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 COMPLIANCE WITH THE PAYMENT INTEGRITY INFORMATION ACT OF 2019

Report Number 2024-IAG-010

May 29, 2024

EXECUTIVE SUMMARY

Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Act of 2019

Report No. 2024-IAG-010 **May 29, 2024**

Why Did We Conduct the Audit?

The objective of our audit was to determine whether the U.S. Office of Personnel Management (OPM) complied with the *Payment Integrity Information Act of 2019* (PIIA) for fiscal year (FY) 2023.

What Did We Audit?

The Office of the Inspector General completed a compliance audit of OPM's FY 2023 improper payments reporting, as defined in the U.S. Office of Management and Budget's guidance and corresponding reporting instructions. Our audit was conducted in Washington, D.C. from February 16, 2024, through April 11, 2024.

Michael R. Esser

Assistant Inspector General for Audits

What Did We Find?

- We determined that OPM is not in compliance with PIIA for FY 2023. As shown below, they did not meet 4 of the 10 PIIA requirements:

Program Name	1a. Published payment integrity information with the annual financial statement.	1b. Posted the annual financial statement and accompanying materials on the agency website.	2a. Conducted Improper Payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years.	2b. Adequately concluded whether the program is likely to make Improper payments and unknown payments above or below the statutory threshold.	3. Published Improper Payment and Unknown Payment estimates for programs susceptible to significant Improper Payments in the accompanying materials to the annual financial statement.	4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	5a. Published an Improper Payment and Unknown Payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	5b. Has demonstrated improvements to payment integrity or reached a tolerable Improper Payment and Unknown Payment rate.	5c. Has developed a plan to meet the Improper Payment and Unknown Payment reduction target.	6. Reported an Improper Payment and Unknown Payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.
Retirement Services	√	√	NR	NR	√	√	√	√	√	√
Federal Employees Health Benefits Program	√	√	√	NR	X	X	NR	X	NR	X

Table 8. PIIA Compliance Reporting Table

√ **Compliant** X **Non-Compliant** NR **= Not Required for Program Office**

- The Federal Employees Group Life Insurance and Federal Employees Health Benefits risk assessments were not reviewed.
- Retirement Services reported incorrect data on the FY 2023 third and fourth quarter Payment Integrity Scorecard Data.
- There is one outstanding audit finding from prior years' audits that remains open from FY 2017 to the present FY 2024. Details can be found in Appendix I.

ABBREVIATIONS

AFR	**Agency Financial Report**
DNP	**Do Not Pay**
FEHBP	**Federal Employees Health Benefits Program**
FY	**Fiscal Year**
HI	**Healthcare and Insurance**
IP	**Improper Payment**
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**
PIIA	**Payment Integrity Information Act of 2019**
RMIC	**Risk Management and Internal Control**
S&EMP	**Sampling and Estimation Methodology Plan**
UP	**Unknown Payment**

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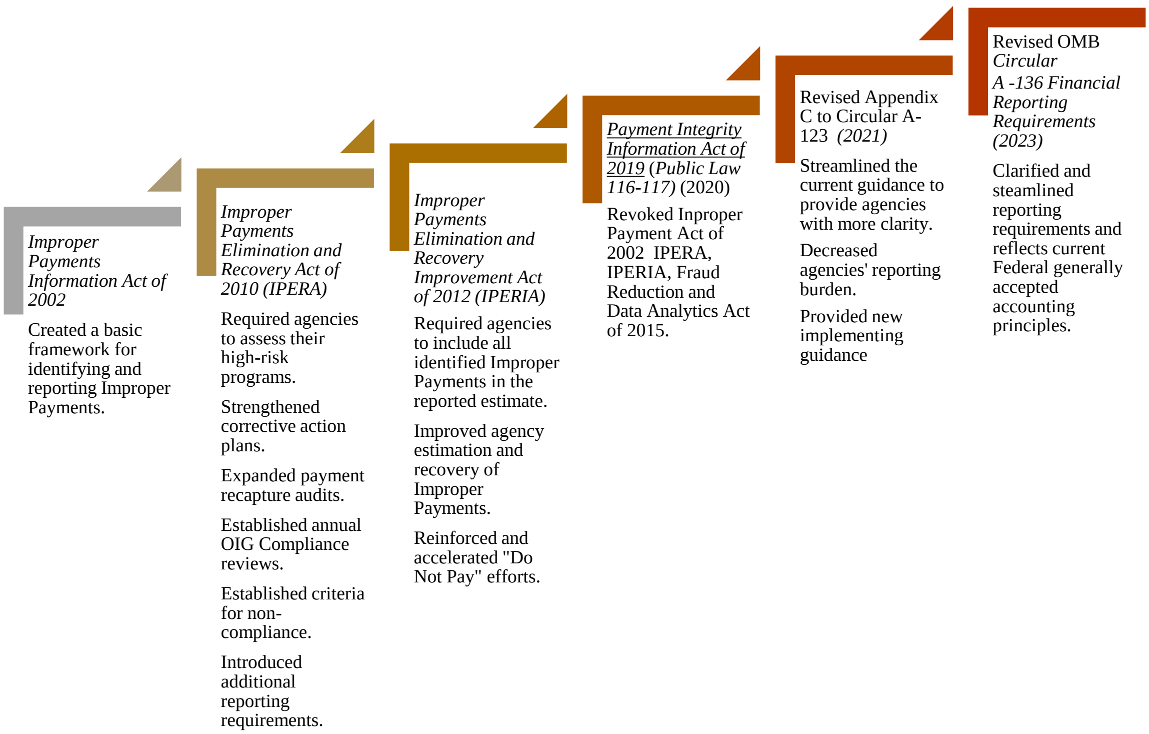
I. BACKGROUND

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) compliance with the *Payment Integrity Information Act of 2019* (PIIA) for fiscal year (FY) 2023. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401-424).

Various improper payment laws, regulations, and guidance have been issued between 2002 and 2023 to strengthen executive branch agencies' improper payments reporting requirements. The chart below highlights some important distinctions in the requirements:



In addition, the U.S. Office of Management and Budget's (OMB) Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 5, 2021, states that an agency's program is deemed susceptible to significant improper payment[1] if the annual estimated improper payments and unknown payments[2] exceed:

(1) both 1.5 percent of program outlays and $10,000,000 of all program payments made during the fiscal year or

[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.
[2] An unknown payment could be proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

(2) $100,000,000 regardless of the associated percentage of the program's total annual outlays.

