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

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# Final Audit Report

## **AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S FISCAL YEAR 2016 IMPROPER PAYMENTS REPORTING**

**Report Number 4A-CF-00-17-012  
May 11, 2017**

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# EXECUTIVE SUMMARY

## Audit of the U.S. Office of Personnel Management’s Fiscal Year 2016 Improper Payments Reporting

Report No. 4A-CF-00-17-012

May 11, 2017

### Why Did We Conduct the Audit?

The objective of our audit was to determine if the U.S. Office of Personnel Management (OPM) is compliant with the Improper Payments Information Act, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), for Fiscal Year (FY) 2016.

### What Did We Audit?

The Office of the Inspector General completed a compliance audit on OPM’s FY 2016 improper payments reporting, as defined in the U.S. Office of Management and Budget’s guidance and corresponding reporting instructions. Our audit was conducted from November 29, 2016, through March 2, 2017, at OPM headquarters, located in Washington D.C.



**Michael R. Esser**  
Assistant Inspector General for Audits

### What Did We Find?

1. We determined that OPM is in compliance with IPERA’s six requirements for FY 2016, as identified in the chart below:

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

✓ Compliance      ✗ Non compliance

2. IPERIA includes additional reporting requirements. We determined that OPM is not in compliance with IPERIA’s *Do Not Pay Initiative* reporting requirements for FY 2016. Specifically, Retirement Services:

- Did not report the *Do Not Pay Initiative* results for the Do Not Pay tool in the alternative reporting table, “FY 2016 Death Match Statistics”, in the FY 2016 Agency Financial Report.
- Could not provide documentation to support more than 17,000 backlogged records in the Do Not Pay Portal.
- Could not provide documentation to support the analysis and conclusion from their review of each of the 17,000 backlogged records that had been investigated.

3. We identified three areas - Internal Control Assessments, Risk Assessments, and Improper Payment Root Causes - where OPM can improve on its internal controls over improper payments reporting.

# ABBREVIATIONS

<b>AFR</b>	<b>Agency Financial Report</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>IPERA</b>	<b>Improper Payments Elimination and Recovery Act of 2010</b>
<b>IPERIA</b>	<b>Improper Payments Elimination and Recovery Improvement Act of 2012</b>
<b>OCFO</b>	<b>Office of the Chief Financial Officer</b>
<b>OMB</b>	<b>U.S. Office of Management and Budget</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>PAR</b>	<b>Performance and Accountability Report</b>

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# I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our compliance audit of the U.S. Office of Personnel Management's (OPM) Fiscal Year (FY) 2016 Improper Payments Reporting. The audit was performed by OPM's Office of the Inspector General, as authorized by the Inspector General Act of 1978, as amended.

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

The U.S. Office of Management and Budget (OMB) has issued improper payments guidance to assist agencies in implementing the laws, including OMB Circular A-123 Appendix C, *Management's Responsibility for Internal Controls*, and OMB Circular A-136, *Financial Reporting Requirements*. Routine updates are issued by OMB, including an update to OMB Circular A-123 through Memorandum M-15-02 on October 20, 2014, and a revision to OMB Circular A-136 on October 7, 2016.

An agency's program is deemed susceptible to significant improper payments<sup>1</sup> if the total amount of overpayments plus underpayments in the program exceeds both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or, \$100,000,000 regardless of improper payments percentage of total program outlays.

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

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

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<sup>1</sup> An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

- e. Published, and is meeting<sup>2</sup>, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- f. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.”

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

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

- Categorize their improper payment estimates based on OMB’s new improper payment categories;
- Perform risk assessments on all low risk programs at least once every three years to assess their risk for improper payments;
- Develop indicators of improper payments for programs with the most egregious cases, compliance for which is determined by OMB;
- Identify the accountable official that oversees efforts to reduce improper payments for high-priority programs;
- Describe alternative improper payments measurements;
- Expand payment recapture audits to all types of payments and activities with more than \$1 million in annual outlays if cost effective;
- Improve corrective action plans to include incorporating lessons learned;
- Recover improper payments by conducting recovery audits on programs that expend \$1 million or more annually if conducting such audits is cost-effective;
- Distribute funds recovered through payment recapture audits for authorized purposes;
- Establish internal controls to reduce improper payment rates; and
- Use the Do Not Pay List<sup>3</sup> to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur.

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<sup>2</sup> “A program will have met a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year's AFR or PAR.”

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

Each agency’s Inspector General is required to review improper payments reporting in the AFR or PAR to determine compliance with IPERIA. OMB requires that the Inspector General review the agency’s annual AFR or PAR, which includes evaluating the accuracy and completeness of agency reporting, and evaluating agency performance in reducing and recapturing improper payments. In addition, the OIG is required to determine if the agency’s corrective action plans are robust and focused on the appropriate root causes of improper payments, effectively implemented, and prioritized within the agency, to allow it to meet reduction targets. The Inspector General is required to complete its review and determination within 180 days of the agency’s AFR publication.

