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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Action Needed To Reduce, Account For, And Collect Overpayments To Federal Retirees

The Office of Personnel Management reported overpayments of about \$214 million to retired Federal civilian employees and their survivors, from the Civil Service Retirement and Disability Fund, during the 5 years ending September 30, 1982. Although OPM has recovered a substantial portion of these overpayments, it might have avoided some of the overpayments if better controls had been used to prevent dual payments and promptly identify deceased beneficiaries.

GAO found that (1) little emphasis was placed on eliminating benefit payments to individuals no longer eligible, such as deceased beneficiaries; (2) overpayments were not accurately recorded and reported, once identified; and (3) prompt, aggressive action was not taken to recover overpayments.

GAO recommends establishment of adequate internal controls to minimize, account for, and collect such overpayments from the Fund.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses our review of the adequacy of the Office of Personnel Management's system of internal controls to prevent, account for, and collect overpayments made from the Civil Service Retirement and Disability Fund.

We are sending copies of this report to the Director of the Office of Management and Budget, the Director of the Office of Personnel Management, and the Secretary of the Treasury.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General  
of the United States



D I G E S T

During the 5 years ending September 30, 1982, the Office of Personnel Management (OPM) disbursed \$76 billion from the Civil Service Retirement and Disability Fund, and reportedly overpaid about \$214 million to retired Federal civilian employees and their survivors.

As of September 30, 1982, OPM reported that \$56.2 million of these overpayments remained uncollected from retirees and survivors. This was an increase of about \$27 million from fiscal 1980 yearend balances. GAO undertook this review to determine whether OPM had adequate internal controls to prevent, account for, and collect overpayments made from the Civil Service Retirement and Disability Fund.

GREATER EMPHASIS NEEDED ON  
MINIMIZING OVERPAYMENTS

Most OPM Retirement and Disability Fund overpayments occurred when beneficiaries underwent a status change that either eliminated their entitlement to benefits or reduced the amount payable to them. OPM relied mostly on the beneficiary or the executor or administrator of his or her estate to report a change in status. Overpayments occurred because beneficiaries did not report status changes and OPM did not process reported changes promptly. (See p. 6.)

Greater control over payments to beneficiaries might have avoided millions of dollars in overpayments and reduced the time and cost of recovering them. GAO found that:

--Deceased beneficiaries were not promptly identified and taken off the annuity rolls. Until recently, OPM did little to identify deceased beneficiaries. It relied mostly on the beneficiary's family, bank, and postmaster, and the Department of the Treasury for death notifications. (See p. 6.)

--Dual payments were made to disability annuitants. OPM did little to identify individuals receiving

both a civil service retirement annuity and Federal Employees' Compensation Act benefits to ensure that overpayments were not being made. Also, it did not promptly stop payments to disability annuitants who elected to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity. (See p. 8.)

--Erroneous retirement data from other Federal agencies contributed to overpayments from the retirement fund. Some of these overpayments might not have occurred had OPM informed appropriate agency officials of the deficiencies so that they could identify and correct improper retirement certifications before sending them to OPM. (See p. 9.)

--Overpayment data were not compiled by type of occurrence. For example, OPM did not know the frequency or dollar value of overpayments made to widows and widowers who remarried. Thus, it did not know the magnitude of certain types of overpayments and how to best utilize limited resources to collect these overpayments. (See p. 10.)

#### RECORDING AND REPORTING OF OVERPAYMENTS NEED IMPROVEMENT

GAO believes that accurate accounting is essential if OPM is to manage the control and reporting of overpayments and provide the necessary information to maximize the collection of overpayments. Because of inadequate accounting, millions of dollars in overpayments were inaccurately recorded and reported. For example, GAO matched the automated record files of OPM and the Department of the Treasury as of March 13, 1981, and found that OPM may have overstated overpayments to deceased beneficiaries by as much as \$12 million because it did not maintain complete and accurate account records of overpayments actually made. (See p. 13.)

The overpayments may be overstated by as much as \$12 million because:

--Unreliable data were used to estimate the amount of overpayments.

--Some overpayments were reported as due when OPM had already collected them.

--Some overpayments were reported as due but did not exist in the first place.

--Some overpayments were accounted for twice in account records.

Also, based on the work of OPM's quality assurance staff, GAO estimates that OPM might have understated overpayments by about \$5.9 million during the 3 years ending December 31, 1980, because it did not identify all overpayments. (See p. 17.)

The subject of poor OPM recordkeeping and processing of overpayments was also discussed in GAO's recent report, "Inadequate Internal Controls Affect Quality and Reliability Of The Civil Service Retirement System's Annual Report" (AFMD-83-3, Oct. 22, 1982.) That report recommended that the Director of OPM establish procedures to properly account for overpayments. GAO still believes this should be done.

Because OPM does not have accurate accounting records for the overpayments, collection is not aggressively pursued. Ultimately, this could allow the loss of millions of dollars that could be collected.

#### MORE AGGRESSIVE APPROACHES NEEDED FOR RECOVERY

Billing and collection practices for overpayments at OPM were not in accordance with the Federal Claims Collection Standards--and complementing joint standards by the Comptroller General and the Attorney General--and were frequently not effective. The following management practices contributed to the reported \$56.2 million in overpayments outstanding as of September 30, 1982.

- Persons receiving overpayments were not promptly billed. (See p. 20.)
- Delinquent accounts were not always identified. (See p. 21.)
- Followup collection actions frequently were not made promptly. (See p. 21.)
- Requests for investigation and writeoffs of uncollectible accounts were frequently not processed or not processed promptly. (See p. 24.)

Also, debtors had little incentive to make prompt payments because OPM did not charge interest on delinquent accounts. (See p. 26.)

#### CONCLUSIONS

The amount of overpayments made by OPM to recipients of retirement, survivor, and disability benefits is rising. The ultimate remedy is, of course,

to stop making overpayments. But given certain changes in benefit status, such as death, there will always be some overpayments. Nevertheless, OPM needs to establish adequate internal controls to minimize, account for, and collect overpayments from the Civil Service Retirement and Disability Fund.

#### RECOMMENDATIONS

To correct the deficiencies noted, GAO recommends that the Director, Office of Personnel Management

--take appropriate action to minimize the amounts of overpayments, such as using death data maintained by other Federal agencies to identify deceased beneficiaries (see p. 10),  
and

--develop a debt collection system that enables OPM to bill debtors promptly, identify all delinquent accounts, send out timely collection letters, process requests for investigations and writeoffs of uncollectible accounts, and charge interest on delinquent accounts (see p. 26).

#### AGENCY COMMENTS

In commenting on the report (see app. III), the Office of Personnel Management agreed with GAO's basic findings that (1) greater emphasis was needed on minimizing overpayments, (2) improvements were needed in recording and reporting overpayments, and (3) more aggressive approaches were needed for recovery of overpayments. OPM indicated in its comments, however, that much of the data in the draft report were outdated and did not reflect major improvements OPM has made in areas covered by the report. GAO has now updated some of its information.

GAO's draft report discussed \$98 million in overpayments during the 3 years ending September 1980. This amount has since increased to \$214 million as of September 30, 1982. In light of the increase in overpayments in fiscal 1981 and 1982, GAO believes the report reflects current conditions and demonstrates that major corrective actions are still needed. In particular, OPM made frequent reference in its comments to a new debt management system that should enable it to better classify, account for, and collect overpayments. However, this system is still in the design stage, although previously scheduled to be implemented in January 1982. A new implementation date is not known, and since

the system is still being designed, an acquired computer software package still requires modification, and testing must be done prior to implementation, further slippage appears likely. Until the system is operational, there is little assurance that many of the problems identified in this report will be corrected. GAO believes, therefore, that the system should be implemented as soon as possible.



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#### ABBREVIATIONS

DCI	data collection instrument
GAO	General Accounting Office
OPM	Office of Personnel Management
SF	standard form

## CHAPTER 1

### INTRODUCTION

The Civil Service Retirement and Disability Fund was established under the Civil Service Retirement Act of 1920 (ch. 195, 41 Stat. 614, May 22, 1920) to provide retirement benefits to former Federal employees. About 2.7 million Federal workers contribute to it, while about 1.8 million retirees and survivor beneficiaries receive annuity payments.

The Office of Personnel Management (OPM) administers the retirement fund which, as of September 30, 1982, had a balance of \$96.6 billion. During the 5-year period ending September 30, 1982, OPM disbursed about \$76 billion in payments to cover annuities to retired Federal employees and their survivors, refunds on retirement contributions, payments of death claims, and expenses incurred to administer the civil service retirement system.

Given such large disbursements and the nature of the retirement fund, some overpayments are bound to occur.

#### WHY OVERPAYMENTS OCCUR

Most overpayments occur when beneficiaries undergo a status change that either eliminates their entitlement to benefits or reduces the amount payable to them. Benefits cease, for example, when:

- A widow or widower who is under age 60 and receiving survivor benefits remarries.
- A disability annuitant under age 60 recovers or is restored to earning capacity.
- A disability annuitant elects to receive benefits provided under the Federal Employees' Compensation Act in lieu of a civil service retirement annuity.
- A child beneficiary who is not disabled, and who is no longer attending school full time, reaches age 18.
- An annuitant or survivor annuitant dies.

In general, civil service retirement benefits are reduced when an annuitant with military service performed after 1956 reaches age 62 and becomes eligible for social security retirement benefits.

OPM relies mostly on the beneficiary, the executor or administrator of his or her estate, the bank, the postmaster, and the Treasury, to report a change in status. Substantial overpayments can result if a change is not reported and recorded promptly.

## ACCOUNTING RESPONSIBILITY FOR OVERPAYMENTS

OPM's associate director for compensation is responsible for accounting for overpayments from the retirement fund. That function is carried out by four operating divisions within the compensation group:

- The annuitant services division initiates accounting for overpayments made to individuals who continue to be eligible for civil service retirement benefits, except for those benefits appealed. These overpayments are recorded in an automated system.
- The reconsideration staff accounts for overpayments that the annuitant is appealing. These overpayments have been suspended and are accounted for primarily in an automated system.
- The operations support division's accounts receivable staff accounts for overpayments arising from the death of annuitants and survivor annuitants (also referred to as payments to deceased beneficiaries). Before February 1979, these overpayments were accounted for manually, but now payments to deceased annuitants are recorded in an automated system. Overpayments to deceased survivor annuitants continue to be recorded in a manual system.
- The fiscal management division's accounting staff accounts for overpayments made to individuals who are no longer eligible to receive benefits. These overpayments are manually recorded on account cards.

Each operating division submits a monthly or yearly accounting of overpayments-on-hand to the accounting staff. This information is then consolidated and reported to the Department of the Treasury as part of the retirement fund's statement of financial conditions at fiscal yearend. The Debt Collection Act of 1982 requires that an agency submit a report on the status of its outstanding debts to the Director of the Office of Management and Budget and the Secretary of the Treasury at least once a year.