Programs that are not likely to have an annual amount of improper payments plus an annual amount of unknown payments above the statutory threshold are considered Phase 1. If a program in Phase 1 determines that it is likely to annually make improper payments plus unknown payments above the statutory threshold, then the program will move into Phase 2 the following year.

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

a. Published payment integrity information within the annual financial statement[3] and in the accompanying materials to the annual financial statement of the agency for the most recent fiscal year in accordance with OMB guidance;

b. Posted the annual financial statement and accompanying materials required under OMB guidance on the agency website[4];

c. Conducted improper payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years;

d. Concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold;

e. Published improper payment and unknown payment estimates[5] for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement;

f. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial

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[3] The most common accompanying materials to the annual financial statement are the payment integrity information published on paymentaccuracy.gov. This information is provided by the agency to OMB through the Annual Data Call and is then subsequently published on paymentaccuracy.gov.

[4] To achieve compliance, the agency must publish any applicable payment integrity information in its annual financial statement in accordance with payment integrity guidance provided in OMB Circular A-136. In addition, the agency must publish any applicable payment integrity information required in the accompanying materials to the annual financial statements in accordance with applicable guidance. The agency's payment integrity information that is published on paymentaccuracy.gov is the most common accompanying materials to the annual financial statement.

[5] Improper payment and unknown payment estimates are statistically valid estimates of the total improper payments made annually in a program plus a statistically valid estimate of the total unknown payments made annually in a program. The estimate is determined by taking the collective amount in improper payments and unknown payments divided by the amount in program outlays for a given program in a given fiscal year. It is based on dollars rather than number of occurrences. The improper payment estimate is reported on paymentaccuracy.gov as both a percentage and a dollar amount.

statement;

g. Published an improper payment and unknown payment reduction target[6] for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;

h. Demonstrated improvements to payment integrity or reach a tolerable[7] improper payment and unknown payment rate;

i. Developed a plan[8] to meet the improper payment and unknown payment reduction target; and

j. Reported an improper payment and unknown payment estimate of less than 10 percent for each program with an estimate that was published in the accompanying materials to the annual financial statement.

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

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

- Categorize their improper payment estimates based on OMB's improper payment categories;

- Perform risk assessments on all programs with annual outlays greater than $10,000,000 to determine whether the program is likely to make improper payments plus unknown payments at least every three years;

- Ensure high-priority programs submit semi-annual or quarterly actions to reduce improper payments that are reported by programs in the Payment Integrity Scorecard;

- Identify the accountable official that oversees efforts to reduce improper payments for high priority programs;

[6] A reduction target is the estimated improper payment and unknown payment level the program predicts they will achieve in the following fiscal year. A reduction target may be lower, constant, or higher than the current year improper payment and unknown payment estimates.
[7] The tolerable rate for a program is determined by agency senior management and often includes improper payments which are unavoidable and beyond the agency's ability to reduce as well as improper payments and unknown payments which are cost prohibitive or sometimes mission prohibitive for the agency to prevent.
[8] The OIG should consider whether the program has a plan to meet the improper payment and unknown payment reduction targets they have established for the following fiscal year.

- 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 (DNP) Initiative[9] to verify eligibility for Federal payments to help reduce and eliminate payment errors before they occur.

Each agency's Inspector General is required to review relevant improper payment and unknown payment reporting, including the payment integrity section of the agency's annual fiscal year financial statements and any accompanying material, and records pertaining to the programs within an agency to assess compliance with PIIA and OMB guidance. 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 publish its final report 180 days after the agency published its Annual Financial Statement and the Accompanying Materials to the Annual Financial Statement. If the 180th day falls on a weekend, the review, determination, and report should be completed by the next business day.

RISK MANAGEMENT AND INTERNAL CONTROL

OPM's Risk Management and Internal Control (RMIC) office is responsible for ensuring that OPM includes the payment integrity section in the Agency Financial Report (AFR) and on the paymentaccuracy.gov website. RMIC also works to ensure that OPM's program offices comply with OMB's Data Call instructions. OMB's Data Call requires agencies to answer a logically based questionnaire. The agencies' responses determine which data will be published on the paymentaccuracy.gov website.

As part of RMIC's improper payment reporting responsibilities, the office must also conduct risk assessments every three years for programs considered to be at a lower risk for improper payments. Based on the guidance from OMB, risk assessments are used to determine whether programs are in Phase 1 or Phase 2. During FY 2023, a risk assessment for the Federal Employees' Group Life Insurance was completed by RMIC as part of the 3-year risk assessment cycle. RMIC also conducted off-cycle risk assessments for the Federal Employees

[9] The "Do Not Pay Initiative" is used to help agencies determine eligibility to confirm that the right recipient obtains the right payment for the right reason at the right time.

Health Benefits Program (FEHBP) Experience-Rated Carriers[10] and FEHBP Community-Rated Carriers.[11]

OMB Circular A-123, Appendix C, Memorandum M-21-19, *Requirements for Payment Integrity Improvement*, Memorandum M-21-19, dated March 5, 2021, states that an agency's program is required to have a risk assessment if it has annual outlays over $10,000,000 for all program or activity payments reported. As a result, the program will fall into one of two possible classifications: Phase 1 or Phase 2. Two of OPM's earned benefit programs, Retirement Services and the FEHBP, met OMB's statutory threshold.

<u>RETIREMENT SERVICES PROGRAM</u>

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 outlays. To determine the underpayment value, Retirement Services' Quality Assurance office 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 the Civil Service Retirement System completed by a statistician and provided to 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.

During FY 2023, Retirement Services remained in Phase 2 and was considered a high-risk program. As a result, Retirement Services used its *Sampling and Estimation Methodology Plan*, developed in FY 2021, to report on estimated improper payments for FY 2023. Retirement Services established a tolerable rate, which included a calculation of improper payments plus actual unknown payments, and the program reported a rate of 0.38 percent on paymentaccuracy.gov.