Two of OPM’s earned benefit programs, Retirement Services and the Federal Employees Health Benefits Program, are by definition susceptible to significant improper payments.

OPM’s reported improper payments and overpayments recaptured for FY 2016 are summarized in the following tables below:

<b>Program</b>	<b>Total Outlays (\$ millions)</b>	<b>Gross Improper Payments (\$ millions)</b>	<b>Overpayments (\$ millions)</b>	<b>Underpayments (\$ millions)</b>	<b>2016 Improper Payments Percent</b>
<b>Retirement Services</b>	82,013.20	304.21	237.16	67.05	0.37%
<b>Federal Employees Health Benefits</b>	49,820.21	97.05	95.98	1.07	0.19%

<b>Program</b>	<b>FY 2016 Amount Identified for Recovery (\$ in millions)</b>	<b>FY 2016 Improper Payment</b>
<b>Retirement</b>	224.22	203.60
<b>Federal</b>	95.98	39.64

<sup>4</sup> Data collected from Table 1 “Improper Payment Reduction Outlook” on page 138 of OPM’s FY 2016 AFR.

<sup>5</sup> Data collected from Table 4 “Overpayments Recaptured outside of Payment Recapture Audits (\$ in millions)” on page 149 of OPM’s FY 2016 AFR.

## **Status of Previous Audit Recommendations**

During the audit of OPM's FY 2015 Improper Payments Reporting, Report No. 4A-CF-00-16-026, we determined that OPM's reporting of improper payments was non-compliant with IPERIA reporting requirements and noted an area of improvement. We issued six recommendations where OPM could improve on its oversight controls over improper payments reporting. Based on the testing performed in this year's audit, we determined that recommendation 2 could be closed. The remaining recommendations are still open, as outlined in Appendix I.



## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### OBJECTIVE

The objective of our audit was to determine if OPM is compliant with the Improper Payment Information Act, as amended by IPERIA, for FY 2016. The recommendations included in this report address the objective.

### SCOPE AND METHODOLOGY

We conducted this compliance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

The scope of our audit covered OPM's FY 2016 improper payments reporting in OPM's AFR. We performed our audit from November 29, 2016, through March 2, 2017, at OPM headquarters, located in Washington, D.C.

To accomplish our audit objective noted above, we:

- Reviewed OPM's website to ensure that the AFR was published;
- Reviewed and analyzed FY 2016 risk assessments conducted by OPM's Office of the Chief Financial Officer (OCFO) to determine if their methodology was logical and if the results were valid;
- Analyzed OPM's corrective actions to address the open audit recommendations identified in the FY 2013, FY 2014 and FY 2015 Improper Payments Reporting final audit reports;
- Reviewed and analyzed supporting documentation to ensure the offices of Healthcare and Insurance and Retirement Services' improper payments estimates methodologies were logical, and recalculated the improper payments estimates to verify the estimates reported;
- Reviewed Healthcare and Insurance and Retirement Services' corrective actions in the AFR to ensure they discussed robust and effective corrective actions to reduce improper payments;

- Compared OPM's FY 2015 AFR projected improper payments estimate for FY 2016 to OPM's FY 2016 AFR actual improper payment rate to ensure reduction targets for Healthcare and Insurance and Retirement Services were met;
- Reviewed Healthcare and Insurance and Retirement Services' improper payments estimates to determine if the gross improper payment rate was less than 10 percent in the AFR;
- Obtained and reviewed source documentation for all numerical data on improper payments as documented in the AFR tables;
- Assessed the reasonableness of OPM's plan to recapture improper payments; and
- Interviewed program representatives from the OCFO, Healthcare and Insurance, and Retirement Services.

In planning our work and gaining an understanding of the internal controls over OPM's improper payments reporting process, we considered, but did not rely on, OPM's internal control structure to the extent necessary to develop our audit procedures. These procedures were mainly substantive in nature. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objectives. The purpose of our audit was not to provide an opinion on internal controls but merely to evaluate controls over the improper payments reporting.

Our audit included such tests and analysis of OPM's improper payments reporting process, including documented policies and procedures, numerical data and narratives reported in the AFR, and other applicable information, as we considered necessary under the circumstances. The results of our review and testing indicate that with respect to the items reviewed, OPM is in compliance with IPERA. However, OPM is not in compliance with IPERIA's improper payments reporting requirements for the *Do Not Pay Initiative*. In addition, OPM could strengthen the internal controls over its improper payments reporting process for three areas.

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

# III. AUDIT FINDINGS AND RECOMMENDATIONS

The sections below detail the results of our audit on OPM’s FY 2016 improper payments reporting for compliance with IPERA and IPERIA.

