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 2020 IMPROPER PAYMENTS REPORTING

Report Number 4A-CF-00-21-008
May 17, 2021

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Fiscal Year 2020 Improper Payments Reporting

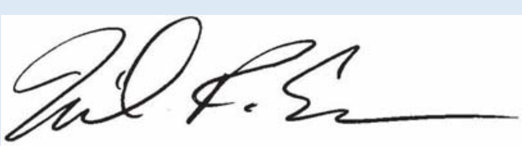
Report No. 4A-CF-00-21-008 **May 17, 2021**

Why Did We Conduct the Audit?

The objectives of our audit were to: (1) review the payment integrity section of the fiscal year (FY) 2020 Agency Financial Report to determine whether the U.S. Office of Personnel Management (OPM) is in compliance with the Payment Integrity Information Act of 2019 (PIIA) and (2) evaluate the agency's risk assessment methodology, improper payment rate estimates, sampling and estimation plans, corrective action plans, and efforts to prevent and reduce improper payments.

What Did We Audit?

The Office of the Inspector General completed a compliance audit on OPM's FY 2020 improper payments reporting, as defined in the U.S. Office of Management and Budget's guidance and corresponding reporting instructions. Our audit was conducted virtually from November 19, 2020, through March 18, 2021.



Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

1. We determined that OPM is in compliance with PIIA and the Improper Payments Elimination and Recovery Act of 20210's six requirements for FY 2020, as identified in the chart below:

A	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. PIIA and the Improper Payments Elimination and Recovery Improvement Act of 2012 (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 PIIA and IPERIA's additional reporting requirements.

3. Outstanding Audit Findings: There are four outstanding audit findings from prior years' audits. Details can be found in Appendix 1.

ABBREVIATIONS

AFR	**Agency Financial Report**
FEHB	**Federal Employees Health Benefits**
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**
PIIA	**Payment Integrity Information Act of 2019**

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REPORT FRAUD, WASTE, AND MISMANAGEMENT

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) 2020 Improper Payments Reporting. The audit was performed by OPM's Office of the Inspector General (OIG), 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 (IPIA). IPERIA redefined "significant improper payments" and strengthened executive branch agency reporting requirements.

On March 2, 2020, the Payment Integrity Information Act of 2019 (PIIA) (Public Law 116-117) repealed IPERA and other laws, but set forth similar improper payment reporting requirements, including an annual compliance report by Inspectors General. However, PIIA will not be fully effective until FY 2021.

The U.S. Office of Management and Budget (OMB) issued improper payments guidance to assist agencies in implementing improper payment laws, including OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular A-136, *Financial Reporting Requirements and Payment Integrity Information Act of 2019.* OMB issues routine updates, including a June 26, 2018, update to OMB Circular A-123 through Memorandum M-18-20, and an August 27, 2020, revision to OMB Circular A-136, which places more emphasis on agencies utilizing the paymentaccuracy.gov website to add more detailed information about improper payments.

An agency's program is deemed susceptible to significant improper payments[1] 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 exceeds $100,000,000 regardless of improper payments percentage of total program outlays. In addition, if a program has two billion dollars or more in improper payments, it is then classified as high priority (as designated by OMB) regardless of the improper payment rate estimate.

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

"a) [P]ublished improper payment information with the Agency Financial Report (AFR) or Performance and Accountability Report (PAR) for the most recent fiscal year and posted

[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.

that report and any accompanying materials required under OMB guidance on the agency website;

b) [I]f required, conducted a program specific risk assessment for each applicable program or activity that conforms with section 3352(a) of PIIA;

c) [I]f required, published improper payments estimates [[2]]for all programs and activities identified under section 3352(a) of PIIA in the accompanying materials to the AFR/PAR;

d) [P]ublished programmatic corrective action plans prepared under section 3352(d) of PIIA that the agency may have in the accompanying materials to the AFR/PAR;

e) [P]ublished improper payments reduction targets established under 3352(d) of PIIA that the agency may have in the accompanying materials to the AFR/PAR for each applicable program or activity assessed to be at risk, and has demonstrated improvements and developed a plan to meet[3] the reduction targets; and

f) [R]eported an improper payment rate of less than 10 percent for each applicable program and activity for which an estimate was published under 3352(c) of PIIA."

