



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**ASSESSING THE INTERNAL CONTROLS OVER
THE U.S. OFFICE OF PERSONNEL
MANAGEMENT'S RETIREMENT SERVICES'
RETIREMENT ELIGIBILITY AND SERVICES
OFFICE**

**Report Number 4A-RS-00-13-033
April 13, 2015**

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EXECUTIVE SUMMARY

Assessing the Internal Controls Over the U.S. Office of Personnel Management's Retirement Services' Retirement Eligibility and Services Office

Report No. 4A-RS-00-13-033

April 13, 2015

Why Did We Conduct the Audit?

The objective of our audit was to obtain reasonable assurance that Retirement Eligibility and Services (RES) has effective controls in place to maintain the integrity of the federal retirement annuity roll.

What Did We Audit?

The Office of the Inspector General (OIG) has completed a performance audit on Assessing the Internal Controls over the U.S. Office of Personnel Management's (OPM) Retirement Services' Retirement Eligibility and Services Office. Our audit fieldwork was conducted from June 9 through August 21, 2014 at OPM headquarters and RES' Union Square office, located in Washington, D.C.

What Did We Find?

We determined that OPM needs to strengthen its controls over its survey and match processes, which are intended to confirm eligibility for benefits. Our audit identified four areas requiring improvement, as follows:

1. Federal Employees Retirement System (FERS) Annuity Supplement Surveys and Matches Not Completed
 - Retirement Services (RS) has not conducted the 2013 FERS Annuity Supplement Survey and has not performed an annual Annuity Supplement Match since 2009.
2. Weak Internal Controls over the Disability Earnings Survey (DES) Process
 - RS was unable to provide a listing that detailed the 548 annuitants who responded to the DES in 2012 and could not provide 1 of the 25 annuitant's case files we sampled for review. We also determined that no supervisory reviews occurred for the 24 cases we reviewed.
3. Weak Internal Controls over the Death Match Process
 - RS made improper payments of \$41,748 to nine deceased annuitants who were identified in the Consolidated Death Match but were not dropped from the annuity roll. In addition, RS does not have internal controls in place to ensure the accuracy of benefit determinations made on behalf of retired annuitants and their survivors.
4. Weak Internal Controls over the Disability Earnings Match (DEM) Process
 - RS made improper payments of \$15,385 to one annuitant identified in the 2011 DEM who was not dropped from the annuity roll. In addition, RS does not have procedures in place for the selection methodology used to review disability earnings cases of annuitants that earned \$100,000 or less.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

BS	Benefits Systems
CDM	Consolidated Death Match
CFR	Code of Federal Regulations
CSRS	Civil Service Retirement System
DEM	Disability Earnings Match
DES	Disability Earnings Survey
DMF	Death Master File
FERS	Federal Employees Retirement System
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IAG	Internal Audits Group
LAS	Legal Administrative Specialists
MLE	Minimum Level of Earnings
MRA	Minimum Retirement Age
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
RES	Retirement Eligibility and Services
RI	Retirement Inspections
RIM	Retirement Inspections Manual
RS	Retirement Services
RSS	Retirement Surveys and Students
SICFG	Standards for Internal Control in the Federal Government
SSA	Social Security Administration
SSN	Social Security Number
U.S.C.	United States Code
VAMS	Validated Agency Match System

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit on Assessing the Internal Controls Over the U.S. Office of Personnel Management's (OPM) Retirement Services' Retirement Eligibility and Services Office. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended. This is our first audit assessing Retirement Eligibility and Services' (RES) internal controls.

This audit was initiated and conducted based on the results of the Retirement Services' (RS) risk assessment performed in fiscal year (FY) 2012 by the OIG's Internal Audits Group (IAG). The purpose of the risk assessment was to understand RS' operations and determine areas of high risk. We identified RES as a high-risk program area within RS for the following reasons:

1. RES is responsible for maintaining the integrity of and safeguarding the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) annuity rolls.
2. Manual and labor intensive processes within RES increase the risk of errors and improper payments to annuitants.
3. Limited resources within RES may hinder its ability to carry out its responsibility for maintaining the integrity of and safeguarding the CSRS and FERS annuity rolls.

