



Office of the  
Inspector General

## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

June 17, 2024

Report No. 2024-CRAG-006

MEMORANDUM FOR THE HONORABLE ROBERT H. SHRIVER  
Acting Director

FROM: THE HONORABLE KRISTA A. BOYD **KRISTA**  
Inspector General **BOYD**

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SUBJECT: Final Audit Research Results: OPM's Subscription Income  
Process

The U.S. Office of Personnel Management (OPM) Office of the Inspector General (OIG) conducted an audit research engagement on OPM's Subscription Income Process. The primary research objective was to gather detailed information on OPM's processes and accounting of the health benefits premiums received from agency payroll providers and paid to Federal Employees Health Benefits Program (FEHBP) health insurance carriers (carriers), (subscription income). We additionally obtained an understanding of, and background information on, OPM's administrative procedures and oversight activities for the Subscription Income Process.

We are providing this memorandum to OPM to communicate internal control weaknesses identified during our audit research. The issues identified during the audit research prevent us from conducting an audit of the Subscription Income Process until controls are documented as noted in the Results of Audit Research section on page 3.

The Inspector General Act of 1978, as amended by 5 U.S.C. § 404(e), requires that we submit all final reports making recommendations for corrective action to congressional committees of jurisdiction. Reports can also be provided to individual Members of Congress upon request. Additionally, if the OIG undertook the audit research based upon a request or complaint from an outside entity, the OIG must provide the report to that entity. Finally, the Inspector General Act of 1978, as amended by 5 U.S.C. § 420, requires us to make redacted versions of our final reports available to the public on our webpage.

## **BACKGROUND**

This engagement was performed by OPM's Office of the Inspector General, as established by the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401-424). The objective, scope, and methodology used in conducting the research engagement are defined in the attached Exhibit.

OPM's Office of the Chief Financial Officer (OCFO) is responsible for the financial leadership of OPM, to include responsibility for all OPM disbursements and accountability processes, as well as management and coordination of OPM planning, budgeting, and analysis. The OCFO is also responsible for the Federal Employees Health Benefits (FEHB) Trust Fund, which is a revolving Trust Fund created by the Federal Employees Health Benefits Act of 1959 and administered by OPM. This fund exists to collect and disburse health insurance premiums to private insurers who participate in the FEHBP and to maintain program reserves, consisting of one percent of premiums collected for administrative expenses and three percent for a contingency reserve. Within the OCFO, the Trust Funds Management (TFM) office is responsible for overseeing and performing accounting, investment, and application support functions, which support Federal Retirement, Health, and Life Insurance programs for Federal employees and retirees.

We identified four main systems used for the FEHB Trust Fund management:

- The Retirement and Insurance Transfer System (RITS) is used for the transfer of Federal employees' health benefits, retirement and life insurance program information and payments from payroll offices to OPM.
- The Financial Management Collection Deposit/Health Benefits System (FMCD2812 system) is a system that processes collections made by all agencies from their employees who participate in the governmentwide life insurance, Health Benefits, and Retirement programs. Also, the FMCD2812 system is considered OPM's accounting subledger, where FEHB Trust Fund amounts and adjustments are recorded in support of OPM's general ledger.
- The Letter of Credit Drawdown System allows FEHBP experience-rated carriers to enter requests for funds.

- The Administrative Research Center Integrated Oracle Solution (AIOS) is a Department of Treasury system, which serves as OPM's general ledger and is used to account for financial transactions of the FEHB Trust Fund.

### **RESULTS OF AUDIT RESEARCH**

We found that although OCFO personnel could explain internal controls in place surrounding the systems and procedures related to managing the Subscription Income Process, many of those controls are not documented in written policies and procedures. Further, when asked for written documentation, TFM office personnel referred to the Code of Federal Regulations (CFR), specifically, 5 CFR § 890.503. While the CFR provides overarching guidance, it does not provide guidance related to the financial systems and processes used to collect premiums and other information from payroll offices, disburse premium payments to FEHBP carriers, or the processes for the accounting of both administrative and contingency reserve amounts.

