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**Letter Number 2023-16**

**Date: September 7, 2023**

Fee-for-service [14]

Experience-rated HMO [14]

Community-rated HMO [15]

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**Subject: Initial Guidance on the Federal Employees Health Benefits (FEHB) Program Improper Payments (IPs) and Carrier Reporting Requirements**

**Background**

This carrier letter provides information on the Payment Integrity Information Act of 2019 (PIIA) and FEHB IP reporting requirements including the reasons and timeline for the changes.

Office of Personnel Management (OPM) is continuing its efforts to prevent and reduce IPs in the Federal Employees Health Benefits (FEHB) Program. As discussed at the March 15, 2023 Carrier Collaboration Workgroup meeting, OPM's goal is to better understand the root causes of IPs and continue to work with carriers to further develop corrective actions to prevent, reduce, and recover any erroneous payments as required by Section 2.3(g) (Payment of Benefits and Provision of Services and Supplies) of the FEHB standard contract.

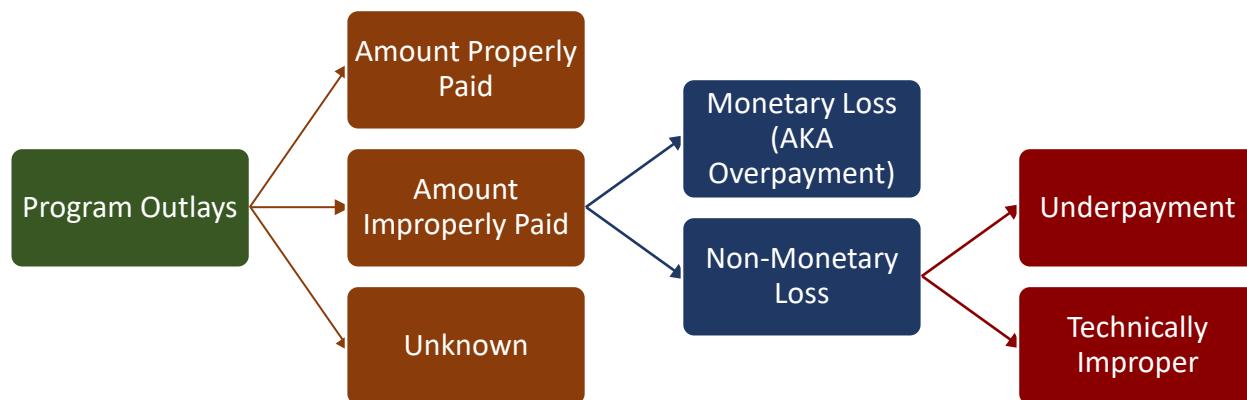
In addition, the Payment Integrity Information Act of 2019 (PIIA) requires federal agencies to improve efforts to identify and reduce government-wide IPs and increase payment integrity across federal programs. The Office of Management and Budget (OMB) published OMB Memorandum M-21-19, Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement (Appendix C), on March 5, 2021. Under Appendix C, OPM is

required to assess all programs and activities with annual outlays greater than \$10M and identify those that are susceptible to significant improper payments. OPM is also required to report improper payments estimates on those programs and activities using a statistically valid sampling and estimation methodology plan (S&EMP).

## Payment Type Categories

Agencies must report on several payment types and root causes. Key definitions from Appendix C are provided below. All program outlays will fall into one of the following payment type categories: proper payment, improper payment, or unknown payment. Improper payments are then further categorized into monetary loss and non-monetary loss, which is comprised of outlays categorized as underpayments or technically improper, as indicated in Figure 1 below.

Figure 1: Improper Payment Type Categories<sup>1</sup>



**A Proper Payment** is a payment made to the right recipient for the right amount that has met all program-specific legally applicable requirements for the payment.

<sup>1</sup> White House. [Memorandum on the Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement.](#)

**An Improper Payment (IP)** is a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

Improper Payments are then further categorized as follows:

- **Monetary loss IP** – an overpayment, in theory, that could or should be recovered, which can be further categorized into intentional and unintentional.
- **Non-monetary loss IP** – underpayments and technically IP
  - Underpayment: A payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount which was actually paid.
  - Technically Improper: A payment made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements.

**Unknown Payment (UP)** – payment that could be either proper or improper, but the agency is unable to determine whether the payment was proper or improper as a result of insufficient or lack of documentation.

**A Root Cause** is something that would directly lead to an IP, and if corrected, would prevent the IP.

### **FEHB Improper Payment Reporting**

OPM has developed a S&EMP for experience-rated carriers (ER carriers) as described below. OPM is reviewing options for community-rated health maintenance organization carriers and will provide additional information at a later date.

In the S&EMP for the ER carriers, OPM will leverage the current Financial Reporting and Audit Guide, including the Agreed Upon Procedures (AUP) located in Appendix D. OPM is updating the Audit Guide and the AUPs so that the reporting requirements provide a comprehensive estimate of the number

and dollar value of improper payments made by the carriers, to help make sure the IP data provided to OPM is uniform, accurate, and verifiable.

Prior guidance required only the primary carriers to perform AUPs and choose to report them on either a fiscal year or calendar year basis. Primary carriers are carriers with Program claims expenses above a certain threshold. For example, in the Financial Reporting and Audit Guide for federal fiscal year 2023, primary carriers have Program claims expenses of \$500 million or more for calendar year 2022. The updated guidance, as discussed at the March 15, 2023, Carrier Collaboration Workgroup Meeting, will require ALL ER carriers to conduct AUPs in 2024 and report the data results to OPM by March 31, 2025. The AUPs must be performed by the carrier's Independent Public Accountant (IPA). ER carriers will be able to include costs associated with its IPAs as an administrative expense. The updated AUPs will cover a 12-month timeframe that aligns with the financial reporting option the Carrier selected in the Financial Reporting and Audit Guide. For carriers in Option 1, the 12-month timeframe is from January 1 through December 31. For carriers in Option 2, the 12-month timeframe is from October 1 through September 30. OPM will not allow alternate procedures. All carriers must submit their data using the standardized report that OPM will furnish.

Our general planned timeline for the ER carriers is as follows:

- **Winter 2022-Summer 2023:** OPM updates Financial Reporting and Auditing Guide AUPs
- **Summer 2023:** OPM provides AUPs to carriers for feedback
- **Summer – December 2023:** OPM Reviews carriers' feedback and edits AUPs for FY 2024 Financial Reporting and Audit Guide
- **January/February 2024:** Carriers receive FY 2024 Financial Reporting and Audit Guide with updated AUPs
- **February – December 2024:** Independent Auditors conduct the AUPs
- **March 2025:** Carriers provide OPM standardized data
- **October 2025:** OPM submits FY 2025 IP data to OMB

OPM expects to provide a draft copy of the updated Audit Guide, AUPs, and standardized report to the ER Carriers for review and comment in Summer 2023. OPM expects to review comments, make appropriate updates, and release the final version in early 2024. OPM expects carriers to timely amend their contracts with their IPAs to include the new requirements for 2024.

## **Conclusion**

We look forward to working with carriers on continued efforts to prevent, reduce and recover improper payments in the FEHB Program. We will schedule periodic workgroup meetings with the ER carriers to discuss the new requirements. For community-rated health maintenance organization carriers, we will provide additional information at a later date. Please send any feedback and questions to [FEHBIP@opm.gov](mailto:FEHBIP@opm.gov). We appreciate and look forward to collaborating with FEHB carriers on these matters.

Sincerely,

Laurie Bodenheimer  
Associate Director  
Healthcare and Insurance