## COLLECTION OF OVERPAYMENTS

OPM's associate director for compensation is responsible for collecting overpayments made from the retirement fund. The collection function is handled primarily by two operating divisions within the agency's compensation group--the annuitant services division and the operations support division. The annuitant services division initiates collections from individuals who continue to be eligible for civil service retirement benefits. Their monthly benefit payments are adjusted until the overpayment is fully recovered. The recovery of some overpayments is deferred until the annuitant's appeal is settled.

When notified of a beneficiary's death, clerks at either the annuitant services division or the records center in Boyers, Pennsylvania, drop the deceased beneficiary from the annuity roll. They then determine whether benefit payments in the form of electronic fund transfers or Treasury checks were made after death and, if so, whether they had been returned for cancellation or whether their amounts had been repaid. Each outstanding transfer or check payment represents an overpayment from the retirement fund and is collected with the Department of the Treasury's assistance. For each outstanding electronic fund or Treasury check payment, a request is submitted to the Treasury on a standard form (SF) 1184, to either cancel and recredit or recover the amount. The Treasury, in turn, attempts to collect the amount from the financial institution that received or negotiated the transfer or check payment.

The operations support division's accounts receivable staff handles collections from individuals who are no longer eligible to receive civil service retirement benefits. They send written demands informing the individual of the consequences of failure to pay. Three written demands are supposed to be sent at 30-day intervals. Personal interviews are held whenever feasible.

Overpayments to disability annuitants electing to receive Federal Employees' Compensation Act (5 U.S.C. 8101 et. seq.) benefits, rather than a civil service retirement annuity, are also handled by the accounts receivable staff, but are collected through the Department of Labor's Office of Workers' Compensation Program. The Department of Labor reimburses OPM through a lump-sum payment or through withholdings from the monthly compensation check.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to establish whether OPM had adequate internal controls to prevent, account for, and collect overpayments. We did the review at OPM headquarters in Washington, D.C., and the work was performed in accordance with generally accepted Government auditing standards.

To determine causes of overpayments, accuracy of accounting records, and effectiveness of collection efforts, we reviewed two types of overpayments that agency personnel identified as high in both case volume and dollar amounts--(1) overpayments to disability annuitants electing to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity and (2) overpayments arising from the deaths of annuitants and survivor annuitants. We reviewed a random sample of 386 such cases from the 31,869 overpayment cases on file at OPM:

--We sampled 66 overpayments to disability annuitants electing to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity. These overpayments were outstanding as of January 31, 1981.

--We sampled 320 overpayments arising from the death of annuitants and survivor annuitants. These overpayments were outstanding as of March 13, 1981. We statistically determined the average time it took OPM to learn of the death and initiate collection.

A discussion of the methodology we used in selecting our samples and projecting our results is in appendix I.

Our review also included an analysis of 2,047 deceased survivor annuitant cases. These were reviewed to determine the age of backlogged cases on August 11, 1981. The cases reviewed represented all the records available from an estimated total of 5,000 backlogged cases.

We did not sample two types of overpayments. One was annuity overpayments under appeal which, at the time of our review, OPM's office of internal evaluation was reviewing. The other was overpayments made to individuals who continue to be eligible for civil service retirement benefits. Such overpayments are usually collected through adjustments against continuing benefits.

Our review considered the recent findings of OPM's quality assurance staff concerning overpayments from the retirement fund. They periodically review adjustments to the annuity rolls for validity, accuracy, and completeness and have identified many overpayments. We obtained the staff's reports for a 3-year period (1978-1980) and used the statistical data in these reports to project the amount of unidentified overpayments in the universe sampled by the quality assurance staff. A discussion of the methodology we used in projecting these results is in appendix II.

We discussed overpayments from the retirement fund with OPM officials responsible for collecting overpayments. We interviewed OPM officials responsible for administering the retirement fund and reviewed OPM procedures relating to overpayments. We also discussed our review with officials at the Departments of the Treasury and Labor, where appropriate.

We also considered whether OPM handled overpayments in a manner consistent with appropriate legislation and Federal regulations. As an example, we determined whether overpayments were collected in accordance with the Federal Claims Collection Act of 1966 (31 U.S.C. 3701(1), 3711).<sup>1</sup>

Finally, after we received OPM's comments to our draft report, we updated financial data in the report relating to the current balance in the retirement and disability fund, amount of

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<sup>1</sup>The Federal Claims Collection Act of 1966 has been amended in part by the Debt Collection Act of 1982, Public Law 97-365, Oct. 25, 1982, 96 Stat. 1749.

overpayments made, and amounts still uncollected as of September 30, 1982. Also, we discussed the current status of the new debt collection system with OPM officials responsible for implementing it.

## CHAPTER 2

### MORE EMPHASIS NEEDED ON

### MINIMIZING OVERPAYMENTS

OPM has made large amounts of overpayments from the retirement fund. During the 3 years ending September 30, 1980, OPM overpaid about \$98 million to retired Federal civilian employees and their survivors. This amount has since increased to \$214 million as of September 30, 1982. Furthermore, based on the work of its quality assurance staff, we estimate that OPM overpaid about \$5.9 million that it did not detect during the 3 years ending December 31, 1980.

While some overpayments cannot be avoided, such as payments to deceased annuitants shortly after death, most can be minimized. Our review showed that OPM has placed little emphasis on minimizing overpayments from the retirement fund. Specifically, we noted the following weaknesses:

- Deceased beneficiaries were not promptly identified and taken off the annuity rolls.
- Dual payments were made to disability annuitants.
- Erroneous retirement data were supplied by other Federal agencies.
- Overpayment data were not compiled by type of occurrence.

#### DECEASED BENEFICIARIES WERE NOT PROMPTLY IDENTIFIED

Our analysis of overpayments arising from the deaths of annuitants and survivor annuitants showed that, in too many instances, OPM was not informed of a death until many months after it occurred. Consequently, large sums of overpayments were made to deceased beneficiaries. For example, in fiscal 1980 alone, OPM overpaid more than \$7.2 million to deceased annuitants because it did not know of their death.

Our analysis of overpayments made to deceased beneficiaries showed that the average interval between the date of death and the date OPM learned of death was:

- 148 calendar days for deceased survivor annuitants.
- 170 calendar days for deceased annuitants recorded on SF-1184s from January 1978 through January 1979.
- 78 calendar days for deceased annuitants recorded on SF-1184s from February 1979 through March 13, 1981.

However, in several instances, OPM did not learn of the beneficiary's death for 3 or more years. In some cases, news of the death was purposely kept from OPM so that some other individual could cash the deceased beneficiary's annuity checks. Cases 1 and 2 below illustrate how it was possible for OPM to continue paying retirement benefits to deceased individuals. Furthermore, they emphasize the need for OPM to identify deceased beneficiaries as soon after death as possible.

#### Case 1

OPM overpaid \$11,395 to a widow for over 7 years because it did not know of her death. Apparently, a granddaughter continued to cash the widow's checks after her death, and it was not until this granddaughter died herself that OPM learned the widow had died.

#### Case 2

OPM overpaid a total of \$6,002 to a deceased annuitant over a 21-month period. OPM learned of the death when the Department of the Treasury, through a returned check, informed them that the annuity check was canceled because of death. The civil service retirement checks had been mailed to this annuitant at a convalescent hospital and someone at the hospital had continued to cash the checks after the annuitant died. The checks were usually endorsed by an "X" and witnessed by someone at the hospital.

Until recently, OPM did not do enough to identify deceased beneficiaries. It relied mostly on the beneficiary's family, bank, and postmaster, and the Treasury for death notifications. However, in March 1981, during the course of our review, OPM obtained a death tape file from the Social Security Administration, matched it against the annuity roll, and identified many deceased beneficiaries. OPM regional investigators were then asked to confirm these deaths by obtaining copies of the death certificates. As of October 22, 1981, 360 deaths had been confirmed, 318 overpayments computed, and 71 cases referred to the Secret Service for collection. The 318 overpayments were valued at \$4.2 million. An OPM official told us that by the time the investigation is completed this figure could run as high as \$10 million.

Use of the above matching procedure should enable OPM to take aggressive action to both stop payments and collect overpayments to deceased beneficiaries. We encourage such efforts and believe OPM should consider using death data maintained by other Federal agencies in future matches. OPM might even consider whether it would be cost-beneficial to have beneficiaries furnish periodic proof of their existence. The Department of Defense, for example, has such a system for military retirees who have their checks mailed to a foreign address through foreign postal channels. These retirees must fill out and return monthly certifications of their continued existence in order to receive their check for the following month. The Comptroller General recently approved a Department

of Defense request to let retirees file "existence" reports only every 6 months rather than every month (B-206129, June 28, 1982, 61 Comp. Gen. 505).

#### DUAL PAYMENTS WERE MADE TO DISABILITY ANNUITANTS

OPM did not do enough to identify individuals receiving both a civil service retirement annuity and Federal Employees' Compensation Act benefits and determine that overpayments were not being made to disability annuitants. It also did not promptly stop payments to disability annuitants who elected to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity. As a result, some individuals received annuity and compensation benefits although they were not entitled to both.

Federal employees who are disabled or injured in the line of duty may be eligible for both an annuity under the retirement law and benefits under the Federal Employees' Compensation Act. The latter program is administered by the Department of Labor's Office of Workers' Compensation Program. As a general rule, disabled or injured employees cannot receive an annuity and compensation at the same time. However, an annuity can be paid when the compensation is in the form of a schedule award, which is payable when an individual loses either a part or the use of a part of his or her body. The award is paid in monthly increments over a scheduled period ranging from several months to several years, depending upon the extent of the disability. But once the award expires, the individual can receive only one of the two: an annuity or compensation benefits.

Our analysis of overpayments made to disability annuitants who elected to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity disclosed

--43 instances in which OPM did not know it was paying benefits simultaneously with the Department of Labor and

--51 instances in which the overpayment occurred because OPM and the Department of Labor both continued to pay benefits after the schedule award expired.

In several instances, OPM did not learn of the dual payments for many years. Cases 3 and 4 below illustrate the need for OPM and the Department of Labor to identify individuals who are receiving both an annuity and compensation benefits.

#### Case 3

OPM overpaid \$19,578 to a disability annuitant who had been receiving both an annuity and compensation benefits for over 6 years. OPM and the Department of Labor did not learn of the dual payments until 6 years after benefit payments began. The annuitant subsequently elected to receive compensation rather than annuity.

#### Case 4

OPM overpaid \$22,895 to a disability annuitant who was on a schedule award. When the award expired, OPM and the Department of Labor both continued to pay benefits for over 4 years. The annuitant subsequently elected to receive compensation rather than annuity.

In our opinion, some of the above overpayments would not have occurred had OPM and the Department of Labor (1) matched their payment files for individuals receiving both an annuity and compensation benefits and (2) flagged disability annuitants with a schedule award so that they could determine beforehand what action should be taken when the award expired.

