



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

Final Audit Report

Subject:

**AUDIT OF
THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S
FISCAL YEAR 2012 IMPROPER PAYMENTS
REPORTING FOR COMPLIANCE WITH THE
IMPROPER PAYMENTS ELIMINATION AND
RECOVERY ACT OF 2010**

Report No. 4A-CF-00-13-016

Date: March 11, 2013

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AUDIT REPORT

**AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S
FISCAL YEAR 2012 IMPROPER PAYMENTS REPORTING FOR
COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION
AND RECOVERY ACT OF 2010**

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Date: March 11, 2013



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for Audits

EXECUTIVE SUMMARY

AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S FISCAL YEAR 2012 IMPROPER PAYMENTS REPORTING FOR COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

Report No. 4A-CF-00-13-016

Date: March 11, 2013

The Office of the Inspector General has completed a performance audit of the Office of Personnel Management's (OPM) Fiscal Year (FY) 2012 Improper Payments Reporting for Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Our primary objective was to determine if OPM's improper payment reporting in the Agency Financial Report (AFR) was compliant with the requirements of IPERA. In order to make this determination, our audit included the following specific objectives:

1. Determine if OPM conducted specific risk assessments of all programs and activities to identify those that are susceptible to significant improper payments;
2. Determine if OPM reported improper payment estimates of risk susceptible programs in the AFR and verified accuracy and completeness of the reported amounts;
3. Determine if OPM included a discussion of improper payment estimates and methodologies in the AFR;
4. Determine if the AFR discussed corrective action plans for reducing improper payments where estimates exceed \$10 million;
5. Determine if OPM documented improper payment reduction targets and timeframes for reaching them;
6. Determine if OPM reported on its efforts to recapture improper payments; and,
7. Evaluate OPM's controls over improper payments reporting in the AFR.

Our audit revealed that OPM's reporting of improper payments is in compliance with IPERA; however, it can improve the discussion of its efforts to recapture improper payments by including an in-depth description of all the methods used to recapture overpayments.

A draft report was issued on February 4, 2013 to the OCFO for review and comment. The comments in response to the draft were considered in preparing this final report and are included as an Appendix. OPM concurred with our recommendation and will implement corrective action.

The recommendations from our previous audit of the U.S. OPM FY 2011 Improper Payments Reporting for Compliance with the IPERA (Report 4A-RI-00-12-009, dated March 14, 2012) have been satisfactorily resolved, except for the development of documented internal controls over the reporting of improper payments.

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I. INTRODUCTION AND BACKGROUND

Introduction

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the U.S. Office of Personnel Management's (OPM) Fiscal Year (FY) 2012 Improper Payments Reporting for compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General act of 1978, as amended.

Background

On July 22, 2010, the President signed into law IPERA, which amends the Improper Payments Information Act of 2002, to prevent the loss of billions of taxpayer dollars. Implementing guidance for IPERA was issued by the Office of Management and Budget (OMB) via Memorandum M-11-16 on April 14, 2011. Under the guidance, a program is deemed susceptible to significant improper payments if the total amount of overpayments plus underpayments in the program exceeds both 2.5 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 payment percentage of total program outlays.

Each agency Inspector General is required to review improper payments reporting in the Agency Financial Report (AFR) to determine compliance with IPERA. The Inspector General should submit a report of its findings within 120 days of the agency publication of the AFR.

Under IPERA, agencies must do the following with respect to improper payments reporting:

- publish an AFR for the most recent fiscal year and post it on the agency website;
- conduct a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C.;
- publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;
- publish programmatic corrective action plans in the AFR;
- publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments;
- report 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; and,
- report information on its efforts to recapture improper payments.

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

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

has also designated payments to contractors under the Background Investigations Program administered by the Federal Investigative Services as well as benefits paid under its Federal Employees' Group Life Insurance Program as susceptible to improper payments. OPM's reported improper payments for FY 2012 are summarized in the following table.

FY 2012 Improper Payments Summary¹					
	Total Outlays (\$ millions)	Gross Improper Payments (\$ millions)	Overpayments (\$ millions)	Underpayments (\$ millions)	2012 Improper Payment %
Retirement	73,519.4	265.8	208.7	57.1	0.36%
Health Benefits	42,558.5	213.0	212.8	0.2	0.50%
Life Insurance	2,670.6	2.3	1.3	0.9	0.08%
Background Investigations	635.4	3.1	3.0	0.1	0.50%

The recommendations from our previous audit of the U.S. OPM FY 2011 Improper Payments Reporting for Compliance with the IPERA (Report 4A-RI-00-12-009, dated March 14, 2012) have been satisfactorily resolved, except for the development of documented internal controls over the reporting of improper payments.