## 1. IPERA Reporting Requirements

Based on our review of OPM’s FY 2016 AFR and other documentation provided by the agency, we determined that OPM is in compliance with the six reporting requirements of IPERA:

Criteria for Compliance	Criteria Met?
1) Published and posted its FY 2016 AFR on Agency website	Yes
2) Conducted program-specific risk assessments	Yes
3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment	Yes
4) Published programmatic corrective action plans in the AFR	Yes
5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments	Yes
6) Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR	Yes

## 2. Do Not Pay Initiative Reporting

We found that OPM did not properly report their results for the *Do Not Pay Initiative* in the FY 2016 AFR. Specifically, we determined that Retirement Services:

- Did not report the *Do Not Pay Initiative* results for the Do Not Pay tool<sup>6</sup> in the alternative reporting table, “FY 2016 Death Match Statistics” in the FY 2016 AFR as illustrated below:

FY 2016 Death Match Statistics\*

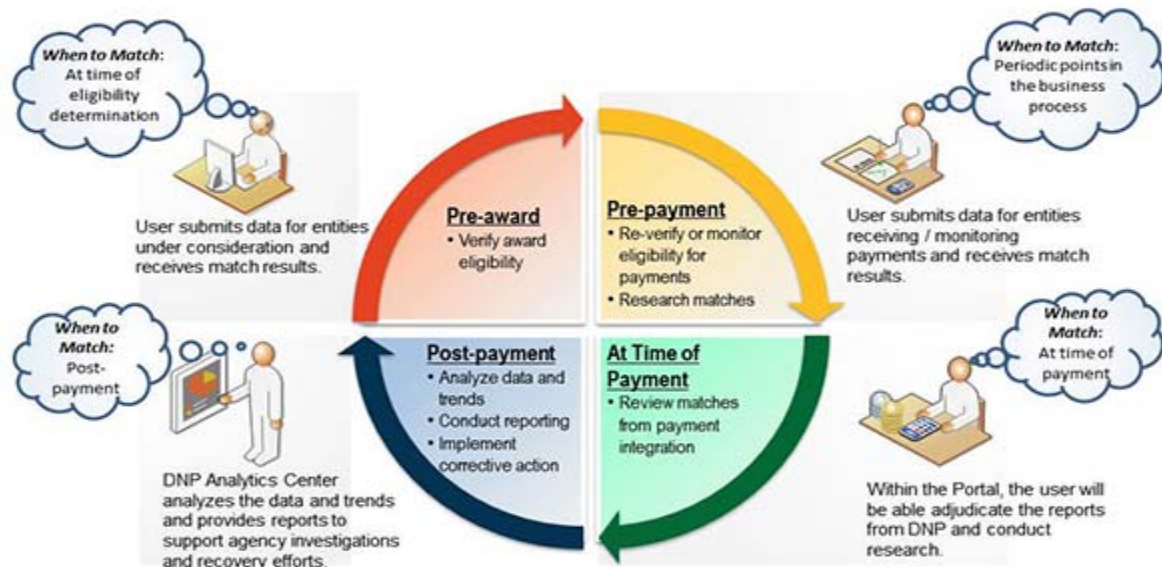
Type	Performed	Total Pop. <sup>1</sup>	Totals Hits <sup>2</sup>	Total Cases Overpaid	Overpayments Identified	% of Total Pop. as stated by hits
CDM <sup>3</sup>	Weekly	4,076,160	60,218	9,820	\$68,527,744	1.48%
DMF <sup>4</sup>	Yearly	TBD	TBD	TBD	TBD	TBD

Source: OPM’s FY 2016 Agency Financial Report, page 151

<sup>6</sup> The U.S. Department of Treasury provides Federal agencies with various methods and an array of data sources (e.g., Death Master File) to use during pre-award, pre-payment, pre-enrollment, and at the time of payment to verify and re-verify eligibility.

- Could not provide documentation to support the over 17,000 backlogged records in the Do Not Pay Portal<sup>7</sup>.
- Could not provide documentation to support the analysis and conclusion from their review of each of the 17,000 backlogged records that they investigated.

The U.S. Office of Management and Budget’s (OMB) Circular No. A-136 states “IPERIA requires pre-payment and pre-award reviews by each agency to determine program or award eligibility and to prevent improper payments before the release of any Federal funds.” OPM's Retirement Services administers annuity payments on a recurring monthly basis to eligible individuals. Retirement Services' process for investigating potential improper payments occurs after the initial annuity payment. However, because annuity payments are recurring, the reviews performed by Retirement Services can be considered both pre- and post-payment reviews until the payments are stopped. In addition, the Do Not Pay tool can be utilized for pre-award and pre-payment eligibility verification at the time of payment or “any time in the payment lifecycle.” Below is the U.S. Department of Treasury's illustration of how agencies can utilize the Do Not Pay tool in the payment lifecycle:



Source: <https://donotpay.treas.gov/images/DNPCircle2015.png>

<sup>7</sup> 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).

Consequently, the Do Not Pay tool could have led to the prevention of future Retirement Services improper annuity payments.

