



**Office of the Inspector General
United States Office of Personnel Management**

**Statement of the Honorable
Patrick E. McFarland
Inspector General**

before the

**Subcommittee on Federal Workforce, U.S. Postal Service and the Census
Committee on Oversight and Government Reform
United States House of Representatives**

on

“Is OPM Processing Federal Worker Pension Claims on Time?”

May 9, 2013

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

Good morning. My name is Patrick E. McFarland. I am the Inspector General for the U.S. Office of Personnel Management (OPM). Thank you for inviting me to testify at today’s hearing about OPM’s administration of the Federal retirement programs. All of the Federal retirees and survivor annuitants who depend upon Federal annuity payments will agree that this is one of OPM’s most important programs.

Today I will touch on two critical functions performed by OPM’s Retirement Services (RS) office: the elimination of the retirement claims backlog and the identification and prevention of improper payments to deceased annuitants.

Elimination of the Backlog

The timely issuance of full annuity payments has been a long-standing challenge for OPM. The adjudication of retirement claims historically has been a largely paper-based process, many times resulting in lengthy delays before completion. To that end, on January 17, 2012, OPM unveiled a new strategic plan to address the backlog. After a review and discussion with agency officials, we believe that it is a sound plan, although we certainly have concerns with the reduction of quality control measures.

Based upon testing done by RS's Quality Assurance group, the adjudication accuracy rate for retirement annuities dropped from 91.7 percent in 2011 to 90.9 percent in 2012. It dropped again during the first quarter of 2013 to 90.6 percent. This drop in adjudication accuracy is troublesome, and well below OPM's target rate of 95 percent. To put this into context, since RS adjudicated approximately 112,000 claims in Fiscal Year (FY) 2012, a one percent decrease in accuracy translates to an additional 1,120 cases with errors that require re-adjudication. Not only must OPM expend additional man-hours to correct these errors, but it creates a further delay that potentially causes hardships for annuitants and their families. Moreover, by definition, these errors result in improper payments, either overpayments or underpayments to the annuitant.

During a recent Office of the Inspector General (OIG) audit, we reviewed the backlog statistics, as well as OPM's reported retirement claims processing performance measures for FY 2011.¹ Specifically, we examined (1) RS's process for tracking claims data related to the FY 2012 strategic plan goal of eliminating the backlog of pending retirement claims by July 2013; (2) the number of retirement records that OPM received from Federal agencies that were complete and required no further action; (3) the average cost for processing retirement claims; and (4) the retirement claims processing timeliness.

The results of our audit were as follows:

1. RS does not have adequate controls in place to ensure the accuracy of the inventory for retirement claims received and processed. Although we were able to verify the beginning balance of the claims inventory (48,378) as of December 2011, our auditors were unable to substantiate the reported figures for retirement claims received (7,814) and processed (8,864) in June 2012.² RS provided management reports that it used to support the June figures. However, we were unable to use those reports to recalculate the reported claims received and processed figures. RS was likewise unable to recalculate those figures.
2. RS accurately reported that 82 percent of retirement records received from Federal agencies were complete and required no further development actions. This exceeded its target of 79 percent.

¹ *Assessing the Relevance and Reliability of OPM's Performance Information*, available at: <http://www.opm.gov/our-inspector-general/reports/2013/audit-of-the-office-of-personnel-managements-performance-information.pdf>

² We chose June 2012 for our sample because during our audit field work, it was the most recent month for which RS had data.

3. RS accurately reported that the average unit cost for processing retirement claims was \$107.62. However, it failed to meet its target goal of \$101.23.
4. RS does not have adequate controls in place to ensure that it accurately calculates the time it takes to process non-disability retirement claims. RS reported that it processed these claims in an average of 125 days, which was its target goal. Our auditors found, however, that the average was actually 131 days.

Although we do not question that OPM is making progress with regard to eliminating the retirement claims backlog, our audit found that RS needs to strengthen its controls over the collection, review, and reporting of performance information related to the processing of retirement claims, to ensure it is providing accurate information to the public.