Under CSRS and FERS, OPM pays monthly annuities to eligible retired employees and survivors. RES' Retirement Surveys and Students (RSS) and Retirement Inspections (RI) offices are responsible for conducting surveys and matches to determine annuitants' continued entitlement to benefits and researching allegations of retirement benefit fraud and misuse for potential referral to the OIG Office of Investigations.

Retirement Surveys and Students

RES' Retirement Surveys and Students office is responsible for administering annual surveys of FERS Annuity Supplement and Disability Earnings.

FERS Annuity Supplement Survey – The FERS Act allows the payment of a supplement to FERS annuitants to bring their annuities up to the level of pensions received by Social Security pensioners. FERS annuitants are eligible to receive the FERS annuity supplements from their Minimum Retirement Age (MRA) to their 62nd birthday. In order to comply with the FERS Act, RSS' Legal Administrative Specialists (LAS) generate and send survey letters to annuitants from their MRA to their 62nd birthday in the following circumstances:

- Annuitant voluntarily retired at the minimum retirement age with at least 30 years of service, and
- Annuitant voluntarily retired at age 60 or more with at least 20 years of service.

Surveys are mailed each April requesting that annuitants respond if allowable earnings were more than the Social Security Administration (SSA) exemption amount for the corresponding year or if their supplement was reduced in a previous year. LAS' determinations and adjustments to annuitants' benefits are made by July 1st in order for changes in benefit payments to occur by August 1st.

The most recent FERS Annuity Supplement Survey was completed by RES in 2012. RES received 4,531 out of 38,325 FERS Annuity Supplement Surveys mailed.

Disability Earnings Survey – RSS administers the Disability Earnings Survey (DES) to comply with the CSRS Law and FERS Act, which provide disability annuities to retirees under the age of 60, as long as they do not earn 80 percent or more of their current basic pay¹. In addition, Title 5, Code of Federal Regulations (CFR) 831.1209 mandates that an annuitant receiving a disability retirement annuity shall be examined under the direction of OPM at the end of one year from the date of the disability retirement and annually thereafter until he/she becomes 60 years of age.

The DES is conducted from January through June. Surveys are mailed to disabled annuitants beginning the last week of January until the first week of February. This is an affirmative response survey, meaning the annuitant need not respond unless they worked or were self-employed and have earned income to report. Returned surveys are scanned into a database by OPM staff in Macon, Georgia by June 30th. Any additional forms and correspondence provided by the annuitant are mailed to LAS' located in Washington, D.C. for additional review and processing through October.

RES reported that they mailed 70,518 Disability Earnings Surveys (14,455 CSRS and 56,063 FERS) to annuitants in 2012. RES received 548 responses and dropped 82 of those from the annuity roll.

Retirement Inspections

RES' Retirement Inspections office performs annual computer matches of FERS Annuity Supplement and Disability Earnings, as well as weekly Consolidated Death and annual Death

¹ Current basic pay is defined as the current grade and step for the position from which the annuitant retired.

Master File matches using SSA data files. Legal Administrative Specialists in RI are responsible for making annuity benefit determinations based on the results of the matches.

FERS Annuity Supplement Match – The FERS Act is also applicable for the FERS Annuity Supplement Match. However, instead of mailing surveys to annuitants, RI's LAS' receive and match the SSA's annual earnings file, of amounts reported on FERS annuitants' W-2 forms, against the annuity roll to identify annuitants whose earnings have exceeded the SSA Minimum Level of Earnings (MLE) while receiving a FERS Annuity Supplement.

If the annuitants' earnings are identified on the FERS Annuity Supplement Match as being over the MLE, RI calculates the annuitants' earnings to determine the amount they have been overpaid. The annuitants' annuity supplement is then reduced or terminated depending on the amount of the overpayment. Overpayment letters are mailed to the annuitants notifying them of the overpayment amount, the collection schedule², and due process³.