OMB Circular A-136 also requires agencies to provide a brief narrative discussing the agency's actions attributable to the *Do Not Pay Initiative* and report the results in Table 7, or an alternative table format after approval from OMB. Retirement Services provisionally added and utilized the Do Not Pay tool along with their OMB-approved alternative tools, the Death Master File<sup>8</sup> and Consolidated Death Match<sup>9</sup>. In addition and as required, OPM's FY 2016 AFR described the work conducted with the Do Not Pay tool, investigating 17,000 records, which was similar to the work that was done with the Death Master File and Consolidated Death Match - identifying potential deceased individuals and improper payments. Since this work was performed, and described in the AFR, it should have been included in the alternative table, *FY 2016 Death Match Statistics*, along with the Consolidated Death Match and Death Master File results. In fact, this would have been the perfect way to demonstrate that this work was duplicative of the work already done by Retirement Services with the Death Master File, as they claim.

The Office of the Chief Financial Officer's *Work Instruction for Reporting Improper Payments for the Agency Financial Report* states:

- “[Retirement Services' Resource Management] chief and the Deputy Assistant Director are ultimately responsible for the collection and reporting of the data reported in the AFR.”
- “[Retirement Services' Quality Assurance] is responsible for providing the data for Tables 1-4 of the AFR.”
- “[Policy and Internal Control] will review, validate and update the information reported, including the tables. In order to facilitate an appropriate review process a [Policy and Internal Control] analyst [or] auditor will provide a first line update, review, and validation and the [Policy and Internal Controls] chief or designate will provide a second line review and validation.”

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<sup>8</sup> The Death Master File is a U.S. Social Security Administration file that contains data of potential deceased individuals. The file is matched against annuity payments on a yearly basis.

<sup>9</sup> The Consolidated Death Match is a U.S. Social Security Administration file that contains data of potential deceased individuals. The file is matched against annuity payments on a weekly basis.

OPM believes it cannot leverage the Do Not Pay tool for pre-award and pre-payment reviews because the timing of Retirement Services payments limits them to post-payment reviews. However, as discussed above, annuity payments are recurring, and therefore reviews that are done after the initial payment can still be considered pre-payment. In addition, OPM stated that it “already receives [a] robust and comprehensive [Death Master File] under a separate agreement with [the U.S. Social Security Administration],” and since the Do Not Pay tool and Death Master File have the same source, it would be a duplicate effort for Retirement Services. While this may be the case, OPM did not provide or document any evidence of the review described in the AFR, so we have no basis to concur with this statement.

The OIG's position is that OMB requires agencies to report in their AFR on all tools being utilized to reduce improper payments. As a result, OPM did not comply with IPERIA's *Do Not Pay Initiative* reporting requirements as they did not report in the AFR the effectiveness of using the Do Not Pay tool to reduce Retirement Services' improper payments.

### **Recommendation 1**

We recommend that OPM evaluate the Do Not Pay tool to determine if it is beneficial in reducing Retirement Services' improper payments, document the results of this evaluation, and report the results in the FY 2017 AFR.

### **OPM's Response:**

*OPM does not concur with the recommendation. “OPM already receives the robust and comprehensive [Death Master File] under a separate agreement with the [U.S. Social Security Administration]. OPM has an automated process to match against the data provided in the [Death Master File] and Consolidated Death Match, while the [Do Not Pay] portal is a manual process requiring each case to be validated. Since the same data source is used, this would be a duplicate effort. In conclusion, this is not a cost effective approach to address improper payments for [Retirement Services] which manages over 2.5 million recurring annuity payments.”*

### **OIG Comment:**

OPM states that the only Do Not Pay tool applicable to the Retirement Services payments is the Death Master File, and this file is already received from the U.S. Social Security Administration and matched against annuity payments. Despite this, in FY 2016 they conducted a manual match of over 17,000 records in the Do Not Pay portal using this tool.

Since the results of this effort were not documented, and Retirement Services could not show us evidence that the two files were in fact duplicates, we maintain that they should evaluate the Do Not Pay tool for usefulness and document the results.

### **Recommendation 2**

We recommend that Retirement Services adhere to OMB's *Do Not Pay Initiative* reporting requirements when reporting on the Do Not Pay results in OPM's AFR.

#### **OPM's Response:**

*OPM does not concur with the recommendation. "OPM does not plan to utilize the [Do Not Pay] portal, the table associated with the tool would not be applicable for the FY 2017 AFR. OPM has received OMB approval to report improper payment data via an alternative table. This alternative table provides greater granularity and transparency to the general public and communicates the results from using the [Death Master File]."*

#### **OIG Comment:**

As stated in Recommendation 1, we are recommending that OPM conduct an evaluation of the Do Not Pay tool. If the results of that evaluation demonstrate that the tool is not beneficial in identifying and reducing improper payments, we would agree that it need not be used. Therefore, when OPM reports the results of the Do Not Pay tool in the FY 2017 AFR, it should meet OMB's *Do Not Pay Initiative* reporting requirements.

