



**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 FEDERAL EMPLOYEES HEALTH
BENEFITS PROGRAM AND RETIREMENT SERVICES
IMPROPER PAYMENTS RATE METHODOLOGIES**

Report Number 4A-RS-00-18-035

April 2, 2020

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies

Report No. 4A-RS-00-18-035

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Why Did We Conduct The Audit?

The objective of our audit was to determine if the U.S. Office of Personnel Management's (OPM) improper payments rate methodologies for the Federal Employees Health Benefits Program (FEHBP) and Retirement Services (RS) included all reasonable sources.

What Did We Audit?

The Office of the Inspector General completed a performance audit analyzing the sources of improper payments used in determining OPM's improper payments rate, as reported in the fiscal year 2017 Agency Financial Report, and identifying any other sources of improper payments that OPM could potentially include in its improper payments rate calculations. Our audit fieldwork was conducted from July 18 through September 20, 2018, at OPM headquarters, located in Washington, D.C.



Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

We determined that the FEHBP and RS improper payments rate methodologies do not include all reasonable sources of improper payments. Specifically;

- OPM's fiscal year 2017 FEHBP improper payments rate methodology is outdated. In addition, Healthcare and Insurance could not support its assertion that including estimated improper payments in its rate methodology would be inappropriate.
- FEHBP Fraud, Waste, and Abuse Report data is not included in the improper payments calculation.
- RS should continue to periodically assess the potential benefits of using the Do Not Pay Portal to identify improper payments.
- RS has not regularly conducted its Over Age 90 projects and does not use historical results to project improper payments to the population for the years when no projects are performed.
- RS does not report payments for deceased annuitants identified during their annual 1099-R reviews in its improper payments rate calculation, including payments made to deceased annuitants where the reclamation process was initiated.
- RS's assertion that limitations prevent it from using data mining to identify improper payments is not documented.
- RS did not complete an analysis of the cost effectiveness of potential corrective actions.

ABBREVIATIONS

AFR	Agency Financial Report
AVL	Address Verification Letter
DNP	Do Not Pay
FEHBP	Federal Employees Health Benefits Program
FWA	Fraud, Waste, and Abuse
FY	Fiscal Year
HI	Healthcare and Insurance
IP	Improper Payments
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
RS	Retirement Services
Treasury	U.S. Department of the Treasury

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the U.S. Office of Personnel Management’s (OPM) Federal Employees Health Benefits Program (FEHBP) and Retirement Services (RS) Improper Payments Rate Methodologies. 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. The Improper Payments Information Act of 2002 required agencies, on a yearly basis, to identify programs and activities vulnerable to significant improper payments, to estimate the amount of overpayments or underpayments, and to report on steps being taken to reduce improper payments. IPERA put into law specific thresholds for identifying high-risk programs, strengthened corrective action plans, expanded payment recapture audits, and established annual OIG compliance reviews. IPERIA redefined the definition of “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, to include OMB Circular A-123 Appendix C, Management's Responsibility for Internal Controls, and OMB Circular A-136, Financial Reporting Requirements. OMB issues routine updates, including updates to OMB Circular A-123 through Memorandum M-15-02 on October 20, 2014, and a revision to OMB Circular A-136 on August 15, 2017.

Two of OPM’s earned benefit programs, RS and the FEHBP, are by definition susceptible to significant improper payments. Each year OPM is required to report on both RS and the FEHBP’s improper payments rates.

During our audit of OPM’s FY 2017 Improper Payments Reporting¹, we identified potential issues with the methodologies used by OPM to develop their improper payments rates. Specifically, OPM is not using other reasonable sources of identified improper payments, such as the FEHBP Fraud, Waste, and Abuse Report data collected from health insurance carriers’ Special Investigations Units, in the improper payments rate calculations. In addition, OPM is excluding improper payment estimates and projections of the results of conducted surveys and

¹ *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.*

projects to the larger population. As a result, this performance audit focused on analyzing the methodologies used by the FEHBP and RS programs.

The improper payments rates were designed and implemented as a measuring tool used to identify the percentage of improper payments made each year. For fiscal year (FY) 2017, OPM reported the following figures related to their improper payments rates:

Table 1: FY 2017 Improper Payments Summary²					
Program	Total Outlays (\$ millions)	Gross Improper Payments (\$ millions)	Overpayments (\$ millions)	Underpayments (\$ millions)	2017 Improper Payments Percent
Retirement Services	82,913.00	313.81	238.74	75.07	0.38%
Federal Employees Health Benefits	50,278.02	27.62	27.61	0.01	0.05%

RETIREMENT SERVICES

OPM's Retirement Services issues annuity payments on a recurring monthly basis to eligible annuitants. OPM's process includes an initial review to determine the retiree or survivor's eligibility prior to the issuance of any benefit payments. Once eligibility is determined, monthly annuity payments continue until RS receives some form of verification to stop the payments.

RS's 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, RS 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 OPM's Office of the Chief Financial Officer's (OCFO) Trust Fund office. To determine overpayments, RS calculates the total actual value of verified improper overpayments made to annuitants. The verification process consists of a review by RS specialists to determine if the payments made to annuitants or their survivors were allowable.

RS uses a variety of methods to identify deceased annuitants, such as the U.S. Social Security Administration's death data information, which is used to perform the annual Death Master File

² Data collected from Table 1 "Payment Summary" on page 135 of OPM's FY 2017 Agency Financial Report.

Match³ and the weekly Consolidated Death Match⁴. Other methods include Over Age 90 projects, overseas proof of life projects, and birthday acknowledgement letters. Since annuity payments are recurring, the reviews performed by Retirement Services can be considered a pre-payment review, as future payments can be stopped.

When RS learns that an annuitant is deceased, they remove, or drop, the annuitant from the annuity roll. RS may also suspend an annuity in situations where it suspects that the annuitant is deceased but has not yet confirmed his or her death in order to stop additional payments from being disbursed. Prompt identification of death and any associated improper payment is required for other OPM offices, such as the OCFO and OIG, to do their part to recover improper payments already paid out.

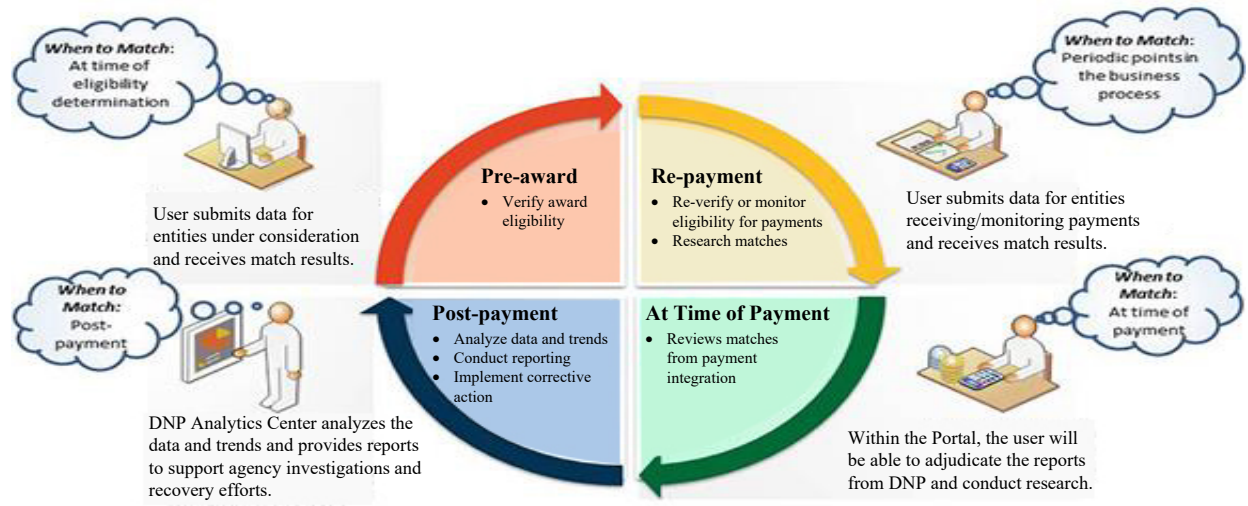
The U.S. Department of the Treasury's (Treasury) Do Not Pay (DNP)⁵ Portal is another tool available to RS to prevent improper payments. While the agency is not currently utilizing this function, the DNP provides Federal agencies with various methods and an array of data sources (e.g., Death Master File) to use during "any time in the payment lifecycle," such as pre-award, pre-payment, and pre-enrollment, as well as at the time of payment to verify and re-verify eligibility.