Improper Payments to Deceased Annuitants

While I am pleased that OPM is aggressively addressing the retirement claims backlog, I would like to focus today's testimony on our serious concerns related to the egregious improper payments made by OPM to deceased annuitants, which total over \$100 million each year. Just as OPM should be held accountable for providing an appropriate level of service to Federal retirees, it also has an obligation to the taxpayers to ensure that the agency is taking all reasonable measures to protect public funds. It is true that OPM's improper payment rate is quite low. Indeed, it is significantly lower than most other large Federal programs. However, I am of the opinion that when there are cost-effective steps that could prevent the loss of significant amounts of taxpayer dollars, those steps must be taken.

Since issuing a report in September 2011, *Stopping Improper Payments to Deceased Annuitants*, my office has worked closely with OPM on ways to identify and prevent improper payments to deceased annuitants. During these interactions, we have found, to my dismay, serious systemic flaws within RS that hinder its ability to adequately address this problem.

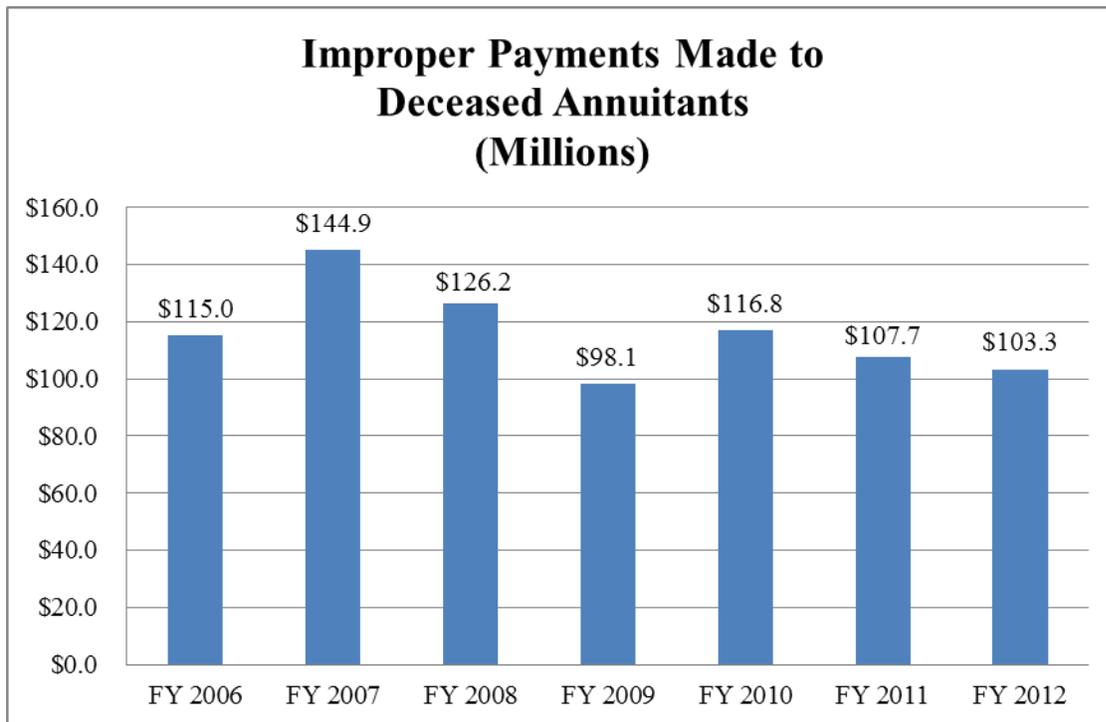
Background

In 2005, we initiated a study of best practices for preventing improper payments to deceased annuitants. Along with OPM representatives, we met with several benefit-paying Federal agencies and a major corporation to discuss procedures and internal controls that were used to detect and prevent improper payments. This study resulted in a report that we provided to OPM containing recommendations for improvements related to preventing improper payments from the Federal Government's Civil Service Retirement and Disability Fund. We updated and reissued this report in January 2008, reflecting the progress that the agency had made in addressing our original recommendations and providing additional recommendations. While a number of improvements were implemented by OPM, it became clear that they were only temporary measures, which is why we issued a third report in September 2011.

