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

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# **Final Audit Report**

**AUDIT OF THE U.S. OFFICE OF PERSONNEL  
MANAGEMENT'S FISCAL YEAR 2018 IMPROPER  
PAYMENTS REPORTING**

**Report Number 4A-CF-00-19-012  
June 3, 2019**

# EXECUTIVE SUMMARY

## *Audit of the U.S. Office of Personnel Management's Fiscal Year 2018 Improper Payments Reporting*

Report No. 4A-CF-00-19-012

June 3, 2019

### Why Did We Conduct The Audit?

The objective of our audit was to determine if the U.S. Office of Personnel Management (OPM) is compliant with the Improper Payments Information Act, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), for Fiscal Year (FY) 2018.

### What Did We Audit?

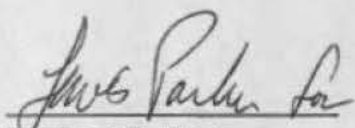
The Office of the Inspector General completed a compliance audit on OPM's FY 2018 improper payments reporting, as defined in the U.S. Office of Management and Budget's (OMB) guidance and corresponding reporting instructions. Our audit was conducted from March 7, 2019, through April 10, 2019, at OPM's headquarters located in Washington, D.C.

### What Did We Find?

1. We determined that OPM is in compliance with IPERA's six requirements for FY 2018, as identified in the chart below:

|     | Performance and Accountability Report/ Agency Financial Report | Risk Assessment | Improper Payment Estimate | Corrective Action Plan | Reduction Targets | Recovery Efforts | Total Non-Compliances |
|-----|--|-----------------|---------------------------|------------------------|-------------------|------------------|-----------------------|
| OPM | ✓  | ✓               | ✓                         | ✓                      | ✓                 | ✓                | 0                     |
| ✓   | Compliance   |                 | ✗                         | Non compliance         |                   |                  |                       |

2. IPERIA includes additional reporting requirements, such as utilizing the Do Not Pay portal and approval for both the improper payments rates and reduction targets. We determined that OPM is in compliance with IPERIA's additional reporting requirements.
  - A. Area of Improvement: We identified one area for improvement where OPM can improve on its internal controls over improper payments reporting. Specifically, OPM's Disability Earnings Match improper payments amount is underreported by \$132,659. The formula in the spreadsheet used to calculate the improper payment amount was incorrect.
3. Outstanding Audit Findings - The following prior year's findings remain open:
  - A. Retirement Services is unable to determine the actual root cause for all improper payments identified in Table 2, *Improper Payment Root Cause Category Matrix*, of the FY 2018 Agency Financial Report.
  - B. For the last seven years, Retirement Services' improper payments rate remained virtually stagnant, at roughly an average of 0.37 percent, thus showing no improvement.



Michael R. Esser

Assistant Inspector General for Audits

# ABBREVIATIONS

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

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# I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our compliance audit of the U.S. Office of Personnel Management's (OPM) Fiscal Year (FY) 2018 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. IPERIA redefined the definition of "significant improper payments" and strengthened executive branch agency reporting requirements.

The U.S. Office of Management and Budget (OMB) issued improper payments guidance to assist agencies in implementing improper payment laws, including OMB Circular A-123 Appendix C, *Management's Responsibility for Internal Controls*, and OMB Circular A-136, *Financial Reporting Requirements*. Routine updates are issued by OMB, including an update to OMB Circular A-123 through Memorandum M-18-20 on June 26, 2018, and a revision to OMB Circular A-136 on July 30, 2018, which places more emphasis on agencies utilizing the [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov) website to add more detailed information about improper payments.

An agency's program is deemed susceptible to significant improper payments<sup>1</sup> if the total amount of overpayments plus underpayments exceeds both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or, \$100,000,000 regardless of improper payments percentage of total program outlays.

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

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

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

- c. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- d. Published programmatic corrective action plans in the AFR or PAR (if required);
- e. Published, and is meeting<sup>2</sup>, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- f. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.”

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

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

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

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<sup>2</sup> 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.

- Establish internal controls to reduce improper payment rates; and
- Use the Do Not Pay List<sup>3</sup> to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur.

Each agency's Inspector General is required to review improper payments reporting in the AFR or PAR to determine compliance with IPERIA. OMB requires that the Inspector General review the agency's annual AFR or PAR, which includes evaluating the accuracy and completeness of agency reporting, and evaluating agency performance in reducing and recapturing improper payments. In addition, the OIG is required to determine if the agency's corrective action plans are robust and focused on the appropriate root causes of improper payments, effectively implemented, and prioritized within the agency, to allow it to meet reduction targets. The Inspector General is required to complete its review and determination by May 15th. Due to the recent Federal Government shutdown, the deadline for the Inspector General's FY 2018 report was extended by OMB to June 3, 2019.