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;

[10] Experience-rated carriers offer mostly fee-for-service plans (the largest being the Blue Cross and Blue Shield Service Benefit Plan), but they also offer experience-rated Health Management Organizations.
[11] Community-rated carriers offer comprehensive medical plans, commonly referred to as health maintenance organizations.

- 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 the 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. Prior to FY 2015, the OIG provided Healthcare and Insurance with a spreadsheet listing all audit report findings and determinations, and which FEHBP health carriers (carriers) were impacted. Since FY 2016, Healthcare and Insurance has used their own spreadsheet to consolidate all the data needed to calculate the 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:

$$\frac{\text{Audit Determinations}^{12}\text{ from OIG questioned costs+ Fraud Investigation Recoveries}}{\text{Outlays (Experience-Rated Carriers + Community-Rated Carriers Premium Payments)}}$$

The OIG's Office of Audits uses a risk matrix to determine which FEHBP carriers will be audited in any given year based on a variety of criteria. However, most carriers go unaudited each year, thereby excluding them from that year's calculation of improper payments related to audits. For the FEHBP carriers audited by the OIG, the overpayments or underpayments identified in final audit report recommendations are the starting point for determining 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.

[12] 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.

For investigative recoveries, when the FEHBP trust fund 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 trust fund 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 FEHBP 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.

FY 2021 was the first year that the OIG included improper payment amounts on the investigative recoveries spreadsheet that is provided to Healthcare and Insurance. As a result, Healthcare and Insurance informed the OIG that the improper payments listed on the OIG's spreadsheets would not be reported in the AFR and only confirmed fraud would be reported, as defined by OMB guidance. Confirmed fraud is a subcategory of improper payments and does not constitute the full amount that is recorded.

In FY 2022, RMIC conducted an improper payment risk assessment and determined that the FEHBP is susceptible to significant improper payments and moved from Phase 1 to Phase 2, which means, per OMB Circular A-123, Appendix C, Memorandum M-21-19, that the FEHBP was required to report an improper payment and unknown payment estimate and submit a Sampling and Estimation Methodology Plan to OMB in FY 2023.

During our FY 2017 improper payments reporting audit[13], 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 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, of which five are resolved and four remain open.

OPM's reported improper payments and overpayments for FY 2023 are summarized in the Table, FY 2023 Improper Payments Summary, on page 8.

[13] *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.

FY 2023 Improper Payments Summary[14]							
Program	Total Outlays ($ millions)	Gross Improper Payments ($ millions)	Overpayments ($ millions)	Underpayments ($ millions)	Unknown Payments ($ millions)	2023 Tolerable Rate	2023 Improper Payments Percent
Retirement Services	$95,301	$337.55	$224.33	$113.22	$23.5	0.38[15]	0.35

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

During the audit of OPM's FY 2022 Improper Payments Reporting, Report No. 2023-IAG-002, we determined that:

- OPM's reporting of improper payments was in compliance with PIIA. OPM met all ten PIIA requirements.
- There were two outstanding audit findings from prior years' audits.

Based on testing performed during this year's audit, we closed one prior years' recommendation and one recommendation remains open. The status of the open recommendation is outlined in Appendix I.

[14] Data collected from paymentaccuracy.gov, 2023 dataset, "All Programs Results" tab.
[15] The tolerable rate includes improper payment (0.37 percent) and unknown payment (0.01 percent) rates.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether OPM complied with PIIA for FY 2023. The recommendations included in this final report address the 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. 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 objective.

We performed our audit at OPM's headquarters located in Washington, D.C. from February 16, 2024, through April 11, 2024. The scope of our audit covered:

- OPM's payment integrity information reported in its FY 2023 AFR and https://paymentaccuracy.gov, to determine whether OPM was in compliance with PIIA.
- OPM's risk assessment methodology, improper payment rate estimates, sampling and estimation plan(s), corrective action plan(s), and efforts to prevent and reduce improper payments.

To accomplish the audit objective noted above we:

- Interviewed program representatives from the OCFO, Healthcare and Insurance, and Retirement Services;
- Reviewed the payment integrity section of OPM's FY 2023 financial statements and any accompanying material to assess OPM's compliance with PIIA and related OMB guidance;
- Reviewed information on https://paymentaccuracy.gov/ through the annual OMB payment integrity data call;
- Reviewed applicable Federal laws, OMB guidance, and OPM's policies and procedures;
- Analyzed the source data to ensure accuracy and completeness of payment integrity information in the financial statement and accompanying materials;
- Concluded whether OPM met each of the ten PIIA compliance requirements for each of the reported programs;

- Analyzed OPM’s corrective actions to address the open audit recommendations identified in the FY 2017 through FY 2022 Improper Payments Reporting/PIIA final audit reports;

- Determined whether an issue is significant in the context of OPM and the OIG’s objective for its review and should have a substantial impact on the payment integrity information in OPM’s financial statements and or accompanying material;

- Reviewed the oversight and/or financial controls used by Retirement Services and Healthcare and Insurance to identify and prevent improper and unknown payments. Evaluated and took into account whether the corrective action plans will maintain the tolerable improper payment and unknown payment rates for the Retirement Services and Healthcare and Insurance; and

- Evaluated whether OPM published payment integrity information in the financial statements or accompanying materials for FY 2023. In determining compliance, we evaluated OPM’s:

    a) Accuracy, completeness and timeliness of improper payment risk assessments and whether appropriate conclusions were reached in determining if a program is likely to make improper payments and/or unknown payments above or below statutory thresholds.

    b) Retirement Services’ sampling and estimation methodology plans for adequacy, accuracy of improper payment and unknown payment estimates (traced improper payment and unknown payment estimates to their supporting documentation), and whether the sampling and estimation plans used were appropriate given program characteristics.

    c) Corrective action plans to determine whether they are adequate and focused on the true causes of improper payments and unknown payments, adequately addressing the causes, effectively implemented, prioritized within OPM, and reducing improper payments.

    d) Published reduction targets and whether they were appropriately aggressive and realistic given program characteristics.

    e) Demonstrated improvement in payment integrity and whether a tolerable improper payment and unknown payment rate was reached for Retirement Services and Healthcare and Insurance.

f) Plan to meet improper payment and unknown payment reduction targets, focused on the actions the programs will take during the following year to meet the improper payment and unknown payment reduction targets they have established for the following FY.

g) Published improper payment and unknown payment estimate, which should be less than 10 percent to be in compliance with PIIA. If the improper payment and unknown payment estimate was greater than or equal to 10 percent, we took into consideration whether Retirement Services and Healthcare and Insurance demonstrated that they achieved a tolerable improper payment and unknown payment rate when evaluating this criterion and when providing recommendations to achieve compliance.

h) AFR to ensure Retirement Services and Healthcare and Insurance provided a summary of their payment integrity activities and results. The summary should not conflict with data presented on paymentaccuracy.gov.