In our 2011 report, we stated that OPM identified an annual average of \$120 million in improper payments to deceased annuitants between FYs 2006 and 2010. In the two years since then, FYs

2011 and 2012, the average dropped to \$105.5 million. We hope that the reason for the decline is that these improper payments are in fact decreasing. However, we do not have evidence to validate that there are indeed fewer improper payments, as opposed to a lack of controls to effectively identify them.

The following chart contains the figures for each of these years.



It is important to note that this entire amount does not represent egregious long-term improper payments. Much of it – although OPM cannot provide the exact amount – comes from improper payments that are identified and recovered in a matter of a few months. These are often the result of a retiree passing away before the retirement payment is made for that month, or because the deceased’s family takes a month or two to report the death. These overpayments are usually recovered in full.

While of course we would like to prevent all improper payments, as each one requires time and effort to recover, our paramount concern is when an annuitant’s death is not properly reported or detected and annuity payments continue for many years, resulting in high dollar overpayments. These payments are frequently taken by a relative or guardian of the deceased annuitant who failed to report the death. In some cases, these individuals actively deceive OPM, leading OPM to believe that the annuitant is still alive by forging his or her signature on an inquiry form from the agency (called an Address Verification Letter, or AVL). Our experience is that these types of improper payments often cannot be recovered, even if full restitution is ordered by a court and/or the debtor is put on a repayment plan.

Due to the implementation of one of our recommendations, OPM identified multiple instances of egregious overpayments. In 2009, in response to our 2008 report OPM performed a data-match where it compared the annuity roll data to the Social Security Administration's (SSA) Death Master File. One of the fraud cases discovered by this exercise involved a Federal retiree who died in May 1989. Since OPM was never notified of the death, his annuity payments continued, resulting in an overpayment of \$526,000. The OIG opened an investigation and determined that the annuitant's daughter-in-law forged his name on *four* AVLs sent by OPM to the annuitant. Although the daughter-in-law was convicted and ordered to pay restitution, it is unlikely that OPM will ever receive this full amount.

While this is a larger than average improper payment, it is not unusual for overpayments in these cases to exceed \$100,000.

Current Problems within Retirement Services

Our greatest frustration comes from RS's organizational culture, which does not prioritize this issue due to a lack of leadership commitment.

OPM should not be neglecting an issue that can save the taxpayers millions of dollars. I would like to remind the Subcommittee Members that the improper payments themselves are not the only Federal funds involved here – significant resources are spent to recover these payments, including the time and effort of both OPM and OIG employees, personnel from the Department of Treasury, the staff of other Federal law enforcement organizations (because fraud is often not limited to a single Federal program), and Department of Justice prosecutors.

We have identified several systemic weaknesses within RS that we believe must be addressed if OPM is truly serious about improving its efforts to identify and prevent improper payments.

Lack of Accountability

As I mentioned above, senior leadership within OPM, and specifically RS, has not demonstrated a sustained commitment to establishing an active and continuing effort to address improper payments made to deceased annuitants. We see this most clearly in the Retirement Inspections office and the Data Mining Working Group, which I will discuss in a moment.

OPM developed and issued an improper payments strategic plan in November 2012.³ However, full implementation of this plan requires an effective system of accountability to ensure that all individuals involved are indeed taking the steps required by the plan. Although this plan identifies accountable officials, there are no clear steps or milestones established for the activities of RS's Retirement Inspections, which is the primary office responsible for identification and prevention of improper payments.

Recently, there has been frequent turnover in the Retirement Inspections' supervisor position. This was due in part because, rather than immediately filling the position when the prior supervisor left, RS instituted a planned leadership rotation, with individuals acting as supervisor

³ This plan was revised and reissued on January 6, 2013.

for approximately four months. Apparently this approach was adopted in order to determine who would be the best candidate for the Retirement Inspections' permanent supervisor position. However, the result was that as soon as one of these temporary supervisors had time to become familiar with the improper payments projects, he or she would be moved, creating a lack of continuity within the office. We understand that a new, permanent supervisor has recently been appointed and we look forward to working with him.