The match timeframe is from July of the match year through June of the following year. The most recent FERS Annuity Supplement Match was completed by RES to verify annuitants' 2009 reported earnings. The 2009 FERS Annuity Supplement Match contained 1,243 matches (cases in which the annuitant's earnings exceeded the MLE and a reduction in the payment was necessary).

Disability Earnings Match – The LAS request and receive earned income data, as reported by the SSA, from Benefits Systems (BS) for each disabled annuitant receiving retirement benefit payments for the match year under review. RES' 2012 Disability Earnings Match (DEM) contained 1,863 records indicating the annuitant exceeded the 80 percent earnings limit.

BS segments the population into four quadrants, consisting of:

- Annuitants that earned \$100,000 and above,
- Annuitants that earned \$75,000 to less than \$100,000,
- Annuitants that earned \$50,000 to less than \$75,000, and
- Annuitants that earned \$0 to less than 50,000.

² Overpayments are recovered by reducing the monthly supplement amount paid to the annuitant if the monthly overpayment amount identified by RI in the collection schedule is less than the monthly annuity. If the monthly overpayment amount is more than the monthly annuity, the supplement stops until the year in which the annuitant is under the MLE.

³ Annuitants have the opportunity to respond to the letter within 30 days with proof of income information if they believe the overpayment is incorrect.

The LAS reviews 100 percent of annuitants with earned income of \$100,000 and above. However, RES does not have procedures in place to determine the methodology used in testing disability earnings cases for annuitants that earned less than \$100,000. The Retirement Inspections Manual (RIM) states that once the LAS determine the audited amount is over the 80 percent earnings limit, a secondary review is performed to verify the determinations made by the LAS.

Consolidated Death Match – The Consolidated Death Match (CDM) is performed to ensure that the 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 the annuity roll to identify retirees with social security numbers that SSA has noted as deceased. The February and March 2014 CDMs contained a total of 7,179 matches.

The following reports of matches are produced for follow-up action by RI's LAS based on the type of match identified:

- Valid Match Report – Report of annuitant cases that have been verified and all criteria (i.e., name, social security number, and claim number) matches.
- Invalid Match Report – Report of annuitant cases that have been verified and the name and date of birth do not match.
- Multiple Claim Number Report – Report of annuitant cases that have been verified, all criteria matches (i.e., name, social security number, and claim number), and multiple claim numbers are identified.
- Suspends Report – Report of suspended annuitant cases that are automatically generated by CDM for the Annuity Roll Daily Cycle System.

Death Master File – The Death Master File (DMF) is a match that is also completed to ensure that the annuity roll does not include deceased annuitants. Each year, OPM receives a DMF data file from SSA consisting of millions of Social Security Numbers (SSN). The SSA data file is matched against the annuity roll to identify retirees with social security numbers that SSA has noted as deceased. For the 2013 DMF, RES identified 361 records.

As discussed previously under the Consolidated Death Match, reports of matches are produced for follow-up action by RI's Legal Administrative Specialists.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to obtain reasonable assurance that RES has effective controls in place to maintain the integrity of the federal retirement annuity roll. The recommendations included in this final report address this 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 the following matches and surveys performed by RES:

- 2013 Death Master File,
- February 2014 Consolidated Death Matches,
- March 2014 Consolidated Death Matches (Valid Hits only),
- June 2012 Completed Disability Earnings Match for 2011, and
- June 2013 Completed Disability Earnings Survey for 2012.

We did not select samples from the FERS Annuity Supplement Survey because RES could not provide us with a universe of records identified in the most recent FERS Annuity Supplement Survey completed by RES in 2012. RES stated that they only maintained totals of surveys received and did not maintain a listing of identifying information, such as annuitants' names and claim numbers.

Additionally, we did not test the FERS Annuity Match because the last match conducted for 2009 was not completed until 2011. RES did not conduct matches for 2010 through 2012 due to information technology and automation issues.

We performed our audit fieldwork from June 9 through August 21, 2014 at the OPM headquarters and RES' Union Square office, located in Washington, D.C.

To accomplish our audit objective noted above, we sampled annuitants' case files to determine if:

- RES is verifying that disabled annuitants should be receiving benefits.
- RES is conducting yearly death matches to ensure that annuitants identified as deceased are removed from the annuity roll.