OPM also took an excessive amount of time to stop overpayments to disability annuitants. Our analysis of overpayments to disability annuitants showed that OPM took an average of 98 calendar days to stop overpayments to them after having been notified of their election to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity.

OPM personnel attributed the delays in stopping overpayments to poor routing of mail, backlogs of cases, and personnel shortages and turnovers.

In an effort to eliminate some of the delays caused by the routing of election notifications to the wrong people, OPM and the Department of Labor recently implemented a new automated system that allows them to terminate an annuity within 48 to 72 hours of notification. Specifically, upon receiving an election of benefits, the Department of Labor will contact OPM, request that the civil service retirement annuity be suspended, and receive confirmation of the suspension within 72 hours.

#### ERRONEOUS DATA FROM OTHER FEDERAL AGENCIES CONTRIBUTE TO OVERPAYMENTS

Overpayments from the retirement fund were often caused when Federal agencies submitted erroneous certifications of retirement deductions.

When an employee leaves the Federal service and is not eligible for a civil service retirement annuity, he or she can apply for a refund of retirement contributions. OPM receives a certification from the employee's former agency and issues the employee a refund check.

However, we found many instances where overpayments occurred because agencies later informed OPM that they had overcertified the amount of retirement deductions. Specifically, they had certified an amount greater than that taken from the employee's pay. Some of these overpayments resulted because the agency did not account for annual leave advanced in the beginning of the year but then not

earned. Retirement contributions were calculated as though the leave had been earned and repaid.

An OPM analysis of 45 overcertification cases written off as bad debts revealed that 37, or 82 percent, of these cases involved the U.S. Postal Service.

We believe OPM should identify agencies that submit erroneous certifications of retirement deductions and inform officials at these agencies of the deficiencies in order that they may take corrective action. Erroneous certifications not only mean a loss of funds because of uncollectible overpayments, but also the expenditure of resources to process the additional workload they create.

#### OVERPAYMENTS NEED TO BE CLASSIFIED BY TYPE OF OCCURRENCE

The Federal Claims Collection Standards require agencies to establish procedures to identify the causes of overpayments and the corrective actions needed. One way of doing this is to classify overpayments by type of occurrence.

For the most part, OPM did not maintain overpayment data by type of occurrence. Hence, it did not know the magnitude of certain types of overpayments; for example, OPM did not know the frequency or dollar value of overpayments made to student-child beneficiaries who were no longer attending school full time or widows and widowers who remarried.

We believe that maintaining overpayment data by type of occurrence is an important management tool for identifying areas needing improvement and for determining how to best utilize limited resources. For example, we noted that overpayment data compiled by OPM's reconsideration staff led them to investigate why more than \$1.4 million was overpaid to individuals who received both a minimum civil service retirement annuity and social security benefits. Corrective action was then taken to prevent this from recurring.

#### CONCLUSIONS

Our review at OPM disclosed a need to minimize the occurrence of overpayments. More management emphasis is needed to (1) identify overpayments shortly after they occur, (2) remove ineligible beneficiaries from the annuity roll, and (3) work with Federal agencies who have submitted erroneous certifications of retirement deductions. Also, overpayments need to be classified by type of occurrence.

#### RECOMMENDATIONS

To prevent or minimize overpayments from the retirement fund, we recommend that the Director, Office of Personnel Management

- consider using the death data maintained by other Federal agencies to identify deceased beneficiaries, and whether it would be cost-beneficial to require beneficiaries periodically to furnish proof of their existence;
- identify ineligible disability beneficiaries by regularly matching data with the Department of Labor and flagging names of those individuals with schedule awards;
- identify Federal agencies that submit erroneous certifications of retirement deductions and inform officials at those agencies of the deficiencies so that they may take corrective action; and
- develop data that classify all overpayments by type of occurrence and use them to identify areas needing improvement.

#### AGENCY COMMENTS AND OUR EVALUATION

OPM agreed with our audit's basic findings that greater emphasis was needed on minimizing overpayments, improvements were needed in recording and reporting overpayments, and more aggressive approaches were needed for recovery of overpayments. OPM indicated in its comments (see app. III) that much of the data in the report were outdated and did not reflect current conditions because OPM had since made major improvements in the areas covered. We have now updated some of our information.

Our draft report discussed \$98 million in overpayments during the 3 years ending September 1980. This amount has since increased to \$214 million as of September 30, 1982. In light of the increase in overpayments in fiscal 1981 and 1982, we believe the report reflects current conditions and demonstrates that corrective actions are still needed.

OPM made frequent reference in its comments to a new debt management system that should enable it to better classify, account for, and collect overpayments. However, this system has not been implemented; it is still in the design stage. Originally planned for January 1982, the implementation schedule has now slipped and the new date is not known. Since the design of the system has not been completed, the acquired computer software package still requires modification, and the new system must be tested prior to implementation, we believe further slippage is likely. Until the system is operational, there is no assurance that many of the problems identified in this report--such as poor accounting and collection followup on overpayments to deceased survivor annuitants and not charging interest on delinquent accounts--will be corrected.

OPM generally agreed with our recommendation to automatically match records and has begun several actions to identify overpayments to deceased beneficiaries and disability annuitants.

The action begun on the disability annuitants consisted of taking a 10 percent sample of Department of Labor records, which identified additional potential overpayments. We believe OPM should complete these efforts by matching its records against the remaining Labor records. Further, its initial computer matches to identify deceased beneficiaries should be expanded to include death files maintained by other Federal agencies. Such matches should be performed on a regular basis.

OPM management officials have brought the overcertification problem to the attention of senior officials at Postal Service headquarters in Washington, D.C. We believe OPM should identify other Federal agencies that may also be submitting erroneous certifications of retirement deductions and inform them of the deficiencies.

Also, OPM has initiated action to categorize the causes of on-roll overpayments and some off-roll overpayments. However, future tracking of all overpayment categories is dependent on establishing the new debt management system previously discussed.

## CHAPTER 3

### MORE ACCURACY NEEDED IN RECORDING

#### AND REPORTING OVERPAYMENTS

Once overpayments were identified, they were not accurately recorded and reported during the 4 years ending September 30, 1981. OPM overstated overpayments, which could amount to as much as \$12 million, because it did not maintain complete and accurate account records of overpayments actually made. It also understated overpayments by as much as \$5.9 million because it did not identify all overpayments. As a result of this uncertainty, controls over collection and writeoffs of receivables have been ineffective, and asset balances have been incorrect.

#### ACCOUNTING FOR OVERPAYMENTS WAS NOT ACCURATE

We estimated that overpayments may be overstated by as much as \$12 million because:

- Unreliable data were used to estimate the amount of overpayments.
- Some overpayments were reported as due when OPM had already collected them.
- Some overpayments were reported as due but did not exist in the first place.
- Some overpayments were accounted for twice in account records.

Many recording and reporting errors stemmed from the inadequate accounting system in use at OPM. However, some errors were attributable to the backlog of cases awaiting processing.

The subject of poor OPM recordkeeping leading to erroneous reports and processing of overpayments was also discussed in our recent report, "Inadequate Internal Controls Affect Quality and Reliability of the Civil Service Retirement System's Annual Report" (AFMD-83-3, Oct. 2, 1982). That report recommended that the Director of OPM establish procedures to properly account for overpayments. This report identifies many additional problems with poor OPM recordkeeping and further demonstrates the need for OPM to implement the recommendations in the 1982 report.

#### Unreliable data were used to determine overpayments

OPM did not use reliable financial data to determine the amount of overpayments arising from the death of annuitants and survivor annuitants. As a result, these overpayments might be overstated by millions of dollars.

OPM had to estimate the amount of overpayments arising from the death of annuitants and survivor annuitants as of September 30, 1980, because the dollar value of these overpayments was not readily available. Before December 22, 1977, overpayments to deceased beneficiaries were set up as accounts receivable on manual account cards based on individual SF-1184s sent to the Treasury for collection. However, during the period December 22, 1977, through January 1979, OPM ceased to prepare account cards on SF-1184s sent to the Treasury and stopped recording such overpayments as accounts receivable. During the same period, the "pending" copies of the SF-1184s served as OPM's only record of these overpayments, and these were kept in file cabinet drawers. Beginning in February 1979, SF-1184s issued on deceased annuitants were established as accounts receivable in an automated system. However, those issued on deceased survivor annuitants were not included.

OPM estimated \$7.3 million as the amount of overpayments outstanding to deceased beneficiaries as of September 30, 1980. This estimate was based on two major assumptions--(1) that 80 percent of the overpayments to deceased annuitants as of that date were still outstanding and (2) that the rate of increase in overpayments to deceased survivor annuitants from fiscal 1978 to 1979 continued in fiscal 1980. However, neither assumption was based on documented evidence and trend analysis of past experiences. We therefore could not rely on their accuracy.

#### Overpayments had already been collected

Accounts receivable reported in financial statements by OPM as of September 30, 1981, may be overstated because they included amounts that had already been collected. Our analysis of overpayments after December 1977 arising from the death of annuitants and survivor annuitants disclosed that an estimated 24 percent, or 5,841 of the 24,010 SF-1184s on file as of March 13, 1981, may have been collected.

To find any discrepancies between the automated record files of OPM and the Treasury in the amount of outstanding overpayments to deceased beneficiaries, we matched the two files. The match showed a discrepancy of almost \$11.5 million on the amount of overpayments outstanding as of March 13, 1981. Specifically, Treasury files showed an outstanding balance of about \$2.5 million on deceased annuitants and survivor annuitants. OPM files showed a balance of about \$14 million on deceased annuitants alone. We were unable to determine which of these two files was accurate because of the poor records and the accounting problems discussed below.

Many accounting errors resulted because OPM did not determine whether electronic fund transfers or Treasury check payments made after the death of an annuitant or survivor annuitant were still outstanding. For example, OPM prepared SF-1184s for overpayments that had already been recovered by the Treasury. OPM officials told us that clerks either did not check or were careless in determining whether electronic fund transfers or Treasury check

payments had been returned for cancellation or the overpayments remitted.

Still other accounting errors resulted because OPM did not record collections made by the Treasury. As we discussed previously, the pending copies of the SF-1184s are the only record of overpayments to deceased survivor annuitants from December 22, 1977, to the present and to deceased annuitants from December 22, 1977, to January 1979. An OPM official told us that clerks did not always pull the pending copy of the SF-1184 from the manual record files when an overpayment was collected. As a result, the manual record files did not accurately reflect the SF-1184s still outstanding. We found that OPM's automated record files used to record overpayments to deceased annuitants after January 1979 also did not record some collections made by the Treasury. This is because in the fall of 1980 the Treasury changed its method of reporting to OPM on collections from financial institutions that received or negotiated outstanding electronic fund transfers or Treasury check payments. However, OPM did not modify its automated system to reflect this change. An OPM official estimated that as many as 1,000 collections may have gone unrecorded each month.