During our audit research, we found that outside of financial system user manuals, such as the RITS user guide, there are only four other policy and procedure documents with a nexus to the Subscription Income Process: (1) the Financial Management Manual, (2) OCFO Work Instruction – Agreed Upon Procedures - Internal Controls for Retirement, Health Benefits and Life Insurance for Withholdings/Contributions, (3) OCFO Work Instruction – Headcount Report, and (4) the OPM Trust Funds Modernization - Guide for Benefits Insurance Accounting Staff. The Financial Management Manual, Chapter 20, which is specific to the FEHB Trust Fund, contains high-level controls and does not provide specific details related to the performance and monitoring of the work to be performed. The other documents provide specific details related to components of the Subscription Income Process; however, we identified the following concerns:

- Although the OCFO has the RITS user guide and the Financial Management Manual, there are no documented supplemental policies and procedures memorializing the process and procedures for the acceptance and usage of payroll office information within RITS;
- Besides the Software Design Description document for the FMCD2812 system, there are no supplemental policies and procedures in place for how the data is imported into the FMCD2812 system from RITS, the calculations conducted within the FMCD2812 system, and how the daily transactions get uploaded into the new AIOS system;

- Other than the OPM Carrier Handbook, which provides guidance to FEHBP carriers, there are no OCFO written policies and procedures over the process for approving and paying funds to the carriers via the Automated Clearing House (ACH) payment system;
- The TFM office lacks written policies and procedures for approving and transferring funds from the contingency reserve to the carriers via the Letter of Credit system and via ACH;
- The TFM office does not have documented procedures for the extraction and use of the reports from the FMCD2812 system, including the subscription income report, which is distributed and used by OPM offices outside of the OCFO. The lack of documented policies and procedures impacted our ability to validate the subscription income report accuracy;
- Although the Financial Management Manual provides the available frequencies for investing trust funds and the Guide for Benefits Insurance Accounting Staff explains the investment process flow, neither provide the details for which funds should be invested and for the time period as described by TFM office personnel;
- Although, based on documentation and interviews, the TFM office appears to have some supervision controls, they are lacking written detailed policies and procedures related to the supervision of trust fund management and premium payment process activities; and
- Although TFM office personnel noted that additional staff and management are cross-trained to ensure continuity of operations, we were not provided with any written policies or procedures that address the TFM office's succession/contingency plans. As such, there is a risk that key roles within the TFM office may not be sufficiently filled if vacancies occur without advance notice.

OPM's Subscription Income Process represents the management of the FEHB Trust Fund, including the use of multiple financial systems and unique and institutionalized knowledge, and as such, a documented internal controls system is crucial for the OCFO to meet its objectives and mitigate current and future risks. Since the FMCD2812 system is based on RITS data inputs and is the sole source for determining the calculation of subscription income payments, it is imperative that the OCFO's TFM office memorialize

all processes occurring under this system to ensure accurate and reliable data is transferred into the AIOS system and ultimately paid to carriers.

The Financial Management Manual's Chapter 20 Sections 20.7/20.8 state that the TFM office's Chief must institute processes and internal controls to ensure that FEHBP receipts are correctly uploaded into the appropriate financial system, and it assigns the Associate Chief Financial Officer responsibility to ensure accurate financial fund activities. To establish an effective control system, management should document internal control responsibilities of the organization, as stated in the U.S. Government Accountability Office Standards for Internal Control in the Federal Government (GAO Green Book). Further, per the GAO Green Book, policies should be documented in the appropriate level of detail to allow management to effectively monitor control activities.

Without documented policies and procedures, the OCFO increases the risk of not achieving the operational and financial objectives of the FEHB Trust Fund.

We discussed the status of the audit research engagement with OCFO personnel at the exit conference on February 16, 2024.

### **Recommendation 1**

We recommend that the OCFO implement written policies and procedures over the trust fund management and related systems in accordance with the GAO Green Book, including but not limited to:

- Processes for acceptance and usage of Payroll Office RITS' data.
- Processes for importing data from RITS to the FMCD2812 system, accounting and other functions conducted within the FMCD2812 system, and the uploading of data into the AIOS system.
- Extraction and use of financial systems reports in the FMCD2812 system.

### **Recommendation 2**

We recommend that the OCFO implement written policies and procedures over the trust fund management and premium payment processes in accordance with the GAO Green Book, including but not limited to:

- Approval and payment of funds to the carriers via ACH.

