



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

Final Audit Report

**AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S
FISCAL YEAR 2017 IMPROPER PAYMENTS REPORTING**

Report Number 4A-CF-00-18-012
May 10, 2018

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management’s Fiscal Year 2017 Improper Payments Reporting

Report No. 4A-CF-00-18-012

May 10, 2018

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) 2017.

What Did We Audit?

The Office of the Inspector General completed a compliance audit on OPM’s FY 2017 improper payments reporting, as defined in the U.S. Office of Management and Budget’s (OMB) guidance and corresponding reporting instructions. Our audit was conducted from January 16, 2018, through March 13, 2018, 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 2017, 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, such as utilizing the Do Not Pay portal and approval for both the improper payments rates and reduction targets. We determined that OPM is in compliance with IPERIA’s additional reporting requirements.
3. General Observations: We identified two areas for improvement that, when addressed, could have a positive impact on OPM’s improper payments reporting. Specifically:
 - A. OPM included FY 2018 reduction targets in the Data Call located on the www.paymentaccuracy.gov website. However, FY 2018 reduction targets were not included in OPM’s FY 2017 Agency Financial Report (AFR).
 - B. Since FY 2012, Retirement Services’ improper payments rate has fluctuated between 0.36 percent and 0.38 percent. While the improper payment rates were within plus or minus 0.1 percentage points of the reduction target set in the previous year’s AFR, as required by OMB Circular A-123, Appendix C, the rate has never been less than 0.36 percent.

ABBREVIATIONS

AFR	Agency Financial Report
FEHBP	Federal Employees Health Benefits Program
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
PAR	Performance and Accountability Report

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I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our compliance audit of the U.S. Office of Personnel Management’s (OPM) Fiscal Year (FY) 2017 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) 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 August 15, 2017, which places more emphasis on agencies utilizing the www.paymentaccuracy.gov website to add more detailed information about improper payments.

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

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

- a. “Published an AFR [Agency Financial Report] or PAR [Performance and Accountability Report] for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- b. Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);

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

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

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

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

- Categorize their improper payment estimates based on OMB’s new improper payment categories;
- Perform risk assessments on all low risk programs at least every three years to assess their risk for improper payments;
- Develop indicators of improper payments for programs deemed high-priority, as required by OMB;
- Identify the accountable official that oversees efforts to reduce improper payments for high-priority programs;
- 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;

² “A program will have met a reduction target if the improper payments 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.”

- 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 List³ to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur.

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

Based on the guidance from OMB, risk assessments are conducted every three years for programs considered to be at a lower risk for improper payments. During FY 2016, OPM's Risk Management and Internal Control group conducted risk assessments of several OPM programs, including the National Background Investigation Bureau, formerly Federal Investigative Services, the Federal Employees' Group Life Insurance program, and the Payroll, Purchase Card, Travel Card, Travel Reimbursements, and Vendor Payments programs. Therefore, no risk assessments were conducted during FY 2017.

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

Retirement Services Program

In an effort to recapture identified improper payments from annuitants, Retirement Services Program (Retirement Services) has developed the following three types of recovery methods:

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

- Off-roll debts are collected when the debtor is not on the annuity roll or their entitlement is insufficient to recover the debt on a reasonable recovery schedule;
- On-roll debts are collected when OPM withholds a portion of the debtor's monthly benefits until their entire debt is collected; and
- Reclamations are recovery actions to recoup improper payments from an annuitant's financial institution. OPM utilizes the U.S. Department of Treasury's reclamation process.

The recaptured amounts are tracked by OPM's Office of the Chief Financial Officer's (OCFO) Trust Fund office using the *Treasury Report on Receivables and Debt Collection Activities*.

Healthcare and Insurance Program

The calculation for the Federal Employees Health Benefits Program (FEHBP) combines improper payments from audits and investigative recoveries. For audits, the improper payments start as overpayments or underpayments identified by the OIG as recommendations in final audit reports on FEHBP carriers. When a determination is made by Healthcare and Insurance Program's (Healthcare and Insurance) Audit Resolutions Group (Audit Resolutions) to disallow these amounts, the amount becomes a reportable improper payment.