In planning our work and gaining an understanding of the internal controls over OPM's improper payment 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 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 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.

Due to the OMB requirement for agency Inspectors General to issue a report within 180 days after the publication date of the Annual Financial Statement of the Agency and the Accompanying Materials to the Annual Financial Statement of the Agency, we assessed and cited prior OIG work, as necessary, in evaluating the accuracy and completeness of OPM's improper payments reporting. We made determinations as to the level of work required based on the related reporting guidance, internal controls over improper payments, and the overall body of prior work in this area.

During the period from October 1, 2022, through April 1, 2023, Retirement Services performed quality assurance reviews of 840 Federal Employees Retirement System and Civil Service Retirement System retirement and survivor cases. Retirement Services' methodology for the 840 quality assurance reviews performed consisted of selecting 30 annuitants each from four categories, totaling 120 cases per month, for seven months. From the 840 reviews, we judgmentally selected 12 samples, from October 2022, through April 2023, representing the highest 'Net Regular Pay' amount and determined that the information included was suitable for Retirement Services to develop a statistical estimate plan to determine the improper payment estimates for FY 2023. The samples selected during our review were not statistically based. Consequently, the results from our samples were not projected to the populations tested.

In conducting our audit, we relied to varying degrees on computer-generated data. To assess the reliability of computer-processed data, we obtained annuitant payments and identifying information from OPM's Annuity Roll Processing System. 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 2023 improper payments reporting for compliance with PIIA.

A. Payment Integrity Information Act of 2019 Reporting Requirements

Based on our review of OPM's FY 2023 AFR, the paymentaccuracy.gov website, and accompanying materials to the annual financial statement provided by the agency, we determined that OPM did not comply with 4 of the 10 PIIA reporting requirements.

OPM is not compliant with PIIA.

Criteria for Compliance	Criteria Met?
1a.) Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement of the agency for most recent FY in accordance with OMB guidance.	Compliant
1b.) Posted the annual financial statement and accompany materials required under guidance of OMB on the agency website.	Compliant
2a.) Conducted improper payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years.	Compliant
2b.) Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	Compliant
3) Published improper and unknown payment estimates for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement.	Non-Compliant
4) Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Non-Compliant
5a.) Published an improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant
5b.) Demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	Non-Compliant
5c.) Developed a plan to meet the improper payment and unknown payment reduction target.	Compliant
6) Reported an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Non-Compliant

1. Federal Employees Health Benefits Program

Healthcare and Insurance did not report FEHBP improper payment estimates in FY 2023. In FY 2022, RMIC conducted an improper payment risk assessment of the FEHBP, utilizing FY 2021 total outlays of $59,218,289,880, which deemed the FEHBP to be above OMB's statutory threshold and susceptible to significant improper payments. As a result, the FEHBP moved from Phase 1 to Phase 2. With the FEHBP moving to Phase 2 in FY 2022, OMB Circular A-123, Appendix C, Memorandum M-21-19 guidance for implementing PIIA requires OPM to report improper payment estimates for the FEHBP and submit a statistically valid sampling and estimation methodology plan to OMB in FY 2023.

In FY 2023, Healthcare and Insurance differentiated the FEHBP into two activities – Experience-Rated Carriers and Community-Rated Carriers. RMIC conducted risk assessments for each FEHBP activity in FY 2023 using FY 2022 data. For the Experience-Rated Carriers, RMIC identified total outlays of $54,392,351,685 and deemed them to be Phase 2. For the Community-Rated Carriers, RMIC identified total outlays of $6,306,531,586 and deemed them to be in Phase 1.

In June 2023, Healthcare and Insurance submitted a new Sampling and Estimation Methodology Plan to OMB for Experience-Rated Carriers. However, Healthcare and Insurance stated that "The FEHB IP [improper payments] estimate prepared using this new S&EMP [Sampling and Estimation Methodology Plan], will be reported in FY 2025, at the earliest." Healthcare and Insurance also stated that they did not report improper payment estimates in FY 2023 as there was no data available to report, and that they are working to implement the new improper payment methodology for Experience-Rated Carriers in FY 2025.

As a result, OPM's FEHBP is not in compliance with the following four PIIA requirements for FY 2023:

- "Published [improper payment] and [unknown payment] estimates for programs susceptible to significant [improper payments] and [unknown payments] in the accompanying materials to the annual financial statement[.]"

- "Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement[.]"

- "Demonstrated improvements to payment integrity or reached a tolerable [improper payment] and [unknown payment] rate[.]"

- "Reported an [improper payment] and [unknown payment] estimate of less than 10 [percent] for each program for which an estimate was published in the accompanying materials to the annual financial statement[.]"

OMB Circular A-123 Appendix C, Memorandum M-21-19, *Requirements for Payment Integrity Improvement*, states that "All programs with annual outlays over $10,000,000 will fall into one of two possible classifications: Phase 1 or Phase 2. Programs that are not likely [to] have an annual amount of improper payments … plus an annual unknown payments … above the statutory threshold (which is either (1) both 1.5 percent of program outlays and $10,000,000 of all program payments made during the FY or (2) $100,000,000) are referred to as being in 'Phase 1'. If a program in Phase 1 determines that it is likely to annually make IPs plus UPs above the statutory threshold then the program will move into 'Phase 2' the following year. Once in Phase 2, a program will have additional requirements such as reporting an annual IP and UP estimate."

Recommendation 1

We recommend that OPM issue an improper payment estimate for the Federal Employees Health Benefits Program's that will allow them to be in compliance with the four PIIA requirements for future reporting years.