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

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

- Categorize their improper payment estimates based on OMB's improper payment categories;
- Perform risk assessments on all low risk programs at least every three years to assess their risk for improper payments;
- Submit, for high-priority programs, semi-annual or quarterly actions to reduce improper payments, as a tool for tracking progress;
- Identify the accountable official that oversees efforts to reduce improper payments for high-priority programs;

[2] OPM's improper payment estimates are reported on paymentaccuracy.gov in Table 1, in the Out Year Projections column. The improper payment estimate is for future years.
[3] Inspectors General determine compliance with reduction targets by determining the robustness and validity of the agency's sampling methodology, and examining point estimates, precision rates and confidence intervals.

- Expand payment recapture audits to all types of payments and activities with more than $1 million in annual outlays, if cost effective;

- 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 Initiative[4] 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 IPERA, IPERIA, and PIIA thereafter. 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 and submit its final report by May 15th of the following year. If May 15th falls on a weekend, the review, determinations, and report should be completed by the next business day.

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 2020, OPM's Risk Management and Internal Control office conducted a risk assessment of the Federal Employee Group Life Insurance Program. This program was last assessed in 2017 and does not need to be reassessed until 2023.

OPM reports improper payments on two of their earned benefit programs, Retirement Services and the Federal Employees Health Benefits Program (FEHBP). However, both programs' have consistently remained below the two billion dollar threshold in estimated improper payments and therefore are not considered to be high-priority programs.

RETIREMENT SERVICES PROGRAM

OPM's Retirement Services issues annuity payments on a recurring monthly basis to eligible individuals. Retirement Services' improper payments rate is calculated by dividing the underpayments (determined by statistical sampling) plus overpayments (the actual value) by total

[4] The "Do Not Pay Initiative" is used 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.

outlays. To determine the underpayment value, Retirement Services uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases for the Federal Employees Retirement System and Civil Service Retirement System completed by the Office of the Chief Financial Officer's (OCFO) Trust Fund office. To determine overpayments, Retirement Services calculates the total actual value of verified improper overpayments made to annuitants. The verification process consists of a review by Retirement Services specialists to determine if the payments made to annuitants or their survivors were allowable.

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

- 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 the OCFO's Trust Fund office using the *Treasury Report on Receivables and Debt Collection Activities*.

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM's Healthcare and Insurance Audit Resolution and Compliance office is responsible for calculating the improper payments rate for the FEHBP. From FY 2011 to FY 2015, the OIG provided Healthcare and Insurance with a spreadsheet listing all audit report findings and determinations, and which carriers were impacted. Since FY 2016, Healthcare and Insurance has used their own spreadsheet to consolidate all the data needed to calculate improper payments. Healthcare and Insurance retrieves this information from the OIG's published audit and investigative data and states that it calculates improper payments using the following formula:

$$\frac{\text{Audit Determinations}^{5}\text{ from OIG questioned costs+ Fraud Investigation Recoveries}}{\text{Outlays (Experience-Rated Carriers + Community-Rated Carriers Premium Payments)}}$$

The OIG's Office of Audits uses a risk matrix to determine which FEHBP carriers to audit in any given year based on a variety of criteria, but most carriers go unaudited each year, therefore

[5] Total receivable amount established after Healthcare and Insurance's determination to disallow overpayments and allow underpayments questioned in OIG experience rated and community rated audits of FEHBP carriers.

excluding them from that year's calculation of improper payments related to audits. For the carriers audited by the OIG, the overpayments or underpayments identified in final audit report recommendations are the starting point for the improper payments calculation. Healthcare and Insurance's Audit Resolution and Compliance office reviews the OIG's recommendations and makes determinations on whether to disallow and/or allow these amounts. The questioned costs that are disallowed are established as receivables to be collected from FEHBP carriers and are included in the improper payment calculation. For example, if the OIG questions $50,000 in health benefit payments and the Audit Resolution and Compliance office determines that $30,000 is allowable and $20,000 is disallowed, the amount of the receivable is $20,000 and that amount is included in the improper payments reporting.