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 2018, OPM's Risk Management and Internal Control group conducted risk assessments of several OPM programs, including the Purchase Card, Payroll, and Vendor Payments programs.

During our FY 2017 improper payments reporting audit<sup>4</sup>, 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 focused on analyzing the methodologies used by the Federal Employees Health Benefits (FEHB) and Retirement Services programs, and a report of our findings is currently in progress.

Two of OPM's earned benefit programs, Retirement Services and the FEHB, are by definition susceptible to significant improper payments.

### 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

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

<sup>4</sup> *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.*

underpayments (determined by statistical sampling) plus overpayments (the actual value) by total 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 payments made to annuitants.

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 OPM's OCFO 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 Federal Employees Health Benefits Program (FEHBP). The calculation for the FEHBP combines improper payments from audits and investigative recoveries.

For the FEHBP health insurance 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. Disallowed overpayments and allowed underpayments, once recovered, are included in the improper payment calculation.



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 is used in reporting improper payments.

OPM's reported improper payments and overpayments recaptured for FY 2018 are summarized in the following tables:

| Table 1: FY 2018 Improper Payments Summary <sup>5</sup> |                             |                                       |                            |                             |                                |
|---|-----------------------------|---------------------------------------|----------------------------|-----------------------------|--------------------------------|
| Program   | Total Outlays (\$ millions) | Gross Improper Payments (\$ millions) | Overpayments (\$ millions) | Underpayments (\$ millions) | 2018 Improper Payments Percent |
| Retirement Services                                     | 77,928.02                   | 284.08                                | 212.44                     | 71.64                       | 0.36%                          |
| Federal Employees Health Benefits                       | 52,852.14                   | 71.44                                 | 71.35                      | 0.09                        | 0.14%                          |

| Table 2: FY 2018 Overpayments Recaptured Summary <sup>6</sup> |   |  |
|---|---|--|
| Program   | FY 2018 Amount Identified for Recovery (\$ in millions) | FY 2018 Improper Payment Amount Recovered (\$ in millions) |
| Retirement Services   | 212.44  | 203.56   |
| Federal Employees Health Benefits                             | 71.35   | 85.83 <sup>7</sup>   |

<sup>5</sup> Data collected from Table 1 "Improper Payment Summary" on page 131 of OPM's FY 2018 AFR.

<sup>6</sup> Data collected from section 5.0 "Recapture of Improper Payments Reporting" on page 140 of OPM's FY 2018 AFR.

<sup>7</sup> The Healthcare and Insurance amount recovered includes \$50.73 million in recoveries and \$35.10 million in adjustments (totaling \$85.83 million), representing activity spanning current and prior years.

## **PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS**

During the audit of OPM's FY 2017 Improper Payments Reporting, Report No. 4A-CF-00-18-012, we determined that OPM's reporting of improper payments was in compliance with IPERA and IPERIA. However, we identified two areas of improvement that, when addressed, could have a positive impact on OPM's improper payments reporting. Based on testing performed during this year's audit, we determined that Recommendation 1 could be closed. Recommendation 2 remains open, as outlined in Appendix I.

## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### **OBJECTIVE**

The objective of our audit was to determine if OPM complied with the Improper Payment Information Act, as amended by IPERA and IPERIA, for FY 2018. The recommendations included in this final report address this objective.

### **SCOPE AND METHODOLOGY**

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

The scope of our audit covered OPM's FY 2018 improper payments reporting in OPM's AFR. We performed our audit from March 7, 2019, through April 10, 2019, at OPM's headquarters located in Washington, D.C.