The consequences of this lack of leadership may be most obvious in the execution of the "1099-R Project." The Internal Revenue Service (IRS) requires that OPM annually send each annuitant a Form 1099-R, which reports the amount of the annuity received during that year. Tens of thousands of these forms are returned to OPM each year by the U.S. Postal Service, marked "undeliverable." One of the recommendations contained in our reports is that OPM should review these returned Forms 1099-R in order to determine why they were undeliverable, and whether the annuitant is deceased.

The current 1099-R Project began with the 2009 tax year forms, which were mailed in January 2010. Over 33,000 forms were returned undeliverable, and OPM began to compare the names of recipients to SSA's Death Master File and take other appropriate follow-up actions. *Three years later, OPM still has not completed this work.* Moreover, although OPM has received and collected the returned Forms 1099-R mailed in January 2011, January 2012, and January 2013, it has not taken any further action on these forms.

The lack of a comprehensive, carefully designed plan with milestones and deadlines to complete the project has contributed to the failure to produce results.

OPM's implementation of the OIG's 2008 recommendation to establish a permanent working group of retirement program subject matter experts is a second example demonstrating the lack of leadership commitment. The intended purpose of this group was to focus upon improving the retirement program's integrity by exploring new ways to prevent improper payments and analyzing the wealth of information contained in the annuity roll. In October 2012, OPM established the Data Mining Working Group (Working Group) with the purpose of developing data mining programs to look for anomalies in the annuity roll that could indicate possible improper payments or fraud, and to share best practices and lessons learned with other benefit-paying agencies.

We are concerned that the effort has stalled. According to the Working Group's charter, it is supposed to meet bi-weekly. However, it appears that the Working Group has met only three times: in December 2012, February 2013, and just last week. We hope that this hearing will renew OPM's commitment and reinvigorate the Working Group's efforts.

Merely meeting for an hour or two periodically is not sufficient to accomplish the Working Group's goals. The minutes of these meetings indicate that the Working Group is developing good ideas that are worth pursuing. Unfortunately, we have not seen evidence that any additional action is being taken.

Lack of Tracking Systems

OPM's improper payments strategic plan contains certain milestones with regard to generally reducing and recapturing improper payments. However, there is no workload/data tracking system to determine the progress RS is making on each of its different initiatives aimed at identifying and preventing improper payments to deceased annuitants. For example, when Retirement Inspections identifies an improper payments case suitable for reclamation by the Department of the Treasury, it is referred to the Office of the Chief Financial Officer and Retirement Inspections no longer tracks the case's progress.

In addition, we are dismayed that RS is routinely unable to provide us with basic information. There have been instances where RS informed us that it was unable to gather the information that we requested, but later located it once we explained where the data could be found (*e.g.*, the specific codes that would produce the requested data in a search of the annuity rolls). However, many times RS simply does not keep track of what the OIG considers to be essential data. For example, RS apparently does not see the need for an "aging schedule" for improper payments made to deceased annuitants. Thus, it is unable to distinguish between short-term improper payments, which are usually recovered in full, and long-term improper payments, which sometimes total over \$100,000. Not only would this information be useful to my office so that we can immediately pursue these cases, it could also illustrate OPM's effectiveness by showing how quickly it recovers improper payments in full.

Furthermore, we have found instances where RS is unable to provide basic documentation to support the data that it reports on improper payments. For example, we requested the names of the individuals that OPM identified as deceased through matching the annuity roll with SSA's weekly death file. Although OPM was able to tell us how many annuitants it identified, *it was unable to provide us with the names of these individuals*. Failure to track this information prevents validation of RS's reports and causes concern about whether potential fraud cases are appropriately pursued.

Failure to Fully Execute Projects

Even when OPM implements one of our recommendations, the OIG has found that RS will take, for example, the first two steps in a five step process, and then let the matter languish. If the purpose of a project is to identify and prevent improper payments, *all* steps must be taken in order to ensure that the death is confirmed and improper payments are recovered.