For investigative recoveries, when the FEHBP receives an award as the result of a civil settlement or criminal judgement, the OIG will provide Audit Resolutions and the OCFO with a memorandum detailing the amount of the FEHBP award and the allocation to specific FEHBP carriers. The U.S. Department of the Treasury's Report of Receivables captures the FEHBP's overpayments, as well as the amount recaptured or recovered from health benefit carriers, which the OCFO provides to Healthcare and Insurance.

OPM’s reported improper payments and overpayments recaptured for FY 2017 are summarized in the following tables:

Table 1: FY 2017 Improper Payments Summary ⁴					
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%

Table 2: FY 2017 Overpayments Recaptured Summary ⁵		
Program	FY 2017 Amount Identified for Recovery (\$ in millions)	FY 2017 Improper Payment Amount Recovered (\$ in millions)
Retirement Services	238.74	224.41
Federal Employees Health Benefits	27.61	70.04 ⁶

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

During the audit of OPM’s FY 2016 Improper Payments Reporting, Report No. 4A-CF-00-17-012, we determined that OPM’s reporting of improper payments was not in compliance with IPERIA’s *Do Not Pay Initiative* reporting requirements. In addition, we issued 10 recommendations where OPM could improve its oversight controls over improper payments reporting. Based on testing performed in this year’s audit, we determined that recommendations 1 through 9 could be closed. Recommendation 10 remains open, as outlined in Appendix I.

⁴ Data collected from Table 1 “Payment Summary” on page 135 of OPM’s FY 2017 AFR.

⁵ Data collected from section II “Recapture of Improper Payments Reporting” on page 144 of OPM’s FY 2017 AFR.

⁶ The Healthcare and Insurance amount recovered includes \$20.23 million in recoveries from FY17 and \$49.80 million in adjustments (totaling \$70.03 million), representing activity spanning current and prior years. A rounding variance of \$10,000 was reported in the AFR.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine if OPM complied with the Improper Payment Information Act, as amended by IPERA and IPERIA, for FY 2017. The recommendations included in this final report address this objective.

SCOPE AND METHODOLOGY

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

The scope of our audit covered OPM's FY 2017 improper payments reporting in OPM's AFR. We performed our audit from January 16, 2018, through March 13, 2018, 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;
- Analyzed OPM's corrective actions to address the open audit recommendations identified in the FY 2013, FY 2014, FY 2015, and FY 2016 Improper Payments Reporting final audit reports;
- Reviewed and analyzed supporting documentation to ensure the offices of Healthcare and Insurance and Retirement Services' estimated improper payments methodologies were supported, and recalculated the improper payments estimates to verify that the estimates reported were accurate;
- Reviewed Healthcare and Insurance and Retirement Services' corrective actions in the AFR to ensure they discussed robust and effective corrective actions to reduce improper payments;
- Compared the FY 2017 projected improper payments estimate, as reported by OPM in the FY 2016 AFR, to the actual improper payment rate, as reported by OPM in the

FY 2017 AFR, 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;
- Obtained and reviewed source documentation for all numerical data on improper payments as documented in the AFR tables;
- Assessed the reasonableness of OPM's plan to recapture improper payments; and
- Interviewed program representatives from the OCFO, Retirement Services, and Healthcare and Insurance.

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

Our audit included such tests and analysis of OPM's improper payments reporting process, including documented policies and procedures, numerical data and narratives reported in the AFR, and other applicable information, as we considered necessary under the circumstances. The results of our tests indicate that OPM is in compliance with IPERA and IPERIA. However, we identified two areas for improvement that, when addressed, could have a positive impact on OPM's improper payments reporting.

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

III. AUDIT FINDINGS AND RECOMMENDATIONS

The sections below detail the results of our audit of OPM’s FY 2017 improper payments reporting for compliance with IPERA and IPERIA.