OPM's Response:

"Management concurs in part with the recommendation. OPM notes that [the] OIG's finding of noncompliance for FY 2023 seems to be predicated on OPM not reporting improper payment estimates for FY 2023 for the FEHB Program using the result of the FY 2022 risk assessment, which was conducted prior to the FEHB Program being separated into two activities based on the different contracts, payment structures, and improper payment types for Experience-Rated and Community-Rated carriers. Off-cycle risk assessments have been conducted for those two activities as a result of the change, and only one of the subcomponents has been determined to be in Phase 2 from that risk assessment. OPM notes that neither the PIIA nor OMB's guidance make clear whether and how an agency should report an improper payment estimate in a fiscal year when a program has separated into two different activities in order to develop appropriate S&EMPs.

In order to report an improper payment estimate for Experience-Rated carriers, OPM needs time to implement the new improper payment methodology, as the data needs to be collected and reported to OPM by the carriers. New instructions need to be developed, reviewed, tested, and properly communicated to all stakeholders via a Carrier Letter. The carriers need time to update their contracts with their auditors and time to collect and audit their data. OPM is implementing these changes as quickly as possible within the constraints of HI's [Healthcare and Insurance's] resources and other obligations."

OIG Comment:

The Payment Integrity Information Act of 2019 states that "If the assessment determines that it is likely that the program's IPs plus the program's UPs are above the statutory threshold then, the following year the program should produce a statistically valid estimate of the programs IPs and UPs." While OMB Circular A-123 does not differentiate if a program has different activities how it should report an improper payment estimate, it is OPM's responsibility to obtain the clarification needed from OMB to manage their programs' improper payments reporting. In addition, when the FY 2022 FEHBP risk assessment was conducted by RMIC, and the FEHBP was deemed to be in Phase 2, it was conducted on the entire program and did not separate out the program's two activities, therefore, OPM was required to produce a statistically valid estimate and a sampling plan and report the information.

Recommendation 2

We recommend that Healthcare and Insurance contact OMB to obtain guidance on how to report an improper payment estimate in a fiscal year when a program has been separated into two different activities to develop an appropriate sampling and estimation methodology plan.

OIG Comment:

Based on OPM's response to recommendation 1 in our draft report, we have added recommendation 2 to this finding. OPM will be able to respond to this recommendation as part of their response to the final report.

B. Areas of Improvement

1. Risk Assessments Were Not Reviewed

In FY 2023, RMIC was required, in accordance with OMB Circular A-123, Appendix C, Memorandum M-21-19, to conduct a risk assessment on the Federal Employees Group Life Insurance program as part of the 3-year risk cycle. In addition, RMIC conducted off-cycle risk assessments of the FEHBP activities for Experience-Rated Carriers and Community-Rated Carriers. We reviewed the Federal Employees Group Life Insurance and the FEHBP activities for Experience-Rated Carriers and Community-Rated Carriers risk assessment spreadsheets completed by RMIC and determined that the risk assessments did not receive a supervisory level of review. Specifically, the **"Reviewed**

by" and **"Date"** were not completed for all three risk assessments. RMIC stated that the risk assessments were not reviewed by a supervisor due to resource constraints.

The U.S. Government Accountability Office *Standards for Internal Control in the Federal Government,* Principle 10 – Design Control Activities, section 10.02, states that "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks." Section 10.10 states, "Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

In addition, Principle 12 - Periodic Review of Control Activities, sections 12.04 and 12.05, state that "Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities. … Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks." Finally, Principle 16 - Perform Monitoring Activities, section 16.04, states that "Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring."

As a result of RMIC not performing supervisory control activities (e.g., a supervisory level of review) for the risk assessments, there is a risk that the results of the risk assessments may be inaccurate which can lead to incorrectly placing a program in the wrong phase - Phase 1 or Phase 2.

Recommendation 3

We recommend that Risk Management and Internal Control strengthen its internal controls to show that management is performing supervisory control activities (e.g., a supervisory level of review) for all risk assessments conducted and that the review is documented and retained, (e.g., electronic signatures).

OPM's Response:

"Management concurs with this recommendation. OCFO will implement a process in which secondary reviews are conducted for all risk assessments conducted in relation to payment integrity, and the review is documented."

2. Incorrect Scorecard Data

PIIA and OMB Circular A-123, Appendix C, Memorandum M-21-19, require High-Priority programs to provide select information and actions that a program plans to take concerning improper payments and publish the information quarterly in the Payment Integrity Scorecard on paymentaccuracy.gov. OMB identified Retirement Services as a High-Priority program.

We reviewed Retirement Services' Payment Integrity Scorecard data and supporting documentation, for the second, third, and fourth quarters of FY 2023. For the second quarter, Retirement Services reported that they completed the adjudication of the U.S. Department of the Treasury's Do Not Pay (DNP) Portal file, and for the third and fourth quarters Retirement Services' Payment Integrity Scorecard data included the number of reported deaths reviewed. We determined that Retirement Services reported the incorrect number of reported deaths reviewed for the third and fourth quarters, as detailed below:

- On the third quarter Scorecard, Retirement Services reported that 7,092 reported deaths were reviewed in the DNP Portal, instead of the actual 7,592 reported death cases, resulting in an under-reporting variance of 500 death cases. The Fraud Branch Program Manager confirmed that the incorrect number was reported.

- On the fourth quarter Scorecard, Retirement Services reported that 7,200 reported deaths were reviewed in the DNP Portal, instead of the actual 5,599 reported deaths, resulting in an over-reporting variance of 1,601 death cases.

The Retirement Services' Fraud Branch Manager further stated that he reviews the data from the DNP Portal and sends the reviewed data to the Retirement Eligibility and Services Deputy for review before it is published on payment accuracy.gov. The Retirement Services' Quality Assurance office stated that their review process, and any review of the numerical or narrative information, is not documented.

OMB Circular A-123, Appendix C, Memorandum M-21-19, *Requirements for Payment Integrity Improvement*, states, "High-Priority programs must provide select information through a mechanism determined by OMB on a quarterly basis. The collected information will be published quarterly in a Payment Integrity Scorecard on paymentaccuracy.gov. This published information will fulfill the High Dollar Overpayment Reporting Requirements and also the High-Priority Program Reporting Requirements."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10 – Design Control Activities, section 10.03, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded." In addition, section 10.10 states "Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

By publishing incorrect Payment Integrity Scorecard data, there is a risk that the actions Retirement Services has taken, or intends to take, to prevent improper payments and unknown payments from occurring in the future, as well as actions the program plans to take to recover monetary losses from improper payments, may not be appropriate.