- Approval and transfer of funds from the contingency reserve to the Letter of Credit system.
- Approval and transfer of funds from the contingency reserve to the FEHBP carriers via ACH.
- Explanations for the securities, maturity, and investment due dates for the FEHBP trust fund.
- Supervisory activities over trust fund management and premium payment processes activities.
- The TFM office's succession/contingency plans.

**OCFO Response:**

“Partially concur. The OPM OCFO will collaborate with the OPM OCIO [Office of the Chief Information Officer] and necessary agency program offices to update existing documentation to align with GAO Green Book standards. OPM OCFO cannot solely address or remediate the recommendations noted in [Recommendation 1] due to those actions requiring collaboration with other agency program offices.

OCFO concurs with updating written policies and procedures for [Recommendation 2]. OCFO has completed revisions of written policies and procedures to include work instructions as of March 15, 2024, based on the OIG recommendations and is targeting completion of the actions associated with [the TFM office’s succession/contingency plans] in the FY 2024 third quarter.”

**OIG Comment:**

We recognize that the OCFO developed work instructions to address Recommendation 2. We reviewed the documentation provided and noted that the work instructions do not provide the details for which FEHBP funds should be invested and the applicable time period as described by TFM office personnel. Additionally, we recognize that the TFM office’s succession/contingency plans and other procedure documents requiring the OCIO collaboration are in process as noted in the OCFO’s response. We cannot further comment on the accuracy or completeness of the work instructions until they can be evaluated during a subsequent audit.

### **Other Areas of Concern**

During the course of our audit research, we identified an additional area of concern outside the scope of the announced audit research conducted within the Office of the Chief Financial Officer. Based on the OPM-wide issue identified, we are highlighting our additional concerns and providing a recommendation for implementation.

We identified that OPM lacks an enterprise-wide fraud policy or an antifraud strategy. U.S. Office of Management and Budget (OMB) Circular A-123, states, "To help managers to combat fraud and preserve integrity in government agencies and programs, the U.S. Government Accountability Office (GAO) identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Management Framework (the Framework, GAO-15-593SP). Managers should adhere to these leading practices as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks." The Fraud Risk Management Framework explains "managers can demonstrate their commitment to combating fraud and promoting integrity by ... establishing a code of conduct that sets expectations for ethical behavior, integrity standards for new hires, and an attitude statement towards fraud. Managers who effectively manage fraud risks develop, document, and communicate an antifraud strategy that describes the program's approach to combating fraud."

OPM did not ensure compliance with OMB Circular A-123 as it relates to implementation of GAO's Fraud Risk Management Framework and addressing fraud risks within its internal control system. As a result, OPM may not be adequately mitigating the likelihood and impact of fraud within its operations. Further, GAO indicates implementation of the Fraud Risk Management Framework is meant to facilitate achievement of the program's broader mission and strategic goals by helping to ensure that funds are spent effectively, services fulfill their intended purpose, and assets are safeguarded.

### **Recommendation 3**

We recommend that OPM establish an enterprise-wide fraud policy or an antifraud strategy to ensure compliance with OMB Circular A-123 as it relates to implementation of GAO's Fraud Risk Management Framework.

**OCFO Response:**

“The OPM OCFO partially concurs with the recommendation to establish a fraud policy or an antifraud strategy to ensure compliance with OPM Circular A-123 regarding implementing GAO’s Fraud Risk Management Framework. OPM already has documentation, including the Fraud Risk Management Planning and Scoping, ERM Policy, and ERM Strategy and Process documents, which address various components of implementing an antifraud strategy. In FY24 Q4, OPM plans to update the Fraud Risk Management Planning and Scoping and other applicable documents to further align with the GAO’s Fraud Risk Management Framework.”

**OIG Comment:**

While OPM states that it has the Fraud Risk Management Planning and Scoping, Enterprise Risk Management (ERM) Policy, and ERM Strategy and Process documents, those documents were not provided. Further, we recognize that OPM intends to update OPM’s fraud risk and ERM documents during FY 2024. As such, the recommendation remains applicable.

