



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

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# Final Audit Report

Subject:

**AUDIT OF  
THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S  
FISCAL YEAR 2013 IMPROPER PAYMENTS  
REPORTING FOR COMPLIANCE WITH THE  
IMPROPER PAYMENTS ELIMINATION AND  
RECOVERY ACT OF 2010**

Report No. 4A-CF-00-14-009

Date: April 10, 2014

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## AUDIT REPORT

**AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S  
FISCAL YEAR 2013 IMPROPER PAYMENTS REPORTING FOR  
COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION  
AND RECOVERY ACT OF 2010**

Report No. 4A-CF-00-14-009

Date: 4/10/14



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

## EXECUTIVE SUMMARY

### AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S FISCAL YEAR 2013 IMPROPER PAYMENTS REPORTING FOR COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

Report No. 4A-CF-00-14-009

Date: 4/10/14

The Office of the Inspector General has completed a performance audit of the Office of Personnel Management's (OPM) Fiscal Year (FY) 2013 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 the 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 time frames 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, OPM can improve on its oversight controls over improper payments data reporting.

A draft report was issued on March 12, 2014 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 recommendation from our previous audit of the U.S. OPM FY 2012 Improper Payments Reporting for Compliance with the IPERA (Report 4A-CF-00-13-016, dated March 11, 2013) has been satisfactorily resolved.

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# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

This final 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) 2013 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 Civil Service Retirement and Disability Fund and the Federal Employees Health Benefits Program, are by definition susceptible to significant

improper payments. OPM’s reported improper payments for FY 2013 are summarized in the following tables.

<b>FY 2013 Improper Payments Summary<sup>1</sup></b>					
	<b>Total Outlays (\$ millions)</b>	<b>Gross Improper Payments (\$ millions)</b>	<b>Overpayments (\$ millions)</b>	<b>Underpayments (\$ millions)</b>	<b>2011 Improper Payment %</b>
<b>Retirement</b>	76,485.9	278.3	217.5	60.8	0.36%
<b>Health Benefits</b>	43,583.7	74.19	73.06	1.13	0.17%

<b>FY 2013 Overpayments Recaptured Summary<sup>2</sup></b>				
	<b>(As Reported) IP Amount Identified for Recovery in Prior Years (\$ millions)</b>	<b>(Correct) IP Amount Identified for Recovery in Prior Years (\$ millions)</b>	<b>(As Reported) Amounts Recovered in Prior Years (\$ millions)</b>	<b>(Correct) Amounts Recovered in Prior Years (\$ millions)</b>
<b>Retirement</b>	1,471.1	1,471.7	1,231.4	1,213.4

The recommendation from our previous audit of OPM’s FY 2012 Improper Payments Reporting for Compliance with the IPERA (Report 4A-CF-00-13-016, dated March 11, 2013) has been satisfactorily resolved.

The preliminary results of our audit were discussed with the Office of the Chief Financial Officer (OCFO), Retirement Services, and Healthcare and Insurance officials at an exit conference. A draft report was issued on March 12, 2014 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.

<sup>1</sup> Data collected from Table 12 “Improper Payment Reduction Outlook” on page 122 of OPM’s FY 2013 AFR.

<sup>2</sup> Data collected from Table 13 “Overpayments Recaptured Outside of Payment Recapture Audits” on page 122 of OPM’s FY 2013 AFR and correct amounts as discussed in the finding section of this report.

## **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:

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

The recommendations included in this final report address 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 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 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 2013 improper payments reporting in the AFR. We performed our audit fieldwork from December 30, 2013 through February 26, 2014 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 2013 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 narrative discussion on improper payments made in the AFR; and,
- Interviewed program representatives from the Chief Financial Officer, 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, 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 the improper payments reporting requirements. We identified one area of improvement related to OPM's controls over improper payments data reported in its FY 2013 AFR as detailed in the "Audit Finding 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 FINDING AND RECOMMENDATION**

#### **1. Weak Oversight Controls Over Improper Payments Data Reporting**

During our review of OPM's Improper Payment Reporting, we identified several inaccuracies between what was reported in the AFR and the supporting documentation that we obtained from the program offices. Specifically, we found that:

- The FY 2012 IP amount was inaccurately reported as \$212.8 million, when it should have been \$213 million. Discussions with OPM determined that \$0.2 million in underpayments to Experience Rated Carriers for FY 2012 was not reported.
- The amount identified by Retirement Services for recovery in prior years was understated by \$0.6 million in the AFR Table 13, Overpayments Recaptured Outside of Payment Recapture Audits.
- The amounts recovered by Retirement Services in prior years was overstated by \$18 million in the AFR Table 13, Overpayments Recaptured Outside of Payment Recapture Audits.
- Retirement Services overstated the 2016 projected improper payments by \$0.5 million in AFR Table 12, Improper Payment Reduction Outlook.

The Government Accountability Office (GAO) Standard for Internal Control in the Federal Government, dated November 1999, states that “[c]ontrol activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives... Control activities are an integral part of an entity’s planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.”

Without proper controls over its improper payments reporting process, OPM may continue to report incomplete and inaccurate improper payments data in its AFR.

#### **Recommendation 1:**

We recommend that OPM strengthen its oversight controls over the improper payments data reported in the Agency Financial Report to ensure that it accurately reflects supporting data.

#### **Management’s Response:**

“OPM concurs with the recommendation and therefore will explore ways to improve its quality controls over the AFR reporting.

OPM will update its work instruction, entitled *Reporting Improper Payments for the Agency Financial Report*, accordingly. OPM expects to complete the corrective action for this recommendation by June 30, 2014.”

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Internal Audits Group**

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Senior Team Leader

██████████ Group Chief

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## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

MAR 26 2014

Chief Financial  
Officer

MEMORANDUM FOR: MICHAEL ESSER  
Assistant Inspector General for Audits

[REDACTED]  
Chief, Internal Audits Group

FROM:

DENNIS D. COLEMAN  
Chief Financial Officer

*[Signature]*  
3/24/14

KENNETH J. ZAWODNY JR.  
Associate Director  
Retirement Services

*[Signature]*

MAR 26 2014

JOHN O'BRIEN  
Associate Director  
Healthcare and Insurance

*[Signature]*  
3/26/14

SUBJECT   OIG DRAFT AUDIT REPORT  
Audit of the U.S. Office of Personnel Management's FY 2013 Improper Payments  
Reporting for Compliance with the Improper Payments Elimination and Recovery Act of  
2010 (IPERA) Audit Report Number - 4A-CF-00-14-009, dated March 12, 2014

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 OIG has found OPM is compliant with IPERA based on our FY 2013 Agency Financial Report (AFR).

OPM has an effective program in place to address improper payments and has strived to make further improvements to reduce our reported improper payments and to increase recoveries. The Improper Payments Working Group (IPWG) is the focal point for coordinating improvements in our programs 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 included an in-depth description of all methods used to recapture overpayments in the annual AFR. We plan to take appropriate corrective actions for this year's recommendations as discussed below.

**Recommendation 1**

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

### **Management Response to Recommendation 1**

The OIG draft report identified several inaccuracies between what was reported in the FY 2013 AFR (Tables 12 and 13) and the supporting documentation received from the program offices. OPM notes that it is imperative that the information reported in the AFR is reflective of the information from the supporting documentation. OPM concurs with this recommendation and therefore will explore ways to improve its quality controls over the AFR reporting.

OPM will update its work instruction, entitled *Reporting Improper Payments for the Agency Financial Report*, accordingly. OPM expects to complete the corrective action for this recommendation by June 30, 2014.

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Not Relevant to Final Report