The preliminary results of our audit were discussed with the Office of the Chief Financial Officer (OCFO), Retirement Services, Healthcare and Insurance, and Federal Investigative Services officials at an exit conference. A draft report was issued on February 4, 2013 to the OCFO for review and comment. The comments in response to the draft were considered in preparing the final report and are included as an Appendix. OPM concurred with our recommendation and will implement corrective action.

¹ Data collected from Table 12 "Improper Payment Reduction Outlook" on page 130 of OPM's FY 2012 AFR.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine if OPM's improper payments reporting in the AFR was compliant with IPERA requirements. Specifically, we:

1. Determined if OPM conducted specific risk assessments of all programs and activities to identify those that are susceptible to significant improper payments;
2. Determined if OPM reported improper payment estimates of risk susceptible programs in the AFR and verified accuracy and completeness of the reported amounts;
3. Determined if OPM included a discussion of improper payment estimates and methodologies in the AFR;
4. Determined if the AFR discussed corrective action plans for reducing improper payments where estimates exceed \$10 million;
5. Determined if OPM documented improper payment reduction targets and timeframes for reaching them;
6. Determined if OPM reported on its efforts to recapture improper payments; and
7. Evaluated OPM's controls over improper payments reporting in the AFR.

The recommendation included in this final report addresses these objectives.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. Those standards required 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The scope of our audit covered OPM's FY 2012 improper payments reported in the AFR. We performed our audit fieldwork from November 6, 2012 through January 24, 2013 at OPM headquarters, located in Washington, D.C.

To accomplish the audit objectives noted above, we:

- Reviewed the improper payments section of OPM's FY 2012 AFR to assess compliance with IPERA;
- Reviewed prior year audit findings and obtained the status of corrective actions;
- Reviewed applicable Federal laws;
- Reviewed applicable OMB guidance;

- Verified source documentation for all numerical data on improper payments as documented in the AFR tables;
- Verified source documentation for numerical amounts stated in the narrative discussion on improper payments made in the AFR; and,
- Interviewed program representatives from the Chief Financial Officer, Healthcare and Insurance, Retirement Services, and Federal Investigative Services offices.

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, although we did gain 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 improper payments reporting. We determined that OPM is in compliance with IPERA improper payments reporting. We identified one area of improvement related to OPM's discussion of recaptured improper payments as detailed in the "Audit Findings and Recommendations" section of this report.

We did not sample improper payments for testing and did not evaluate the effectiveness of the general and application controls over computer processed data.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1. Improvements Needed in OPM's Reporting of Efforts to Recapture Improper Payments

OPM's discussion of its efforts to recapture improper payments lacks an in depth description of all the methods used to recapture overpayments. Specifically,

- The AFR's discussion of the methods used by Retirement Services and the Chief Financial Officer did not include the efforts made to recapture overpayments made to deceased annuitants through the reclamation process with the Department of the Treasury.
- The AFR's discussion for Health Insurance, Life Insurance, and Background Investigations did not include the methods used by these programs to recapture the reported overpayments.

OMB Circular A-136 states that agencies must report annually on their payment recapture audit program in their AFRs. OMB Memorandum M-11-16 states that the report shall include a "general description and evaluation of the steps taken to carry out a payment recapture audit program, including a discussion of the methods used by the agency to identify and recapture overpayments."

Without a complete description of the efforts to recapture overpayments, OPM's reporting on improper payments does not fully meet the reporting requirements.

Recommendation 1

We recommend that OPM's reporting in the AFR on its efforts to recapture improper payments include a description of all the methods used to recapture overpayments.

OPM's Response:

Management concurs with the recommendation.

"...OPM notes that its payment recapture reporting for FY 2012 provided more detail than in prior years in accordance with the OMB guidance and was in compliance with IPERA as reported by OIG. Additionally, methods to identify improper payments for each program (including overpayments) were contained in the Statistical Sampling and Other Methodology Section of our FY 2012 AFR reporting. Nevertheless, as recommended by OIG, OPM will provide additional details for payment recapture methods to deceased annuitants in its FY 2013 reporting for the Retirement and [Federal Employees Health Benefits] FEHB programs. OPM notes that it is seeking authority from OMB to no longer report annually for the [Federal Employees Group Life Insurance] FEGLI and [Background Investigations] BI programs as estimated improper

payments for those programs are under the OMB reporting thresholds. Therefore, OPM expects not to be required to include details on improper payments for those two programs in the FY 2013 AFR.