³ The Death Master File is a U.S. Social Security Administration (SSA) file created from internal SSA records of deceased persons possessing social security numbers and whose deaths were reported to the SSA. The file contains more than 94 million records and is matched against annuity payments on a yearly basis.

⁴ The Consolidated Death Match is performed to ensure that the OPM annuity roll does not include deceased annuitants. Each week, OPM receives a data file from the SSA of deaths reported to the SSA the previous week. The SSA data file is matched against OPM annuity payments on a weekly basis to identify retirees with social security numbers that SSA has noted as deceased.

⁵ The Do Not Pay Portal is a multi-functional analytical tool and a data shop that provides users with a secure online single entry point to check multiple data sources (e.g., Credit Alert System, Death Master File, List of Excluded Individuals and Entities, Office of Foreign Assets Control, and System for Award Management Entity Registration Records).

Below is the Treasury's illustration of how agencies can utilize the DNP tool in the payment lifecycle:



FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM’s Healthcare and Insurance (HI) Audit Resolution and Compliance office is responsible for calculating the improper payments rate for the FEHBP. From FY 2011 to FY 2015, the OIG provided HI with a spreadsheet listing all audit report findings and determinations and which carriers were impacted. Since FY 2016, HI has used their own spreadsheet to consolidate all the data needed to calculate the improper payments. HI retrieves this information from the OIG’s published audit and investigative data and states that it calculates improper payments using the following formula:

$$\frac{\text{Audit Determinations}^6 \text{ from OIG questioned costs} + \text{Fraud Investigation Recoveries}}{\text{Outlays (Experience-Rated Carriers + Community-Rated Carriers Premium Payments)}}$$

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. HI’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

⁶ 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.

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 OIG 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 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 HI. 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.

The "Audit Findings and Recommendations" section of this report details our concerns with the methodologies used by OPM to determine both the RS and FEHBP improper payment rates.

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

Since FY 2011, the OIG has annually conducted an audit of OPM's improper payments reporting in the Agency Financial Report (AFR) or Performance and Accountability Report to determine compliance with IPERIA. These audits include evaluating agency performance in reducing and recapturing improper payments; however, this is the first audit by our office to determine if OPM's FEHBP and RS improper payments rate methodologies include all possible sources of improper payments. The annual IPERA reports are posted to the OIG's website at <https://www.opm.gov/our-inspector-general/publications/reports>.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine if OPM is including all reasonable sources of improper payments in its rate methodologies for the Federal Employees Health Benefits Program and Retirement Services.

The recommendations included in this final report address our objective.

SCOPE AND METHODOLOGY

We conducted this performance 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 2017 improper payments rates reported in the AFR and the improper payments rate methodologies used during FY 2017. We performed our audit fieldwork from July 18 through September 20, 2018, at OPM headquarters, located in Washington, D.C.

To accomplish our audit objective noted above we:

- Interviewed program representatives from both HI and RS;
- Reviewed the OIG's audit of the *U.S. OPM's FY 2017 Improper Payments Reporting* and supporting documentation to ensure that the FEHBP and RS improper payments rate methodologies included all potential improper payments;
- Reviewed similar agencies' improper payments rate methodologies and conducted a comparison analysis;
- Reviewed the FEHBP and RS programs' corrective action plans to determine if analysis was conducted to assess the effectiveness of each plan in regards to the improper payments rate; and
- Interviewed key personnel from the OIG's Office of Investigations and Office of Legal and Legislative Affairs, who are involved in the investigative recoveries piece of the improper payments rate methodologies.

In planning our work and gaining an understanding of OPM's improper payments rate methodologies, we considered, but did not rely on, OPM's internal control structures to the extent necessary to develop our audit procedures. These procedures were mainly analytical 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 methodologies and provide recommendations on improvements that OPM can make to ensure that its improper payments rate methodologies include all reasonable improper payments.

Our audit included interviews of key personnel and tests and analysis of OPM's improper payments rate methodologies, including documented policies and procedures; numerical data and narratives reported in the AFR; and other applicable information, as we considered necessary under the circumstances.

We did not sample improper payments for testing. In conducting our 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, 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

We determined that the FEHBP and RS improper payments rate methodologies do not include all reasonable sources of improper payments. HI's FY 2017 reported improper payments rate of 0.05 percent does not include all sources of identifiable improper payments. In addition, there are other tools available to RS, such as the Do Not Pay Portal and Data Mining techniques, which they could use to better identify, as well as reduce, improper payments. Specific details are outlined in this section.

A. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

1. Improper Payments Rate Methodology Is Outdated

Procedural

HI's FY 2017 reported improper payments rate methodology is outdated. OPM's Healthcare and Insurance group, in conjunction with the OIG, developed the currently used improper payments methodology approximately 15 years ago, and has used it, with OMB's approval, for the past 12 years without any updates. Until FY 2015, the OIG determined the reportable improper payments (IP) rate by totaling audit determinations, as previously defined, and fraud investigation recoveries obtained during the FY, and dividing by total outlays during the same FY. Beginning in FY 2016, the responsibility shifted to HI, and they continued to calculate improper payments using the same methodology.

In addition to being outdated, our concern with OPM's use of this methodology is that HI's calculation reports an improper payment rate that is based in part on only the small percentage of the FEHBP carriers that the OIG audits each FY. Typically, this represents less than 10 percent of the population of carriers. While OIG audits typically cover multiple years, there are still many years, for many carriers, which are not audited. In addition, the recommendations resulting from these OIG audits generally come from judgmentally selected samples from the highest dollar amounts and claims, leaving a large amount of expenses and claims unaudited, and thus not considered for the improper payment rate.

Another example of underreporting of improper payments involves investigative recoveries. Many times the amount repaid to the FEHBP Trust Fund as the result of an investigation is not the full amount of the fraudulent payment identified. However, the only amount included in the calculation of the improper payment rate is the amount recovered.

It is also worth noting that investigative recoveries can cover many years, often more than audits do. However, these amounts are included in the improper payments rate

calculation in the year when the investigation is settled or the restitution order is finalized. This is the same as with audits, where the amount of disallowed costs may cover several years, but it is counted in the year the audit is issued, distorting the improper payment rate for any given year.

Moreover, HI's IP rate methodology does not include any methods to utilize historical overpayment/underpayment data to project to the population for a more accurate estimate of the improper payment rate.

HI "acknowledges that its IP formula can be more representative" and is taking steps to re-evaluate its IP rate methodology, for which milestones were provided in HI's response to our draft report. Using estimates for FEHBP carriers not audited during a FY has been discussed between the OIG and HI. However, while the OIG believes that statistical estimates should be included in the AFR improper payments rate calculations for unaudited FEHBP carriers, and OMB Memorandum M-15-02 requires it, HI is concerned that using statistical estimates could result in increased improper payments totals on payments not verified as improper. HI also believes that if they use estimates there is a risk that health insurance carriers could decide to exit the FEHBP if higher improper payment rates are reported, which would limit the healthcare coverage options for Federal employees, retirees, and their dependents. However, HI has not provided any statements from insurance carriers or documentation to support that carriers would consider exiting the FEHBP if estimates are used. Since the reported improper payment amounts and rates are for the program as a whole, and not broken down by carrier, and they are not the basis for any collection efforts, it is difficult for us to understand how the use of estimates could lead to carriers deciding to exit the FEHBP.

OMB Memorandum M-15-02, Circular A-123, Appendix C, Part I, Number 9, Step 2.1: Process, states that "All programs and activities susceptible to significant improper payments shall design and implement appropriate statistical sampling and estimation methods to produce statistically valid improper payment estimates. In doing so, agencies ... shall determine an annual estimated amount of improper payments made in those programs and activities." The Memorandum also states that agencies' documented sampling and estimation plans shall include certification that the methodology will yield a statistically valid improper payment estimate. In addition, Step 2.1: Process, point e, states that "Whenever possible, agencies should incorporate refinements to their improper payment methodologies based on recommendations from agency staff or auditors (such as their agency Inspector General, GAO, or private auditors)."

