including changes in personnel, operational processes, or information technology.

While OPM complied with OMB Circular A-123 Appendix C by completing an analysis of the cost-benefit of implementing a payment recapture audit program and by reporting its determination to OMB and the OIG, this was done nine years ago. Many things have changed in nine years; therefore, it is incumbent upon OPM to review and update its analysis periodically. By not reviewing and updating the analysis used to determine whether or not a payment recapture audit program is cost effective, OPM and the

⁹ Agency Response to OMB M-11-04 Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits, issued February 8, 2011.

program offices are not following guidance and best practices and are potentially eschewing a method to return improper payments to the trust funds.

Recommendation 1

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

OPM's Response

“OPM concurs with this recommendation and agrees to conduct the periodic analysis. However, as noted in the FY2019 AFR, OPM continues to maintain that it is not cost-effective to hire payment recapture auditors for either of its reported programs. Effective validation, recovery and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of program processes, regulations, contracts, systems, and records. Nonetheless, OPM remains committed to its extensive internal recovery efforts for both the Retirement Program and the FEHB Program and anticipates continued high rates of recovery for improper payments, and currently has very effective audit recovery.”

OIG Comment

While we note that OPM agrees with the recommendation and states they will conduct periodic analysis, we are concerned that OPM has already concluded, prior to the analysis, that hiring payment recapture auditors would not be cost-effective. This could inappropriately influence the outcome of the analysis. We would also note that while current statistics may support OPM's last statement regarding high recovery rates, we have recently reported significant deficiencies in the identification of improper payments by the Retirement and Health Benefits programs (Audit of The U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies, Report #4A-RS-00-18-035, issued April 2, 2020).

4. Outstanding Audit Findings

During our audit, we identified the following two prior open audit findings and recommendations:

A. Improper Payment Root Causes

Beginning in FY 2015, the OIG reported that OPM was not properly categorizing the root causes of the retirement benefits program's improper payments in OPM's AFR. Retirement Services made improvements in FY 2016 by properly categorizing improper payments related to death data. However, they were unable to fully categorize the following improper payments root causes in Table 2, "Improper Payment Root Cause Category Matrix," of the FY 2016 AFR:

- Federal employees retirement system's disability offset for social security disability;
- delayed reporting of eligibility;
- unauthorized dual benefits or overlapping payments between benefit paying agencies; and
- fraud.

OPM acknowledged that they were aware of the major contributors of improper payments, but were unable to provide the level of granularity needed to fully implement OMB Circular A-136 requirements due to "reporting limitations with the current legacy system." As a result, the remaining balance of those improper payments was placed in "Other Reason."

OPM stated that it was fully committed to identifying the root causes of improper payments and has actively engaged the Office of the Chief Information Officer's Information Technology group to explore methods to further break out the root causes. However, OPM has not provided documentation to support its position that the current legacy systems are not able to produce root cause data on a more granular level. Therefore, we are unable to resolve this issue.

In addition, OPM has not provided a corrective action plan for any future system upgrades that will enable Retirement Services to categorize additional root causes.

OMB Memorandum M-15-02, Circular A-123, Appendix C, requires agencies to report improper payment estimates based on 13 categories and defines each category. Reporting information based on these categories was required for FY 2015 reporting and beyond.

OMB Memorandum M-15-02 also states that “[t]hese new categories will: (1) prove more pertinent to the vast array of programs across the Federal landscape; (2) help agencies better present the different categories of improper payments in their programs and the percentage of the total improper payment estimate that each category represents; and (3) provide more granularity on improper payment estimates—thus leading to more effective corrective actions at the program level and more focused strategies for reducing improper payments at the government-wide level.”

Continuing efforts to provide transparency and granularity in the retirement benefits program’s improper payments will help OPM better present the root causes of improper payments in the AFR.

Recommendation 2 (Rolled Forward from FYs 2015 through 2018)

We recommend that OPM continue to implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefits program’s improper payments are properly categorized in OPM’s annual AFR.

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 and IPERIA, to reduce improper payments, had not been met. In addition, we noted that Retirement Services outlined various corrective actions taken to combat improper payments; however, some had been discontinued due to the perceived cost ineffectiveness of the program, such as the Proof of Life project, and additional cost effective corrective actions have not been identified and implemented.

Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, reiterates this point by stating that “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”

Retirement Services’ collaborations with the OIG have been successful in identifying improper payments, and the new Fraud Branch within Retirement Services is another control that over time may detect and mitigate fraudulent payments. However, the improper payments amounts increased every year from 2012 through 2017, before decreasing to its current level of about \$284 million in 2018 and 2019, as illustrated in the following table:

| Fiscal Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Improper Payments Amount (\$ in millions) | 265.8 | 278.3 | 303.3 | 304.2 | 304.2 | 313.8 | 284.0 | 284.4 |

In addition, as shown in the table below, Retirement Services’ improper payments (IP) rate, from fiscal years 2012 through 2019, has remained virtually stagnant at between 0.35 percent and 0.38 percent:

| FY 2012 IP Rate | FY 2013 IP Rate | FY 2014 IP Rate | FY 2015 IP Rate | FY 2016 IP Rate | FY 2017 IP Rate | FY 2018 IP Rate | FY 2019 IP Rate |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| 0.36% | 0.36% | 0.38% | 0.38% | 0.37% | 0.38% | 0.36% | 0.35% |

In fact, while Retirement Services’ improper payments rate decreased in FY 2019, the rate of 0.35 percent is essentially the same as it was in FY 2012.

Recommendation 3 (Rolled Forward from FYs 2017 and 2018)¹⁰

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

¹⁰ 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.

OPM's Response

“OPM does not concur with recommendations 2 and 3. Both recommendations are aimed at the categorization of root causes and continue to be rolled over from previous audits. There are system limitations preventing OPM from expanding reporting in the root causes categories table per OMB's A-136, Financial Reporting. Specifically, the current IT system supporting RS does not have the granularity of addition/deduction pay codes to align with the OMB root cause categories. As such, OPM places the bulk of the improper payment balances in the 'Other Reason' category, leaving them uncategorized. In order to properly categorize the root cause categories, an upgrade to the current legacy system is required. Retirement Services will request that this upgrade be included in future modernization efforts.

Retirement Services (RS) has prepared a risk acceptance memo to address 'root cause' findings (and associated rollover recommendations). In March 2020, a memo was emailed to primary points of contacts for Internal Oversight & Compliance. It is still being vetted and will be submitted to the OIG when it is finalized.”

OIG Comment (for Recommendations 2 and 3)

As stated previously, OPM has not provided documentation to support its position that its current legacy systems are not able to produce root cause data and has not provided a corrective action plan for any future system upgrades that will enable RS to categorize additional root causes. Furthermore, the OIG acknowledges that Retirement Services has prepared a risk acceptance memorandum or “memo” to address “root cause” findings and we will evaluate the documentation during the audit resolution process.

In addition, the improper payments rate has remained stagnant during the last eight years, averaging 0.37 percent. Although Retirement Services' collaborations with the OIG have been successful in identifying improper payments and the new Fraud Branch is another control that over time may detect and mitigate fraudulent payments, further reduction in the improper payments rate is needed.

APPENDIX I

| Improper Payments Reporting Outstanding Recommendations | | | | |
|---|-----------------------|--|---|--|
| Fiscal Year | Recommendation Number | Recommendation | Recommendation History | Current Status |
| 2018 | 3 | We recommend that OPM continue to implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefits program's improper payments are properly categorized in OPM's annual AFR. | Rolled Forward from FY 2015 Recommendation 1, and FY 2016 Recommendation 10 | Open, See recommendation 2 in this report. |
| 2018 | 1 | We recommend that Retirement Services strengthen their internal controls to ensure that the improper payments information is supported, reviewed, and validated prior to issuance to the OCFO. | FY 2018 | Resolved on July 31, 2019 |
| 2018 | 4 | We recommend that Retirement Services develop and implement additional cost effective corrective actions, aimed at the root cause(s) of improper payments, in order to further reduce the improper payments rate. | Rolled Forward from FY 2017 Recommendation 2 | Open, See recommendation 3 in this report. |
| 2018 | 2 | We recommend that the OCFO strengthen their procedures to ensure that the improper payments information reported in the OPM's AFR is supported, reviewed and validated for accuracy prior to the information's inclusion in the AFR. | FY 2018 | Closed on August 1, 2019 |

APPENDIX II



Chief Financial
Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

April 14, 2020

Report No. 4A-CF-00-20-014

MEMORANDUM FOR: MICHAEL ESSER
Assistant Inspector General for Audits

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Date: 2020.04.17 16:39:02 -0400

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Date: 2020.04.17 15:03:07 -0400

SUBJECT: Management Response to Draft Report on the Audit of
the U.S. Office of Personnel Management's Fiscal Year
2019 Improper Payments Reporting (Report Number-
4A-CF-00-20-014)

Thank you for the opportunity to respond to the Office of the Inspector General's (OIG) Draft Report on the Office of Personnel Management's (OPM) Fiscal Year 2019 Improper Payments Reporting. Reducing improper payments is a priority for the Administration, and OPM is firmly committed to this priority. We recognize the value in the external evaluation conducted by your office and the critical part it plays in improving our program and reporting efforts.