### **Recommendation 3**

We recommend that Retirement Services strengthen their internal controls to ensure that the improper payments information is supported, reviewed, validated, and maintained prior to issuance to the OCFO.

#### **OPM's Response:**

*OPM concurs with the recommendation and will revise its procedures.*

#### **Recommendation 4 (Rolled Forward from FY 2014 and FY 2015)**

We recommend that the OCFO strengthen their procedures to ensure that the improper payments information reported in OPM's AFR is supported, reviewed, and validated for accuracy prior to the information's inclusion in the AFR.

#### **OPM's Response:**

*OPM concurs with the recommendation and will revise its procedures.*

### **3. Areas of Improvement**

#### **A. Internal Control Assessments**

For the FY 2016 AFR, the OCFO conducted internal control assessments over two programs that are susceptible to improper payments - the Federal Employee Health Benefits Program and Retirement Services. We identified the following issues with the internal control assessments:

- There was no documented support for the methodology used by the OCFO to conduct the internal control assessments. As a result, we found seven instances where attributes were applied to Retirement Services and not to the Federal Employees Health Benefits Program, and two instances where attributes were applied to the Federal Employees Health Benefits Program and not to Retirement Services. Details regarding the attributes were provided separately from this report. Although it is up to management's discretion regarding which attributes to apply, there should be documented procedures outlining the methodology utilized to conduct the assessments.
- There was insufficient documentation to support the results of the internal control assessments. Details regarding the insufficient documentation were provided separately from this report.
- The OCFO failed to publish accurate results in the FY 2016 AFR, because they did not correct all of the errors identified in the FY 2015 AFR Table 14, *Status of Internal Controls*.

OMB Memorandum M-15-02, Circular A-123, Appendix C, outlines five standards and accompanying attributes that agencies can utilize in assessing internal control over



improper payments. In addition, the agency's management has discretion in determining the breadth and depth of the scope of assessing internal control over improper payments.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that “[i]nternal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.”

As a result of having insufficient documentation and no documented methodology, it is difficult to confirm the accuracy of the results. Therefore, there is an increased likelihood that OPM could have reported inaccurate results in the FY 2016 AFR.

### **Recommendation 5**

We recommend that the OCFO implement policies and procedures for the annual internal control assessments, to include, but not be limited to, describing the methodology utilized and the documentation needed to address the methodology.

#### **OPM's Response:**

***OPM concurs with the recommendation and will implement policies and procedures for the annual internal control assessments.***

### **Recommendation 6 (Rolled Forward from FY 2015)**

We recommend that in the FY 2017 AFR, OCFO correct all of the errors identified in the FY 2015 AFR Table 14, *Status of Internal Controls*.

#### **OPM's Response:**

***OPM concurs with the recommendation and will provide the correct information in the FY 2017 AFR.***

### **Recommendation 7 (Rolled Forward from FY 2013 and FY 2014)**

We recommend that the OCFO strengthen its oversight controls over the improper payments data reported in the AFR to ensure that it accurately reflects supporting documentation.

#### **OPM's Response:**

*OPM concurs with the recommendation and will revise its work instruction.*

### **B. Risk Assessments**

For the FY 2016 AFR, the OCFO conducted risk assessments of OPM programs to include Federal Investigative Services (now the National Background Investigations Bureau), Federal Employees' Group Life Insurance, Payroll, Purchase Cards, Travel Card, Travel Reimbursements, and the Vendor Payments programs. OPM has made significant improvements by ensuring the risk assessments contained all nine required risk factors and that the scoring methodology was clear and logical.

For FY 2016, we identified the following issues with OCFO's risk assessment results for the Federal Employees' Group Life Insurance, Vendor Payments, Travel Card, Travel Reimbursements, Federal Investigative Services, Payroll, and Purchase Cards programs:

- There were seven instances where the risk attributes' score point values were calculated incorrectly. Details regarding the seven instances were provided separately from this report.
- There was missing or insufficient documentation to support the results reported in OPM's FY 2016 Agency Financial Report. Details regarding the missing and insufficient documentation were provided separately from this report.
- There was a lack of understanding of the documentation needed to address the risk assessment attributes by OCFO's analysts who conducted the risk assessments. For example, question 15 states "Results from prior improper payment work...Prior reviews of program risk for improper payments indicate high risk." To assess this attribute, some analysts used the OIG's "U.S. Office of Personnel Management's Fiscal Year (FY) 2015 Improper Payments Reporting" audit report, Report Number 4A-CA-00-16-026, while others used

OCFO's FY 2015 risk assessment results. The analysts should have used OCFO's FY 2015 risk assessment results to address the risk attribute.

OMB Memorandum M-15-02, Circular A-123, Appendix C, states that "[t]he agency is responsible for maintaining the documentation to demonstrate that the following steps (if applicable) were satisfied. Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments."