Moreover, OMB Memorandum M-15-02, Circular A-123, Appendix C, Part I, Number 14, states "that if, and only if, agencies are unable to develop a sampling methodology

that follows the guidance described above in [OMB Memorandum M-15-02, Circular A-123, Appendix C, Part I, Number 9, Step 2], they may utilize an alternative sampling and estimation approach after obtaining OMB approval.” It further states that the “request [for approval] must describe the proposed alternative methodology in detail, and clearly explain why the agency is unable to produce a statistically valid estimate ... If approved by OMB, agencies are responsible for maintaining documentation for the alternative sampling and estimation approach. The agency shall include a summary of this alternative methodology in its AFR or [Performance and Accountability Report], including the justification for using an alternative methodology.”

By not updating its methodology, including considering the use of a statistically valid or alternative sampling and estimation approach to determine estimated improper payments for reporting purposes, the current methodology does not comply with improper payments guidance and regulations. Moreover, OPM could be substantially underreporting the amount of improper payments in a given FY.

Recommendation 1

We recommend that OPM’s Healthcare and Insurance office update its improper payments rate calculation, including a plan to do so with target dates, and documentation of any analysis conducted and conclusions reached in developing the updated methodology. This methodology, at a minimum, should include estimations for the population of FEHBP carriers that have not been audited each year and statistically valid sampling to provide a more accurate representation of improper payments for reporting.

OPM’s Response (to Draft Recommendation):

OPM concurs with the recommendation and “is currently reviewing its improper payment rates methodology, including exploring options to update the IP rate calculations. ... doing so will require completion of a comprehensive set of steps which will continue throughout FY2019 and beyond, and its progress will depend in part on resource availability.”

OIG Comment:

We have revised our recommendation based on OPM’s response to our draft report.

2. Fraud, Waste, and Abuse Report Data Not Included in Improper Payment Rate

Procedural

HI is only using the OIG's fraud data and recoveries to calculate its improper payments rate and is not including the fraud, waste, and abuse data from the FEHBP Fraud, Waste, and Abuse (FWA) Reports submitted by FEHBP carriers. HI stated that the FEHBP FWA Reports are not a good source of data for use in generating improper payments estimates for reporting because the accuracy of the data has not been verified and the report does not contain all necessary information. HI also stated that any changes to the current methodology would require time to review and implement.

The FEHBP FWA Report is required to be submitted to OPM's HI office by the FEHBP carriers on an annual basis. The purpose of the FEHBP FWA Report is to obtain information on improper payments due to fraud, waste, and abuse detected and prevented by the FEHBP carriers' Special Investigations Units. In addition, since 2016, the OPM Fraud, Waste, and Abuse team, which includes Program Analysts from HI's Program Support and Analysis group and HI Contract staff, has conducted and published an annual analysis of the FEHBP FWA Reports received from the carriers. The Program Analysts explain the data reported by the carriers to the HI Contract staff. The HI Contract staff then evaluates these reports and sends the evaluations to the OIG's Office of Investigations.

The OIG's Office of Investigations also analyzed the FEHBP FWA Report data for calendar year 2017, and concluded that the report clearly details results from open and closed fraud investigations; however, the waste and abuse portion is not consistently reported and contains unusable information. In addition, OPM and the OIG's Office of Investigations have not verified the accuracy of the FWA Report data, including the percentage of the reported totals that ultimately were confirmed as fraud or improper payments. Since the FWA report clearly details results from fraud investigations, OPM should be using this information to improve the improper payment calculation. This information should be validated as necessary, and then used to improve the reported improper payment amounts.

The FEHBP FWA Reports should be a valuable source of potential improper payment data, and the failure to verify and use the information means that HI risks not accurately identifying and reporting all of the FEHBP's improper payments.

Recommendation 2

We recommend that Healthcare and Insurance evaluate the data in the FWA Report to determine if the data can be simplified and validated, as necessary, to be used as a tool for its improper payments rate reporting.

Recommendation 3

We recommend that Healthcare and Insurance work with the FEHBP carriers to develop a process for reporting more uniform data in the FWA Report.

OPM's Response (to Draft Recommendation):

OPM partially concurs with the recommendation and states, "HI is analyzing the FWA reports for potential use in the IP reporting. However, there is no certainty ... that the fraud data, as received, can be incorporated into the IP rate calculation." The information cannot simply be added to the existing IP formula, and HI "must ensure that there is no overlap or double-counting of errors being reported from carrier's FWA programs and other carrier-identified erroneous payments that might become a part of any new methodology. There is also the challenge of aligning the timing of the reports" Moreover, "HI is not currently resourced to perform additional or more rigorous validation of FWA data, which may require further action by the carriers. This could potentially require additional changes to the existing carrier agreement. It is possible; however, that current, validated CY data might be adjusted to align to the IP's FY reporting cycle for inclusion in the IP rate. ... HI will explore this potential option and provide an update to OIG on its efforts."

OPM also states that "From a reporting perspective, Fraud, Waste and Abuse substantially overlap, rendering it virtually impossible to provide objective, meaningful and quantifiable distinctions and guidance to FEHB carriers that would yield auditable results in their annual reports." FWA Carrier Letter (2017-13) states that "Abuse cannot be differentiated categorically from fraud" OPM states, "From an improper payments perspective, we [HI] do not see value in differentiating Fraud from Waste and Abuse in the improper payment calculation. OPM does not have separate reporting for Fraud vs. Waste vs. Abuse"

OIG Comment:

OPM states that there is no certainty that fraud data can be incorporated into the IP rate calculation; however, the OIG contends that the data in the FEHBP FWA Report is invaluable in OPM's efforts to ensure that all improper payments are being reported. If any part of the millions of dollars reported in the FEHBP FWA Report are actual improper payments that are being excluded from OPM's IP rate calculation, the information being reported to Congress and the public cannot be completely relied upon.

While OPM states “Abuse cannot be differentiated categorically from fraud,” separating the information into these categories is not required for improper payment reporting purposes. Rather than focusing on separating the information into various categories, OPM should focus on validating and simplifying the information so that it can be used in the improper payments calculation. By not attempting to validate the information, OPM is excluding a potentially valuable source of improper payments data, which could result in OPM reporting an inaccurate improper payment rate.

We have revised our finding and recommendation based on OPM’s response to our draft report. OPM should respond to our revised recommendation during the audit resolution process.

B. RETIREMENT SERVICES

1. Do Not Pay Portal Not Utilized for Improper Payments Reporting Procedural

RS has not been utilizing the Do Not Pay (DNP) Portal. Since 2014, RS has reported their reasons for not using the DNP Portal in the AFR; however, the DNP Portal may be a control activity that RS could use to reduce improper payments.

RS notes, “While the rest of OPM can leverage some of the DNP tools for pre-award and pre-payments, RS is limited to post-payments since simply being on the DNP list does not disqualify an annuitant from being paid. Furthermore, RS receives the robust and comprehensive [Death Master File (DMF)] under a separate agreement with the U.S. Social Security Administration. OPM has an automated process to match against the data provided in the DMF and [Consolidated Death Match], while the DNP [Portal] is a manual process requiring each case to be validated.” RS also stated that, based on the U.S. Department of the Treasury’s DNP Fact Sheet, “agencies do not have to use the DNP portal especially if there is an alternate means to identify deaths” and “matches to the Do Not Pay portal do not automatically indicate that a payment is improper. ... If new federal regulations and laws governing the retirement law are updated to disqualify someone from receiving annuity benefits, then Retirement Services (RS) would reevaluate [its] position on using resources to utilize DNP in pre-award.” Until this happens, RS states it cannot justify expending resources to use the DNP pre-award since they believe these could be false positive results.

We contacted representatives from OMB with expert knowledge of the DNP and OMB stated that it appears that OPM is not fully aware of all the capabilities of DNP as the DNP Business Center’s services can be utilized at any point in the payment lifecycle.