Accounting errors also resulted because OPM did not properly record collections from financial institutions or estates of deceased beneficiaries. These payments were made directly to OPM rather than to the Treasury, and were processed through OPM's accounting staff instead of the accounts receivable staff. Since there are no procedures for the accounting staff to notify the accounts receivable staff of these collections, the latter's records still showed these amounts to be outstanding.

#### Overpayments never existed

OPM overstated the amount of accounts receivable reported in monthly financial statements by including some benefit payments that were improperly classified as suspended annuity overpayments. As of March 31, 1981, it reported about \$5.2 million in suspended annuity overpayments.

OPM's office of internal evaluation recently reviewed 78 suspended annuity overpayments made to student-child beneficiaries to determine whether they were properly processed. It found that 61, or 78 percent, of those reviewed were not overpayments. These misclassified benefit payments were on file in March 1981 and had a value of about \$29,000.

The office of internal evaluation found that school certification forms were not properly processed so that eligible students could continue receiving survivor benefits. They noted a backlog in processing school certification forms and saw that clerks were unable to process necessary data into the computer. This caused the computer to drop students from the annuity roll. Benefit payments were then improperly classified as overpayments. The students subsequently appealed the overpayment decisions and these

cases were then classified as suspended annuity overpayments. Since overpayments to student-children account for more than half the cases, the accuracy of amounts OPM has reported as suspended annuity overpayments is questionable.

#### Overpayments were counted twice

OPM also overstated accounts receivable in financial reports by counting some overpayments twice. These overpayments were those made to annuitants and survivor annuitants who had died.

As we discussed previously in chapter 1, upon receipt of an SF-1184 from OPM, the Treasury attempts to recover the overpayment from the financial institution that received or negotiated the outstanding electronic fund transfer or Treasury check payment. If the Treasury is unable to recover electronic fund transfer payments because the bank account has been closed, OPM will attempt to collect by sending a demand letter, giving the individual who closed the bank account 60 days to repay OPM. If at the end of 60 days OPM has not recovered the outstanding amount, it will ask the Treasury to take further collection action.

During this 60-day period, OPM maintains the overpayment on two sets of account records. Specifically, each SF-1184 issued to the Treasury on a deceased annuitant is recorded as an overpayment on OPM's automated system by the accounts receivable staff. The pending copy of the SF-1184 serves as a record of the overpayment on a deceased survivor annuitant. When OPM initiates its own collection effort after the Treasury has notified it that the bank account is closed, the accounts receivable staff again records the overpayment, but this time on a manual account card. The cards are then forwarded to the accounting staff for recordkeeping. The amount of overpayment is not deleted from the automated system or SF-1184 manual record file when the account card is prepared; consequently, the overpayment is accounted for twice.

We randomly reviewed 34 out of a total of 354 overpayments in which OPM issued a demand letter to the individual who closed the bank account. We found that eight, or 23 percent, of these overpayments were accounted for twice; that is, both the accounts receivable staff and the accounting staff recorded them as overpayments.

#### OVERPAYMENTS WERE UNDERSTATED DUE TO UNTIMELY REPORTING

OPM did not promptly record and report overpayments arising from the death of survivor annuitants. It therefore understated the related amount of overpayments and unnecessarily delayed their collection.

OPM operating procedures require clerks in the annuity roll service sections, annuitant services division, to determine within a month after OPM learns of a death whether any electronic fund

transfers or Treasury check payments are outstanding. An SF-1184 must then be prepared for each outstanding transfer or check payment so that Treasury will attempt reclamation.

However, as of August 7, 1981, the annuity roll service sections had a processing backlog of about 5,000 cases. Most of these cases involved survivor annuitants dropped from the annuity roll because of death. We did not attempt to identify the cause of the backlog.

We reviewed 2,047 cases in the backlog pertaining to survivor annuitants who died. We found that OPM had not determined the amount of overpayment or prepared the individual SF-1184s. Furthermore, 74 percent of these cases were more than 1 month old and 28 percent were more than 6 months old.

#### OVERPAYMENTS WERE NOT ALWAYS IDENTIFIED

While OPM detected most of the overpayments made to beneficiaries, we estimate that it did not detect about \$5.9 million in overpayments made during the 3 years ending December 31, 1980. As a result, we project that overpayments are understated by a similar amount in financial reports. Our estimate is based on the work of OPM's quality assurance staff.

OPM relies on a number of sources for identification of overpayments. These include the beneficiary, friends and relatives, the former employing agency, the financial institution, and the U.S. Postal Service. Within OPM, many overpayments are identified by the quality assurance staff during quarterly reviews of various processes in the compensation group.

During the 3 years ending December 31, 1980, the quality assurance staff identified at least \$80,000 in overpayments from the retirement fund. Many of these were made to widows(ers) and student-child beneficiaries who were no longer eligible for benefits, and to annuitants who received incorrect payments. These overpayments were caused primarily by late processing of termination actions and inattention to detail when computing annuities. Overpayments identified by the quality assurance staff were turned over to the annuitant services division for collection. However, these constituted only a sample of the overpayments that occurred.

Taking the results of the quality assurance staff reviews and statistically projecting overpayments for the universe covered by the sample, we estimated at least \$5.9 million in unidentified overpayments for the 3 years ending December 31, 1980. (See p. 37 for methodology.) Because these overpayments had not been appropriately identified, OPM was unable to record, report, and recover them.

#### CONCLUSIONS

We identified several problems in the way OPM was accounting for overpayments from the retirement fund. These problems caused

OPM to overstate, and in some instances understate, millions of dollars in accounts receivable.

We believe OPM needs a more reliable system for accounting for overpayments. Accurate recording and reporting of overpayments are essential if OPM is to fairly present the financial position of the retirement fund. Also, accounting for overpayments must be accurate and prompt if the agency expects to successfully collect amounts due.

The subject of poor OPM recordkeeping and processing of overpayments was also discussed in our recent report, "Inadequate Internal Controls Affect Quality and Reliability Of The Civil Service Retirement System's Annual Report" (AFMD-83-3, Oct. 22, 1982). That report recommends that the Director of OPM establish procedures to properly account for overpayments. We still believe this should be done.

#### AGENCY COMMENTS AND OUR EVALUATION

OPM indicated that it recognized the weaknesses we identified and the need for a more reliable system to account for overpayments. It has taken several actions to improve the accountability of overpayments, and initiated improvements to the "Check Cancellation Control System," although these initial actions remain to be completed. A substantial portion of the remaining planned actions depend on OPM's new debt management system. As discussed on p. 11, the schedule for design and implementation of this system has slipped substantially and further slippage is likely.

In its comments, OPM requested that we explain in the report the basis of our \$5.9-million estimate and provide the dollar range of the undetected overpayments made during the 3 years ending December 31, 1980. These data are included in appendix II.

## CHAPTER 4

### MORE AGGRESSIVE APPROACHES NEEDED

#### TO COLLECT OVERPAYMENTS

When fiscal 1980 ended, OPM reported an outstanding balance of \$26.5 million in overpayments. This has since increased to \$56.2 million as of September 30, 1982.

Our review showed that collection of overpayments from the retirement fund has been given low priority and has been ineffectively managed. Millions remain uncollected because OPM did not aggressively pursue collection. Specifically, we noted:

- Billing and collection practices were not in accordance with the Federal Claims Collection Standards.
- Interest was not charged on delinquent accounts.

#### OPM DID NOT FOLLOW COLLECTION STANDARDS

We found that OPM's billing and collection practices for overpayments were not in accordance with the Federal Claims Collection Standards and were frequently not effective.

- Overpayments were not promptly billed.
- Delinquent accounts were not always identified.
- Followup collection actions frequently were not made promptly.
- Requests for investigation and writeoffs of uncollectible accounts were frequently not processed.
- Required overpayment hearings were rarely conducted.

Under the Federal Claims Collection Act of 1966 and implementing Federal Claims Collection Standards (4 CFR Part 101 et seq.) issued jointly by the Comptroller General and the Attorney General, the administrative agency is primarily responsible for collecting claims arising from its activities. The head of the agency or his or her designee is required to take aggressive action to collect amounts due.

The Federal Claims Collection Standards (4 CFR Part 101-105) require that (1) normally three written demands be made at 30-day intervals, (2) collection be made by offset where feasible, (3) debtors be personally interviewed when feasible, (4) the possibility of compromise be explored, and (5) other actions to achieve collection be attempted if needed.

The method used to collect overpayments from the retirement fund varies, depending on the individual's benefit status. For instance, in the case of individuals who have been overpaid but continue to be eligible for benefits, an amount is usually deducted from the monthly benefits until the overpayment is collected. However, OPM must notify them of their right to request

--reconsideration of the findings of overpayment,

--waiver or compromise, and

--a hearing on any request for waiver or reconsideration in which there is a question of credibility or veracity.

On the other hand, when the overpaid individuals are no longer eligible for benefits, OPM must request repayment from them.

#### Overpayments were not promptly billed

OPM did not promptly bill debtors for amounts due. In fact, a March 1981 OPM quality assurance staff report showed that OPM took an average of 48 calendar days from the date it discovered an overpayment to issue a bill. The quality assurance staff attributed this delay to the limited number of personnel on the accounts receivable staff, and recommended that more resources be provided the accounts receivable staff.

OPM also took an excessive amount of time to bill the Department of Labor for overpayments to disability annuitants who elected to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity. We examined such overpayments and found that, from the time OPM learned the annuitant had elected to receive compensation benefits, it took an average of 98 calendar days to stop payments to the annuitant and an additional 146 calendar days to bill the Department of Labor for the overpayment.

OPM was also slow in getting the Department of the Treasury involved in collecting overpayments made to deceased beneficiaries. As we pointed out in chapter 1, the SF-1184 is used to notify the Treasury to start reclamation action. Our analysis of payments made to deceased annuitants showed that OPM took an average of 193 calendar days to issue an SF-1184 to the Treasury after having learned of a death. Moreover, an analysis of payments made to deceased survivor annuitants showed that it took an average of 260 calendar days to issue an SF-1184.

We asked OPM officials about these delays. Generally, the delays were attributed to case backlogs and personnel shortages and turnovers. However, some officials said the delays were caused by the low priority assigned to collection--that OPM management emphasized getting the benefits out rather than collecting overpayments.

We believe OPM should promptly prepare bills for both debtors and the Federal agencies that collect the overpayments. These

delays not only are unnecessary; they also reduce the possibility of recovery.

#### Delinquent accounts were not always identified

OPM did not have an adequate system for identifying delinquent overpayment accounts, primarily because it did not prepare aging schedules.

An aging schedule lists each account according to the period of time it has been outstanding. Aging schedules are basic tools for identifying delinquent accounts, and help management ensure that collection actions are taken promptly. Furthermore, title 2 of the "GAO Policy and Procedures Manual for Guidance of Federal Agencies" requires that accounts receivable be recorded accurately and promptly on completion of the acts that entitle an agency to collect amounts owed to it (billing for performance of service, or sales of materials, and so forth).