OMB Memorandum M-15-02, Circular A-123, Appendix C, also states "[a]s part of this review, the agency Inspector General may also evaluate the accuracy and completeness of agency reporting, and evaluate agency performance in reducing and recapturing improper payments."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that "[m]anagement clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination ... Documentation and records are properly managed and maintained."

OCFO's Policy and Internal Controls office stated that each risk assessment received a review from the Chief of the Policy and Internal Controls office or by a designate prior to issuance of the AFR.

Without proper documentation to support the risk attribute points assessed and by incorrectly calculating risk attribute points, it is difficult to confirm the accuracy of the results. Therefore, there is an increased likelihood that OPM could have reported inaccurate results in the FY 2016 AFR for the following programs<sup>10</sup>: Federal Investigative Services, Purchase Cards, Vendor Payments, Federal Employees' Group Life Insurance, and Payroll.

### **Recommendation 8**

We recommend that OPM implement policies and procedures to document the risk assessment process, to include but not be limited to, the objective of each risk attribute and outlining the types of documentation needed to fulfill the risk attribute.

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<sup>10</sup>The OIG was able to verify that OPM's Travel Card and Travel Reimbursements risk assessments are low risk programs susceptible to improper payments as reported in the FY 2016 AFR.

**OPM's Response:**

***OPM concurs with the recommendation and will create a work instruction for conducting the risk assessments.***

**Recommendation 9 (Rolled Forward from FY 2015)**

We recommend that OPM re-evaluate the risk assessments performed on the Federal Investigative Services, Purchase Cards, Vendor Payments, Federal Employees' Group Life Insurance and Payroll programs prior to the issuance of OPM's FY 2017 AFR.

**OPM's Response:**

***OPM concurs with the recommendation. "[OPM] will update the FY 2016 risk assessments for the Federal Investigative Services (now the National Background Investigations Bureau), Purchase Cards, Vendor Payments, Federal Employees' Group Life Insurance, and Payroll, to ensure that the results are supported by appropriate supporting documentation and to ensure that the criteria are addressed consistently."***

**C. Improper Payment Root Causes**

Retirement Services has made improvements in FY 2016 by properly categorizing improper payments related to death data; however, they were unable to fully categorize the following improper payments root causes in Table 2, "*Improper Payment Root Cause Category Matrix*," of the FY 2016 AFR: Federal employees retirement system's disability offset for social security disability, delayed reporting of eligibility, unauthorized dual benefits or overlapping payments between benefit paying agencies, and fraud.

In the FY 2016 AFR, OPM acknowledges that they are aware of the major contributors of improper payments but are unable to provide the level of granularity needed to fully fulfill OMB Circular A-136 requirements. As a result, the remaining balance of these improper payments were placed in "Other Reason." In addition, OPM is fully committed to identifying the root causes of improper payments and has actively engaged the Information Technology group to explore methods to further break out root causes identified in work processes.

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.”

The OIG believes OPM should continue efforts in providing transparency and granularity in the retirement benefits program's improper payments in order to better present the root causes of improper payments in the AFR.

### **Recommendation 10 (Rolled Forward from FY 2015)**

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

#### **OPM’s Response:**

*OPM does not concur with the recommendation. “OPM has sufficient controls in place to identify improper payments. After many meetings with OCFO, [Retirement Services], and [Office of the Chief Information Officer] personnel, we have concluded that there are reporting limitations with the current legacy system. This constraint is prohibiting OPM from expanding the root causes categorization per OMB’s A-123, Appendix C.”*

#### **OIG Comment:**

Without documentation to support OPM’s analysis over its legacy system, we currently cannot validate that the current legacy system is prohibiting OPM from expanding the root causes categorization. Once we receive documentation during the audit resolution process, we will make a determination.

# APPENDIX I

FY 2015 Improper Payments Reporting Recommendations	Recommendation History	Current Status
<p><b><u>Recommendation 1:</u></b> We recommended that OPM implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefits program’s improper payments are properly categorized in OPM’s annual Agency Financial Report.</p>	FY 2015	Open, see Recommendation 10 in this report.
<p><b><u>Recommendation 2:</u></b> We recommended that the OCFO revise the risk assessment methodology to ensure the score point values are clearly defined and logical, and ensure that all required risk factors are included in the risk assessment tool (i.e., the Improper Payment Information Act Scoring Guide) used to conduct the assessment over OPM’s programs.</p>	FY 2015	Closed on February 28, 2017.
<p><b><u>Recommendation 3:</u></b> We recommended that the OCFO re-evaluate the risk assessments performed over the Federal Investigative Services, Federal Employees’ Group Life Insurance, Vendor Payments, Travel Card, and Payroll programs to ensure that programs are not susceptible to significant improper payments.</p>	FY 2015	Open, see Recommendation 9 in this report.
<p><b><u>Recommendation 4:</u></b> We recommended that the OCFO strengthen their procedures to ensure that the improper payments information reported in OPM’s Agency Financial Report is supported, reviewed, and validated for accuracy prior to the information’s inclusion in the Agency Financial Report.</p>	Rolled forward from FY 2014	Open, see Recommendation 4 in this report.
<p><b><u>Recommendation 5:</u></b> We recommended that the OCFO strengthen its oversight controls over the improper payments data reported in the Agency Financial Report to ensure that it accurately reflects supporting data.</p>	Rolled forward from FY 2013 and FY 2014	Open, see Recommendation 7 in this report.
<p><b><u>Recommendation 6:</u></b> We recommended that in the FY 2016 Agency Financial Report, OCFO correct all of the errors identified in the FY 2015 Agency Financial Report Table 14, <i>Status of Internal Controls</i>.</p>	FY 2015	Open, see Recommendation 6 in this report.