1. IPERA Reporting Requirements

Based on our review of OPM’s FY 2017 AFR, the www.paymentaccuracy.gov website, and other documentation provided by the agency, we determined that OPM is in compliance with the six reporting requirements of IPERA:

Criteria for Compliance	Criteria Met?
1) Published and posted its FY 2017 AFR on Agency website	Yes
2) Conducted program-specific risk assessments	Yes
3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment	Yes
4) Published programmatic corrective action plans in the AFR	Yes
5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments	Yes
6) Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR	Yes

2. IPERIA Reporting Requirements

Based on our review of the reporting requirements for IPERIA, such as utilizing the Do Not Pay portal and OMB’s approval for both the improper payments rate and the reduction targets, we determined that OPM is in compliance with IPERIA for FY 2017.

3. General Observations

During our audit, we identified two areas for improvement that, when addressed, could have a positive impact on OPM’s improper payments reporting. The two areas include:

A. Reduction Targets

OPM did not list reduction targets for FY 2018 in “Table 1 - Payment Summary” in the FY 2017 AFR as illustrated below. However, the targets were included in the Data Call located on the www.paymentaccuracy.gov website. OPM’s Risk Management and Internal Control group informed us that it was not a requirement to include the reduction targets for FY 2018 in the FY 2017 AFR, since such projections already exist in the Data Call.

PAYMENT SUMMARY							
TABLE 1 - Payment Summary							
Payment Summary (\$ in millions)							
Program	FY 2017 Outlays (\$)	FY 2017 Proper Payment (\$)	FY 2017 Proper Payment Rate	FY 2017 IP Amount (\$)	FY 2017 IP Rate	FY 2017 Over-Payment (\$)	FY 2017 Under-Payment (\$)
Retirement Program	82,913.00	82,599.19	99.62	313.81	0.38	238.74	75.07

On August 15, 2017, OMB issued instructions regarding how agencies should utilize the Data Call. OMB instructed agencies to add more detailed information in the Data Call and inform readers of the AFR that the Data Call located at www.paymentaccuracy.gov contains more detailed information on improper payments, including FY 2018 reduction targets.

OMB Circular A-136, in accordance with OMB Circular A-123, Appendix C, states “agencies shall identify the ... [r]eduction targets by program and activity for the next fiscal year.”

We discussed this with OMB and were informed that the intent was for agencies to include FY 2018 reduction targets in the FY 2017 AFR. However, OMB stated that “their instructions might not have been clear, therefore it is not the agencies’ fault the reduction targets were not included in the AFR.”

Recommendation 1

We recommend that the OCFO ensure that reduction targets for the next fiscal year are included in the AFR.

OPM’s Response (to Draft Recommendation)

OPM concurs with the recommendation and will revise its work instructions to ensure reduction targets are included in the AFR for next fiscal year.

B. Improper Payments Rate

The overall intent of the Improper Payments Information Act of 2002, as amended by IPERA and IPERIA, is to reduce improper payments. Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, reiterates this point by stating that “When the Federal Government makes payments to individuals and businesses as program beneficiaries, grantees, or contractors, or on behalf of program beneficiaries, it must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time. The purpose of this order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government.”

While Retirement Services met its improper payment reduction targets for fiscal years 2012 through 2017, Retirement Services’ improper payments rate remained basically stagnant during that time period, at roughly an average of 0.37 percent, as shown in the table below.

FY 2012 IP Rate	FY 2013 IP Rate	FY 2014 IP Rate	FY 2015 IP Rate	FY 2016 IP Rate	FY 2017 IP Rate
0.36%	0.36%	0.38%	0.38%	0.37%	0.38%

In addition, Retirement Services’ improper payment amounts increased every year from 2012 to their current level of more than \$313 million, as illustrated below.