OPM did not age overpayment accounts to identify those that were delinquent and required followup. Instead, it relied on manual reviews of overpayment cases in the file drawers. A collection aide within the accounts receivable staff reviewed each overpayment case folder and its corresponding account card to determine if more than 30 days had elapsed since the last written demand or payment.

However, a deficiency in this system was that the cases were often missing from the file drawers and thus not available for followup review. For example, we were unable to locate 10 of the 66 cases in our sample of overpayments made to disability annuitants. Most of these cases were charged to other compensation sections. However, when we asked officials in these other sections about the missing cases, they told us that the cases had either been returned to the accounts receivable staff or could not be located. OPM's quality assurance staff also experienced similar problems in locating overpayment cases missing from the record files. In the staff's March 1981 report, it stated that the accounts receivable staff could not locate 101, or 30 percent, of the 336 cases it had requested involving overpayments made to individuals no longer on the annuity rolls. It also found that most of the missing cases had been charged to other compensation sections, but were not returned when work on them was completed. The quality assurance staff felt that the accounts receivable staff should exercise more effective control over the files and regularly call up those cases that have been charged out for a long time.

#### Intervals between collection letters were excessive

While demand letters were sent on many delinquent accounts, the intervals between letters were frequently excessive.

The Federal Claims Collection Standards require collection letters to be sent at not more than 30-day intervals. However, we

found that while OPM required that demand letters be sent at 30-day intervals for overpayments collected by the accounts receivable staff, it allowed 60-day intervals for overpayments collected by other Federal agencies, such as the Departments of Labor and the Treasury.

More importantly, however, OPM did not adhere to either the Federal Claims Collection Standards or its own collection policies when sending demand letters to debtors or Federal agencies assisting in collecting overpayments. In December 1980, OPM's quality assurance staff reviewed overpayments made to individuals no longer on the annuity rolls. They found that the average interval between written demand letters not only exceeded the standards but had increased significantly over that found in an earlier review. The following table shows their findings:

<u>Interval between date of:</u>	<u>Oct. 1979</u>	<u>Average interval Dec. 1980</u>	<u>Difference</u>
	- - - - - (calendar days) - - - - -		
First and second notice	45	76	+31
Second and third notice	50	77	+27

We also found the intervals between collection letters to be excessive. In our analysis of overpayments made to disability annuitants electing to receive Federal Employees' Compensation Act benefits rather than a civil service retirement annuity, we found the following:

<u>Interval between date of:</u>	<u>Average interval (calendar days)</u>
Billing and first notice	144
First and second notice	151
Second and third notice	247

In our opinion, the main cause of OPM's inability to send timely demand letters is the manual system it uses to identify delinquent accounts. As we pointed out earlier, overpayments were often not pursued because the cases were not in the file drawers. OPM's quality assurance staff also attributed the problem to the manual system. It recommended that the system be automated as soon as possible, and that it be set up to send demand letters to debtors at 30-day intervals.

We believe the interval between collection letters should not exceed 30 days. Aggressive followup action should increase collection and shorten the overall collection cycle.

Poor followup on SF-1184s  
sent to the Department of the Treasury

OPM may have allowed millions of dollars in overpayments to go uncollected because it did not follow up on the SF-1184s it sent to the Department of the Treasury. As of September 30, 1980, it estimated that about \$7.3 million in overpayments to deceased beneficiaries was uncollected.

As we discussed earlier, the Department of the Treasury assists OPM in collecting overpayments arising from the deaths of annuitants and survivor annuitants. However, OPM's accounts receivable staff is responsible for following up with the Department of the Treasury to ensure that reclamation is completed on both electronic fund transfers and Treasury check payments.

We found that OPM was not following up on SF-1184s sent to the Treasury. Specifically, aging reports were not prepared for SF-1184s issued on deceased survivor annuitants. Without these reports, OPM could not identify the SF-1184s that were still outstanding. Also, while aging reports are generated by the automated system for SF-1184s issued on deceased annuitants, they are not sent to the Department of the Treasury for followup. An OPM official said they stopped sending aging reports to the Treasury in March 1981.

We found that some of the SF-1184s in the record files had been outstanding for a long time. Our analysis showed that the average interval between the processing date of the SF-1184 and March 13, 1981, was

- 408 calendar days on 1,016 deceased survivor annuitants,
- 1,017 calendar days on 1,920 deceased annuitants recorded on SF-1184s from January 1978 through January 1979, and
- 102 calendar days on 15,121 deceased annuitants recorded on SF-1184s from February 1979 through March 13, 1981.

To determine the reclamation status of the above SF-1184s, we followed up on them with the Department of the Treasury and estimate that:

- 9,121 accounts were still open,
- 7,844 accounts had been collected and returned to the retirement fund by the Treasury, and
- 1,092 accounts had been either partially or completely closed out by the Treasury as far as terms of reclamation were concerned.

We asked OPM personnel about the lack of followup. They said SF-1184s issued on survivor annuitants were not followed up on

because of inaccuracies in the manual system of accounting for overpayments. As we pointed out earlier, the pending copies of SF-1184s were not always pulled out of the record files when recoveries were made. OPM personnel also said they have too few staff to search the manual files for delinquent accounts. On the other hand, they did not follow up on SF-1184s issued on deceased annuitants because of a backlog of Treasury recovery actions. The quality assurance staff reported in July 1981 that Treasury recoveries had not been entered into the automated system because the volume was too great for their staff to handle. As a result, the automated system generated aging reports that were inaccurate because they listed some accounts that had already been collected.

We also reviewed 105 randomly selected overpayments from before January 1978 arising from the death of annuitants and survivor annuitants. We estimate that 1,613 overpayments valued at about \$552,000 are still outstanding. Of this amount, an estimated 624 overpayments valued at \$176,000 are more than 6 years old; thus, the statute of limitations has expired on them. We noted that in accordance with the Debts Collection Act of 1982, the 6-year statute of limitations does not apply to the collection of claims by means of administrative offset. Such administrative offset may be applied to a claim up to 10 years old. Furthermore, an OPM official told us that in 1979, OPM stopped collection activity on overpayments made before January 1978.

We believe OPM needs to aggressively follow up with the Department of the Treasury on outstanding SF-1184s. This would help ensure prompt collection of payments due the retirement fund.

Requests for investigation  
and writeoffs of uncollectible accounts  
were not promptly processed

OPM did not process many overpayment cases that required investigation or had amounts to be written off. This problem was due mainly to personnel shortages and turnover in the accounts receivable staff.

When the debtor fails to respond to three written demands, OPM policy calls for one of two courses of action: if the overpaid amount is less than \$200, the case is usually recommended for write-off; when the amount is \$200 or more, a personal investigation is required. In the latter case, an OPM investigator is asked to locate the debtor, arrange a personal interview, and discuss repayment of the debt.

The processing of investigation requests and writeoffs of uncollectible accounts slowed considerably when two claims collection examiner positions were abolished in March 1980. During 1980 only 30 requests for investigation were processed, and 18, or 60 percent, of these were processed during the first 2 months of that year. In contrast, about 273 requests for investigation were processed during 1979. After the two claims collection examiners left,

most cases requiring investigation remained in a holding file and few, if any, payments were received.

In addition, OPM's quality assurance staff reported in March 1981 that overpayment cases requiring writeoff actions were not properly processed. They found that the newer cases were being written off, while the older cases remained unprocessed in a file drawer.

We believe that prompt action should be taken to process requests for investigation and writeoffs of uncollectible accounts. Failure to initiate investigations reduces the possibility of collection, while failure to process writeoffs overstates accounts receivable.

#### Overpayment hearings were rarely conducted

While many annuitants have asked for overpayment hearings on their requests for waiver or reconsideration, OPM has held only two hearings. Until more hearings are held, collection of hundreds of thousands of dollars in overpayments must be delayed.

Under 5 CFR 831.1304 (1982), OPM is required to hold overpayment hearings at the request of annuitants who continue to be eligible for civil service retirement benefits. The hearings can be on a waiver issue or any issue that raises a significant question as to the credibility or veracity of any individual involved in the case.

As of September 1, 1981, OPM has received a total of 104 requests for hearings. However, only two hearings had been held, one of which resulted in the recovery of \$3,141 in overpayments. The remaining 102 requests were still awaiting hearings.

These cases have been waiting for a long time. For example, we computed the interval from the date of the hearing request to September 1, 1981, and found that an average of 247 calendar days had elapsed. Furthermore, 19 of the requests were 1 or more years old. The 102 requests have a maximum dollar value of about \$215,000, and include (1) overpayments made to annuitants who must have their annuities recomputed to exclude any military service after December 31, 1956, and (2) annuitants who no longer have an eligible student-child living with them.

An OPM official acknowledged that more overpayment hearings should have been conducted. However, according to this official, OPM lacked sufficient travel funds since, if possible, hearings should be held in a Federal building close to the annuitant's home. On the other hand, we noted that in hearings before the House Subcommittee on the Treasury, Postal Service, and General Government on March 21, 1979, the then Director of OPM testified that the agency would be able to finance these hearings without additional cost through a reduction in nonrecurring costs incurred in fiscal 1979 for redesign and documentation of automated support systems.

We believe OPM should hold overpayment hearings promptly upon request. This would enable it to commence collection of amounts due and avoid further backlogging of requests.

#### INTEREST WAS NOT CHARGED ON DELINQUENT ACCOUNTS

Since OPM did not charge interest on delinquent accounts, debtors had little incentive to make prompt repayments.

The Supplemental Appropriations and Recession Act of 1980 (Public Law 96-304) required that each department and agency bill interest on delinquent debts. The Federal Claims Collection Standards were amended (effective April 30, 1979) to provide that interest should be charged on delinquent debts and debts paid in installments in conformity with the Treasury Fiscal Requirements Manual. Section 8020.20 of volume I, part 6, of the Treasury Fiscal Requirements Manual provides that if payments of amounts owed the U.S. Government are overdue, a late charge should be applied and collected at a percentage rate based on the current value of funds to the Treasury, and such late charges should be applied to the overdue amount for each 30-day period. Nevertheless, OPM was not charging interest on delinquent overpayment accounts. According to its quality assurance staff, the manual system being used for debt collection is incapable of calculating and billing interest on delinquent debts.

The Debt Collection Act of 1982 generally requires the charging of interest on debt owed the U.S. Government. It also provides for the assessment of a processing and handling charge as well as a penalty charge of not more than 6 percent a year for failure to pay a part of a claim more than 90 days past due.

In view of the above, OPM should implement a system for charging interest on delinquent accounts. Such charges would help speed up collections, improve the retirement fund's cash flow, and reduce the amount of administrative time and effort required to collect overpayments.