Please contact me, at (202) 606-1200, if you have any questions regarding the results of our audit research, or your staff may wish to contact Michael R. Esser, Assistant Inspector General for Audits, at (202) 606-2143, or Matthew R. Knupp, Chief, Community-Rated Audit Group, at (724) 741-0739.

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# EXHIBIT

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our primary research objective was to gather detailed information on OPM's processes and accounting for the health benefits premiums received from agency payroll providers and premium amounts paid to FEHBP carriers (subscription income). Additionally, we obtained an understanding of and background information on administrative procedures and oversight activities for the subscription income process.

To accomplish our objective, we interviewed OCFO personnel to gain an understanding of their roles, responsibilities, and their involvement in the Subscription Income Process. We also obtained and reviewed documentation provided by OCFO personnel in support of the subscription income process. This information and documentation was used to obtain an understanding of the subscription income process and the established internal control system. We also researched prior audit reports conducted by external audit organizations and the OPM OIG.

We utilized the guidance provided by the generally accepted government auditing standards while performing our audit research. We believe that the evidence obtained does provide a reasonable basis for our findings and conclusions based on the audit research objective. The audit research was conducted remotely from October 23, 2023, through February 16, 2024.

# APPENDIX

March 22, 2024

## **Deleted by the OIG – Not Relevant to the Final Report**

SUBJECT: Management Response to the Draft Audit Research Results on the U.S. Office of Personnel Management's Subscription Income Process in Financial Services/Trust Funds (Report No. 2024-CRAG-006)

Thank you for providing OPM the opportunity to respond to the Office of the Inspector General (OIG) draft report, Research on the U.S. Office of Personnel Management's Subscription Income in Financial Services/Trust Funds, 2024-CRAG-006. Responses to your recommendations, including planned corrective actions, as appropriate, are provided below.

**Recommendation 1 [Recommendation 1 and 2 in the Final Report]:** We recommend that the OCFO implement written policies and procedures over the trust fund management and premium payment processes, including but not limited to:

- Processes for acceptance and usage of Payroll Office RITS data.
- Processes for importing data from RITS to the FMCD2812 system, accounting and other functions conducted within the FMCD2812 system, and the uploading of data into the AIOS system.
- Approval and payment of funds to the carriers via ACH.
- Approval and transfer of funds from the contingency reserve to the Letter of Credit system.
- Approval and transfer of funds from the contingency reserve to the carriers via ACH.
- Extraction and use of financial systems reports in the FMCD2812 system.
- Explanations for the securities, maturity, and investment due dates for the Federal Employees Health Benefits Program trust funds.
- Supervisory activities over trust fund management and premium payment processes activities.
- TFM's succession/contingency plans.

## **Management Response:**

**Partially concur.** The OPM OCFO will collaborate with the OPM OCIO and necessary agency program offices to update existing documentation to align with GAO Green Book standards. OPM OCFO cannot solely address or remediate the recommendations noted in bullets 1, 2, and 6 due to those actions requiring collaboration with other agency program offices.

OCFO concurs with updating written policies and procedures for bullets 3, 4, 5, 7, 8, and 9. OCFO has completed revisions of written policies and procedures to include work instructions as of March 15, 2024, based on the OIG recommendations and is targeting completion of the actions associated with bullet 9 in the FY 2024 third quarter.

**Recommendation 2:** We recommend that OPM establish a fraud policy or an antifraud strategy to ensure compliance with OPM Circular A-123 as it relates to the implementation of GAO's Fraud Risk Management Framework.

**Management Response:** The OPM OCFO partially concurs with the recommendation to establish a fraud policy or an antifraud strategy to ensure compliance with OPM Circular A-123 regarding implementing GAO's Fraud Risk Management Framework. OPM already has documentation, including the Fraud Risk Management Planning and Scoping, ERM Policy, and ERM Strategy and Process documents, which address various components of implementing an antifraud strategy. In FY24 Q4, OPM plans to update the Fraud Risk Management Planning and Scoping and other applicable documents to further align with the GAO's Fraud Risk Management Framework.

We appreciate the opportunity to respond to this draft report. **Deleted by the OIG – Not Relevant to the Final Report**



# Report Fraud, Waste, and Mismanagement

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