Fiscal Year	2012	2013	2014	2015	2016	2017
Improper Payments Amount (\$ in millions)	265.8	278.3	303.3	304.2	304.21	313.81

Retirement Services’ outlined various corrective actions taken to combat improper payments in the AFR. However, several have been discontinued due to the *perceived* cost ineffectiveness of the programs, such as the Over 90 and Proof of Life projects, and additional cost effective corrective actions have not been identified and implemented. As a result, Retirement Services’ improper payment rates have remained stagnant.

IPERA requires that agencies publish, and meet, annual reduction targets for each program assessed to be at risk and measured for improper payments. While Retirement Services is complying with the “letter of the law,” it is not meeting the spirit of the Improper Payments Act of 2002, which is to reduce improper payments.

Recommendation 2

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

OPM’s Response (to Draft Recommendation)

OPM partially concurs with the recommendation and stated that “When the improper payment rate is expanded into the full decimal value, it tracks the improper payment rate trending lower between FY 2014 and FY 2016, with a slight uptick in FY 2017. This would not be apparent in the AFR due to the rounding guidelines for reporting the improper payment rate.” OPM provided the table below to further illustrate their position. Note: The FY 2012 improper payment rate should be 0.3615 percent, or 0.003615 expressed as a decimal, based on support previously provided by OPM.

Improper Payment Rate Expressed as Decimals from FY 2012 through FY 2017

Fiscal Year	Improper Payment Amount	Total Outlays	Improper Payment Rate Expressed as a Decimal	Difference Between Prior Year
2017	313.81	82,913	0.003785	0.000076
2016	304.21	82,013.2	0.003709	-0.000043
2015	304.2	81,067.7	0.003752	-0.000096
2014	303.3	78,816.4	0.003848	0.000209
2013	278.3	76,485.9	0.003639	0.000043
2012	265.8	73,915.4	0.003596	~

OIG Comment:

OPM expanded their improper payment rate out to six decimal places to illustrate that the improper payment rate trended lower in FY 2015 and FY 2016. However, except for those years, the improper payment rate has increased each year, as well as overall, since FY 2012, as shown in OPM's draft report response. While we are willing to partner with OPM and conduct an analysis to help identify ways to reduce improper payments, we urge Retirement Services to also reach out to the Federal Government community for guidance.

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

APPENDIX I

FY 2016 Improper Payments Reporting Recommendations	Recommendation History	Current Status
<p><u>Recommendation 1:</u> We recommended 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.</p>	FY 2016	Closed on March 13, 2018
<p><u>Recommendation 2:</u> We recommended 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.</p>	FY 2016	Closed on March 13, 2018
<p><u>Recommendation 3:</u> We recommended 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.</p>	FY 2016	Closed on March 13, 2018
<p><u>Recommendation 4:</u> 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, FY 2015 and FY 2016	Closed on March 13, 2018
<p><u>Recommendation 5:</u> We recommended 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.</p>	Rolled-Forward from FY 2015 and FY 2016	Closed on March 13, 2018
<p><u>Recommendation 6:</u> We recommended that in the FY 2017 AFR, OCFO correct all of the errors identified in the FY 2015 AFR Table 14, <i>Status of Internal Controls</i>.</p>	Rolled-Forward from FY 2015 and FY 2016	Closed on November 28, 2017

<p><u>Recommendation 7:</u> 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>	<p>Rolled-Forward from FY 2013, FY 2014, FY 2015 and FY 2016</p>	<p>Closed on March 13, 2018</p>
<p><u>Recommendation 8:</u> We recommended that 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.</p>	<p>Rolled-Forward from FY 2015 and FY 2016</p>	<p>Resolved⁷ on March 13, 2018</p>
<p><u>Recommendation 9:</u> We recommended that OPM re-evaluate the risk assessments performed on the National Background Investigations Bureau (formerly 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.</p>	<p>Rolled-Forward from FY 2015 and FY 2016</p>	<p>Closed on November 28, 2017</p>
<p><u>Recommendation 10:</u> 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>	<p>Rolled-Forward from FY 2015 and FY 2016</p>	<p>Open</p>

⁷ Recommendation 8 is resolved; however, it will be retested for closure during the FY 2018 improper payments reporting audit.