- RES is conducting weekly consolidated death matches to ensure that annuitants identified as deceased are removed from the annuity roll.

In planning our work and gaining an understanding of the processes over RES' surveys and data match activities, we considered, but did not rely on, RES' 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 processes that were included in the scope of our audit.

Our audit included such tests and analysis of RES' supporting documentation provided for the surveys and matches as we considered necessary under the circumstances. The results of our review and tests indicate that with respect to the items tested, RES needs to strengthen its controls over the FERS annuity supplement survey and match, disability earnings survey and match, and death match processes.

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, nothing came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

In performing our audit work, we used IDEA Data Analysis software to randomly select samples for testing in order to accomplish our audit objective. Our sampling methodologies consisted of:

- For the annual DES, we randomly selected 25 out of the 82 dropped 2012 DES cases received by RES.
- For the annual DMF, we randomly selected 25 out of the 354 matches identified in the 2013 DMF.
- For the weekly Consolidated Death Match, we randomly selected 135 out of 7,179 matches. Specifically, we randomly selected:
 - 15 out of 4,265 matches from the February 2014 Valid Match Report,
 - 25 out of 959 matches from the March 2014 Valid Match Report,
 - 15 out of 427 matches identified in the February 2014 Invalid Match Report,
 - 25 out of 595 identified in the February 2014 Suspends Report,
 - 35 out of 758 matches identified in the February 2014 Follow-up Report, and

- 20 out of 175 matches identified in the February 2014 Multiple Claims Number Report.
- For the annual DEM, we randomly selected 40 out of 1,796 active annuitants identified in the 2011 DEM.

The samples selected during our review were not statistically based. Consequently, the results from our samples were not projected to the populations.

The preliminary results of our audit were discussed with RS officials at an exit conference held on August 21, 2014 and were presented in a draft audit report, dated November 20, 2014. RS' comments in response to the draft report were considered in preparing our final report and are included as an Appendix.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1. Federal Employees Retirement System Annuity Supplement Surveys and Matches Not Completed

RS needs to strengthen its controls over the safeguard of FERS annuity supplement benefit payments. We found that RS has not conducted the 2013 FERS Annuity Supplement Survey and has not performed an Annuity Supplement Match since 2009, despite the fact that each is required by law to be performed annually.

**FERS Annuity
Supplement
Surveys and
Matches to Reduce
Benefit Payments
Not Conducted
Annually, as
Required by Law**

5 United States Code (U.S.C.) Section 8421a requires the reduction of FERS Annuity Supplement benefits based on an individual's excess earnings. The section defines an annuitant's supplement benefits entitlement period as 12 months. It also states that an annuitant's earnings and applicable exemption amounts must be determined in a manner consistent with section 203 of the Social Security Act, which determines earnings in a taxable year.

The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (SICFG)* states that, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations."

RS states that a lack of staffing is the primary cause for the FERS Annuity Supplement Surveys and Matches not being performed as frequently as required. By not ensuring that annual surveys and matches are conducted, there is an increased risk that annuitants' are receiving benefit payments to which they are not entitled.

Recommendation 1

We recommend that RS strengthen its internal controls over the FERS Annuity Supplement Survey and Match processes to ensure that benefit payments are made only to eligible annuitants, and FERS Annuity Surveys and Matches are conducted annually to implement the required annual reductions to benefits, as required by 5 U.S.C. 8421a.

RS' Response:

RS concurs with this recommendation.

"RI has developed an internal tool for determining amendments to the annuity supplement benefit by eliminating most of the manual computation." However, given the current resources, it will take another two years to complete the 2010 through 2012 FERS Supplement matches.

"RES is working with [the Office of the Chief Information Officer (OCIO)/Benefit Systems] to automate the FERS Supplement match going forward. ... By automating the process, RES/RI will be able to provide reliable reporting [and] consistency in work processes. RES/RI will [also] review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes, and timelines."