Recommendation 4

We recommend that Retirement Services develop, document, and implement internal controls over the review of all data reported on the Payment Integrity Scorecard prior to the data being published on paymentaccuracy.gov, including, but not limited to, such controls as electronic signatures or supervisory signoffs.

OPM's Response:

"Management concurs with this recommendation. Retirement Services will explore methods to validate the data prior to submission. Time constraints between when the quarterly Scorecard opens and when the responses are due will determine the method used."

C. Outstanding Audit Finding

During our audit, we identified the following finding from prior years' audits which remains open:

1. 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 … ."

In addition, Public Law 116-117 was enacted "To improve efforts to identify and reduce Governmentwide improper payments … ." Retirement Services' improper payment rates from FYs 2013 through 2023 have remained virtually stagnant at between 0.35 percent and 0.38 percent.

Improper Payment Rates for Fiscal Years 2013-2023											
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Percent	0.36	0.38	0.38	0.37	0.38	0.36	0.35	0.36	0.38	0.37	0.35

Sources: OPM's annual Agency Financial Reports and/or paymentaccuracy.gov Datasets

Identifying the root causes of improper payments is key to developing mechanisms that will assist a program in preventing future improper payments. Retirement Services stated that an upgrade to their current legacy system is needed to properly categorize the root causes of improper payments. A Retirement Services' Information Technology Modernization Plan was created, and Retirement Services stated that they requested and were denied funding for FY 2024 and "is seeking incremental funding to advance process automation" in the FY 2025 Congressional Budget Justification for work on applications including OPM's Online Retirement Application and Digital File System.

Recommendation 5 (Rolled Forward from FYs 2017 to 2022)[16]

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:

"Management concurs with this recommendation. Retirement Services and the Office of Chief Information Officer have collaborated to develop a detailed IT Modernization cost estimate and are now seeking additional funding to advance process automation. The FY 2025 Congressional Budget Justification includes $6.5M [million] for enhancing the

[16] 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.

Online Retirement Application, Digital File System, and JANUS annuity calculation. Furthermore, the Office of the Chief Information Officer has recently submitted another funding request to the Technology Modernization Fund. The request is currently under phase 1 review."

APPENDIX I

Improper Payments Reporting Status of Recommendations		
Recommendation	**Recommendation History**	**Current Status**
We recommend that Retirement Services provide supporting documentation to substantiate that adjusting their FY 2021 reduction target further would be cost and mission prohibitive.	Rolled forward from FY 2021 Recommendation 3 and FY 2022 Recommendation 1.	Closed on April 18, 2024.
We recommend that Retirement Services develop and implement additional cost-effective corrective actions, aimed at the root causes of improper payment, to further reduce improper payment rate.	Rolled forward from FY 2017 Recommendation 2, FY 2018 Recommendation 4, FY 2019 Recommendation 3, FY 2020 Recommendation 4, FY 2021 Recommendation 6, and FY 2022 Recommendation 2.	Open, see recommendation 5 in this report.

APPENDIX II

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

May 8, 2024

MEMORANDUM FOR: Nicole Brown-Fennell
Chief, Internal Audits Group
Office of the Inspector General

FROM: Erica D. Roach
Chief Financial Officer

ERICA ROACH
Digitally signed by ERICA ROACH
Date: 2024.05.08 14:28:00 -04'00'

THROUGH: Margaret P. Pearson
Associate Director, Retirement Services

MARGARET PEARSON
Digitally signed by MARGARET PEARSON
Date: 2024.05.08 15:35:55 -04'00'

Laurie E. Bodenheimer
Associate Director, Healthcare and Insurance

LAURIE BODENHEIMER
Digitally signed by LAURIE BODENHEIMER
Date: 2024.05.08 14:34:28 -04'00'

SUBJECT: Response to Draft Report on the Audit of the U.S. Office of Personnel Management's Compliance with the Payment Integrity Information Act (PIIA) of 2019 Report No. 2024-IAG-010

Thank you for providing the Office of Personnel Management (OPM) the opportunity to respond to the Office of the Inspector General (OIG) draft report, Audit of the U.S Office of Personnel Management's Compliance with the Payment Integrity Information Act of 2019 (PIIA), Report No. 2024-IAG-010.

Respectfully, OPM would like to reiterate several factual inaccuracies in this draft report that Healthcare and Insurance (HI) provided to the OIG on April 4, 2024, in response to the OIG's Notice of Findings and Recommendations (NFR) issued on March 20, 2023, detailed further below. We understand the OIG is under a statutory deadline to issue a compliance report; however, we believe it is critical that the OIG consider the items below to ensure the final report is factually accurate and the determination of compliance is made objectively, based on all the facts.

Printed Page 14, OIG states:

> In FY 2022, RMIC conducted an improper payment risk assessment of the FEHBP utilizing FY 2021 data. RMIC deemed the FEHBP's Experience Rated Carriers which had outlays of $52,828,879,025, to be above OMB's reporting statutory threshold. As a result, the Experienced Rate Carriers are considered to be susceptible to significant improper payments and moved from Phase 1 to Phase 2. RMIC determined that the FEHBP Community Rated Carriers' FY 2021 outlays of $6,389,410,853 did not meet the statutory threshold and therefore remained in Phase 1.
>
> As a result of the Experience Rated Carriers moving to Phase 2, PIIA requires OPM to report improper payment estimates for the Experience Rated Carriers and submit a statistically valid sampling and estimation methodology plan to OMB in FY 2023. Healthcare and Insurance submitted a new Sampling and Estimation Methodology Plan for Experience Rated Carriers to OMB in June 2023; however, Healthcare and Insurance, stated "The FEHB IP [improper payments] estimate prepared using this new S&EMP [Sampling and Estimation Methodology Plan], will be reported in FY 2025, at the earliest." However, Healthcare and Insurance did not report improper payment estimates for FY 2023 and stated that they will not have any data to produce a statistically valid FEHBP estimate until FY 2025.