OPM continues to prioritize reducing improper payments as one of its key efforts to reduce waste, fraud, abuse, and inefficiencies in Federal programs. Collectively, the Office of the Chief Financial Officer (OCFO), the Retirement Services (RS), and Healthcare and Insurance (HI) organizations believe our cumulative efforts over the past few years continue to result in significant improvements in OPM's improper payment program. The Improper Payment Working Group continues to be the focal point for coordinating these improvements in our program.

We concur with the one new recommendation in the draft report as discussed below. Recommendations 2 and 3 are rollover recommendations from fiscal years

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2015 – 2018. Both recommendations are aimed towards the root causes of improper payments. We do not concur with these recommendations and have provided an explanation in the management responses below.

Recommendation 1: We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program and retain documentation to support their analysis and conclusion.

Management Response: OPM concurs with this recommendation and agrees to conduct the periodic analysis. However, as noted in the FY2019 AFR, OPM continues to maintain that it is not cost-effective to hire payment recapture auditors for either of its reported programs. Effective validation, recovery and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of program processes, regulations, contracts, systems, and records. Nonetheless, OPM remains committed to its extensive internal recovery efforts for both the Retirement Program and the FEHB Program and anticipates continued high rates of recovery for improper payments, and currently has very effective audit recovery.

With respect to the FEHB program, it may be even more difficult now than it was in 2011 to leverage recovery auditors, given that audit findings are more complex, Questioned Costs are not always actual monies ‘Improperly Paid’ (e.g. versus cash management, Medical Loss Ratio ‘credits’, unidentified statistically projected amounts, questioned costs based on contested contract interpretation or those where OIG and the agency are not in consensus, etc.) Add to this, the absence of an agency wide system to track amounts Questioned, Contested, Allowed/Waived, Recovered, Resolved and Closed, and the processes which a recovery auditor would need to know are even more complex and varied than they have ever been.

It typically takes several years to learn how to discern, handle and report the various actions taken on OIG Questioned Costs and there is no evidence suggesting that securing Payment Recapture Auditors would necessarily be more effective than the current Audit Resolution and Compliance (ARC) Group, which currently performs those functions along with many others in support of HI’s Contracting Officers’ overall oversight and benefits administration of FEHB program. ARC functions, which include repayment recovery, are inextricably linked to the overall review, negotiation, report and final closure or resolution of OIG and other audit findings. Payment Recapture cannot readily be separated from the overall functions performed by ARC. Finally, in a resource-constrained environment, OPM has no discretionary funding, nor does it believe there is value in pursuing contract support to extract a portion of an already small, yet under-resourced function, hiring resources for this sub-component, restructure the remaining organization and initiate the years of training and transition for an uncertain outcome in an area that is currently functioning well.

With respect to Retirement Services, three methods to recapture improper payments are utilized: on-roll annuity, reclamations and off-roll debt. In FY 2019, OPM identified \$267.07 million in overpayments and recovered \$255.63 million.

Recommendation 2: (Rolled Forward from FY 2015 and FY 2016)

We recommend that OPM continue to implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefit program's improper payments are properly categorized in OPM's annual AFR.

Recommendation 3: (Rolled Forward from FY 2017 and 2018)

We recommend that RS develop and implement additional cost-effective corrective actions, aimed at the root cause(s) of improper payments, to further reduce the improper payments rate.

Management Response: OPM does not concur with recommendations 2 and 3. Both recommendations are aimed at the categorization of root causes and continue to be rolled over from previous audits. There are system limitations preventing OPM from expanding reporting in the root causes categories table per OMB's A-136, Financial Reporting. Specifically, the current IT system supporting RS does not have the granularity of addition/deduction pay codes to align with the OMB root cause categories. As such, OPM places the bulk of the improper payment balances in the "Other Reason" category, leaving them uncategorized. In order to properly categorize the root cause categories, an upgrade to the current legacy system is required. Retirement Services will request that this upgrade be included in future modernization efforts.

Retirement Services (RS) has prepared a risk acceptance memo to address 'root cause' findings (and associated rollover recommendations). In March 2020, a memo was emailed to primary points of contacts for Internal Oversight & Compliance. It is still being vetted and will be submitted to the OIG when it is finalized.

Thank you again for the opportunity to respond to the draft report. If you have any questions regarding our response, please contact [REDACTED], Chief, Risk Management and Internal Control at [REDACTED] and she will connect you with the point of contact who can best answer your question.



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