#### CONCLUSIONS

If prompt and aggressive collection action is not taken on delinquent accounts, the civil service retirement and disability fund will lose millions of dollars. It is essential that OPM identify and collect delinquent accounts. We also believe OPM should devise some method of charging and collecting interest on delinquent accounts.

#### RECOMMENDATIONS

We recommend that the Director, Office of Personnel Management develop a debt collection system that enables it to

--bill debtors promptly,

- identify all delinquent accounts,
- follow up with the Department of the Treasury on outstanding SF-1184s,
- process requests for investigation and writeoffs of uncollectible accounts,
- conduct overpayment hearings when requested, and
- charge interest on delinquent accounts.

#### AGENCY COMMENTS AND OUR EVALUATION

OPM agreed that prompt billing action is essential for an effective collection process. OPM has begun a number of corrective actions to improve its debt collection system. A substantial portion of the corrective actions relates to a new debt management system. However, the schedule for implementation of the system, as previously discussed on page 11, has slipped and further slippage is likely.

OPM believes its decision not to hold a significant number of hearings on overpayment waiver requests was an informed management decision, in light of the overall needs and resources of the program. It noted that hearing requests are received from all over the country, and it would be very expensive to travel to a given area for only one or two hearings. OPM is currently assessing the implications of the recently enacted debt collection legislation and has promised to move quickly to fulfill its responsibilities in this area.

SAMPLING AND DATA ANALYSIS METHODOLOGY

This appendix describes how we sampled overpayments from the universe, collected data concerning overpayments, maintained quality control over the data, and made projections to the universe.

SAMPLING METHODOLOGY

Statistical sampling is the process of examining a small group of items in order to draw conclusions and make generalizations about a large group of items, called a "universe."

The results from a statistical sample are always subject to some degree of uncertainty or sampling error because only a portion of the universe is selected for analysis. The sampling error consists of two parts: confidence level and range. The confidence level indicates the degree of confidence that can be placed in the projections derived from the sample. The range is the upper and lower limit between which the actual universe value will be found. For example, a random sample of overpayments to deceased survivor annuitants before January 1978 showed that 40 percent were misclassified. Using the sampling error formula, we were 95 percent confident that the true percentage of misclassified overpayments would be between 27 and 53 percent of the overpayments to deceased survivor annuitants or within a range of  $\pm 13$  percent.

Types of overpayments sampled

Three types or groups of overpayments were sampled: disability annuitants who receive benefits under the Federal Employees' Compensation Act, deceased annuitants and survivor annuitants recorded on SF-1184s before January 1978, and deceased annuitants and survivor annuitants recorded on SF-1184s from January 1978 through March 13, 1981.

Information concerning these overpayments was contained in OPM record files, on worksheets, and on a computer tape. The sources were as follows for each type of overpayment sampled:

Disability Annuitants - an account card file. This file was frozen as of January 31, 1981, and no new cases were added.

Deceased beneficiaries recorded on SF-1184s before January 1978 - two OPM worksheets. One worksheet listed overpayments made to deceased annuitants, and the other listed overpayments made to deceased survivor annuitants.

Deceased beneficiaries recorded on SF-1184s from January 1978 through March 13, 1981 - two SF-1184 record files and a computer tape. One SF-1184 file contained overpayments made to deceased annuitants recorded on SF-1184s from January 1978 through January 1979, while the other contained overpayments made to deceased survivor annuitants recorded on SF-1184s from January 1978 through

March 13, 1981. The computer tape listed overpayments made to deceased annuitants recorded on SF-1184s from February 1979 through March 13, 1981.

### Sample selection

We selected random samples from each of the above-mentioned sources. For disability annuitants, one sample was selected from the account card file. For deceased beneficiaries recorded on SF-1184s before 1978, two samples were selected: one from the OPM worksheet of overpayments made to deceased annuitants and the other from the OPM worksheet of overpayments made to deceased survivor annuitants. For deceased beneficiaries recorded on SF-1184s from January 1978 thru March 13, 1981, three samples were selected: one from the SF-1184 file of annuitants, another from the computer tape of overpayments made to deceased annuitants, and the third from the SF-1184 file of survivor annuitants.

A total of 386 overpayments were selected for review from the 31,869 overpayments on file. Forty-nine of these were eliminated because the record files or account cards were not available. Therefore, unless otherwise indicated, the analysis in this report is based on an adjusted random sample of 337 overpayments that project to adjusted universes of 478 overpayments for disability annuitants, 1,771 for deceased beneficiaries recorded on SF-1184s before January 1978, and 24,010 for deceased beneficiaries recorded on SF-1184s from January 1978 through March 13, 1981. Table 1 summarizes the sampling information.

### DATA COLLECTION

Data collection instruments (DCIs) were developed to record information on each overpayment in the samples. The information was obtained during March and April 1981 from OPM account cards and record files and from Treasury files.

One DCI was used to record information on overpayments to disability annuitants. A second DCI was used to record information on overpayments to deceased annuitants and survivor annuitants recorded on SF-1184s from January 1978 through March 13, 1981. The third DCI was used to record overpayments to deceased annuitants and survivor annuitants recorded on SF-1184s before January 1978.

### QUALITY CONTROL

Maintaining quality control over the data was important. The completed DCIs were reviewed by the project manager and the staff for completeness and consistency. The data were then keypunched to create a computerized data base. The data base was verified 100 percent back to the DCIs. Special computer programs were used to verify the consistency of the amounts outstanding and overpaid and of the dates when overpayment began and ended, billing occurred, OPM was notified, and followup letters were sent.

PROJECTION OF THE SAMPLE RESULTS

After the data base was verified, it was weighted to project the sample results to the universes. For example, 66 overpayments to disability annuitants were selected from a universe of 563 overpayments. The weight for each overpayment was derived by dividing the universe size by the sample size ( $563/66 = 8.5$ ). That is, any condition in one of the 66 overpayments can be projected to 8.5 disability annuitant overpayments in the universe. The weights for the other samples are

- 13.9 for deceased annuitants recorded on SF-1184s before January 1978,
- 58.2 for deceased annuitants recorded on SF-1184s from January 1978 through January 1979,
- 270.0 for deceased annuitants recorded on SF-1184s from February 1979 through March 13, 1981,
- 20.1 for deceased survivor annuitants recorded on SF-1184s before January 1978, and
- 53.4 for deceased survivor annuitants recorded on SF-1184s from January 1978 through March 13, 1981.

All projections are subject to variations, and all percentages in tables 3 through 8 are based only on the adjusted universes, unless otherwise indicated. The numbers we project can be applied to the original universes to estimate the minimum percentage of all overpayments with the condition specified.

The following tables show the sampling errors for all the projections used in chapters 2 through 4. Table 2 shows the sampling errors for the adjusted universes; tables 3 and 4 the average days between specified dates and the number of cases that have these dates; table 5 the reclamation status; table 6 the reasons for dual overpayments to disability annuitants; and tables 7 and 8 the value and number of overpayments still outstanding.

TABLE 1

Number of Overpayments in the Universe  
And Samples by Type of Beneficiary

<u>Type of beneficiary</u>	<u>Universe</u>	<u>Number of overpayments</u>			
		<u>Adjusted universe</u>	<u>Sample</u>	<u>Cases not available for review</u>	<u>Adjusted sample</u>
Disability annuitant	563	478	66	10	56
DECEASED BENEFICIARIES RECORDED ON SF-1184s BEFORE JAN. 1978					
Annuitant	739	725	53	1	52
Survivor annuitant	<u>1,046</u>	<u>1,046</u>	<u>52</u>	<u>0</u>	<u>52</u>
Total for universe before Jan. 1978	<u>1,785</u>	<u>1,771</u>	<u>105</u>	<u>1</u>	<u>104</u>
DECEASED BENEFICIARIES RECORDED ON SF-1184s JAN. 1978-MAR.13, 1981					
Annuitant from Jan. 1978- Jan. 1979	3,316	3,141	57	3	54
Annuitant from Feb.1979- Mar. 13, 1981	22,143	17,822	82	16	66
Survivor annuitant	<u>4,062</u>	<u>3,047</u>	<u>76</u>	<u>19</u>	<u>57</u>
Total for universe Jan. 1978- Mar. 13, 1981	<u>29,521</u>	<u>24,010</u>	<u>215</u>	<u>38</u>	<u>177</u>
Total	<u>31,869</u>	<u>26,259</u>	<u>386</u>	<u>49</u>	<u>337</u>

TABLE 2

Number of Overpayments  
in the Total and Adjusted Universe

<u>Beneficiaries</u>	<u>Projection to universe</u>		<u>Estimated ranges of universe at the 95-percent level of confidence</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Disability annuitants:				
Total universe	563	100.0		
Minus (overpayments not available for review) (note a)	<u>85</u>	<u>15.1</u>	39 to 131	6.9 to 23.3
Adjusted universe (over- payments available for review)	<u>478</u>	<u>84.9</u>	432 to 524	76.7 to 93.1
Deceased beneficiaries recorded on SF-1184s before Jan. 1978:				
Total universe	1,785	100.0		
Minus (overpayments not available for review) (note a)	<u>14</u>	<u>0.8</u>	3 to 70	0.2 to 3.9
Adjusted universe (overpayments avail- able for review)	<u>1,771</u>	<u>99.2</u>	1,745 to 1,785	97.8 to 100.0
Deceased beneficiaries recorded on SF-1184s from Jan. 1978- Mar. 13, 1981:				
Total universe	29,521	100.0		
Minus (overpayments not available for review) (note a)	<u>5,511</u>	<u>18.7</u>	3,566 to 7,456	12.1 to 25.3
Adjusted universe (over- payments available for review)	<u>24,010</u>	<u>81.3</u>	22,065 to 25,955	74.7 to 87.9

a/ These overpayments were missing from the record files.

TABLE 3

Average Days Between Specified Dates  
During The Collection of Overpayments  
to Disability Annuitants (note a)

<u>Dates:</u>	<u>Projection to</u> <u>adjusted universe</u>		<u>Estimated ranges of adjusted</u> <u>universe at the 95-percent</u> <u>level of confidence</u>	
	<u>Number</u>	<u>Days</u>	<u>Number</u>	<u>Days</u>
Overpayment began and overpayment ended	435	594.8	375 to 478	464.0 to 725.5
OPM notified of elec- tion and overpayment ended (note b)	367	98.4	306 to 428	72.1 to 124.8
Overpayment ended and billing (note c)	427	146.4	366 to 473	98.3 to 194.5
Billing and 1st de- mand notice	213	144.3	151 to 275	119.7 to 169.0
1st demand notice and 2nd demand notice	102	151.1	53 to 151	109.3 to 192.8
2nd demand notice and 3rd demand notice	60	247.4	21 to 99	96.8 to 398.1

a/ Does not include 26 overpayments that were never overpayments, 9 that were not disability overpayments and overpayments that had missing or not applicable dates.

b/ Does not include 68 (26 to 110) overpayments in which the overpayment ended before OPM was notified.

c/ Does not include 9 (2 to 42) overpayments in which the billing occurred before the overpayments ended.