For investigative recoveries, when the FEHBP receives an award as the result of a civil settlement or criminal judgement, the OIG provides OPM's offices of Audit Resolution and Compliance and the Chief Financial Officer 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. As a result, the recaptured/recovered amount (which is often less than the full amount of the improper payment) is used in reporting improper payments.

During our FY 2017 improper payments reporting audit[6], we identified potential issues with the methodologies used by OPM to develop their improper payments rates. As a result, we performed a separate performance audit that focused on analyzing the methodologies used by the Federal Employees Health Benefits (FEHB) and Retirement Services programs. The report on the *Audit of the U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies*, Report Number 4A-RS-00-18-035, was issued on April 2, 2020, and included 12 recommendations, which are all open.

[6] *Audit of the U.S. Office of Personnel Management's Fiscal Year 2017 Improper Payments Reporting, Report Number 4A-CF-00-18-012,* dated May 10, 2018.

OPM's reported improper payments and overpayments recaptured for FY 2020 are summarized in the following table:

Table: FY 2020 Improper Payments Summary[7]					
Program	**Total Outlays ($ millions)**	**Gross Improper Payments ($ millions)**	**Overpayments ($ millions)**	**Underpayments ($ millions)**	**2020 Improper Payments Percent**
Retirement Services	82,665.70	299.04	228.98	76.06	0.36%
Federal Employees Health Benefits	55,965.99	25.18	25.11	0.08	0.05%

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

During the audit of OPM's FY 2019 Improper Payments Reporting, Report No. 4A-CF-00-20-014, we determined that OPM's reporting of improper payments was in compliance with IPERA and IPERIA. However, we identified one area where OPM could improve its internal controls over improper payments reporting. Based on testing performed during this year's audit, we determined that the three recommendations issued in the FY 2019 Improper Payments Reporting Final Report remain open, and a recommendation that was resolved but not closed in 2019 has been re-opened during this audit. The status of the four recommendations is outlined in Appendix 1.

[7] Data collected from Table 1 "Improper Payment Summary" on paymentaccuracy.gov, 2020 dataset, "All Programs Results" tab.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to:

1) review the payment integrity section of the FY 2020 AFR to determine whether OPM is in compliance with PIIA and

2) evaluate the agency's risk assessment methodology, improper payment rate estimates, sampling and estimation plans[8], corrective action plans, and efforts to prevent and reduce improper payments.

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 objectives.

The scope of our audit covered OPM's FY 2020 improper payments reporting in OPM's AFR and on paymentaccuracy.gov. We performed our audit virtually from November 19, 2020, to March 18, 2021.

To accomplish our audit objectives noted above, we:

- Interviewed program representatives from the OCFO, Healthcare and Insurance, and Retirement Services;
- 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 2015 through FY 2019 Improper Payments Reporting final audit reports;
- Reviewed and analyzed the FY 2020 risk assessment conducted by OPM's OCFO to determine if their methodology was logical and if the results were valid;
- Reviewed and analyzed supporting documentation to ensure that the offices of Healthcare and Insurance and Retirement Services' estimated improper payments methodologies were supported, verified the current improper payment amounts for FY 2020, verified the

[8] The only sampling and estimation process used relates to Retirement Services' underpayments. Healthcare and Insurance's methodology does not include any methods to utilize historical overpayment/underpayment data to project to the population for a more accurate estimate of the improper payment rate.

improper payments estimates for FY 2021 in paymentaccuracy.gov, and tied the amounts back to the supporting documentation;

- Reviewed Healthcare and Insurance and Retirement Services' corrective actions on https://paymentaccuracy.gov/resources/ to ensure they discussed robust and effective corrective actions to reduce improper payments;