To accomplish our audit objective noted above, we:

- Reviewed OPM's website to ensure that the AFR was published;
- Analyzed OPM's corrective actions to address the open audit recommendations identified in the FY 2015, FY 2016, and FY 2017 Improper Payments Reporting final audit reports;
- Reviewed and analyzed supporting documentation to ensure the offices of Healthcare and Insurance and Retirement Services' estimated improper payments methodologies were supported, and recalculated the improper payments estimates to verify that the estimates reported were accurate;
- Reviewed Healthcare and Insurance and Retirement Services' corrective actions in the AFR to ensure they discussed robust and effective corrective actions to reduce improper payments;
- Compared the FY 2018 projected improper payments estimate, as reported by OPM in the FY 2017 AFR, to the actual improper payment rate, as reported by OPM in the FY 2018 AFR, to determine whether reduction targets for Healthcare and Insurance and Retirement Services were met;

- Reviewed Healthcare and Insurance and Retirement Services' improper payments estimates to determine if the gross improper payment rate was less than 10 percent;
- Obtained and reviewed source documentation for all numerical data on improper payments as documented in the AFR tables;
- Assessed the reasonableness of OPM's plan to recapture improper payments; and
- Interviewed program representatives from the OCFO, Retirement Services, and Healthcare and Insurance.

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

Our audit included such tests and analysis of OPM's improper payments reporting process, including documented policies and procedures, numerical data and narratives reported in the AFR, and other applicable information, as we considered necessary under the circumstances. The results of our tests indicate that OPM is in compliance with IPERA and IPERIA. However, we identified one new and two previously reported areas for improvement where OPM can improve on its internal controls over improper payments reporting.

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

# III. AUDIT FINDINGS AND RECOMMENDATIONS

The sections below detail the results of our audit of OPM's FY 2018 improper payments reporting for compliance with IPERA and IPERIA.

## 1. IPERA Reporting Requirements

Based on our review of OPM's FY 2018 AFR, the [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov) website, and other documentation provided by the agency, we determined that OPM is in compliance with the six reporting requirements of IPERA:

| Criteria for Compliance   | Criteria Met? |
|---|---------------|
| 1) Published and posted its FY 2018 AFR on Agency website   | Yes           |
| 2) Conducted program-specific risk assessments  | Yes           |
| 3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment                | Yes           |
| 4) Published programmatic corrective action plans in the AFR  | Yes           |
| 5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments   | Yes           |
| 6) Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR | Yes           |

## 2. IPERIA Reporting Requirements

Based on our review of the reporting requirements for IPERIA, such as utilizing the Do Not Pay portal and OMB's approval for both the improper payments rate and the reduction targets, we determined that OPM is in compliance with IPERIA for FY 2018.

## 3. Area for Improvement

During our audit, we identified one area for improvement that, when addressed, could have a positive impact on OPM's improper payments reporting.

### A. Disability Earnings Match Amount Is Underreported

The Disability Earnings Match overpayments reported in the *Corrective Actions* section, on page 137, of the FY 2018 AFR is understated by \$132,659. The overpayment amount was shown as \$1,722,019; however, the correct amount



should have been \$1,854,678. The formula in Retirement Services' spreadsheet used to calculate the improper payments amount was incorrect and did not total all of the numbers. In addition, OCFO's Risk Management and Internal Control group did not re-total and validate the amounts on the spreadsheet prior to including the amount in the AFR.

OCFO's *Work Instructions for Reporting Improper Payments for the AFR*, step 4.11, states that the Risk Management and Internal Control auditor will use the *OCFO AFR Verification and Validation Checklist* to validate the information reported by program offices.

Not verifying the calculations used in reporting improper payments amounts resulted in the improper amount being understated by \$132,659.

### **Recommendation 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.

### **OPM's Response (to Draft Recommendation)**

*“OPM concurs with the recommendation and will revise its work instructions to ensure that all improper payment totals are validated.”*

### **Recommendation 2**

We recommend that the OCFO strengthen their procedures to ensure that the improper payments information reported in OPM's AFR is supported, reviewed and validated for accuracy prior to the information's inclusion in the AFR.

### **OPM's Response (to Draft Recommendation)**

*“OPM concurs with this recommendation and will revise its procedures accordingly.”*



#### **4. Outstanding Audit Findings**

During our audit, we identified the following two prior audit findings which remain open:

##### **A. Improper Payment Root Causes**

Beginning in FY 2015, our office reported that OPM was not properly categorizing the root causes of the retirement benefits program's improper payments in OPM's AFR. Retirement Services made improvements in FY 2016 by properly categorizing improper payments related to death data; however, they were unable to fully categorize the following improper payments root causes in Table 2, "*Improper Payment Root Cause Category Matrix*," of the FY 2016 AFR: Federal employees retirement system's disability offset for social security disability, delayed reporting of eligibility, unauthorized dual benefits or overlapping payments between benefit paying agencies, and fraud.