TABLE 4

Average Days Between Specified Dates During  
the Collection of Overpayments to  
Deceased Beneficiaries Recorded on SF-1184s From  
January 1978 Through March 13, 1981 (note a)

<u>Datea</u>	<u>Projection to</u>		<u>Estimated ranges of adjusted</u>	
	<u>adjusted universe</u>	<u>Days</u>	<u>universe at the 95-percent</u>	<u>level of confidence</u>
	<u>Number</u>		<u>Number</u>	<u>Days</u>
<b>DEATH AND OPM LEARNED OF DEATH:</b>				
Deceased annuitants Jan. 1978- Jan. 1979	3,083	170.0	2,865 to 3,301	69.2 to 270.8
Deceased annuitants Feb. 1979-Mar. 13, 1981	17,822	77.8	15,926 to 19,718	40.6 to 115.0
Deceased survivor annuitants	<u>2,886</u>	147.8	2,476 to 3,296	49.9 to 245.6
Total and average days	<u>23,792</u>	98.3	21,840 to 24,010	65.3 to 131.2
<b>OPM LEARNED OF DEATH AND SF-1184 PREPARED:</b>				
Deceased annuitants Jan. 1978-Jan. 1979	3,025	130.3	2,784 to 3,266	98.7 to 162.0
Deceased annuitants Feb. 1979-Mar. 13, 1981	<u>17,822</u>	203.4	15,926 to 19,718	174.1 to 232.7
Total and average days	<u>20,848</u>	192.8	18,937 to 22,759	167.3 to 218.2
Deceased survivor annuitants	<u>2,779</u>	260.2	2,358 to 3,200	187.0 to 333.3
Total and average days	<u>23,627</u>	200.7	21,670 to 24,010	176.6 to 224.8
<b>SF-1184 PREPARED AND MAR. 13, 1981: (note b)</b>				
Deceased annuitants Jan. 1978-Jan 1979	1,920	1017.3	1,499 to 2,341	976.1 to 1,058.5
Deceased annuitants Feb. 1979-Mar. 13, 1981	15,122	101.5	12,896 to 17,348	59.3 to 143.6
Deceased survivor annuitants	<u>1,016</u>	407.7	624 to 1,408	246.2 to 569.2
Total and average days	<u>18,057</u>	216.1	15,758 to 20,356	179.4 to 252.8

a/ Does not include overpayments that had missing dates.

b/ For cases still outstanding on Mar. 13, 1981.

TABLE 5

Reclamation Status of the SF-1184s that Were  
Still Outstanding to Deceased Beneficiaries Recorded  
on SF-1184s from January 1978 to March 13, 1981

<u>Status of SF-1184</u>	<u>Projection to adjusted universe</u>		<u>Estimated ranges of adjusted universe at the 95-percent level of confidence</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Open	9,121	50.5	6,832 to 11,410	37.8 to 63.2
Recredited to the retirement fund	7,844	43.4	5,572 to 10,116	30.9 to 56.0
Partially or com- pletely closed by Treasury	<u>1,092</u>	<u>6.1</u>	163 to 2,021	0.9 to 11.2
Total	<u>18,057</u>	<u>100.0</u>	15,758 to 20,356	

TABLE 6

Reasons for Dual Overpayments  
to Disability Annuitants  
(Based on an estimated 478 overpayments)

<u>Reason for dual overpayment</u>	<u>Projection to adjusted universe</u>		<u>Estimated ranges of adjusted universe at the 95-percent level of confidence</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
OPM did not know Department of Labor was pay- ing benefits	43	9.0	9 to 77	1.9 to 16.1
OPM and Labor paid benefits after schedule award expired	51	10.7	14 to 88	2.9 to 18.4

TABLE 7

Number and Value of Overpayments that  
Were Still Outstanding to Deceased  
Beneficiaries Recorded on SF-1184s  
Before January 1978

<u>Overpayment status and age</u>	<u>Projection to adjusted universe</u>		<u>Estimated ranges of adjusted universe at the 95-percent level of confidence</u>	
	<u>Number</u>	<u>Dollars</u>	<u>Number</u>	<u>Dollars</u>
Still outstanding	1,613	\$551,513	1,519 to 1,707	\$473,626 to \$629,400
Still outstanding and more than 6 years old	624	\$175,616	469 to 779	\$135,218 to \$216,014

TABLE 8

Number and Value of Overpayments No Longer  
Outstanding as of March 13, 1981 to  
Deceased Beneficiaries Recorded on SF-1184s from  
January 1978 through March 13, 1981

<u>Beneficiaries</u>	<u>Projection to adjusted universe</u>		<u>Estimated ranges of adjusted universe at the 95-percent level of confidence</u>	
	<u>Number</u>	<u>Dollars</u>	<u>Number</u>	<u>Dollars</u>
Deceased annuitants 1/78 - 1/79	1,164	\$ 639,153	757 to 1,571	\$496,398 to \$781,908
Deceased annuitants 2/79 - 3/13/81	2,700	1,776,870	1,135 to 4,265	\$1,270,401 to \$2,283,339
Deceased survi- vor annuitants	<u>1,978</u>	<u>627,026</u>	1,526 to 2,430	\$514,667 to \$739,385
Total	<u>5,842</u>	<u>\$3,043,049</u>	4,161 to 7,521	\$2,504,983 to \$3,581,113

PROJECTION METHODOLOGY FOR  
UNIDENTIFIED OVERPAYMENTS

This appendix describes how we took OPM quality assurance staff reports for a 3-year period (1978 to 1980) and statistically projected overpayments to the universe.

We reviewed quality assurance staff reports for calendar 1978 to 1980 (reports 12 to 24) to determine which processing actions resulted in the highest rate of overpayments to annuitants or their survivors. From this analysis, we identified four types of action with high rates of overpayment:

- Survivor certification and restoration.
- Intermediate drops.
- Restoration of annuity.
- Nonrecurring payments.

Based on the quality assurance staff reports for calendar 1978 to 1980, which defined the universe, sample size, and data for each overpayment error found, we projected for the 3-year period the dollar value of the overpayments by using the appropriate stratified sampling formulas. The table below shows the projected amounts of overpayments and the estimated ranges at the 95-percent confidence level.

<u>Category</u>	<u>Projection to</u> <u>universe</u>	<u>Estimated</u> <u>ranges</u>
Survivor certification and restoration	\$ 881,281.93	706,248.75 to 1,056,315.11
Intermediate drops	3,168,708.11	2,808,799.64 to 3,528,616.58
Restoration of annuity	559,616.21	419,298.40 to 699,934.02
Nonrecurring payments	<u>1,224,243.45</u>	969,444.71 to 1,479,042.19
Total	<u>\$5,873,849.70</u>	5,379,108.10 to 6,368,591.30



United States  
**Office of  
 Personnel Management**

Washington, D.C. 20415

In Reply Refer To

Your Reference

NOV 16 1982

Honorable Charles A. Bowsher  
 Comptroller General  
 General Accounting Office  
 Washington, DC 20548

Dear Mr. Bowsher:

We have reviewed your draft report entitled "Action Needed To Reduce, Account for, and Collect Substantial Overpayments to Federal Retirees" and agree with your audit's basic findings that greater emphasis was needed on minimizing overpayments, improvements were needed in recording and reporting overpayments, and finally, more aggressive approaches were needed for recovery of overpayments.

A substantial period of time has lapsed since you conducted your audit. Therefore, much of the data in the draft report is outdated and does not reflect current conditions because OPM has made major improvements in areas covered by your report's basic findings. Following are comments on specific aspects of your report.

GREATER EMPHASIS WAS NEEDED ON MINIMIZING OVERPAYMENTS

Recommendation

OPM should consider using the death data maintained by other Federal agencies to identify deceased beneficiaries and should determine whether it is cost beneficial to require beneficiaries to periodically furnish proof of their existence.

Response

Recognizing the potential benefits of automated record matches for controlling and minimizing overpayments to deceased beneficiaries, we conducted our first such effort in April, 1981. This match compared automated records of our annuity roll with death records of the Social Security Administration. The results identified 682 accounts which were dropped from payment status involving \$306,000 in monthly benefits. Approximately 8.4 million dollars in overpayments were stopped as a result of this match. We began work on the second Social Security Administration record match in March, 1982, and plan to conduct these matches on an annual basis. Also, as a result of an unsolicited proposal from ATL, Incorporated, we began, in June, 1982, to conduct a match with ATL's death record file (3.6 million records). Final results on this match are not yet available.

In March, 1982, we also conducted an address/signature verification project as a means of monitoring high risk accounts (elderly annuitants whose annuities were being paid directly to financial organizations under the EFT program). This ongoing initiative, which is similar in approach to your second recommendation in this area, resulted in the identification of 4 unreported deaths. We are now developing cost/benefit information to determine if this effort should be continued on a recurring basis.

#### Recommendation

OPM should identify ineligible disability beneficiaries by matching data with the Department of Labor, and flagging those individuals with schedule awards.

#### Response

In December, 1981, we completed our first statistical match of a 10% sample of Office of Workers' Compensation Programs (OWCP) records with the entire OPM annuity roll. The match identified 31 possible dual payments. Based upon the match results, the Department of Labor began a full match with our automated annuity roll records on October 21, 1982. Twenty-seven overpayments were discovered from a survey of 90 matches of OWCP claims paid in District 25 (Washington Area) alone. From this survey it has been projected that there may be a total of 540 overpayments in the grand total of 1,800 matches.

#### Recommendation

OPM should identify Federal agencies that submit erroneous certifications of retirement deductions, and inform officials at these agencies of the deficiencies in order that they may take corrective action.

#### Response

As of October 31, 1982, we have 864 outstanding overpayments on hand resulting from overcertifications. Overall these overpayments represent a relatively small dollar amount in that they average less than \$150 per case. OPM management officials have repeatedly called the problem to the attention of top management officials at Postal Service Headquarters in Washington, DC. The Postal Service advises that the problem is being reviewed. Because OPM has no enforcement authority, little can be done to eliminate the overcertifications. We are considering seeking legislation which would enable OPM to charge agencies with the losses that result from overcertifications.

#### Recommendation

OPM should develop data that classifies overpayments by type of occurrence for use in identifying areas needing improvement.

Response

OPM has, for several years, maintained data on overpayments by category and amount for on-roll overpayments. Similar data with respect to off-roll overpayments has not been maintained in the past because the manual, clerical process involved in doing this was overburdensome. However, we have conducted inventories of all off-roll overpayments exceeding \$5,000, and have categorized the causes of the overpayments associated with these off-roll cases. An initiative is now underway to eliminate, to the maximum extent possible, the causes of overpayments with the highest frequency, e.g. annuity adjustments resulting from student-child benefit eligibility determinations, annuity reductions to eliminate post-1956 military service. In addition, OPM recently purchased a software package which will serve as the base for a new debt management system at OPM. The automated data base of this system will enable us to maintain statistical data on overpayments. Therefore, information on the frequency, dollar value, and type of overpayment, will be available on a routine basis.