The best example of this is the 1099-R Project. OPM's current process is to review certain details of *every* returned Form 1099-R. However, due to the volume of returned forms, the effort so far has focused upon attempting to make contact with annuitants and suspending annuity payments. It has not yet progressed to include systematically researching dates of death, which is needed to verify whether the person is indeed deceased and to calculate the improper payment, if applicable. This step must be taken in order to identify and recover improper payments.

In order to make the workload from this project manageable, OPM should carefully analyze a risk-based sample of returned Forms 1099-R. Looking more closely at a smaller number of high

risk returned forms, including establishing the dates of death where applicable, would permit the agency to identify improper payments in a more efficient and effective manner.

Lack of Fraud Referrals

We are very troubled about a decline in retirement fraud referrals produced by RS, as well as a lack of timeliness in bringing suspected fraud to the OIG's attention. In 2011, the OIG received only 30 retirement fraud referrals from RS, compared to 92 referrals in 2010. Then, on March 19, 2012, we received 30 retirement fraud referrals in a single day. However, in all 30 cases, OPM had identified the death and permanently stopped making annuity payments more than 5 years prior to referral to the OIG. The statute of limitations dictates that criminal proceedings must be initiated within five years of the Government becoming aware of a potential theft or fraud. Because the 30 suspected fraud cases referred in March 2012 were no longer prosecutable, our office had to decline all of them.

We also noted that in 24 of the 30 cases, OPM did not ask the Department of Treasury to reclaim the identified overpayments within the required 120 days after the death was discovered. This is a critical step in recovering improper overpayments.

We formally notified RS of our concerns by memorandum, dated July 31, 2012, but we have not observed sufficient improvement since that time. Another 25 suspected retirement fraud cases were referred to the OIG by RS's Retirement Inspections between July 2012 and March 2013, but approximately 80 percent of these referrals also had statute of limitations problems.

OIG's Proactive Efforts

Due to the lack of timely fraud referrals from RS, our office initiated a data-matching project in the fall of 2012 to try to identify deceased annuitants still receiving monthly retirement annuity payments from OPM. From the annuity roll, the OIG identified annuitants over the age of 92 who were enrolled in the BlueCross/BlueShield healthcare plan. We then conducted a data-match between this annuity roll snapshot and the available data in the OIG's Federal Employees Health Benefits Program Claims Data Warehouse in order to identify annuitants who have not filed any health insurance claims within the last two years. We mailed AVLs in an attempt to make contact with this annuitant population and are in the process of verifying the vital status of those individuals we were unable to reach. The OIG has notified OPM of those annuitants whose vital status is in question, so that RS may take action to suspend payment as appropriate.

The work performed in the few months since the OIG began this project has resulted in the referral of 59 cases to RS. In 33 instances, the annuitant did not return an AVL; there were 18 AVLs signed by someone other than the annuitant due to the annuitant's health issues; and 8 AVLs were returned by the U.S. Postal Service as undeliverable. RS is sending a second AVL to those individuals who did not return the AVL sent by the OIG. If the annuitant does not respond within 30 days, RS will suspend their annuity payment. RS mailed information to the 18

annuitants who did not sign their own AVLs explaining how to name another person as their representative payee.⁴

Conclusion

The Federal retirement system is a complex operation. OPM has been largely successful in administering the program and meeting the needs of the 2.5 million Federal retirees. While OPM works to eliminate the backlog of retirement claims, it must simultaneously address the quality of work and seek to improve the adjudication accuracy rate.

In addition, OPM must not neglect the issue of improper payments. I ask that Congress join me in calling on OPM leadership to rededicate itself to the identification and prevention of improper payments, which includes dedicating sufficient and appropriate resources to address this critical issue. The agency must be held accountable to ensure the integrity of the retirement trust fund.

Further, my office is ready and willing to work with the Subcommittee if it would like to pursue some type of legislative action to address the situation.

Thank you again for inviting me here today. I would be happy to respond to any questions that you may have.

⁴ An annuitant may choose to designate a representative payee if the annuitant is incapable of handling his or her own affairs, often because of health issues.