The Administration strongly encourages agencies to use DNP as part of their pre-payment eligibility verification process, as well as at anytime during the payment lifecycle, to determine eligibility before the release of any Federal funds. Using DNP can assist agencies with reducing the amount of improper payments and the DNP Portal can be personalized to fit an agency's particular needs and automatically match the data from the portal to the annuity roll, which has been done for the U.S. Social Security Administration. Furthermore, upgrades and improvements to the DNP, such as new databases like the American InfoSource, have added death data from a variety of sources, including probate records and published obituaries.

OMB Circular No. A-136, Section III, Agency Improvement of Payment Accuracy with the Do Not Pay Initiative, states that IPERIA requires agencies to review pre-payment information to determine program eligibility and prevent improper payments before the release of any Federal funds. "Procedures for review must ensure that a thorough review of eligibility includes relevant information from multiple sources. The Do Not Pay Initiative encompasses all the data sets required for pre-payment checks ... These data sets include central portals such as the Treasury Working System, as well as agency-specific data sets that serve particular program needs. Agencies may provide on an annual basis a brief narrative of the reduction in improper payments that is attributable to the Do Not Pay Initiative. This narrative shall include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards."

OMB Memorandum M-15-02, Circular A-123, Appendix C, Part II, C, 2C, Control Activities, states that "The agency has developed control activities to help management achieve the objective of reducing improper payments by ... ii. Implementing pre-award and pre-payment reviews where detailed criteria are evaluated before funds are expended."

RS is concerned that they are limited to post-payment reviews since simply being on the DNP list does not disqualify an annuitant from being paid and there is not enough time in the pre-payment stage to use the DNP. However, the DNP list includes additional sources of information and can be customized to further help OPM identify undocumented deaths, thereby not only identifying but also stopping future improper payments. In addition, since annuity payments recur on a monthly basis, until an annuity is suspended or dropped (ended), it is essentially always in the pre-payment stage. By not taking steps to build a more robust improper payments methodology, RS risks not identifying all improper payments for many years to come.

Recommendation 4

We recommend that Retirement Services continue to periodically meet with the DNP representatives to discuss new capabilities of the DNP Portal and determine whether it can be a beneficial addition in identifying improper payments for the most susceptible annuity payment cycle(s), i.e., pre-payment and post-payment.

OPM's Response

OPM does not concur with the recommendation and states, "Retirement Services has attended conferences and meetings with DNP representatives to discuss the full capabilities of the DNP Portal. In May 2018, Retirement Services attended a meeting that was specifically on the DNP Business Center's data analytic services. Since then, Retirement Services has communicated a number of times with DNP representatives. Retirement Services found that the DNP Portal currently is not a beneficial addition in identifying improper payments. Retirement Services has cited several issues with the DNP tool such as the probability of receiving a high number of hits that are actually false positives. As improvements/changes are made to the DNP Portal, Retirement will continue to analyze the DNP tool."

OIG Comment:

While OPM provided evidence to support that it has been in communication with DNP Business Center representatives to discuss the full capabilities of the DNP Portal, OPM has not actually tried to complete a match with the information in the DNP Portal to determine if its concern about too many false positives is accurate. DNP representatives informed OPM that "Although there will be false positives, it is probably worth the effort to see what the results look like. For example, [DNP has] found that there have been payments due to death that an agency reclaimed, payments that advanced matching would have caught ... Another thing to keep in mind is that [DNP's] analysis can evolve" as DNP digs in and understands the agency's data. In addition, DNP could use similarity matching, which would return a risk score for matches to help OPM decide which would be the most useful to adjudicate.

2. Over Age 90 Projects Not Conducted Regularly

Procedural

RS has not consistently conducted its Over Age 90 projects to verify the living status of the aged annuitant population and indicates that limited resources are impacting its ability to do so. OPM reports potential improper payments when and if the improper payment is identified and a receivable is created; however, they do not use the results of these

projects to help estimate improper payments for the years when it does not complete these projects.

In response to an OIG recommendation from our January 25, 2008, white paper titled *Stopping Improper Payments to Deceased Annuitants*, OPM began surveying the status of retirees in the Over Age 90 population of the annuity roll in September 2009 to identify unreported deaths. At that time, there were over 125,000 annuitants over the age of 90 on the annuity roll, 121,600 of which were annuitants between ages 90 and 99. In the original Over Age 90 Project, RS sampled 1,000 of the 121,600 annuitants between ages 90 and 99, or 0.82 percent, and all annuitants over the age of 100 (approximately 3,400), and requested that an Address Verification Letter (AVL) be signed and returned to OPM.

According to the project report from RS, “Unreturned forms were noted and a second mailing was sent requesting a response, or suspension of payments would occur. The project was completed in the summer of 2010 with the following results:

- No response to the AVL’s was received for 144 annuitants in the sample, resulting in suspension of their annuity payments.
- Six unreported deaths were discovered, of which three are suspected to involve fraud and have been referred to the OIG investigators.
- In 866 cases, follow-up was required because the returned AVL was signed by someone other than the annuitant without having a Representative Payee on file.”

However, the report did not indicate the results of the above-mentioned cases. Specifically, the report did not contain any actual or estimated amounts of improper payments that should have been reported.

Furthermore, OPM has only conducted the Over Age 90 projects on a sporadic basis, with a seven-year gap between the initial project and the two recent ones conducted in 2018. Of the two Over Age 90 survey projects that RS conducted during FY 2018, one was a collaborative effort with the OIG’s Office of Investigations for annuitants over age 92 who had not used their health insurance during the last two years. Address Verification Letters were sent to 195 annuitants, resulting in four fraud cases totaling \$1.6 million. The second project was an Over Age 95 project, which identified three fraud cases totaling \$491,448. These seven cases, totaling approximately \$2.1 million in fraudulent payments to annuitants, were referred to the OIG for further review after the reclamation process and should have been included in the improper payments calculation when the funds were determined to be a receivable and owed back to the program.

However, RS was not consistent in reporting the results of these cases. While the four fraud cases totaling \$1.6 million were reported as improper payments in OPM's FY 2018 AFR, the three fraud cases totaling \$491,448 were not. We believe that all payments made to deceased annuitants should be included in the improper payment calculation at the initial point when they are determined to be improper, not when cases are referred for further review or amounts are recovered.

Further, the results of the reviews detailed above provide OPM with valuable information that it could use to help estimate potential improper payments in years when no projects are completed. By building upon historical project results, OPM could support an estimate of potential improper payments in a given year as well as identify trends that could lead to identifying and stopping payments to deceased annuitants sooner.

OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, A1) states that "Agencies should be able to measure the effectiveness and progress of each individual corrective action on an annual basis. Agencies should annually review their existing corrective actions to determine if any existing action can be intensified or expanded, resulting in a high-impact, high return-on-investment in terms of reduced or prevented improper payments. Agencies should also annually review their existing corrective actions to determine whether the original intent of the corrective action is still achieving its intended purpose and result.

In many cases, agencies will implement long-term, multi-year corrective actions that will be implemented and refined on a continuous basis (e.g., the corrective action is in place for many years, though it may be refined from year to year). For those actions, agencies should identify annual benchmarks that can be used to demonstrate the progress of the implementation and/or the initial impact on improper payment prevention and reduction. For corrective actions already in place, agencies should be able to describe how they evaluate the effectiveness of these actions and the evaluation results."

Given the success of the two most recent Over Age 90 projects discussed above (seven cases totaling over \$2 million), the inability to perform the Over Age 90 projects on a more consistent basis has a clear impact on RS's ability to identify and stop annuity payments to ineligible annuitants and survivors.

Recommendation 5

We recommend that Retirement Services perform the Over Age 90 project of the annuitant population on a more routine basis, such as annually or biannually.

OPM's Response

OPM concurs with this recommendation and plans to conduct Over Age 90 projects bi-annually.

Recommendation 6

We recommend that Retirement Services analyze the results from previous Over Age 90 projects to determine if the results can be projected to years where the Over Age 90 projects are not conducted and included in RS's improper payments reporting.

OPM's Response

OPM does not concur with this recommendation. "The Over Age 90 project identifies overpayments. Each fiscal year, RS reports the actual overpayment value in lieu of estimates in the Agency Financial Report. Combining projections/estimates can adversely affect the improper payment rate."