2. Weak Internal Controls over the Disability Earnings Survey Process

RS needs to strengthen its internal controls over the DES. RS was unable to provide a listing that detailed the 548 annuitants who responded to the Disability Earnings Survey in 2012 and could not provide 1 of the 25 annuitant case files we sampled for review.

We also determined that no supervisory reviews occurred for the 24 cases we were able to review.

The GAO's *SICFG* states that, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained." In addition, internal controls should be designed to assure that ongoing monitoring occurs in the course of normal operations, which includes regular management and supervisory activities.

**No Internal
Controls over the
Disability Earning
Survey in Current
Policies**

36 CFR 1222.22, *Creation And Maintenance Of Federal Records*, provides Federal agencies with details on the creation and maintenance of Federal records to provide for the adequate documentation of agency business. Federal agencies must prescribe the creation and maintenance of records that:

- Make possible a proper examination by Congress or other duly authorized agencies of the Government.
- Document the creation and execution of basic policies and decisions and the taking of necessary actions, including all substantive decisions and commitments reached orally or electronically.

The lack of controls over the DES process, specifically record retention and the supervisory review of actions taken by the LAS', increases the risk that RS may be unable to ensure the accuracy of determinations made by LAS' in the DES process.

Recommendation 2

We recommend that RS update its policies to include internal controls over record retention and the supervisory review of actions taken by the LAS' in the DES process.

RS' Response:

RS concurs with this recommendation.

"RES/RI will review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes, and timelines."

OIG Comment:

RS should ensure that its corrective actions include requirements for ongoing supervisory monitoring in the course of normal operations, as stated by GAO.

3. Weak Internal Controls over the Death Match Process

RS needs to strengthen its internal controls over the weekly and annual death match processes. Specifically, we found that:

- Two deceased annuitants identified in the February 2014 Follow-Up and Multiple Claims Number Consolidated Death Match Reports were not dropped and remained active on the annuity roll as of July 2014;
- Seven annuitants identified in the weekly and annual death matches were not timely suspended;
- Five annuitants identified in the February 2014 Follow-Up Consolidated Death Match Report were not dropped within 120 days after suspension from the annuity roll, as required by RS' processes;
- No internal controls are in place to track the manual Address Verification Letters sent and received for death match cases with multiple claim numbers;

- RS does not have procedures in place to document a supervisory review of actions taken by LAS'; and
- No supervisory reviews occurred for all of the sampled cases we reviewed.

The details of our finding were presented to RES separate from this report.

Nine deceased annuitants were paid \$41,748 after matches confirmed their deaths

RES' *Retirement Inspections Manual* states, "If a response to the [address verification] letter is not received within 30 days, a resolution to suspend (H01) is processed [in the Validated Agency Match System (VAMS)] and a letter is sent to the financial institution. ...The LAS determines which letters to send and what procedures to follow based on the response received (if any)." If no response is received, RS' management stated that the case is left in suspend status and dropped after 120 days.

The GAO's *SICFG* states that "Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives" Control activities occur at all levels and functions of the entity and include management reviews at the functional or activity level. Internal controls should be designed to assure that ongoing monitoring occurs in the course of normal operations, which includes regular management and supervisory activities.

As a result of ineffective controls over the CDM and DMF processes, RS made \$41,748 in improper benefit payments to deceased annuitants.

Recommendation 3

We recommend that RS drop two deceased annuitants still active on the annuity roll as of July 2014 and initiate efforts to recover \$28,978 in improper payments.

RS' Response:

RS concurs with this recommendation.

"RS has taken corrective action to terminate the annuity benefits of the two deceased annuitants and evidence [has] been previously provided...The reclamation process has been initiated and evidence to support this will be provided."

OIG Comment:

RS provided us with evidence to support that they dropped the two deceased annuitants from the annuity roll as of September 30, 2014. We will await documentation during the resolution process to support reclamations of the \$28,978.

Recommendation 4

We recommend that RS continue its efforts to recover \$12,770 in improper payments made to seven annuitants.

RS' Response:

RS concurs with this recommendation.

“RS has taken action to recover the improper payments [of \$12,770] made to the seven annuitants. Evidence will be forthcoming.”

