



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

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

before the

**Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia**

Committee on Homeland Security and Governmental Affairs

United States Senate

on

“Federal Retirement Processing: Ensuring Proper and Timely Payments”

February 1, 2012

Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee:

Good afternoon. My name is Patrick E. McFarland. I am the Inspector General of the U.S. Office of Personnel Management (OPM). Thank you for inviting me to testify at today’s hearing about OPM’s processing of retirement payments. All of the Federal retirees and survivor annuitants who depend upon these payments will agree that this is one of OPM’s most important functions. Today I will touch on two tasks performed by OPM’s Retirement Services office: the processing of

retirement claims and the identification and prevention of improper payments to deceased annuitants.

Processing of Retirement Claims

The timely issuance of full annuity payments has been a long-standing challenge for OPM. The adjudication of retirement claims has historically been a largely paper-based process, sometimes resulting in lengthy delays before completion. OPM's last comprehensive effort to automate this process was known as the Retirement Systems Modernization (RSM) project. During OPM's struggles with the RSM project, the Government Accountability Office (GAO) became actively involved in overseeing the agency's work.

For the past several years, we have listed OPM's overhaul of retirement claims processing in our Top Management Challenges memorandum. Although GAO provided the primary oversight of the RSM project, my office made a point to stay informed regarding developments in that area. We felt that it would be duplicative for us to conduct additional audits of the RSM project development process.

While it is widely accepted that the RSM project was not a successful endeavor, it did produce some positive results. These include:

- Establishing a secure retirement data warehouse;
- Imaging 10 million retirement documents for over 1 million Federal employees, putting the data in electronic form;
- Developing a retirement data standard for Federal agencies to share a single set of retirement information across the Government;
- Implementing a standard electronic data feed from agency payroll offices for 35 percent of Federal Government employees; and
- Extending the current OPM retirement calculator to Federal agencies.

These steps are necessary for OPM to move towards fully automating the retirement claims processing system. They are not enough, however, to address the immediate need to reduce the current backlog of retirement claims.

To that end, on January 17, 2012, OPM unveiled a new strategic plan to address that backlog. We have reviewed it and made initial inquiries to the agency

regarding parts of the plan. Although our evaluation is not complete, I can share with you now a few observations and comments.

We believe that the agency is on the right track by hiring and training additional staff, as well as leveraging existing resources. OPM is also dedicating personnel to focus primarily on case development work, such as gathering missing documentation essential to the processing of retirement claims. This should increase the productivity of the adjudicators.

Based upon our initial review of the strategic plan, we asked OPM about various details not presented in the plan. For example, we would like to see interim milestones that allow OPM to track its progress towards eliminating the backlog in 18 months. Furthermore, we want to be sure that there is a commitment to revisit the plan periodically to make modifications as necessary. We also have concerns regarding the scaling back of the accuracy review process. This will obviously result in a higher risk of error in the processing of retirement claims. We would like to see how OPM plans to address the higher degree of risk for improperly paying annuities.

Improper Payments to Deceased Annuitants

While I am pleased that OPM is aggressively addressing the retirement claims backlog, I would like to reemphasize my concerns regarding OPM's pattern of making improper payments to deceased annuitants, requiring the expenditure of significant resources to attempt to recover these monies. Resources would be better spent identifying and, more importantly, preventing improper payments from being made. We have been working closely with OPM on this issue for over six years, and while improvements have certainly been achieved, systemic problems remain. As Director Berry has stated, he recognizes that this situation must be addressed, and has assigned senior staff members to work with my office on the outstanding recommendations detailed in our recent report. He agrees that improper payments can be remedied only by a comprehensive reform effort. In my recent conversations with Director Berry, he has committed to developing a strategic plan to combat improper payments to deceased annuitants, similar to the one OPM has just issued regarding the retirement claims backlog.

Background

My office's efforts began in 2005 when 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 prevent and detect improper payments. This study resulted in a report that we provided containing recommendations for improvements related to preventing improper payments from the Federal Government's Civil Service Retirement and Disability (CSRD) 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 have been implemented since then, it became clear that they were only partial remedies. Consequently, my office issued a third report in September 2011 to again highlight the need for aggressive action in this area.

This report, "Stopping Improper Payments to Deceased Annuitants," demonstrated the need to stop the flow of improper payments once and for all from the CSRD Fund to deceased annuitants, which have averaged approximately \$120 million annually over the last six years.¹ It is important to note that this entire amount does not represent egregious long-term improper payments. Much of it – although OPM could not 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 just before or after the retirement payment is made for that month, or because the deceased's family takes a month or two to report the death. These payments are usually recovered in full.