OIG Comment:

We acknowledge that using both projections/estimates and actual overpayments complicates the calculation of an improper payment rate. An actual improper payment can include payments made over multiple years. However, as stated earlier in this report, OMB M-15-02 requires the use of estimation methodologies in determining improper payment amounts for reporting. One possible methodology would be to determine a valid estimate for improper payments of a certain type, and this would be the amount used for reporting purposes as long as it was no less than the actual amounts identified. If actual improper payments are greater than the estimate, the actual amounts would be reported. This would have to be refined for actual use, but could be a starting point for discussion.

Recommendation 7

We recommend that all payments made to deceased annuitants be classified as improper in the year in which they are identified.

OPM's Response

OPM does not concur with our recommendation and states, "All overpayments for the fiscal year, including those [that] have been paid to deceased annuitants, are included

in the actual overpayment totals as reported by OPM's OCFO throughout the year. The overpayment total reported by the OCFO includes reclamations and is included in the improper payment calculation. Consequently, all payments made to deceased annuitants and reclamations are classified as improper in the year in which they are identified."

OIG Comment:

Although OPM states that they record all overpayments for the fiscal year in its actual overpayment totals, their process for recording improper payments appears to be inconsistent. As stated in our finding, the four fraud cases totaling \$1.6 million were reported as improper payments in OPM's FY 2018 AFR; however, we could not verify that OPM reported the three fraud cases totaling \$491,448. If OPM classifies payments as improper at the initial point of discovery, the total \$2.1 million should have been included in the improper payments calculation during the year in which it was identified.

3. Returned Form 1099-R Payments Not Considered Improper Procedural

RS does not report overpayments identified during its annual Form 1099-R review in its improper payments rate calculation, including payments made to deceased annuitants where the reclamation process was initiated.

The Internal Revenue Service requires that OPM annually send each annuitant a Tax Form 1099-R, which reports the amount of the annuity received during that year. Annuitants cannot properly complete their tax returns without this information. Each year, thousands of these forms are returned to OPM as undeliverable. In response, RS conducts returned annual Tax Form 1099-R reviews as part of their efforts to reduce improper payments.

During FY 2017, RS reviewed approximately 28,500 returned 2016 tax year Form 1099-Rs, of which 9,169 were for annuitants dropped from the annuity rolls for reasons other than death, or because the annuitant was deceased at the start of or died during the project. As a result, the reclamation process was initiated for those 9,169 annuitants. In addition, 43 returned Form 1099-Rs indicated the annuitant was deceased and the cases were referred to RS' Survivor Processing Section⁷ for further research and/or drop action.

⁷ The Survivor Processing Section processes survivor benefit claims from widows and children of deceased employees, former employees, or retirees covered under a Federal retirement program at the time of death or separation from Federal service.

We questioned if any of the identified payments for these returned Form 1099-Rs were included in RS' improper payments rate calculation. RS stated that "no improper payments have been identified as a result of the review and analysis conducted."

However, the law requires that payments identified and in the process of being recovered should be included as improper payments. In addition, we were unable to obtain details on the current status of the 9,169 annuitants who were dropped from the annuity rolls and the 43 cases referred to the Survivor Processing Section.

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."

Public Law 112-248, the *Improper Payments Elimination and Recovery Improvement Act of 2012*, Section 3 (Subsection b, Segment 2, Sub segment D) expressly requires "agencies to include all identified improper payments in the reported estimate, regardless of whether the improper payment in question has been or is being recovered." Therefore, those 9,169 annuitants identified that were dropped and a reclamation initiated should be included in the improper payments rate calculation.

RS does not consider annuitant payments identified as part of the returned Form 1099-R projects as improper, even if the annuitant is identified as deceased and dropped from the annuity rolls and the reclamation process is initiated. Based on Public Law 112-248 improper payments reporting should not be dependent on the amount recovered. The improper payment should be recognized as soon as an annuitant is identified as deceased and/or dropped from the annuity rolls, to ensure that RS does not understate the amount of improper payments being reported in the AFR.

Recommendation 8

We recommend that Retirement Services provide support to show the final results of the 9,169 cases in which reclamation was initiated and the 43 cases referred to the Survivor Processing Section from its review of returned 2016 tax year Form 1099-Rs.

OPM's Response

OPM does not concur with the recommendation. "There are [a] myriad reasons [why] a case may be dropped from the annuity rolls, some of which are not tied to the death of an annuitant. For instance, a case may be dropped because following a survey or a match it had been placed in suspend status for six months. In this instance, procedure would require that this case be dropped. Furthermore, in this scenario, a reclamation may not be necessary.

In addition, Retirement Services already expends significant time and effort (and some funds) in order to implement IG's prior recommendations regarding returned 1099R's. Thus far, in spite of considerable effort, Retirement Services has not been able to establish that a returned 1099R is indicative of an improper payment and therefore, we do not believe that the imposition of significant additional work to document the final outcome of the remaining 9,169 cases represents a responsible use of Retirement Services resources. Tracking and reporting on each of the 9,169 cases would require that at the outset all returned tax forms be added to a spreadsheet or some form of database and then tracked through the lifecycle of the project. Retirement Services does not have sufficient resources to add this additional rather burdensome work to this project" and agrees that if it "is to improve its services, it needs additional resources focused on customer service."

OIG Comment:

While we agree with Retirement Services that returned 1099-Rs are not always indicative of an improper payment, the fact that they initiated reclamation actions on 9,169 cases related to returned Form 1099-Rs indicates that, at least for these cases, there were potential improper payments to recover. Retirement Services did not provide evidence to show that "no improper payments have been identified as a result of the review and analysis conducted." While Retirement Services states that it "already expends significant time and effort in order to implement IG's prior recommendations regarding returned 1099R's" and "does not have sufficient resources to add this additional rather burdensome work to this project," the final results of the 9,169 reclamation and 43 referred Form 1099-R cases should be information that is readily available and not require a significant amount of time and effort. If Retirement Services does not know the outcome of the 43 cases and cannot provide us with support for those cases, they cannot definitively state that "no improper payments have been identified as a result of the review and analysis conducted."

Recommendation 9

We recommend that Retirement Services maintain support for future reviews of returned Form 1099-Rs, including an accounting of overpayments made to annuitants dropped from the annuity rolls, identified as deceased, or referred for further research and/or drop action, and include the total of such payments in the annual calculation of improper payments.

OPM's Response

OPM partially concurs with the recommendation. "While Retirement Services agrees that periodic reviews of 1099R's might be valuable (and agrees to do as such), it does not agree that given current resources and systems, additional accounting requirements are desirable or would be worthwhile."

OIG Comment:

As the Government-wide administrator of retirement benefits and services for Federal employees, retirees, and their survivors, Retirement Services is responsible for safeguarding the benefits paid out of the fund. Ensuring that the results of future reviews of returned Form 1099-Rs are properly documented and accounted for, and any improper payments identified, is a vital aspect of that function. If Retirement Services does not know the outcome of the cases, they do not know if additional accounting is desirable or worthwhile, or, for that matter, the value of conducting these reviews.

4. Data Mining Review Limitations Not Documented

Procedural

In the OIG's *FY 2011 Stopping Improper Payments to Deceased Annuitants* report, we recommended that RS utilize the vast amount of information contained in the annuity roll to conduct data mining as a means to identify circumstances that are unusual and could indicate that a retiree or beneficiary may be deceased. In response to our findings, RS created a Data Mining Working Group to generate new ideas on how to best utilize the information.

We asked RS whether they were identifying any improper payments through the data mining reviews. RS stated that problems with system data were identified, which has limited the ability to use the information to verify if a person is deceased or alive. As a result, mailing Address Verification Letters to annuitants is one of the methods used to achieve the same outcome. RS did not provide any documentation on the nature of the underlying issues it experienced or its intent to address them in order to conduct the data

mining reviews. However, we found that during FYs 2017 and 2018, the OIG collaborated with RS on several data mining projects with successful results, including the *Annuitants Over Age 92 with no Health Benefit Claims since 2015* data-matching project.