Recommendation 5

We recommend that RS strengthen its controls over the death match process to ensure that determinations of continued eligibility for benefits made on behalf of retired annuitants and their survivors by RES staff and management are accurate and deceased annuitants are not receiving benefit payments.

RS' Response:

RS concurs with this recommendation.

“RES will continue to review and improve its processes.” The handling of the full VAMS report has been adversely impacted by the lack of resources, especially with the handling of the Multiple Claim listing. Through an overtime effort, RES/RI reviewed 1,865 claim numbers identified on the January through July 2014 listing. “After conducting the death verifications for each case, 26 annuitants remained active on the rolls and 1,846 annuitants terminated for death; the reclamation process was initiated in these cases.”

RI is onboarding a LAS to support the overall death matching process and will serve as the lead for handling the Multiple Claim listing, which will take at least one year to fully train. In the interim, RES/RI will continue to process this workload through the use of overtime as long as it is available.

"RES/RI will review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes and timelines. We will schedule a future meeting with in OCIO/BS to discuss requirements for further automation of the VAMS."

OIG Comment:

In addition to the corrective actions outlined by RS, they should also ensure that corrective actions include requirements for ongoing supervisory monitoring in the course of normal operations, as stated by GAO. Since determinations made by LAS are part of RS' normal operations, supervisory monitoring should occur.

4. Weak Internal Controls over the Disability Earnings Match Process

RS needs to strengthen its internal controls over the DEM process. Specifically, we determined that:

- No procedures are in place for the selection methodology used to review disability earnings cases of annuitants that earned less than \$100,000, and
- One annuitant identified in the 2011 DEM as exceeding the 80 percent earnings limit was not dropped from the annuity roll.

**Improper Payments of
\$15,385 were made
to an Ineligible
Annuitant**

Title 5 CFR 831.1209, *Termination of Disability Annuity*, states that "If a disability annuitant is under age 60 on December 31 of any calendar year and his or her income from wages or self-employment or both during that calendar year equal at least 80 percent of the current rate of basic pay of the position occupied immediately before retirement, the annuitant's earning capacity is considered to be restored. The disability annuity will terminate on June 30 after the end of the calendar year in which earning capacity is restored."

The GAO's SICFG states that internal controls should be clearly documented and "designed to assure that ongoing monitoring occurs in the course of normal operations. ... It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

As a result of ineffective controls over the DEM process, RS made improper payments of \$15,385 to one annuitant not dropped from the annuity roll.

Recommendation 6

We recommend that RS drop the annuitant from the annuity roll and recover \$15,385 in improper payments.

RS' Response:

RS concurs with this recommendation.

“Annuity payment [was] terminated effective September 1, 2014 and recovery action initiated. Evidence will be forthcoming.”

Recommendation 7

We recommend that RS strengthen its internal controls over the DEM process, including the development of a written methodology for the DEM case review process.

RS' Response:

RS concurs with this recommendation.

“RES/RI is working with Quality Assurance to explore other methodologies that are consistent and repeatable. Automating the DEM process will also aid in strengthening controls over the process.”

IV. MAJOR CONTRIBUTORS TO THIS REPORT

INTERNAL AUDITS GROUP

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APPENDIX



Retirement Services

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT Washington, DC 20415

DEC 17 2014

MEMORANDUM FOR:

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

FROM:

KENNETH J. ZAWODNY, Jr.
Associate Director
Retirement Services

SUBJECT: Inspector General Report No. 4A-RS-000-13-033 Assessing the Internal Controls over the U.S. Office of Personnel Management's Retirement Services' Retirement Eligibility and Services

KJZ/12/10

This memorandum is to acknowledge receipt of the Draft Audit Report of Assessing the Internal Controls over the U.S. Office of Personnel Management's Retirement Services' Retirement Eligibility and Services (Report No. 4A-RS-000-13-033). Retirement Services appreciates the opportunity to provide comments on the draft report. Our responses to your recommendations are below.

Recommendation 1

We recommend that RS strengthen its internal controls over the FERS Annuity Supplement Survey and Match processes to ensure that benefit payments are made only to eligible annuitants.