While of course we would like to prevent all post-death improper payments, as each one requires time and effort to recover, our paramount concern is with those payments resulting when an annuitant's death is not properly reported or detected and which continue for many years. These payments are frequently taken by a relative or guardian of the deceased annuitant who failed to report the death. In many cases, these individuals then actively lead OPM to believe that the annuitant

¹ Please note that the figure in our September 2011 report – \$120 million – reflected the average annual amount of improper payments made between 2006 and 2010. When including the figures for 2011, the average annual amount of improper payments is \$119 million.

was still alive by forging his or her signature on an inquiry form from the agency. Our experience is that these types of improper payments often cannot be recovered.

As an example, our report noted the case of an annuitant's son who continued to receive benefits until 2008, 37 years after his father's death in 1971. The improper payment in this case exceeded \$515,000 and was reported to OPM only when the son died. None of these funds could be recovered. While this is a larger than average improper payment, it is not unusual for these amounts to exceed \$100,000. Despite improvements that have been implemented, there remains a high probability that this egregious loss of monies from the CSRD Fund will continue.

OPM's Actions

Based upon our recommendations, OPM has taken positive steps to address this issue. Regular meetings over the last three years between OPM subject matter experts and my office have led to enhanced identification and prevention measures. These measures need to be further refined, incorporated into routine business processes, and monitored on a continuous basis by senior management. As I have already mentioned, the Director has committed to do just this by developing a long-term strategic plan that will address the systemic causes of improper payments to deceased annuitants. However, because the plan has not yet been drafted, today I can only speak to our recommended actions.

Those actions include comparing the OPM retirement annuity roll and the Social Security Death Master File; increasing contact with annuitants who are over 90 years old; analyzing undeliverable correspondence; recovering improper payments from financial institutions; and establishing a permanent working group to continue to develop new and innovative approaches to identifying and preventing improper payments. I will discuss each of these initiatives in turn, including the progress that OPM has made regarding each.

1. Computer Matching

One of our recommendations was that OPM conduct an annual computer match between the OPM retirement annuity roll and the Social Security Death Master File to identify deceased annuitants who continue to receive annuity payments. OPM conducts a weekly match against a file from the Social Security

Administration (SSA) of deaths reported immediately (*i.e.*, during the week they occurred). In contrast, the annual match against SSA's Death Master File captures those deaths that were not previously reported in SSA's weekly file or that were missed by OPM during the weekly match.

While we have closed this recommendation, we continue to monitor the results of the matching. The annual matches conducted in 2009 and 2010 identified over 1,000 deaths that were previously unknown to OPM. The agency is now conducting its third consecutive annual match, begun in 2011, which is approximately 85 percent complete.

2. Increasing Contact

At our request, OPM began sampling the over age 90 population of the annuity roll in September 2009 (the "Over 90 Project"). OPM requested that these individuals send the agency a signed response confirming their vital status and validating their correspondence address. This was a productive exercise. Out of a sample of 4,400 individuals, OPM told us that 144 cases were suspended and approximately 100 individuals were ultimately dropped from the annuity rolls. OPM plans to repeat this exercise this summer.

3. Analysis of Undeliverable Correspondence

Under Treasury regulations, OPM must annually send each annuitant IRS Form 1099-R reporting the amount of the annuity that the retiree received during the prior tax year. OPM agreed to analyze those Forms 1099-R that were returned to the agency as undeliverable, and to contact those annuitants to determine why the mail was returned.

OPM is currently reviewing the undeliverable Forms 1099-R mailed out in January 2010. To our knowledge, OPM has only reviewed a small percentage of the 33,000 returned forms. Moreover, the agency has not begun reviewing the undeliverable forms mailed in January 2011, and will soon begin receiving undeliverable forms mailed in January 2012.

Given this workload, OPM must develop a plan to address how it will process the undeliverable mail, determine why it was returned, and take appropriate action.

4. Recovering Improper Payments from Financial Institutions

We recommended that OPM improve and streamline the process whereby it works with the U.S. Department of the Treasury to reclaim improper payments to deceased annuitants directly from the bank accounts where they were electronically deposited. We have been informed that OPM is continuing its attempts to meet with Treasury officials to resolve the matter.