The purpose of the *Annuitants Over Age 92 with no Health Benefit Claims since 2015* data-matching project was to identify annuitants over the age of 92 on the annuity roll who had not used their health benefits since 2015 as a possible indicator that the annuitants were deceased. During this project, the OIG provided FEHBP match data for 200 annuitants over the age of 92 on the annuity roll who had not used their health benefits since 2015. OPM's Retirement Inspections Branch surveyed the data and found that five annuitants on the list were determined to be deceased before the survey was sent and were dropped from the annuity roll. The remaining 195 annuitants were sent an Address Verification Letter and 4 of the 195 were ultimately determined to be fraudulent situations, resulting in the identification of \$1.6 million in improper payments. However, we could not verify that the \$1.6 million was included in the improper payments rate calculation because the supporting documentation did not allow our office to drill down to the more granular level of detail that was necessary for us to be able to validate the amount. In addition, the cases were referred to the OIG's Office of Investigations for further investigation, and a final status was not available.

Obtaining FEHBP match data on annuitants over the age of 92 on the annuity roll who had not used their health benefits is the type of data mining analysis that RS has relied on our office for; however, there should be other data mining techniques that RS can perform themselves. RS recently set up a Fraud Branch and has been working with the OIG Investigations staff on specific cases. RS provided documentation to us, including an updated RS organization chart, position description for the Fraud Branch supervisor, and division of work identifying the Fraud Branch's responsibilities, which consist of data mining techniques such as:

- Querying the Annuity Roll Processing System to identify or detect potential improper payments and data quality, and
- Collecting and maintaining trend data based on the Annuity Roll Processing System and other Retirement Operations' operating systems.

The Fraud Branch was established on September 30, 2018; therefore, additional information will be necessary to determine what work the Fraud Branch has conducted and its impact in reducing improper payments.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states "Management designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing by information technology. ... Management evaluates the objectives of the entity and related risks in designing control activities for the information technology infrastructure." The use of data mining is a control that can further enhance RS's ability to determine the completeness, accuracy, and validity of information.

Data mining has proven to be a significant tool in identifying improper payments, and RS's limited use of these techniques could be excluding a significant amount of improper payments from its improper payments rate calculation.

Recommendation 10

We recommend that Retirement Services conduct an analysis to determine if other types of data mining reviews can be performed, using the annuity roll data, to identify improper payments.

OPM's Response

OPM concurs with the intent of the recommendation. "Retirement Services is open to specific recommendation from the OIG regarding data mining. We will continue to look to the expertise of the OIG for recommendations on how to improve data mining efforts."

OIG Comment:

While the OIG has assisted OPM in the past in its data mining efforts, and is open to continuing that relationship, OPM's Retirement Services office is responsible for accurately issuing annuity payments to eligible retirees and surviving spouses. Retirement Services cannot rely solely on the OIG to guide their data mining efforts, as this is a management responsibility, not an OIG responsibility. Retirement Services is responsible for ensuring that it is utilizing effective internal control techniques, such as data mining, to reduce the amount of improper payments, including developing action plans and reporting the results of the reviews conducted.

Recommendation 11

We recommend that Retirement Services develop a plan of action to utilize the data mining reviews identified in response to *Recommendation 10* and report the results of

those reviews in its improper payment calculation, including documenting any issues identified.

OPM's Response

OPM concurs with the intent of the recommendation. "While Retirement Services already engages in a plethora of data mining ... Retirement Services looks forward to reviewing additional data mining efforts based on specific OIG recommendations. Any improper payment identified from additional data mining efforts will be added to the combined improper payment calculation."

OIG Comment:

The OIG Comment for *Recommendation 10* also applies to OPM's response to *Recommendation 11*.

5. Cost Effectiveness Analysis of Corrective Actions Not Prepared

Procedural

RS did not provide documentation to support that it completed any analysis of the cost effectiveness of their identified improper payment corrective actions, in accordance with OMB's Memorandum M-18-20, Circular A-123, Appendix C (Part III, A1), that would validate its position to discontinue activities, such as Proof of Life projects.

In the FY 2017 AFR, RS listed more than 15 different corrective actions to identify deceased annuitants and any changes to the annuitant's status, such as divorce. A few techniques, such as the use of the U.S. Social Security Administration's death data to track annuitant deaths and survey projects with beneficiaries, are recurring activities performed by RS. However, other methods such as the Over Age 90 Projects are utilized only sporadically due to the lack of appropriate funding and staffing. Moreover, Proof of Life was not listed as a corrective action in the FY 2017 AFR, and RS stated that "with the ever increasing costs, government-wide travel safety concerns and restrictions on international travel, OPM has decided that Proof of Life exercises will no longer be one of OPM's priorities."

We requested documentation supporting any analysis RS conducted of current corrective actions in order to identify the cost effectiveness of continuing, or more importantly not continuing, each of the corrective actions listed in the AFR, as required by the OMB.

The analysis would address the following questions:

- Cost of conducting each corrective action, and
- Amount of improper payments identified by each corrective action.

In response, RS provided its results from the Over Age 92, with no Health Benefit claims, and Form 1099-R exercises. As of 2017 none of the overpayments identified during these exercises were reported as improper payments. However, in OPM's FY 2018 AFR, RS stated that improper payments from the Over Age 92 project were identified with improper payments for four fraud cases totaling \$1.6 million. However, we could not verify that the \$1.6 million was included in the improper payments rate calculation because the supporting documentation did not allow our office to drill down to the more granular level of detail that was necessary for us to be able to validate the amount. In addition, no corrective action analysis documentation was provided.

OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, A1) states "Agencies should be able to measure the effectiveness and progress of each individual corrective action on an annual basis. Agencies may measure the effectiveness and progress of corrective actions by assessing the results of actions taken to address the root causes, such as the performance and outcomes of these processes. Agencies should annually review their existing corrective actions to determine if any existing action can be intensified or expanded, resulting in a high-impact, high return-on-investment in terms of reduced or prevented improper payments. Agencies should also annually review their existing corrective actions to determine whether the original intent of the corrective action is still achieving its intended purpose and result." OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, B3.c) clarifies the control activities that management establishes to achieve objectives and respond to risks in the internal control system includes, "iv. Performing cost-benefit analyses of potential control activities before implementation to help ensure that the cost of those activities to the organization is not greater than the potential benefit of the control."

Since RS did not provide a cost benefit, or similar type analysis, to support its decisions to discontinue corrective action activities, we were unable to analyze the cost effectiveness of these decisions.

Recommendation 12

We recommend that OPM's Retirement Services conduct cost benefit analyses of all current corrective actions and document their results.

OPM's Response

OPM does not concur with this recommendation. "Retirement Services finds a cost benefit in all of the established corrective actions that identify improper payments. The OIG references OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, B3.a) which []clarifies the control activities [] that management establishes to achieve objectives and respond to risks in the internal control system includes, []iv. Performing cost-benefit analyses of potential control activities before implementation to help ensure that the cost of those activities to the organization is not greater than the potential benefit of the control.[]

Retirement Services will perform a cost benefit analyses on new and potential control activities before implementation and document the results.

Although improper payments were not identified for the Over Age 92 project in the 2017 AFR, Retirement Services reported an improper payment total of \$1,623,838.32 in the 2018 AFR."

OIG Comment:

As stated previously, OPM did not provide a cost benefit analysis to support its decisions to discontinue corrective action activities. OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, A1) states "Agencies should be able to measure the effectiveness and progress of each individual corrective action on an annual basis. ... Agencies should annually review their existing corrective actions to determine if any existing action can be intensified or expanded, resulting in a high-impact, high return-on-investment in terms of reduced or prevented improper payments. Agencies should also annually review their existing corrective actions to determine whether the original intent of the corrective action is still achieving its intended purpose and result."

We agree that Retirement Services should perform such analysis for new and potential control activities before implementation and document the results. However, OPM should also complete an analysis after implementation since the best way to determine the true cost and benefit of an activity is by conducting it and reviewing the actual results. Further, completion of analyses after implementation can serve as the basis for discontinuing any corrective action activities prior to Retirement Services actually stopping those activities.