- Compared the FY 2020 projected improper payments estimate, as reported by OPM in the FY 2019 AFR, to the actual improper payment rate, as reported by OPM in Table 1 on the paymentaccuracy.gov website, to determine whether reduction targets for Healthcare and Insurance and Retirement Services were met;

- Reviewed source documentation to determine whether Healthcare and Insurance and Retirement Services is meeting its reported reduction targets by comparing the prior year improper payment estimate to the current year's actual improper payment amount and examining actual improper payment error rates;

- Evaluated the root cause category classification to determine whether Healthcare and Insurance and Retirement Services accurately classified the true root causes of improper payments;

- Reviewed the risk assessment schedule to determine whether all low risk programs were assessed as required (i.e., at least once every three years);

- Reviewed Healthcare and Insurance and Retirement Services' future years' improper payments estimates to determine if the gross improper payment rates were less than 10 percent; and

- Assessed the reasonableness of OPM's plan to recapture improper payments.

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 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, accompanying sites such as https://paymentaccuracy.gov/resources/ and OMB Max

Supplemental, and other applicable information, as we considered necessary under the circumstances. The results of our tests indicate that OPM is in compliance with IPERA, IPERIA, and PIIA. However, we identified four findings, reported in prior years' audits, which remain unresolved.

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 objectives. 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 2020 improper payments reporting for compliance with IPERA, IPERIA, and PIIA.

1. IPERA and PIIA Reporting Requirements

Based on our review of OPM's FY 2020 AFR, the paymentaccuracy.gov website, and other documentation provided by the agency, we determined that OPM is in compliance with the six reporting requirements of IPERA and PIIA:

Criteria for Compliance	Criteria Met?
1) Published and posted its FY 2020 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 on paymentaccuracy.gov website	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 under PIIA	Yes

2. IPERIA Reporting Requirements

Based on our review of the reporting requirements for IPERIA and PIIA, such as utilizing the Do Not Pay portal and OMB's approval of the reduction targets, we determined that OPM is in compliance with IPERIA and PIIA for FY 2020.

3. Outstanding Audit Findings:

During our audit, we identified the following four findings and recommendations, from prior years' audits, that remain open:

A. Insufficient Documentation Provided

In our FY 2018[9] improper payments reporting audit, we issued a recommendation to Retirement Services related to validating the information reported in the AFR. Retirement Services concurred with our recommendation and agreed to update their work instructions to address our finding. We have since received updated work instructions from Retirement Services; however, they do not fully address our recommendation because the update does

[9] *Audit of the U.S. Office of Personnel Management's Fiscal Year 2018 Improper Payments Reporting, Report Number 4A-CF-00-19-012,* dated June 3, 2019.

not address the oversight issue as recommended. Therefore, this recommendation is considered open.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records [should be] properly managed and maintained."

Recommendation 1 (Rolled Forward from FY 2018):

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

OPM's Response:

OPM concurred. "RS [Retirement Services] will continue to ensure all numerical data reported in the Agency Financial Report, Office of Management and Budget (OMB) Data Tables, and Supplemental Data Call are supported, reviewed, and validated."

B. Recovery Audits

We determined that Retirement Services and Healthcare and Insurance have not reviewed and updated their determination that a payment recapture audit program is not cost-effective since 2011.

We reviewed OPM's AFRs from FY 2012 through 2020 and noted that OPM has consistently reported that it is "not cost-effective to hire payment recovery auditors … ." In 2011, OPM determined that validation, recovery, and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of the individual programs. This is based on a report submitted to OMB and the OPM Office of the Inspector General[10], which contained an analysis and justification stating that conducting a payment recapture audit program was not cost effective.

During this year's audit, in response to our recommendation in the Final Audit Report on OPM's Fiscal Year 2019 Improper Payments Reporting, OPM stated, "'current program conditions' strongly suggest that a payment recapture audit program would not be cost effective, nor would it lead to improved overpayment recovery." However, OPM agreed

[10] Agency Response to OMB M-11-04 Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits, issued February 8, 2011.

with our recommendation and stated "Healthcare and Insurance, Retirement Services and Risk Management and Internal Controls (RMIC, OCFO) will work together to plan and complete a periodic analysis in accordance with OMB Circular A-123 Appendix C reporting requirements." They also stated, "the analysis will allow OPM to explore additional possibilities for increased efficiencies and improvements to the Program." Since OPM has not conducted a recent analysis on the cost-effectiveness of a payment recapture audit program, this finding will remain open.