5. Establishment of a Permanent Working Group

We strongly recommended that OPM establish a permanent working group of retirement program subject matter experts to focus on improving the retirement program's integrity. This group would identify and explore risk areas and take advantage of the wealth of information contained in the annuity roll by, for example, developing data mining programs that would search for anomalies indicating possible improper payments or fraud.

Those who wish to defraud the Government will continue to develop new ways to do so. In order for OPM to protect the retirement trust fund against such individuals, it must also constantly seek to improve and adapt to an increasingly automated world. Having a permanent working group should be an essential part of OPM's proactive efforts.

Improper Payments Reporting Requirements

In 2010, Congress enacted the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204), which amended the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note). Under IPERA, agencies must identify programs that may be susceptible to significant improper payments. OPM's retirement program is considered significant under IPERA because the improper payments are over the \$100 million per fiscal year threshold. Because these improper payments are classified as significant, OPM has certain reporting responsibilities under IPERA. This includes reporting not only an estimate of the improper payments, but also the causes of those improper payments, and actions planned or taken to correct those causes.

In October 2011, we initiated the audit required by IPERA to determine OPM's compliance with the act. While the audit is ongoing, our preliminary work indicates potential deficiencies in both OPM's compliance with the act and its internal reporting controls.

As I previously stated, during recent discussions with the Director, he committed to producing a strategic plan to address improper payments to deceased annuitants, similar to the one for the retirement claims backlog. We believe that this plan should be based upon the IPERA standards. This would help the agency to ensure that it complies with the act, as well as establish a clear identification and prevention program.

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.

However, the backlog in retirement claims processing constitutes a significant challenge that must be addressed as quickly as possible. To that end, OPM is making progress in automating some parts of the process. More importantly, the agency is dedicating additional personnel to eliminate this backlog of retirement claims. OPM appears to be moving in the right direction, but there are potential risks that it must address, and OPM must remain vigilant for this strategic plan to be successful.

While OPM works to improve its retirement claims processing procedures, it must not neglect the identification and prevention of improper payments to deceased annuitants. Over the past six years, we have watched as the agency has adopted new measures to combat these improper payments. However, these measures were not consistently pursued and the efforts eventually stalled.

Although OPM's improper payment rate for the retirement program is very low, it is still, on average, over \$100 million a year. I cannot emphasize enough the importance of having an established, meaningful identification and prevention program in place. Failure to do so not only results in the initial overpayment, but often also the inability to recover the funds once the improper payment is finally

discovered. Consequently, prevention of these payments must remain a top priority, and not simply when my office raises the issue.

Director Berry has recognized this and has enthusiastically committed to developing and implementing a strategic plan that would improve OPM's ability to identify and prevent improper payments. I applaud his efforts and my office is ready and willing to work with the agency as it develops this plan.

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

**PATRICK E. MCFARLAND
INSPECTOR GENERAL
U.S. OFFICE OF PERSONNEL MANAGEMENT**

Patrick E. McFarland was sworn in as Inspector General of the United States Office of Personnel Management on August 9, 1990. His continuous service since that time makes him the longest-tenured Federal inspector general.

As Inspector General, Mr. McFarland is responsible for providing leadership that is independent, non partisan and objective and is dedicated to identifying fraud, waste, abuse, and mismanagement in programs administered by the Office of Personnel Management. The audit and investigative programs that his office conducts are instrumental in assuring the integrity of the largest retirement and employee health insurance programs in the United States.

Mr. McFarland is a member of the Council of the Inspectors General for Integrity and Efficiency, the organization of presidentially appointed inspectors general and other federal officials established under the Inspector General Act. The purpose of the council is to provide a government-wide forum for identifying and addressing issues related to fraud, waste, and abuse and to promote economy and efficiency in government programs and operations. Mr. McFarland is a member of the Council's Integrity and Professional Development Committees, and formerly served as chair of the Investigations Committee.

Mr. McFarland's law enforcement career spans over 50 years. He served with the United States Secret Service for 22 years, providing line and staff management oversight for protective activities involving six presidents of the United States and many chiefs of state and heads of government. Previously, he was a police officer and detective with the St. Louis Metropolitan Police Department and was a special agent with the Federal Bureau of Narcotics in Chicago, Illinois. He is a member of the Federal Investigators Association, the International Association of Chiefs of Police, and the Association of Government Accountants.

Mr. McFarland was born and raised in St. Louis, Missouri, and attended St. Louis University, graduating in 1965 with a Bachelor of Science degree. He earned his Master of Public Administration degree from The American University in 1986. He and his wife Kathy have four children and reside in Leesburg, Virginia.