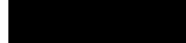
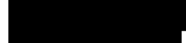
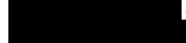
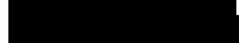

OPM expects to complete the corrective actions for this recommendation by November 15, 2013 which is the required date for OPM to complete its FY 2013 AFR.”

OIG Comment:

We have reviewed OPM’s request to seek authority from OMB to no longer report annually for the FEGLI and BI programs and agree that these programs are under the reporting thresholds. If OMB approves OPM’s request, we will consider this recommendation closed, only as it relates to the FEGLI and BI programs.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Internal Audits Group

, Auditor-In-Charge
, Auditor
, Auditor
, Auditor
 Senior Team Leader
 Chief



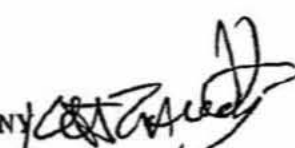
UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415
FEB 13 2013Chief Financial
OfficerMEMORANDUM FOR: MICHAEL ESSER
Assistant Inspector General for Audits


[REDACTED]
Chief, Internal Audits Group

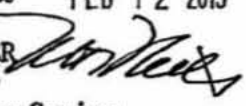
FROM:

DENNIS D. COLEMAN 
Chief Financial Officer

KENNETH ZAWODNY 
Associate Director
Retirement Services

FEB 12 2013

JOHN O'BRIEN 
Associate Director
Healthcare and Insurance

MERTON MILLER 
Associate Director
Federal Investigative Services

SUBJECT OIG DRAFT AUDIT REPORT
Audit of the U.S. Office of Personnel Management's FY 2012 Improper
Payments Reporting for Compliance with the Improper Payments Elimination and
Recovery Act of 2010 (IPERA) Audit Report Number - 4A-CF-00-13-016, dated
February 4, 2013

Thank you for the opportunity to respond to your review of OPM's reporting on improper payments under IPERA. Reducing improper payments is an important priority for the Administration and OPM is firmly committed to this priority. We are pleased that OIG has found OPM is compliant with IPERA based on our FY 2012 Agency Financial Report (AFR).

OPM has an effective improper payments program and has strived to make improvements in reducing its reported improper payments. Over the past year, we have formed an Improper Payments Working Group (IPWG) that includes all major OPM organizations involved in our improper payment efforts. The IPWG is the focal point for coordinating improvements in our program and for ensuring that our reporting is accurate and in compliance with IPERA and associated Office of Management and Budget (OMB) guidance. For example, in response to your prior-year recommendation, the IPWG ensured that OPM developed a comprehensive improper payments plan that sets goals to reduce improper payments and increase recoveries for overpayments. OIG's initial report on IPERA compliance was a major factor in our improvement efforts, and we look forward to working closely with the OIG in the coming years to further improve our improper payments program. We concur with the one recommendation in the draft report and will take appropriate corrective action as discussed below.

Recommendation 1

We recommend that OPM's reporting in the AFR on its efforts to recapture improper payments include a description of all the methods used to recapture overpayments.

Management Response to Recommendation 1

The OIG draft report notes that OPM's discussion on recapture efforts does not include all the information required by the Office of Management and Budget under its Circular No. A-136, Financial Reporting Requirements. Specifically, OIG noted that we did not include methods to recapture overpayments of retirement benefits to deceased annuitants through the reclamation process with Treasury and also did not include methods to identify and recover overpayments for the Federal Employees Health Benefits (FEHB) program, the Federal Employees' Group Life Insurance (FEGLI) program and the Background Investigations (BI) program.

OPM notes that its payment recapture reporting for FY 2012 provided more detail than in prior years in accordance with the OMB guidance and was in compliance with IPERA as reported by OIG. Additionally, methods to identify improper payments for each program (including overpayments) were contained in the Statistical Sampling and Other Methodology Section of our FY 2012 AFR reporting. Nevertheless, as recommended by OIG, OPM will provide additional details for payment recapture methods to deceased annuitants in its FY 2013 reporting for the Retirement and FEHB programs. OPM notes that it is seeking authority from OMB to no longer report annually for the FEGLI and BI programs as estimated improper payments for those programs are under the OMB reporting thresholds. Therefore, OPM expects not to be required to include details on improper payments for those two programs in the FY 2013 AFR.

OPM expects to complete the corrective actions for this recommendation by November 15, 2013 which is the required date for OPM to complete its FY 2013 AFR.