OMB Circular A-123 Appendix C states that for agencies with programs that expend more than one million dollars in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if an audit program is cost-effective. Furthermore, OMB Circular A-123 Appendix C states that if it is determined that a payment recapture audit program is not cost-effective, the agency should notify OMB and the agency's Inspector General of the determination and include a justification and the analysis used to reach the decision.

The U. S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states, "Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review."

While OPM complied with OMB Circular A-123 Appendix C by completing an analysis of the cost-benefit of implementing a payment recapture audit program and by reporting its determination to OMB and the OIG, this was done 10 years ago. By not reviewing and updating the analysis used to determine whether or not a payment recapture audit program is cost effective, OPM and the program offices are not following guidance and best practices and are potentially eschewing a method to return improper payments to the trust funds.

Recommendation 2 (Rolled Forward from FY 2019):

We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program and retain documentation to support their analysis and conclusion.

<u>OPM's Response:</u>

"OPM concurs with this recommendation. HI [Healthcare and Insurance], RS, and the OCFO will work together to plan and complete a periodic analysis in accordance with OMB Circular A-123 Appendix C reporting requirements. …

HI, RS, and the OCFO will coordinate to provide a set of corrective actions leading to the recommended analysis. The analysis will be based on current program conditions to determine if hiring Payment Recapture Auditors would be cost-effective. In the future, OPM will determine how frequently to complete this analysis to ensure the most cost-effective overpayment recovery activities are being leveraged."

C. Improper Payment Root Causes

Beginning in FY 2015, the OIG reported that OPM was not properly categorizing the root causes of the retirement benefits program's improper payments in OPM's AFR. OMB established 13 categories for reporting improper payments to provide more granularity on improper payments estimates. Retirement Services only utilizes 3 of the 13 categories. Details regarding these categories were provided separate from this report.

OPM stated, "System limitations preventing OPM from expanding reporting in the root causes categories table per [OMB Circular] A-136, Financial Reporting … ." Specifically, the current information technology system supporting Retirement Services does not have the granularity of addition/deduction pay codes to align with OMB root cause categories. As such, OPM places the bulk of the improper payment balances in the "Other Reason" category, leaving them uncategorized. However, OPM has not provided documentation to support its position that its current legacy systems are not able to produce root cause data on a more granular level. OPM also stated, "to properly categorize the root cause categories, an upgrade to the current legacy system is required. Retirement Services is requesting that this upgrade be included in future modernization efforts." Since OPM has not yet requested the upgrade and we have not received an action plan or timeline regarding upgrading the current legacy system, this finding will remain open.

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-18-20 also states that "[t]hese categories: (1) help agencies present the different categories of improper payments in their programs and the percentage of the total improper payment estimate that each category represents; and (2) provide granularity on improper payment estimates—thus leading to more effective corrective actions at the program level and more focused strategies for preventing improper payments."

Continuing efforts to provide transparency and granularity in the retirement benefits program's improper payments will help OPM better present the root causes of improper payments in the payment integrity section of the AFR.

Recommendation 3 (Rolled Forward from FYs 2015 through 2019)

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

D. Improper Payments Rate

In FY 2017, our office reported that while Retirement Services met its improper payments reduction targets, the overall intent of the Improper Payments Information Act of 2002, as amended by IPERA, IPERIA, and PIIA, which is to reduce improper payments, had not been met.

Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, reiterates this point by stating, "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 … ."