IMPROVEMENTS WERE NEEDED IN RECORDING AND REPORTING OVERPAYMENTSRecommendation

OPM should develop an accounting system that enables overpayments to be properly identified and accurately recorded.

Response

We recognized the weaknesses you identified and the need for a more reliable system to account for overpayments. Since the date of GAO's review, OPM has taken several actions to improve the accountability of overpayments. OPM is currently improving the "Check Cancellation Control System" so that data needed for the SF 1184, Unavailable Check Cancellation, can be automatically generated from the more reliable data contained on our automated Master Record System. Recognizing the need to use more reliable data in determining the amount of accounts receivable, in April, 1982 we did the first of our recurring periodic purges of suspended annuity overpayment cases to identify and eliminate cases that were no longer overpaid. The newly purchased debt collection software package will improve tracking of overpayments by having one centralized system for maintaining records of all outstanding overpayments. Requiring all overpayment and collection data to be processed through this one automated system will eliminate the types of problems identified in your report.

With regard to your estimate that OPM did not detect 5.9 million dollars in overpayments made during the three years ending December 31, 1980, we question the soundness of presenting a point estimate for the dollar value of overpayments that go undetected. Your estimate was based on our Quality Assurance Staff's sampling methodology which embodies attribute versus variable sampling. In order to project with validity the monetary terms of these samples, a wide dollar range is necessary due to the smaller sample size requirements of an attribute sample. To accurately present this data we feel a dollar range should be used.

Regardless of the true dollar amount, we recognize that a certain number of overpayments do go undetected. As a means of detecting overpayments, we conduct, on a regular basis, ongoing monitoring efforts such as the widow-remarriage survey and disability income survey to monitor the eligibility of individuals to receive benefits under our program.

In addition, in early 1982, an Internal Control Steering Committee was established in OPM. The Committee is chaired by the Deputy Associate Director for Compensation. One of the primary goals of the committee has been to oversee implementation of a series of internal control projects (many involving automated record matches) designed to enable OPM to monitor the accuracy of payments and the eligibility of individuals to receive them. Fifteen separate and distinct internal control projects are underway. Two examples of these efforts are the VA and SSA matches. Our Veterans Administration matching effort consisted of a match of 12,490 annuitant and survivor accounts in receipt of guaranteed minimum annuities with similar accounts of that agency. This match, which began in August, 1981, identified 102 accounts where annuitants were receiving VA benefits equal to or greater than the OPM benefits. Another match with VA records is planned for 1983. A similar match is planned with Social Security Administration records to compare OPM annuitant records with SSA records to determine if any annuitants are ineligible for a civil service minimum annuity due to receipt of SSA benefits. Several of the internal control initiatives have already resulted in the identification of hundreds of accounts, involving millions of dollars in overpayments, in which benefits being paid erroneously were stopped.

In addition, our Quality Assurance Division's reviews of more than 60 Compensation Group functions have, in the past, proven to be an effective safeguard to detect operating and system problems that cause overpayments. When problems are identified, recommendations for processing improvements are made. Sixty-three such recommendations have been implemented as of October, 1982. For example, in our most recent report issued on November 1, 1982, it was determined that student-child benefits were being overpaid due to a combination of automated system problems and lack of manual system controls. Two recommendations for corrective action were made and will be implemented. Top management and outside audit groups' reliance on the quality assurance report findings is a good indication of their effectiveness in surfacing and resolving problems.

#### Recommendation

OPM should develop an accounting system that enables collections to be promptly recorded and the Director, OPM, should supervise and monitor the work performance of annuitant service clerks to ensure that overpayments are properly identified and backlogs are reduced.

Response

The debt management system that we are implementing is designed to ensure that all collections are promptly processed into that system. With respect to the backlog of 5,000 survivor drop actions referenced in your report, it should be noted that at the time of the review by GAO, OPM was making a concerted effort to reduce other critical backlogs in the agency. For example, we concentrated resources on resolving the serious backlog of pending retirement annuity claims which existed in FY 81. In early FY 82, OPM shifted resources to the survivor drop function and has eliminated the reported backlog. In processing this backlog we found that the majority of these cases were not overpaid. Currently there are only 384 of these actions pending drop review. We consider this a normal working balance for this activity. We believe the Director, OPM, should provide overall direction to our retirement program operations; however, we do not agree that he should supervise and monitor the work of the annuitant services clerks. The work products of annuitant service clerks who perform this function are monitored closely by supervisory staff to ensure that established production and quality standards for such work are being met.

Recommendation

OPM should establish an appropriate allowance for uncollectible accounts. (See GAO note below.)

Response

Beginning with fiscal year 1981, OPM established and continues to maintain, an allowance for uncollectible accounts.

MORE AGGRESSIVE APPROACHES WERE NEEDED TO COLLECT OVERPAYMENTSRecommendation

The Director, OPM, should develop a debt collection system which would enable OPM to bill debtors promptly, identify all delinquent accounts, follow-up with the Department of the Treasury on outstanding SF 1184's, and charge interest on delinquent accounts.

Response

We agree that prompt billing action is essential for an effective collection process. We have been able to improve the timeliness of reclamation notices to the Treasury Department by realigning resources and by developing enhancements to the automated system which supports our SF 1184 reclamation process. For example, our latest internal audit found that SF 1184's for deceased annuitants were prepared within 30 days after we learned of the death (compared to the 193 day delay which occurred at the time that your audit was conducted). We have initiated additional changes which are intended to insure that the timing of all of our SF 1184 actions would parallel the time frames in the Federal Claims Collection Standards.

GAO note: The portion of the draft report dealing with the establishment of an allowance for uncollectible accounts was deleted from the final report.

We have already initiated action to improve the timeliness of billing notices to debtors and to the Department of Labor. The problem with our current billing process has been that all notices to debtors had to be prepared manually. Our new software package will provide automatic generation of all initial and follow-up notices to our debtors. Automation of the billing process is the first application in what will be a comprehensive debt management system.

We have also established a special management team to coordinate development of the debt collection system and to implement organizational changes to optimize the efficiency and effectiveness of the collection process. This management team has already identified several methods to improve the timeliness of the billing process by eliminating duplication of effort and by structuring our workflow so that overpayment accounts will be entered into the automated system at the point of discovery of the overpayment. We are confident that the implementation of the automated billing system and related procedural changes will allow OPM to meet the timeliness elements of the Federal Claims Collection Standards.

The new debt collection system will also automatically generate follow-up notices to delinquent debtors within the time frames set forth in the Federal Claims Collection Standards. It is designed to automatically identify each delinquent account and to provide systematic aging schedules on all of our receivables. The debt collection system will provide a comprehensive "on-line" data base which will significantly reduce our reliance upon locating the physical case materials during the collection process. The same team is also investigating methods which other Federal agencies and private sector organizations use to locate and establish more direct contact with delinquent debtors. We are confident that the combination of computer generated follow-up notices and other methods of contacting delinquent debtors directly will improve the effectiveness of this facet of our collection process.

We have also upgraded our automated SF 1184 control system to increase our data entry capability by replacing an interactive update system with batch mode processing. This change has produced a dramatic improvement in the volume of computer transactions which can be entered into the SF 1184 control system (e.g., over 24 million dollars in recovery actions were posted to the system during FY 82, compared to approximately 8 million dollars during FY 81). Further enhancements to our SF 1184 control system are in development. These enhancements will eliminate the manual follow-up process, and increase the overall timeliness of the SF 1184 collection system. We are also working with the Treasury Department to investigate other methods to improve the SF 1184 system, such as eliminating data entry by transmitting SF 1184 and recredit data electronically.

The SF 1184 process will be incorporated into our new comprehensive debt collection system. The special management team is already concentrating on developing procedural and organizational changes required to restore our capability to conduct an aggressive follow-up with Treasury Department on outstanding SF 1184's, and to resolve the serious accounting discrepancies which were noted in the draft report.

While our current manual collection process does not provide an efficient method to calculate and apply interest, this capability is one of the central features of our new automated debt management system. The particular software package which we have selected was originally designed for banking institutions; therefore, it has the flexibility to charge variable interest rates and penalties for late payments.

As previously noted, implementation of our debt collection system will also give OPM an effective method to control referral of delinquent debtors to commercial credit agencies and to private collection agencies, should we decide that collection agencies would be cost beneficial in dealing with overpayment claims. A pre-condition for such referrals is that we must have the capability to provide prompt notice to the outside agency if the status of a delinquent debt changes and prompt response to inquiries from these agencies concerning the details of our collection account. The deficiencies in our manual collection system would prevent OPM from meeting these constraints. In addition, the fact that our software package is based upon the format used by regular banking institutions should facilitate the exchange of information between OPM and private sector credit or collection agencies.

#### Recommendation

OPM should conduct overpayment hearings when requested.

#### Response

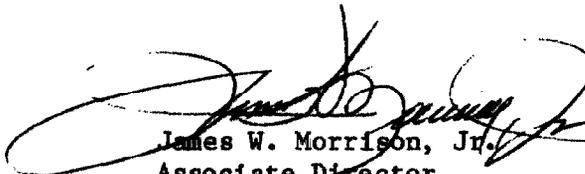
We believe that OPM's decision not to hold a significant number of hearings on overpayment waiver requests during the time in question was an informed management decision, considering the overall needs and resources of the program. Retirement backlogs were mounting at a rapid rate and the need to move our data processing systems to reliable equipment became increasingly critical. Thus, resources were allocated to these most critical program needs. However, this is not to say that FY 80 expenditures and subsequent resources were not allocated to overpayment issues. Strengthening current operations (such as the Reconsideration Staff) and increasing the accuracy and timeliness of retirement actions have had a direct and demonstrable effect on avoidance of overpayments and the subsequent need for hearings. The allocation of scarce resources to strengthening operations that will reduce or eliminate overpayments, or facilitate their collection, is more cost effective than devoting resources to hearings concerning past overpayments.

It should also be noted that the total number of hearing requests is small and requests are received from all over the country, as well as overseas. Further, there are only limited numbers in any geographic area. Thus, it would be very expensive to travel to a given area for only one or two hearings. The expenses for hearings in some cases would exceed the amount to be collected on the claim.

We recognize the need to resolve this matter as soon as possible. Toward that end, we have asked our Office of the General Counsel to review our responsibilities in this area, so that we may fulfill them in the most cost-effective manner. In addition, we are presently reviewing the implications of the new Debt Collection Act and its impact on hearings in connection with collecting debts by administrative offset. We anticipate that these reviews will be completed shortly, at which time we intend to move quickly to eliminate the problem.

Thank you for the opportunity to review and comment on the draft report.

Sincerely yours,



James W. Morrison, Jr.  
Associate Director  
for Compensation





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