OPM acknowledged that they were aware of the major contributors of improper payments but were unable to provide the level of granularity needed to fully fulfill OMB Circular A-136 requirements due to "reporting limitations with the current legacy system." As a result, the remaining balance of those improper payments was placed in "Other Reason."

While OPM stated that they were fully committed to identifying the root causes of improper payments and has actively engaged the Information Technology group to explore methods to further break out root causes identified in work processes, no documentation has been provided to support OPM's analysis over its legacy system in order for our office to make a determination on whether the current legacy system is prohibiting OPM from expanding the root causes categorization.

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-15-02 also states that "[t]hese new categories will: (1) prove more pertinent to the vast array of programs across the Federal landscape; (2) help agencies better present the different categories of improper payments in their programs and the percentage of the total improper payment estimate that each

category represents; and (3) provide more granularity on improper payment estimates—thus leading to more effective corrective actions at the program level and more focused strategies for reducing improper payments at the government-wide level.”

The OIG believes OPM should continue efforts in providing transparency and granularity in the retirement benefits program's improper payments in order to better present the root causes of improper payments in the AFR.

### **Recommendation 3 (Rolled Forward from FY 2015 and FY 2016)**

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.

### **OPM’s Response (to Draft Recommendation)**

*“OPM does not concur with this recommendation. ... OPM provides the improper payment estimates for the ‘Failure to Verify Death Data’ and ‘Administrative or Process Errors Made by Federal Agencies.’ However, OPM remains limited in our ability to categorize additional root causes due to the existing legacy systems.”*

### **OIG Comment**

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 in order for our office to resolve this issue. In addition, OPM has not provided a corrective action plan for any future system upgrades that will enable Retirement Services to categorize additional root causes.

## **B. 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 and IPERIA, to reduce improper payments, had not been met. In addition, we noted that Retirement Services outlined various corrective actions taken to combat improper payments; however, some had been

discontinued due to the perceived cost ineffectiveness of the program, such as the Proof of Life project, and additional cost effective corrective actions have not been identified and implemented.

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

Retirement Services’ improper payments amounts increased every year from 2012 through 2017, and decreased to its current level of more than \$284 million in 2018, as illustrated below:

| <b>Fiscal Year</b>                        | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Improper Payments Amount (\$ in millions) | 265.8       | 278.3       | 303.3       | 304.2       | 304.2       | 313.8       | 284.0       |

In addition, as shown in the table below, Retirement Services’ improper payments rate, from fiscal years 2012 through 2018, has remained virtually stagnant at between 0.36 percent and 0.38 percent:

| <b>FY 2012<br/>IP Rate</b> | <b>FY 2013<br/>IP Rate</b> | <b>FY 2014<br/>IP Rate</b> | <b>FY 2015<br/>IP Rate</b> | <b>FY 2016<br/>IP Rate</b> | <b>FY 2017<br/>IP Rate</b> | <b>FY 2018 IP<br/>Rate</b> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 0.36%                      | 0.36%                      | 0.38%                      | 0.38%                      | 0.37%                      | 0.38%                      | 0.36%                      |

In fact, while Retirement Services’ improper payments rate decreased in FY 2018, the rate of 0.36 percent was the same as it was in FY 2012.

#### **Recommendation 4 (Rolled Forward from FY 2017)<sup>8</sup>**

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

#### **OPM's Response (to Draft Recommendation)**

*“OPM does not concur with this recommendation.” OPM has one of the lowest improper payment rates among other Federal benefit-paying agencies, stood up a new Fraud Branch in FY 2018 to detect and mitigate fraudulent payments, and is collaborating with the OIG to detect fraud.*

#### **OIG Comment**

We acknowledge that OPM's Retirement Services improper payments rate is very low and that Retirement Services' collaborations with the OIG have been successful in identifying improper payments, and the new Fraud Branch is another control that over time may also detect and mitigate fraudulent payments. However, the improper payments rate has not decreased during the last seven years, averaging 0.37 percent, and FY 2018 improper payments amounted to more than \$284 million, as illustrated in the tables above. We therefore continue to believe that additional efforts to reduce the improper payments rate must be implemented.

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<sup>8</sup> A similar recommendation is forthcoming in our office's U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies report. The resolution of this recommendation will be tracked using the corrective action plan from the forthcoming audit recommendation.