Retirement Services' improper payments rates from fiscal years 2013 through 2020, have remained virtually stagnant at between 0.35 percent and 0.38 percent:

FY 2013 IP Rate	FY 2014 IP Rate	FY 2015 IP Rate	FY 2016 IP Rate	FY 2017 IP Rate	FY 2018 IP Rate	FY 2019 IP Rate	FY 2020 IP Rate
0.36%	0.38%	0.38%	0.37%	0.38%	0.36%	0.35%	0.36%

OPM stated that this finding and corresponding recommendation are aimed at the categorization of root causes and that there are system limitations preventing OPM from expanding the root cause categories, as discussed in our preceding finding - *Improper Payment Root Causes.* Remediation of that finding would also address this finding.

Recommendation 4 (Rolled Forward from FYs 2017 to 2019)[11]

We recommend that Retirement Services develop and implement additional cost effective corrective actions, aimed at the root causes of improper payments, to further reduce the improper payments rate.

OPM's Response:

"OPM does not concur with recommendations 3 and 4. Both recommendations aim to categorize root causes and continue to be rolled over from previous audits. System limitations prevent OPM from expanding reporting in the root causes categories table per 'OMB's A-136, Financial Reporting. Specifically, the current IT system supporting RS does not have the granularity of addition/deduction pay codes to align with the OMB root cause categories. As such, OPM places the bulk of the improper payment balances in the 'Other Reason' category, leaving them uncategorized. To properly categorize the root cause categories, an upgrade to the current legacy system is required. RS will request that this upgrade be included in future modernization efforts."

OIG Comment (for Recommendations 3 and 4):

While OPM states they do not concur with these recommendations, they acknowledge they are not in compliance with the OMB requirements for categorizing improper payments, which would enhance their capability to develop better action plans for reducing those improper payments. We therefore do not understand OPM's non-concurrence. In addition, OPM has not provided documentation to support its position that its current legacy systems are not able to produce root cause data and has not provided a corrective action plan for any future system upgrades that will enable Retirement Services to categorize additional root causes.

During the upcoming audit resolution process, it is our expectation that Retirement Services will provide documentation to support that they have requested an upgrade to their current legacy system or a plan of action showing when they will request the upgrade.

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[11] A similar recommendation is in our office's Audit of the *U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies* report, Report Number 4a-RS-00-18-035, issued April 2, 2020. The resolution of this recommendation will be tracked using the corrective action plan from that audit recommendation.

APPENDIX 1

Improper Payments Reporting Outstanding Recommendations				
Fiscal Year	**Recommendation Number**	**Recommendation**	**Recommendation History**	**Current Status**
2019	1	We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program and retain documentation to support their analysis and conclusion.	FY 2019	Open, See recommendation 2 in this report
2019	2	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.	Rolled Forward from FY 2015 Recommendation 1, FY 2016 Recommendation 10, and FY 2018 Recommendation 3	Open, See recommendation 3 in this report
2019	3	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.	Rolled Forward from FY 2017 Recommendation 2 and FY 2018 Recommendation 4	Open, See recommendation 4 in this report
2018	1	We recommend that Retirement Services strengthen their internal controls to ensure that the improper payments information is supported, reviewed, and validated prior to issuance to the OCFO.	FY 2018	Previously Resolved but now Open, See recommendation 1 in this report

APPENDIX 2

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

APR 1 2 2021

Report No. 4A-CF-00-21-008

MEMORANDUM FOR: Nicole Brown-Fennell
Chief, Internal Audits Group

FROM: DENNIS D. COLEMAN
Chief Financial Officer

DENNIS COLEMAN Digitally signed by DENNIS COLEMAN Date: 2021.04.12 09:47:41 -04'00'

THROUGH: KENNETH J. ZAWODNY, Jr.
Associate Director, Retirement Services

KENNETH ZAWODNY Digitally signed by KENNETH ZAWODNY Date: 2021.04.09 12:22:26 -04'00'

LAURIE E. BODENHEIMER
Associate Director, Healthcare and Insurance

LAURIE BODENHEIMER Digitally signed by LAURIE BODENHEIMER Date: 2021.04.09 12:37:07 -04'00'

SUBJECT: Management Response to the Draft Audit Report on the U.S. Office of Personnel Management's Fiscal Year 2020 Improper Payments Reporting (Report No. 4A-CF-00-21-008)

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) Fiscal Year 2020 Improper Payments Reporting. Reducing improper payments remains a priority for the Administration, and OPM is firmly committed to this priority. We recognize the value in your office's external evaluation and the critical part it plays in improving our program and reporting efforts.