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# APPENDIX II



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

APR 12 2017

Chief Financial  
Officer

MEMORANDUM FOR:

MICHAEL ESSER  
Assistant Inspector General for Audits

FROM:

DENNIS D. COLEMAN  
Chief Financial Officer

SUBJECT:

OIG DRAFT AUDIT REPORT: Audit of the U.S.  
Office of Personnel Management's Fiscal Year  
2016 Improper Payments Reporting  
(Report Number-4A-CF-00-17-012), dated March 17, 2017

Thank you for the opportunity to respond to your draft audit report on the Office of Personnel Management's (OPM) reporting on improper payments under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). Reducing improper payments is an important priority for the Administration and OPM is firmly committed to this priority. We recognize the benefit from the external evaluation conducted by your office and the important part it plays in improving our program and reporting efforts.

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

We concur with 7 of the 10 recommendations in the draft report as discussed below. We are providing comments on some of the factual information set forth in your draft report and ask that those changes be incorporated in your final report.

Please note that OPM disagrees with the OIG's finding that we are not in compliance with IPERIA's Do Not Pay (*DNP*) Initiative reporting requirements for FY 2016. According to Public Law 112-248, Section 5 *DNP Initiative* (2) ... *At a minimum and*

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*before issuing any payment and award, each agency shall review as appropriate the following databases to verify eligibility of the payment and award: Death Management File (DMF) of the Social Security Administration (SSA) ....* As explained in its Annual Financial Reports (AFR), OPM already receives and utilizes the robust and comprehensive DMF under a separate agreement with SSA. Therefore, OPM is following the guidance of the law since it matches against the DMF database, which is the same data source used by DNP. OPM reports these improper payment results via an OMB approved alternative table which the OIG acknowledged.

Furthermore, OPM has elaborated below in Recommendation #1 and in previous AFRs, “while other Programs 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 an annuity.”

Responses to your recommendations are provided below.

**Recommendation #1:** We recommend that OPM evaluate the DNP tool to determine if it is beneficial in reducing Retirement Services’ (RS) improper payments and report the results in the FY 2017 AFR.

**Management Response to Recommendation #1:** Management does not concur with this recommendation.

OMB’s memorandum of April 12, 2012, *Reducing Improper Payments through the DNP list*, required federal agencies to submit a draft and final report (after OMB review) on how they plan to use DNP to reduce improper payments. OPM’s plan submitted to OMB, as required by the memorandum, concluded that we did not see a benefit for use of DNP for pre-payment reviews for the retirement program.

As stated in previous AFRs, “while other Programs 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 an annuity.” The only conditions under which an annuitant would surrender his or her payment are enumerated in Title 5 U.S. Code Section 8312. Per Title 5, payments of annuity may not be made to individuals who have been convicted of having committed certain national security offenses. These criminal offenses include treason, espionage, delivering defense information to aid a foreign government, sabotage, and a number of similar offenses. Payments of survivor annuities or lump sum death benefits are also prohibited, as a matter of longstanding general public policy, to a survivor or beneficiary who intentionally caused the death of the employee or Member, former employee or Member, or annuitant.

In addition, current data sources available in the DNP portal include credit alert system, death master file (DMF), list of excluded individuals and entities, office of foreign assets control,

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system of award management (SAM), SAM exclusion records and Treasury offset program. However, only the DMF database is relevant to RS. OPM already receives the robust and comprehensive DMF under a separate agreement with the SSA. 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. Since the same data source is used, this would be a duplicate effort. In conclusion, this is not a cost effective approach to address improper payments for RS which manages over 2.5 million recurring annuity payments.

**Recommendation #2:** We recommend that RS adhere to OMB's DNP Initiative reporting requirements when reporting on the DNP results in OPM's AFR.

**Management Response to Recommendation #2:** Management does not concur with this recommendation.

Since OPM does not plan to utilize the DNP portal, the table associated with the tool would not be applicable for the FY 2017 AFR. OPM has received OMB approval to report improper payment data via an alternative table. This alternative table provides greater granularity and transparency to the general public and communicates the results from using the DMF.