APPENDIX II



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

APR 13 2018

Chief Financial
Officer

MEMORANDUM FOR: MICHAEL ESSER
Assistant Inspector General for Audits

FROM: DENNIS D. COLEMAN *For Dal K Hill*
Chief Financial Officer *Deputy CFO*

SUBJECT: Management Response to Draft Report on the Audit of the
U.S. Office of Personnel Management's Fiscal Year 2018
Improper Payments Reporting (Report Number-4A-CF-00-
18-012)

Thank you for the opportunity to respond to the Office of the Inspector General's (OIG) Draft Report on the Office of Personnel Management's (OPM) 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), the Retirement Services (RS), and Healthcare and Insurance (HI) organizations, believe our cumulative efforts over the past few years continue to result in significant improvements in OPM's improper payment program. The Improper Payment Working Group continues to be the focal point for coordinating these improvements in our program.

We concur with the recommendations in the draft report as discussed below. However, please note that OPM partially agrees with recommendation 2. 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.

Responses to your recommendations are provided below.

Recommendation #1: We recommend that OPM ensure that reduction targets for the next fiscal year are included in the Annual Financial Report (AFR).

Management Response to Recommendation #1: OPM Management concurs with this recommendation.

OCFO reported the reduction targets for FY 2018, in the FY 2017 OMB Data Call located on the www.paymentaccuracy.gov website. OPM will revise its Work Instructions to ensure reduction targets are included in the next FY AFR.

Recommendation #2: We recommend that RS conduct an analysis to determine if the improper payments rate can be reduced below 0.36 percent.

Management Response to Recommendation #2: OPM partially concurs with this recommendation.

RS works continuously to address and reduce improper payments. RS would like to partner with the OIG to understand what type of specific analysis they feel would benefit RS to reduce improper payments. The OIG's expertise in this area would certainly benefit RS's ability to properly formalize and conduct an analysis.

RS also wanted to provide the OIG with a more comprehensive picture of the improper payment rate from FY 2012 through FY 2017. When the improper payment rate is expanded into the full decimal value, it tracks the improper payment rate trending lower between FY 2014 and FY 2016, with a slight uptick in FY 2017. This would not be apparent in the AFR due to the rounding guidelines for reporting the improper payment rate. Subsequently, while the OIG expressed OPM does not appear to be meeting the overall intent of the OMB Circular A-123, Appendix C requirements, which are to reduce improper payments, the chart below reflects and documents OPM's commitment to reduce improper payments.

Furthermore, if we were to express the difference in the improper rate between FY 2016 and FY 2017 as a decimal it is .000076. This number expressed as a percentage point is 0.01%. As shown below, since 2012, RS has stayed well below the reduction target.

Improper Payment Rate Expressed as Decimals from FY 2012 through FY 2017

Fiscal Year	Improper Payment Amount	Total Outlays	Improper Payment Rate Expressed as a Decimal	Difference Between Prior Year
2017	313.81	82,913	0.003785	0.000076
2016	304.21	82,013.2	0.003709	-0.000043
2015	304.2	81,067.7	0.003752	-0.000096
2014	303.3	78,816.4	0.003848	0.000209
2013	278.3	76,485.9	0.003639	0.000043
2012	265.8	73,915.4	0.003596	~

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

cc:

Daniel K. Marella
Deputy Chief Financial Officer

[REDACTED]
Chief, Risk Management and Internal Control

Kenneth Zawodny, Jr.
Associate Director, Retirement Services

Alan Spielman
Director, Healthcare and Insurance

Mark W. Lambert
Associate Director, Merit System Accountability and Compliance

Janet L. Barnes
Director, Internal Oversight and Compliance

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Lead Financial Analyst, Risk Management and Internal Control



Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

By Phone: Toll Free Number: (877) 499-7295
Washington Metro Area: (202) 606-2423

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100