Management Response

Effective June 30, 2014 amendments to the Annuity Supplement benefit survey resulted in savings of \$104,823.00 to Federal government. Concerning the FERS 2010-2012 Supplement Match, over 25,000 hits were identified. RI has developed an internal tool for determining amendments to the annuity supplement benefit by eliminating most of the manual computation. To date, we have made adjustments to 311 annuities resulting in savings of \$4,340,428.00 to Federal government. Given the current resources of 1 FTE processing this workload, it will take another 2 years to complete the 2010-2012 FERS Supplement matches.

RES is working with OCIO/BS to automate the FERS Supplement match going forward. While it is imperative to have the automation in place sooner rather than later, RES recognizes that OCIO/BS has other workload demands that impact development and implementation. However, on November 21, 2014, RES representatives met with OCIO/BS to review the requirements. A follow-up meeting is scheduled for January 16, 2015. By automating the process, RES/RI will be able to provide reliable reporting as well as consistency in work processes. RES/RI will review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes, and timelines.

Historically, senior LASs reviewed the work products of junior LASs and this method was effective. Currently, the senior LASs are processing the surveys and matches due to resource shortages. Supervisors ensure procedures are followed and are requiring staff members to complete action plans documenting steps and timelines for conducting surveys and matches.

Recommendation 2

We recommend that RS update its policies, such as the Retirement Inspection Manual, to include internal controls over the DES process.

Management Response

RES/RI will review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes, and timelines.

Recommendation 3

We recommend that RS drop two deceased annuitants still active on the annuity roll as of July 2014 and initiate efforts to recover \$28,978 in improper payments.

Management Response

RS has taken corrective action to terminate the annuity benefits of the two deceased annuitants and evidence was been previously provided and referenced in this report. It should be noted that the cases in question were dropped as of September 15, 2014. The reclamation process has been initiated and evidence to support this will be provided.

Recommendation 4

We recommend that RS continue its efforts to recover \$12,770 in improper payments made to seven annuitants.

Management Response

RS has taken action to recover the improper payments made to the seven annuitants. Evidence will be forthcoming.

Recommendation 5

We recommend that RS strengthen its controls over the death match process to ensure that RES staff and management are held accountable for benefit determinations made on behalf of retired annuitants and their survivors.

Management Responses

RES will continue to review and improve its processes. The handling of the full VAMS report, specifically the handling of the Multiple Claim listing, has been adversely impacted by the lack of resources. However, through an overtime effort, RES/RI reviewed 1,865 claim numbers identified on the January – July 2014 listing. After conducting the death verifications for each case, 26 annuitants remained active on the rolls and 1,846 annuitants terminated for death; the reclamation process was initiated in these cases.

RI is onboarding a LAS who will support the overall death matching process and will serve as the lead for handling the Multiple Claim listing. It will take at least 1 year to fully train the new LAS. In the interim, RES/RI will continue to process this workload on overtime as long as overtime is available.

RES/RI will review the Retirement Inspection Manual to ensure the guidance is consistent with applicable procedures, processes, and timelines. We will schedule a future meeting with in OCIO/BS to discuss requirements for further automation of the VAMS.

With respect to VAMS, the system accurately matches all active accounts against those reported as deceased by SSA. RES/RI receives a monthly follow-up report that allows the staff to resolve any discrepancies concerning the living status of annuitants identified on this report.

Recommendation 6

We recommend that RS drop the annuitant from the annuity roll and recover \$15,385 in improper payments.

Management Response

Annuity payment terminated effective September 1, 2014 and recovery action initiated. Evidence will be forthcoming.

Recommendation 7

We recommend that RS strengthen its internal controls over the DEM process, including the development of a written methodology for the DEM case review process.

Management Response

RES/RI is working with Quality Assurance to explore other methodologies that are consistent and repeatable. Automating the DEM process will also aid in strengthening controls over the process.

In conclusion, RS agrees to take action to strengthen controls over the surveys and matches by continuing discussions with OCIO/BS concerning automating the processes as much as possible, updating our Retirement Inspection Manual and budget allowing, hiring of additional resources.



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