OPM prioritizes reducing improper payments as one of its critical efforts to reduce Federal programs' inefficiencies. Over the last few years, the cumulative efforts of the Office of the Chief Financial Officer (OCFO), Retirement Services (RS), and Healthcare and Insurance (HI) have resulted in the improvements of OPM's improper payments program. The Improper Payment Working Group, chaired by the OCFO's Risk Management and Internal Control (RMIC) group, continues to be the focal point for reporting improper payment requirements across OPM program offices.

Responses to your recommendations are provided below.

<u>Recommendation 1 (Rolled Forward from FY 2018)</u>: We recommend that Retirement Services strengthen their internal controls to ensure that the improper payments information is supported, reviewed, and validated prior to issuance to the OCFO.

Management Response: Concur

OPM concurred with this recommendation when it was initially issued. RS revised its Quality Assurance (QA) Work Instruction to ensure that the improper payments information is supported, reviewed, and validated before issuance to OCFO. RS submitted evidence to the OIG in June 2019. RS will continue to ensure all numerical data reported in the Agency Financial Report, Office of Management and Budget (OMB) Data Tables, and Supplemental Data Call are supported, reviewed, and validated.

<u>Recommendation 2 (Rolled Forward from FY 2019)</u>: We recommend that OPM conduct periodic analysis, based on current program conditions, on the cost-effectiveness of a payment recapture audit program and retain documentation to support their analysis and conclusion.

Management Response: Concur

OPM concurs with this recommendation. HI, RS, and the OCFO will work together to plan and complete a periodic analysis in accordance with OMB Circular A-123 Appendix C reporting requirements.

In the final audit report, the OIG expresses "concerns that OPM has already concluded, before the analysis, that hiring payment recapture auditors would not be cost-effective." This could inappropriately influence the outcome of the analysis. While last conducted in 2011, current program conditions strongly suggest that a payment recapture audit program would not be cost-effective, nor would it lead to improved overpayment recovery. Paraphrasing our response to the Draft audit, it may be even more difficult now than it was in 2011 to leverage recovery auditors, given that audit findings are more complex, Questioned Costs are not always actual monies' Improperly 'Paid' (e.g., versus cash management, Medical Loss Ratio' 'credits,' unidentified statistically projected amounts, questioned costs based on contested contract interpretation or those where the OIG and the agency are not in consensus, etc.) and are not synonymous to Receivables to be recovered. Further, the absence of an agency-wide system to track amounts Questioned, Contested, Allowed (before and after being), Determined, Recovered, Resolved and Closed, and the processes which a recovery auditor would need to know to be functional and effective are even more complex and varied than they have ever been.

The OIG's assertion that OPM has predetermined the outcome of the study is incorrect. We concur with the recommendation as the analysis will allow OPM to explore additional possibilities for increased efficiencies and improvements to the Program. However, FEHB and RS function within the bounds of operational and budgetary limitations, and, while always open to added efficiencies, to be useful, any analysis and, especially the potential implementation of potential efficiencies, must be cognizant to those realities. There is an interrelationship between Payment Recapture and HI's Audit Resolution and Compliance (ARC) duties. Given our current static or even decreasing budget levels (which are not augmented by the amounts recovered) and a potentially overlapping scope, we would need to distinguish Payment Recapture auditing from ARC's functions, with a cost that the agency is willing to underwrite. These considerations would require further exploration throughout the analysis.