These statements appear to combine data from different fiscal years – creating a factually inaccurate description of events – and leave a misleading impression of OPM's efforts to comply with the law. OPM respectfully requests that OIG revise its statements to the below.

> In FY 2022, RMIC conducted an improper payment risk assessment of the FEHBP utilizing FY 2021 data. RMIC deemed the FEHBP which had outlays of $59,218,289,880 to be above OMB's reporting statutory threshold. As a result, the FEHBP was considered to be susceptible to significant improper payments and moved from Phase 1 to Phase 2. With the FEHB Program moving to Phase 2 in FY 2022, OMB A-123 Appendix C guidance for implementing PIIA requires OPM to report improper payment estimates for the FEHB Program and submit a statistically valid sampling and estimation methodology plan to OMB in FY 2023.
>
> In FY 2023, while attempting to develop an S&EMP to comply with the PIIA for the FEHB Program as a whole, OPM determined that the FEHB Program should be differentiated into two activities for reporting purposes, because the different contracts and payment structures of the Experience-Rated and Community-Rated Carriers merited meaningfully different S&EMPs.
>
> As a result of differentiating the FEHBP into two activities, RMIC conducted two off-cycle improper risk assessments in FY 2023 utilizing FY 2022 data, one for the Experience-Rated Carriers and another for Community Rated Carriers. At that point, RMIC deemed the Experience Rated Carriers which had outlays of $54,392,351,685 to be above OMB's reporting statutory threshold. Also, RMIC

determined that the Community Rated Carriers which had outlays of $6,306,531,586 did not meet the statutory threshold and therefore was deemed Phase 1.

Healthcare and Insurance submitted a new Sampling and Estimation Methodology Plan for Experience Rated Carriers to OMB in June 2023; that plan stated "The FEHB Experience Rated Carriers IP [improper payments] estimate prepared using this new S&EMP [Sampling and Estimation Methodology Plan], will be reported in FY 2025, at the earliest." Healthcare and Insurance did not report improper payment estimates for FY 2023 and stated that they will not have any data to produce a statistically valid improper payment estimate for Experience Rated carriers until [fiscal year] 25. Implementing an S&EMP requires significant time and resources such as hiring a contractor to develop a methodology, updating carrier requirements, obtaining input from stakeholders testing the new methodology, and training carriers.

While OPM implements the new methodology, it continues to calculate improper payments using the previous methodology jointly developed by OIG and HI approximately 20 years ago. OPM indicates it has numerous controls in place to prevent, reduce, and recover improper payments per their contracts and guidance to FEHB Carriers as outlined in OPM's response to the Draft Audit Report.

Updating the factual inaccuracies on printed page 14 in this draft report is integral for maintaining the integrity of this audit. OIG is mixing the data from two sets of separate improper payment risk assessments. One risk assessment was conducted in July 2022 for the entire FEHB Program and one conducted in FY 2023 for each activity - FEHB Experience-Rated (ER) carriers, FEHB Community-Rated (CR) carriers. OIG is also omitting critical facts demonstrating OPM's significant efforts to comply with the law and to prevent improper payments in the FEHB Program.

Deleted by OIG. Not relevant to report.

In addition to the items listed above that were previously noted in OPM's response to the NFR dated April 4th, 2024, we are respectfully requesting the OIG make the update below.

Printed Page 5: OIG states:

> "During FY 2023, a risk assessment for the Federal Employee Group Life Insurance and FEHB Experience Rated Carriers and Community Rated Carriers was completed by RMIC as part of the 3-year risk assessment cycle."

OPM respectfully requests that OIG revise its statement to:

> "During FY 2023, a risk assessment for the Federal Employees' Group Life Insurance was completed by RMIC as part of the 3-year risk assessment cycle. RMIC also conducted off-cycle risk assessments for FEHB Experience-

Rated Carriers and FEHB Community Rated Carriers, as they were new activities as of FY 2023 for purposes of the PIIA reporting."

Recommendation Responses
Responses to your recommendations including planned corrective actions, as appropriate, are provided below.

Recommendation 1: We recommend that OPM issue an improper payment estimate for the Federal Employees Health Benefits Experience Rated Carriers that will allow them to be in compliance with the four PIIA requirements for future reporting years.

Management Response: Management concurs in part with the recommendation. OPM notes that OIG's finding of noncompliance for FY 2023 seems to be predicated on OPM not reporting improper payment estimates for FY 2023 for the FEHB Program using the result of the FY 2022 risk assessment, which was conducted prior to the FEHB Program being separated into two activities based on the different contracts, payment structures, and improper payment types for Experience-Rated and Community-Rated carriers. Off-cycle risk assessments have been conducted for those two activities as a result of the change, and only one of the subcomponents has been determined to be in Phase 2 from that risk assessment. OPM notes that neither the PIIA nor OMB's guidance make clear whether and how an agency should report an improper payment estimate in a fiscal year when a program has separated into two different activities in order to develop appropriate S&EMPs.

In order to report an improper payment estimate for Experience-Rated carriers, OPM needs time to implement the new improper payment methodology, as the data needs to be collected and reported to OPM by the carriers. New instructions need to be developed, reviewed, tested, and properly communicated to all stakeholders via a Carrier Letter. The carriers need time to update their contracts with their auditors and time to collect and audit their data. OPM is implementing these changes as quickly as possible within the constraints of HI's resources and other obligations.

The FEHBP Financial Reporting and Audit Guide [the "Guide"] presents detailed requirements for financial reporting due from all experience rated carriers, including supporting a nationwide estimate of the number of improper payments made by the carriers. HI is leveraging the Audit Guide as a vehicle for access to the payments to be tested for IP. The Audit Guide provides specifications for agreed-upon procedures to be performed by an independent public accountant (IPA) to select samples and make IP estimates for all Experience-Rated carriers.

OPM requires that Experience-Rated carriers utilize Independent Public Accountants (IPAs)/practitioners to perform Agreed Upon Procedures (AUPs) to provide OPM with a statistically valid estimate of the improper payments and unknown payments made by the carrier. The agreed upon procedures provide guidelines and instructions to the IPAs as to how the statistical samples should be drawn and the data values that need to be included in reports to OPM. OPM's new improper payment methodology requires an update to the AUPs.