# APPENDIX I

| Improper Payments Reporting Outstanding Recommendations |                       |  |   |  |
|---|-----------------------|--|---|--|
| Fiscal Year   | Recommendation Number | Recommendation   | Recommendation History                                    | Current Status                             |
| 2016  | 10                    | 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, and FY 2016 | Open, see Recommendation 3 in this report. |
| 2017  | 1                     | We recommend that the OCFO ensure that reduction targets for the next fiscal year are included in the AFR.   | FY 2017   | Closed on March 31, 2019                   |
| 2017  | 2                     | We recommend that Retirement Services develop and implement additional cost effective corrective actions, aimed at the root cause(s) of improper payments, in order to further reduce the improper payments rate.  | Rolled Forward from FY 2017                               | Open, see Recommendation 4 in this report. |

# APPENDIX II



Chief Financial  
Officer

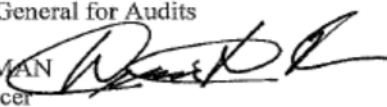
## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT


Washington, DC 20415

May 13, 2019

Report No. 4A-CF-00-19-012

MEMORANDUM FOR: MICHAEL ESSER  
Assistant Inspector General for Audits

FROM: DENNIS D. COLEMAN   
Chief Financial Officer

KENNETH ZAWODNY, Jr.   
Associate Director, Retirement Services

SUBJECT: Management Response to Draft Report on the Audit of  
the U.S. Office of Personnel Management's Fiscal Year  
2018 Improper Payments Reporting (Report Number-  
4A-CF-00-19-012)

Thank you for the opportunity to respond to the Office of the Inspector General's (OIG) Draft Report on the Office of Personnel Management's (OPM) Fiscal Year 2018 Improper Payments Reporting. Reducing improper payments is a priority for the Administration, and OPM is firmly committed to this priority. We recognize the benefit from the external evaluation conducted by your office and the critical part it plays in improving our program and reporting efforts.

OPM has prioritized reducing improper payments as one of its key efforts to reduce waste, fraud, abuse, and inefficiencies in Federal programs. Collectively, the Office of the Chief Financial Officer (OCFO), and the Retirement Services (RS) and Healthcare and Insurance (HI) organizations believe our cumulative efforts over the past few years continue to result in significant improvements in OPM's improper payment program. The Improper Payment Working Group continues to be the focal point for coordinating these improvements in our program.

We concur with two of the four recommendations in the draft report as discussed below. In addition to our response to the recommendation, we are also providing, in a separate document, comments on some of the factual information outlined in your draft report and ask that those changes be incorporated in your final report.



Responses to your recommendations are provided below.

**Recommendation #1:** We recommend that RS strengthen their internal controls to ensure that the improper payments information is supported, reviewed, and validated prior to issuance to the OCFO.

**Management Response:** OPM concurs with the recommendation and will revise its work instructions to ensure that all improper payment totals are validated.

**Recommendation #2:** We recommend that the OCFO strengthen their procedures to ensure that the improper payments information reported in the OPM's AFR is supported, reviewed and validated for accuracy prior to the information's inclusion in the AFR.

**Management Response:** OPM concurs with this recommendation and will revise its procedures accordingly.

**Recommendation #3: (Rolled Forward from FY 2015 and FY 2016)**

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 benefit program's improper payments are properly categorized in OPM's annual AFR.

**Management Response:** OPM does not concur with this recommendation. OPM continues to operate with adequate controls in place to identify the aggregate improper payment estimate. Currently, OPM provides the improper payment estimates for the "Failure to Verify Death Data" and "Administrative or Process Errors Made by Federal Agencies." However, OPM remains limited in our ability to categorize additional root causes due to the existing legacy systems.

**Recommendation #4: (Rolled Forward from FY 2017) <sup>1</sup>**

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

**Management Response:** OPM does not concur with this recommendation. Although this recommendation was rolled forward from FY 2017, this is RS's first opportunity to respond. OPM has one of the lowest improper payment rates among other Federal benefit-paying agencies.<sup>2</sup> In addition to the many existing corrective actions already in place, in FY 2018 RS

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<sup>1</sup> A similar recommendation is forthcoming in our office's U.S. Office of Personnel Management's Federal Employees Health Benefits Program and Retirement Services Improper Payments Rate Methodologies report. The resolution of this recommendation will be tracked using the corrective action plan from the forthcoming audit recommendation.

<sup>2</sup> <https://paymentaccuracy.gov/resources/>

stood up a new Fraud Branch to detect and mitigate fraudulent payments and collaboratively work with the OIG to detect fraud. There have been joint meetings where RS has requested the OIG to share their tips and tools. RS looks forward to partnering with the OIG and review their analysis to reduce improper payments further.

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

cc;

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