APPENDIX



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Received July 26, 2019

MEMORANDUM FOR:

[REDACTED]
Chief, Internal Audits Group
Office of the Inspector General

FROM:

KENNETH J. ZAWODNY, JR.
Associate Director
Retirement Services

KENNETH ZAWODNY
Digitally signed by
KENNETH ZAWODNY
Date: 2019.07.25
14:17:19 -0400

A handwritten signature in blue ink, appearing to read "Edward M. Deharde".

EDWARD M. DEHARDE
Assistant Director, Healthcare and Insurance
Federal Employee Insurance Operations

SUBJECT:

Response to Draft Audit Report re: U.S. Office of
Personnel Management's Federal Employees Health
Benefits Program and Retirement Services Improper
Payments Rate Methodologies

Thank you for the opportunity to respond to the Office of Inspector General draft report re: 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.

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

A. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM (FEHB Program)

Of the report's 15 recommendations, 5 are issued to HI to improve its Improper Payment (IP) reporting. As described below, a comprehensive evaluation is underway and in concurring with Recommendation 1, we believe HI's analysis and implementation would meet the intent behind Recommendations 2 and 3. Hence we ask that Recommendations 1-3 be merged and the language be revised to read:

*"**Recommendation 1:** We recommend that OPM's Healthcare and Insurance office update the improper payments rate calculation, including a plan to do so with target dates, and documentation of analysis conducted and conclusions reached in developing the updated methodology. This methodology should consider estimations of FEHBP carriers and statistically valid sampling to provide a more accurate representation of improper payments for reporting."*

If adopted, we request OIG delete Recommendations 2 and 3.

For Recommendations 4 and 5, HI believes that Recommendation 4 should be revised and Recommendation 5 deleted. OIG contributed substantially to HI's Fraud, Waste and Abuse guidance to plans, by way of Carrier Letter 17-13. This guidance includes definitions for Fraud, Waste and Abuse, among other terms and any analysis or validation of carriers' required annual FWA reporting would encompass Waste and Abuse. We suggest Recommendation 4 be revised to read:

***“Recommendation 4:** We recommend that the Healthcare and Insurance office attempt to validate the fraud data in the FWA Reports so that it can be used in the improper payments rate calculation.”*

Management's responses to the Recommendations in the Draft Report are below:

Recommendation 1

We recommend that OPM's Healthcare and Insurance office update its improper payments rate calculation, including a plan to do so with target dates, and documentation of any analysis conducted and conclusions reached in developing the updated methodology.

Management Response:

We concur. OPM's Healthcare and Insurance (HI) is currently reviewing its improper payment rates methodology, including exploring options to update the IP rate calculation. As HI shared in its response to the Notification of Findings and Recommendations, doing so will require completion of a comprehensive set of steps which will continue throughout FY2019 and beyond, and its progress will depend in part on resources availability. The milestones include:

- Gaining HI management approval for updating its FEHB IP rate calculation, including any option considered and/or selected
- Researching Office of Management and Budget (OMB) requirements for developing or updating our IP methodology
- Researching other benefit paying organizations' IP rate formulas
- Reviewing Fraud, Waste and Abuse (FWA) reports to determine what they contain that might be of benefit
- Consulting and/or contracting with a statistician subject to available funds
- Obtaining input from FEHB carriers, other OPM offices, OIG & OMB
- Evaluating and incorporating feedback from each of the stakeholders, as appropriate
- Drafting options for a new methodology or methodologies
- Making and vetting a decision as to which option(s) to pursue
- Updating, as necessary carrier contracts, Carrier Letter(s) and/or other guidance to ensure plans provide uniform, accurate and auditable data for use in any new IP rate calculation
- Piloting/testing the new methodology
- Implementing the new methodology in accordance with OMB circular A-123
- Completing AFR/Data Call tables, explaining the change

- Developing/updated AFR narrative describing the need for a change in the methodology, how it differs from the prior methodology, the performance under the new formula and an explanation of any variance

Some of the above steps may be iterative, with others occurring concurrently.

Timeframes will depend on the approach or approaches selected. Once a path is selected, HI will provide a corrective action plan for updating the methodology including a description of the changes proposed, dates when those changes will take effect, and an explanation as to why they were made. All proposed changes HI makes to its improper payment rate methodology will need to be approved by the Office of Management and Budget (OMB).

Options under consideration. HI is considering four potential approaches to update its FEHB IP methodology. Each is listed below with a brief explanation:

- *Option 1 – Incorporated Fraud Waste and Abuse (FWA) Reporting.* This endeavor would incorporate relevant data from current required FWA carrier reporting into the Improper Payments Calculation. This option may be feasible but would require HI to account for differences between calendar year and fiscal year reporting and might necessitate additional efforts to ensure data integrity or strengthen the agency certification process and could require updates to carrier communications and guidance.
- *Option 2 – Carrier Quality Assurance/Control Sampling.* Currently carriers report annual Quality Assurance metrics and perform additional internal Quality Control reviews and assessments on FEHB claims that identify erroneous payments. Inclusion of carrier QA or internal sampling would likely require changes to carrier contracts, processes and systems to obtain, standardize and potentially apply them to HI's IP rate calculation. This would require a significant investment in time and resources by both the carriers and HI.
- *Option 3 – Sampling of Enrollments for Eligibility Determinations.* Validating enrollee and dependent eligibility is a substantial undertaking tied to a Central Enrollment Portal and Database project currently envisioned and being studied, but not yet funded. Basic sampling of Enrollments for Eligibility Determinations may require third party statistical support to assess the number of the FEHB program's ineligibles and estimate the amount of erroneously paid claim payments from that initial estimate. That would be followed by annual, statistically valid sampling for IP reporting purposes. Currently HI does not have the administrative capacity to perform this sampling.
- *Option 4 – Comprehensive Sampling Program.* This refers to a larger, more formal and potentially outsourced effort of comprehensive sampling claims modeled on Medicare, Medicaid or Veterans Affairs. This could be performed by some combination of carriers, OPM, an independent body or a methodology that leverages some combination of them all. This would require significant increases in HI resources to receive and review this data.

Any form of sampling would have to satisfactorily address previously expressed administrative and legal concerns highlighted in the resolutions of prior audits.

HI intends to make an initial decision within 120 days of the issuance of the Final Audit Report regarding next steps in its review of potential changes to its IP rate calculation. HI is not organizationally structured or resourced to conduct, analyze and reconcile large-scale, recurring statistical sampling. Additionally, any change requiring carriers to modify their existing reporting, processes, or systems necessitating a contract change would have substantial time horizons and could have cost implications that must be carefully considered. HI is open to a discussion of these or other potential options for a new FEMB IP methodology.

<Deleted by OIG, not relevant to the final report>

<Deleted by OIG, not relevant to the final report>

Recommendation 4

We recommend that the Healthcare and Insurance office validate the fraud data in the FWA Reports so that it can be used in the improper payments rate calculation.

Management Response:

We partially concur. *HI suggests revising Recommendation 4 and deleting Recommendation 5.* HI is analyzing the FWA reports for potential use in the IP reporting. However, there is no certainty, as the Recommendation in its current form infers, that the fraud data, as received, can be incorporated in the IP rate calculation. As HI notes in its response the Notice of Findings and Recommendations, this information cannot simply be added to our existing formula. FWA reporting has evolved over the years as HI and OIG have collaborated to update and consolidate carrier guidance. We must ensure that there is no overlap or double-counting of errors being reported from carrier's FWA programs and other carrier-identified erroneous payments that might become a part of any new methodology. There is also the challenge of aligning the timing of the reports, since current reporting is on a calendar year basis, while IP reporting is on a fiscal year basis. This means that carrier's FY 2019 FWA data would not be received, reviewed, compiled and potentially available to HI for inclusion in its IP reporting until early summer, 2020, months after the Agency Financial Report, with its associated Payment Integrity (IP) section, is official and published.

Additional data validation may be burdensome on both the agency and also the carriers. Per Carrier Letter 2017-13, <https://www.opm.gov/healthcare-insurance/healthcare/carrier/#url=2017>, carriers have to certify that the FWA data they submit is accurate. HI is not currently resourced to perform additional or more rigorous validation of FWA data, which may require further action by the carriers. This could potentially require additional changes to the existing carrier agreement. It is possible; however, that current, validated CY data might be adjusted to align to the IP's FY reporting cycle for inclusion in the IP rate. This assumed no data integrity or duplication issues arise. HI will explore this potential option and provide an update to OIG on its efforts.