**Recommendation #3:** We recommend that RS strengthen their internal controls to ensure that the improper payments information is supported, reviewed, validated and maintained prior to issuance to the OCFO.

**Management Response to Recommendation #3:** Management concurs with this recommendation and will revise its procedures accordingly.

**Recommendation #4: (Rolled-Forward from FY 2014 and FY 2015)**

We recommend that the OCFO strengthen their procedures to ensure that the improper payments information reported in OPM's AFR is supported, reviewed, and validated for accuracy prior to the information's inclusion in the AFR.

**Management Response to Recommendation #4:** Management concurs with this recommendation and will revise its procedures accordingly.

**Recommendation #5:** We recommend that the OCFO implement policies and procedures for the annual internal control assessments, to include but not limited to, describing the methodology utilized and the documentation needed to address the methodology.

**Management Response to Recommendation #5:** Management concurs with the recommendation to implement policies and procedures for the annual internal control assessments.

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**OIG Finding related to Recommendation # 5:** “...we found seven instances where attributes were applied to Retirement Services and not to the Federal Employee Health Benefits Program and two instances where attributes were applied to the Federal Employee Health Benefits Program and not to Retirement Services.”

**Management Response to OIG Finding related to Recommendation # 5:**

Management disagrees with this part of the OIG’s finding. Addressing each attribute listed in OMB Circular A-123, Appendix C is neither required nor cost effective. Attributes are characteristics of a particular internal control standard that may or may not be present in any given organization or operation. Per General Accounting Office’s Green Book, “Attributes provide further explanation of the principle and documentation requirements and may explain more precisely what a requirement means and what it is intended to cover, or include examples of procedures that may be appropriate for an entity.” Every attribute will not be present in every situation. The fact that certain attributes were applied to RS but not to HI, as stated in the finding, does not indicate a flaw in our methodology. Furthermore, there is no requirement or even expectation that the internal control structures of two different programs would have all the same attributes. OMB points this out in OMB Circular A-123, Appendix C, Section C.2, where it states that, “It is important to note that the five standards and attributes below should be applied to the specific facts and circumstances of the various agency operations and programs.”

**Recommendation #6: (Rolled-Forward from FY 2015)** We recommend that in the FY 2017 AFR, OCFO correct all of the errors identified in the FY 2015 AFR Table 14, *Status of Internal Controls*.

**Management Response to Recommendation #6:** Management concurs with the recommendation and will provide the corrected information as a footnote to the appropriate Table in the FY 2017 AFR.

**Recommendation #7: (Rolled Forward from FY2013 and FY 2014)** We recommend that the OCFO strengthen its oversight controls over the improper payments data reported in the AFR to ensure that it accurately reflects supporting documentation.

**Management Response to Recommendation #7:** Management concurs with this recommendation and will revise its related work instruction accordingly.

**Recommendation #8:** We recommend OPM implement policies and procedures to document the risk assessment process, to include but not limited to, the objective of each risk attribute and outlining the types of documentation needed to fulfill the risk attribute.

**Management Response to Recommendation #8:** Management concurs with the recommendation and will create a work instruction detailing the procedures for conducting risk assessments.

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**Recommendation #9: (Rolled Forward from FY 2015)** We recommend that OCFO re-evaluate the risk assessments performed on Federal Investigative Services, Purchase Cards, Vendor Payments, Federal Employees' Group Life Insurance and Payroll programs prior to the issuance of OPM's FY 2017 AFR.

**Management Response to Recommendation #9:** Management concurs with the recommendation.

We will update the FY 2016 risk assessments for the Federal Investigative Services (now the National Background Investigations Bureau), Purchase Cards, Vendor Payments, Federal Employees' Group Life Insurance, and Payroll, to ensure that the results are supported by appropriate supporting documentation and to ensure that the criteria are addressed consistently.

**Recommendation #10: (Rolled Forward from FY 2015):** We recommend that OPM continue to implement controls to identify and evaluate the improper payment estimates root causes, to ensure that the root causes for the retirement benefits program's improper payments are properly categorized in OPM's annual AFR.

**Management Response to Recommendation #10:** Management does not concur with this recommendation.

OPM has sufficient controls in place to identify improper payments. After many meetings with OCFO, RS, and OCIO personnel, we have concluded that there are reporting limitations with the current legacy system. This constraint is prohibiting OPM from expanding the root causes categorization per OMB's A-123, Appendix C.

Thank you again for the opportunity to respond to the draft report. If you have any questions regarding our response, please contact [REDACTED], Chief Policy and Internal Controls at [REDACTED] or [REDACTED]@opm.gov.

cc:

Daniel K. Marella  
Deputy Chief Financial Officer

[REDACTED]  
Chief, Policy and Internal Controls

Kenneth Zawodny, Jr.  
Associate Director, Retirement Services

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