The OIG further suggests that 'deficiencies' identified in other recent Erroneous Payment and related audit reports and management advisories cast OPM's high recovery rates into question. While it is true that the OIG has generated several findings directly or indirectly pertaining to HI's OMB-approved Improper Payments rate methodology or ARC's procedures, many are contained in draft audit reports or management advisories, where recommendations have not been finalized. Therefore, OPM has not reviewed and concurred with the factual accuracy of the evidence supporting the findings from a formally issued OIG final audit report. HI unsuccessfully sought erroneous payment findings consolidated and issued in a sole audit report for better coordination with the OIG, which may have simplified agency review and resolution. In its absence, additional insight surrounding these issues' complexities may be gained by reviewing OPM's response to the OIG's Final Report on the Audit of the U.S. OPM's FEHB and RS Improper Payments Rate Methodologies (4A RS 00-18-035). That response notes that there are significant hurdles that would need to be surmounted to determine the feasibility of OIG-recommended actions definitively.

Ultimately, OPM concurs with this recommendation. HI, RS, and the OCFO will coordinate to provide a set of corrective actions leading to the recommended analysis. The analysis will be based on current program conditions to determine if hiring Payment Recapture Auditors would be cost-effective. In the future, OPM will determine how frequently to complete this analysis to ensure the most cost-effective overpayment recovery activities are being leveraged.

Recommendation 3 (Rolled Forward from FYs 2015 through FY 2019): We recommend that OPM continue to implement controls to identify and evaluate the improper payment root causes, to ensure that the root causes for the retirement benefits program's improper payments are properly categorized in OPM's annual AFR and on paymentaccuracy.gov.

Recommendation 4 (Rolled Forward from FYs 2017 to FY 2019): We recommend that Retirement Services develop and implement additional cost effective corrective actions, aimed at the root causes of improper payments to further reduce the improper payments rate.

Management Response: OPM does not concur.

OPM does not concur with recommendations 3 and 4. Both recommendations aim to categorize root causes and continue to be rolled over from previous audits. System limitations prevent OPM from expanding reporting in the root causes categories table per 'OMB's A-136, Financial Reporting. Specifically, the current IT system supporting RS does not have the granularity of addition/deduction pay codes to align with the OMB root cause categories. As such, OPM places the bulk of the improper payment balances in the 'Other Reason' category, leaving them uncategorized. To properly categorize the root cause categories, an upgrade to the current legacy system is required. RS will request that this upgrade be included in future modernization efforts.

Thank you again for the opportunity to respond to the Draft Report. If you have any questions regarding our response, please contact Katherine Hax, Chief, Risk Management and Internal Control, at 202-[redacted], and she will connect you with the point of contact who can best answer your question.

cc:

Margaret Pearson
Deputy, Chief Financial Officer

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

Katherine Hax
Chief, Risk Management and Internal Control

Janet L. Barnes
Director, Internal Oversight and Compliance

Regina H. Ford
Program Manager, Risk Management and Internal Control

Laurie E. Bodenheimer
Associate Director, Healthcare and Insurance

Edward M. DeHarde
Assistant Director, Federal Employee Insurance Operations

Lloyd V. Williams
Chief, Audit Resolution and Compliance

Angela M. Calarco
Branch Chief, Audit Resolution and Compliance

Sandra Mitchell,
Chief, Quality Assurance, Retirement Services

Technical Comments on the Draft Audit Report on the U.S. Office of Personnel ' 'Management's Fiscal Year 2020 Improper Payments Reporting (Report No. 4A-CF-00-21-008)

Page 12 - **Supporting Documentation not Provided** – On April 7, 2021, RS met with the OIG regarding their statement that updated work instructions were not received. The OIG acknowledged that the work instructions were received; however, the OIG will clarify the conditions necessary to close the recommendation.

Page 15 – **Improper Payment Rate** - The OIG states that RS has discontinued the Proof of Life project. However, Retirement Eligibility and Services (RES) has updated this project and currently utilizes a more cost-effective process. RES conducts an "Over Age 90 Project" bi-annually to verify retirees and survivors' living status who are over the age of 90 and receiving monthly benefits, as well as those who need a representative payee. RES sends an Address Verification Letter (AVL) to a selected sample population, requiring the AVL to be signed, notarized, and returned for the annuitant to be considered in a current living status. If the letter is not returned, the living status is not confirmed, and the annuitant is suspended from Retirement Services annuity rolls. RES completed the "Over Age 90 Project" in FY 2020.

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