OPM has actively engaged with all internal and external stakeholders, including the OIG, OCFO, OMB, FEHB Carriers, and other Federal agencies, to conduct research, gather information, and solicit and evaluate comments and feedback. To date, some of our significant milestones include:

- meeting with agencies to better understand their IP methodology – FY 2022;
- hiring a contractor to develop an S&EMP – July 2022;
- drafting updated AUPs to incorporate the new IP methodology and previewing the new IP methodology to carriers – November 2022 - March 2023;
- engaged with OMB to confirm interpretation of OMB A-123 Appendix C guidance – June 2023;
- issuing Carrier Letter (CL-2023-16) – Initial Guidance on FEHB Improper Payments and Carrier Reporting Requirements – September 2023;
- sharing our new IP methodology with carriers and soliciting comments – October 2023;
- creating an automated reporting spreadsheet to standardize and simplify carrier reporting in October 2023;
- finalizing the carrier letter and the FY 2024 Financial Reporting and Audit Guide (which includes the AUPs) – January 2024 – April 2024; and
- providing numerous briefings and updates of our strategy and progress to all our stakeholders – ongoing.

In addition, OPM will be conducting training sessions for the carriers on the AUP reporting process this summer. As evidenced, OPM is taking steps to report an improper payment estimate as soon as possible, which OPM hopes to be FY 2025 given the significant work involved in implementing the new S&EMP for Experience-Rated carriers.

With respect to the risk assessments conducted to determine compliance, OIG should take into consideration that OPM differentiated the FEHB Program into two separate activities, FEHB Experience Rated carriers activity and FEHB Community Rated carriers activity in June 2023, in accordance with OMB A-123 Appendix C guidance, given their uniquely different contracts, payment structures, and types of improper payments. OMB guidance states: “The agency is authorized to determine the most appropriate grouping of activities to create a “program” for purposes of this guidance. The grouping should be in a manner that most clearly identifies and reports IPs for their agency.”

OMB program guidance[1], specifically, “Payment Integrity Question and Answer Collection” references a scenario for when an agency has reported payments under one program but decided to separate the program into multiple program/activities. In such scenario the agency performs risk assessments for each program/activity that was not previously reporting IP/UP estimates.

Accordingly, RMIC conducted two new risk assessments, one for each activity in September 2023. The results of the risk assessments deemed the FEHB Experience Rated carriers a Phase 2 activity, while the FEHB Community Rated carriers activity was deemed Phase 1. OMB A-123 Appendix C guidance states, “When an agency determines through IP risk assessment that the total annual IPs PLUS the UPs for the program are likely to be above the statutory threshold, the program will report an IP and UP estimate in the following the FY in which the risk assessment determination was made." OPM has been taking steps toward reporting an improper payment estimate for the ER carriers to comply with the PIIA's requirements as quickly as possible.

In addition to the off-cycle risk assessments conducted in FY 2023, OPM conducted numerous on-going payment integrity activities to ensure that we continue to be responsible stewards of the FEHB Program. They include updating the Financial Reporting and Audit Guide, requiring all Experience-Rated Carriers to report an estimated improper payment rate; reporting of fraud investigative recoveries; and continuing to track improper payments using our previous methodology.

OPM works closely with the OIG to obtain the fraud investigative recoveries and reports the amount to OMB as confirmed fraud.

OPM continues to track improper payments using our previous methodology jointly developed by OIG and HI approximately 20 years ago. The methodology includes the total receivable amount established after HI's determination to disallow overpayments and underpayments questioned in OIG's audits of FEHB Program carriers, and fraud investigative recoveries which are the adjudicated amount of an improper payment that was referred to OPM's OIG or the Department of Justice and determined to be fraudulent through the adjudication process. For FY 2023, the improper payment rate for the FEHB Program as calculated by this methodology was 0.0364% which is 52% lower than the previous year (0.0752%).

To determine OPM's compliance with PIIA requirements, we respectfully request the OIG take into consideration these payment integrity activities that extend beyond the FY 2022 risk assessment and the absence of reported improper payment estimates for FY 2023.

OPM appreciates our collaboration with the OIG. OPM briefed the OIG in May 2023 on our strategy for differentiating the FEHB Program in FY 2023 and has provided overall updates to the OIG on our carrier methodologies and IP reporting in briefings since December 2022. OPM has been open to and has requested feedback and suggestions for improving our reporting of the IP estimate from the OIG.

Deleted by OIG. Not relevant to report.

Recommendation 5:
We recommend that Risk Management and Internal Control strengthen its internal controls to show that management is performing supervisory control activities (e.g., a supervisory level of review) for all risk assessments conducted and that the review is documented and retained, (e.g., electronic signatures).

Management Response: Management concurs with this recommendation. OCFO will implement a process in which secondary reviews are conducted for all risk assessments conducted in relation to payment integrity, and the review is documented.

Recommendation 6:

We recommend that Retirement Services develop, document, and implement internal controls over the review of all data reported on the Payment Integrity Scorecard prior to the data being published on paymentaccuracy.gov, including, but not limited to, such controls as electronic signatures or supervisory signoffs.

Management Response: Management concurs with this recommendation. Retirement Services will explore methods to validate the data prior to submission. Time constraints between when the quarterly Scorecard opens and when the responses are due will determine the method used. However, Quality Assurance conducts an annual validation of the numerical data. The support for the data validation FY 2023 for each survey and match was provided during the Office of Inspector General's fieldwork phase of the audit.

Recommendation 7 (Rolled Forward from FYs 2017 to 2022):

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: Management concurs with this recommendation. Retirement Services and the Office of Chief Information Officer have collaborated to develop a detailed IT Modernization cost estimate and are now seeking additional funding to advance process automation. The FY 2025 Congressional Budget Justification includes $6.5M for enhancing the Online Retirement Application, Digital File System, and JANUS annuity calculation. Furthermore, the Office of the Chief Information Officer has recently submitted another funding request to the Technology Modernization Fund. The request is currently under phase 1 review.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact **Deleted by OIG. Not relevant to report**.

APPENDIX II

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: https://oig.opm.gov/contact/hotline

By Phone: Toll Free Number: (877) 499-7295

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100