Recommendation 5

We recommend that Healthcare and Insurance evaluate the waste and abuse data in the FWA Report to determine if the data can be made usable for improper payments reporting.

Management Response:

We do not concur. *As noted above, HI requests Recommendation 4 be revised and Recommendation 5 be deleted.* From a reporting perspective, Fraud, Waste and Abuse substantially overlap, rendering it virtually impossible to provide objective, meaningful and quantifiable distinctions and guidance to FEHB carriers that would yield auditable results in their annual reports. According to OPM's aforementioned FWA Carrier Letter (2017-13), to which OIG substantially contributed to the development: "Abuse cannot be differentiated categorically from fraud because the distinction between "fraud" and "abuse" depends on specific facts and circumstances, intent and prior knowledge, and available evidence, among other factors."

OPM Defines Fraud, Waste and Abuse in Carrier Letter 2017-13:

- Fraud is knowingly and willfully executing, or attempting to execute, a scheme or artifice to defraud any health care benefit program or to obtain by means of false or fraudulent pretenses, representations, or promises any of the money or property owned by, or under the custody or control of any health care benefit program.
- Waste is the expenditure, consumption, mismanagement, use of resources, practice of inefficient or ineffective procedures, systems, and/or controls to the detriment or potential detriment of entities. Waste is generally not considered to be caused by criminally negligent actions but rather the misuse of resources.
- Abuse includes actions that may be directly or indirectly result in unnecessary costs to the FEHB Program, improper payment, payment for services that fail to meet professionally recognized standards of care, or services that are medically unnecessary. Abuse involves payment for items or services when there is no legal entitlement to that payment and the provider has not knowingly and/or intentionally misrepresented facts to obtain payment.

From an improper payment perspective, we do not see value in differentiating Fraud from Waste and Abuse in the improper payment calculation. OPM does not have separate reporting for Fraud vs. Waste vs. Abuse and, again, is not aware of meaningful distinctions that would enable us to successfully parse these for FEHB reporting purposes.

RETIREMENT SERVICES

Recommendation 6

We recommend that Retirement Services work with the DNP representatives to discuss the full capabilities of the DNP Portal and determine whether or not it is a beneficial addition in identifying improper payments for the most susceptible annuity payment cycle(s), i.e. pre-payments and post-payment.

Management Response:

We do not concur. Retirement Services has attended conferences and meetings with DNP representatives to discuss the full capabilities of the DNP Portal. In May 2018, Retirement Services attended a meeting that was specifically on the DNP Business Center's Data analytic services. Since then, Retirement Services has communicated a number of times with DNP representatives. Retirement Services found that the DNP Portal currently is not a beneficial addition in identifying improper payments. Retirement Services has cited several issues with the DNP tool such as the probability of receiving a high number of hits that are actually false positives. As improvements/changes are made to the DNP Portal, Retirement will continue to analyze the DNP tool.

<Deleted by OIG, not relevant to the final report>

<Deleted by OIG, not relevant to the final report>

Recommendation 8

We recommend that Retirement Services perform the Over Age 90 project of the annuitant population on a more routine basis, such as annual or biannually.

Management Response:

We concur. The Over Age 90 project will be conducted bi-annually.

Recommendation 9

We recommend that Retirement Services analyze the results from previous Over Age 90 projects to determine if the results can be projected to years where the Over Age 90 projects are not conducted and included in RS' improper payments reporting.

Management Response:

We do not concur. The Over Age 90 project identifies overpayments. Each fiscal year, RS reports the actual overpayment value in lieu of estimates in the Agency Financial Report. Combining projections/estimates can be adversely affect the improper payment rate.

Recommendation 10

We recommend that all payments made to deceased annuitants be classified as improper in the year in which they are identified.

Management Response:

We do not concur. All overpayments for the fiscal year, including those they have been paid to deceased annuitants, are included in the actual overpayment totals as reported by OPM's OCFO throughout the year. The overpayment total reported by the OCFO includes reclamations and is included in the improper payment calculation. Consequently, all payments made to deceased annuitants and reclamations are classified as improper in the year in which they are identified.

It's also important to remember that there will be payments made to deceased annuitants every month when the death is after payroll cut-off and before payday. Even if notification of the death is received prior to payday, the payment has already been processed through Treasury and sometimes on the way to back or post office. The key is the reclamation process, in which OPM has very high reclamation rate.

Recommendation 11

We recommend that Retirement Services provide support to show the final results of the 9,169 cases in which reclamation was initiated and the 43 cases referred to the Survivor Processing Section from its review of returned 2016 tax year Form 1099-Rs.

Management Response:

We do not concur. There are myriad reasons that a case may be dropped from the annuity rolls, some of which are not tied to the death of an annuitant. For instance, a case may be dropped because following a survey or a match it had been placed in suspend status for six months. In this instance, procedure would require that this case be dropped. Furthermore, in this scenario, a reclamation may not be necessary.

In addition, Retirement services already expends significant time and effort (and some funds) in order to implement IG's prior recommendations regarding returned 1099R's. Thus far, in spite of considerable effort, Retirement Services has not been able to establish that a returned 1099R is indicative of an improper payment and therefore, we do not believe that the imposition of significant additional work to document the final outcome of the remaining 9,169 cases represents a responsible use of Retirement Services resources. Tracking and reporting on each of the 9,169 cases would require that at the outset all returned tax forms be added to a spreadsheet or some form of database and then tracked through the lifecycle of the project. Retirement Services does not have sufficient resources to add this additional rather burdensome work to this project. As the IG has also noted in other audits, if Retirement Services is to improve its services, it needs additional resources focused on customer service. We agree.

Recommendation 12

We recommend that Retirement Services maintain support for future reviews of returned Form 1099-Rs, including an accounting of overpayments made to annuitants dropped from the annuity rolls, identified as deceased, or referred for further research and/or drop action, and include the total of such payments in the annual calculation of improper payments.

Management Response:

We partially concur. While Retirement Services agrees that periodic reviews of 1099R's might be valuable (and agrees to do as such), it does not agree that given current resources and systems, additional accounting requirements are desirable or would be worthwhile.

Recommendation 13

We recommend that Retirement Services conduct an analysis to determine if other types of data mining reviews can be performed, using the annuity rolls' data, to identify improper payments.

Management Response:

We concur with the intent of this recommendation. Retirement Services is open to specific recommendation from the OIG regarding data mining. We will continue to look to the expertise of the OIG recommendations on how to improve data mining efforts.

It should also be noted that RS has also engaged, provided topics to, and participated in OIG Process Evaluations.

Recommendation 14

We recommend that Retirement Services develop a plan of action to utilize the data mining reviews identified in response to *Recommendation 13* and report the results of those reviews in its improper payment calculation, including documenting any issues identified.

Management Response:

We concur with the intent of this recommendation. While Retirement Services already engages in a plethora of data mining efforts to proactively stop an improper payment from occurring, Retirement Services looks forward to reviewing additional data mining efforts based on specific OIG recommendations. Any improper payment identified from additional data mining efforts will be added to the combined improper payment calculation.

Recommendation 15

We recommend that OPM's Retirement Services conduct cost benefit analyses of all current corrective actions and document their results.

Management Response:

We do not concur. Retirement Services finds a cost benefit in all of the established corrective actions that identify improper payments. The OIG references OMB Memorandum M-18-20, Circular A-123, Appendix C (Part III, B3.a) which clarifies the control activities actions that management establishes to achieve objectives and respond to risks in the internal control system includes, "iv. Performing cost-benefit analyses of potential control activities before implementation to help ensure that the cost of those activities to the organization is not greater than the potential benefit of the control."

Retirement Services will perform a cost benefit analyses on new and potential control activities before implementation and document the results.

Although improper payments were not identified for the Over Age 92 project in the 2017 AFR, Retirement Services reported an improper payment total of \$1,623,838.32 in the 2018 AFR.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact [REDACTED] or [REDACTED].



Report Fraud, Waste, and Mismanagement

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