

GAO

Report to Ranking Minority Member,
Committee on Governmental Affairs,
U.S. Senate

July 2001

OFFICE OF PERSONNEL MANAGEMENT

Status of Achieving Key Outcomes and Addressing Major Management Challenges



G A O

Accountability * Integrity * Reliability

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Abbreviations

CFO	Chief Financial Officers
CSRS	Civil Service Retirement System
EDP	electronic data processing
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
GPRA	Government Performance and Results Act
MSPB	Merit Systems Protection Board
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RF	revolving fund
RIS	Retirement and Insurance Service
S&E	salaries and expenses



United States General Accounting Office
Washington, DC 20548

July 9, 2001

The Honorable Fred Thompson
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Thompson,

As you requested, we reviewed the Office of Personnel Management's (OPM) fiscal year 2000 performance report and fiscal year 2002 performance plan required by the Government Performance and Results Act of 1993 (GPRA) to assess the agency's progress in achieving selected key outcomes that you identified as important mission areas for the agency.¹ Four of the five outcomes are the same ones we addressed in our June 2000 review of the agency's fiscal year 1999 performance report and fiscal year 2001 performance plan to provide a baseline by which to measure the agency's performance from year to year.² These selected key outcomes are:

- The federal government has an appropriately constituted workforce with the proper skills to carry out its missions.
- Federal employees are evaluated, rewarded, and otherwise held accountable for their performance.
- Federal agencies adhere to merit system principles.³
- There is less fraud and error in the Federal Employees Health Benefits Program.
- Retirement and insurance services are timely and accurate.

As agreed, using the selected key outcomes for OPM as a framework, we (1) assessed the progress OPM has made in achieving these outcomes and

¹This report is one of a series of reports on the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 2000 performance reports and fiscal year 2002 performance plans.

² *Observations on the Office of Personnel Management's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/GGD-00-156R, June 30, 2000). The last outcome, "Retirement and insurance services are timely and accurate," is new.

³Section 2301 of Title V of the U.S. Code 2301 stipulates that federal personnel management should be implemented consistent with nine merit system principles including recruiting or promoting employees based on merit, retaining or separating employees based on performance, and protecting employees from improper influence.

the strategies the agency has in place to achieve them and (2) compared OPM's fiscal year 2000 performance report and fiscal year 2002 performance plan with the agency's prior year performance report and plan for these outcomes. Additionally, we agreed to analyze how OPM has addressed its major management challenges, including the governmentwide high-risk areas of strategic human capital management and information security that we and OPM's Inspector General have identified. Appendix I provides detailed information on how OPM has addressed these challenges. (App. II contains OPM's comments on a draft of our report).

Attention to strategic human capital management is important because building agency employees' skills, knowledge, and individual performance must be a cornerstone of any serious effort to maximize the performance and ensure the accountability of the federal government. Because strategic human capital management is a pervasive challenge across the federal government, we recently identified it as a governmentwide high-risk area.⁴ Addressing the federal government's human capital challenges is a responsibility shared by many parties in addition to the individual agencies. For example, we noted that OPM and the Office of Management and Budget have substantial roles to play in fostering a more results-oriented approach to strategic human capital management across the government. OPM's sustained commitment and attention will be particularly critical to making a real difference in the way federal agencies manage human capital. It is likely that OPM will continue moving from "rules to tools," and that its most valuable contributions in the future will come less from traditional compliance and approval activities than from its initiatives for assisting agencies as a strategic partner.⁵ OPM's revised 5-year strategic plan, issued in September 2000, supports this changed focus.

Results in Brief

OPM provides human resource management policies, guidance, and assistance to executive agencies to help with their human capital management, but the results of OPM's efforts largely take place at federal agencies outside of the direct control of OPM. The basic strategic challenges confronting OPM are similar to those confronting other agencies: developing a set of performance goals and measures for events

⁴ *High-Risk Series: An Update* (GAO-01-263, January 2001).

⁵ *Managing for Results: Human Capital Management Discussions in Fiscal Year 2001 Performance Plans* (GAO-01-236, April 24, 2001).

that occur beyond the direct control of the agency and understanding how the agency's programs and day-to-day activities contribute to the achievement of those outcomes. OPM clearly recognizes the strategic challenges it faces, has committed to responding to them, and has important initiatives underway in that regard. Nevertheless, for the most part, OPM's performance report and plan do not measure strategic human capital management at executive agencies or how OPM's programs and initiatives contributed to the achievement of those outcomes. OPM has recognized that such measures are needed and is developing a series of agency outcome-based measures for use in future performance reports and plans.

OPM recognizes the importance of achieving the five outcomes that you asked us to examine and includes many goals and strategies in its performance report and plan that are related to these outcomes. However, assessing progress towards these outcomes is difficult. Specifically:

- Planned outcome: The federal government has an appropriately constituted and skilled workforce. Because the fiscal year 2000 report and 2002 plan do not contain measures of the appropriateness or skill level of the workforce, we are not able to assess progress made in achieving this outcome. However, OPM does report progress in preparing a model for workforce planning—the essential first step for agencies to take to address their workforce skill needs. Other information indicates that shortcomings in these areas are common among federal agencies. Our January 2001 high-risk update provided numerous examples of how poor strategic human capital management was harming mission accomplishment.
- Planned outcome: Federal employees are held accountable for their performance. As with the first outcome, OPM, for the most part, does not have measures that assess whether federal employees are held accountable for performance. OPM's report and plan contain goals and strategies to provide performance guidance and to post performance management studies on its web site, as well as goals and accomplishments to support alignment of individual performance management and recognition with achieving agency strategic goals. Our fiscal year 2000 survey of federal managers found that few believe employees in their agencies have received positive recognition for helping agencies accomplish strategic goals.⁶

⁶*Managing for Results: Federal Managers' Views Show Need for Ensuring Top Leadership Skills* (GAO-01-127, October 20, 2000).

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- Planned outcome: Federal agencies adhere to merit system principles. OPM's progress on achieving this outcome is mixed. OPM reports that OPM periodic reviews of agencies identified no systemic merit principle weaknesses. However, OPM's survey of employees indicates that a sizeable proportion of employees think that some merit principles are not followed. For example, the survey shows that only slightly more than half of federal employees believe that federal employees are managed efficiently and effectively, and less than half believe federal employees are provided equal pay for equal work and are rewarded for excellent performance. The fiscal year 2000 survey shows no significant change from the previous year.
 - Planned outcome: There is less fraud and error in the Federal Employees Health Benefits Program. We could not assess whether there is less fraud and error in the Federal Employees Health Benefits Program. OPM's Office of the Inspector General (OIG) had a goal and measures (such as number of debarments, convictions, and fines) to assess progress in detecting and addressing fraud. But OPM has no program office goals, strategies, or performance measures for reducing fraud in the health benefits program. However, although the OIG efforts would contribute to less fraud and fewer errors in the health benefits program, these efforts have led more to identifying fraud after it has happened rather than preventing it from occurring. In addition, there are no baseline indicators of the dollar amount of fraud and errors, or quantitative targets (other than for fraud detection) against which to measure progress. OPM says it recognizes that it needs to establish performance indicators regarding this issue and has committed to developing them for the fiscal year 2003 performance plan. Also, OPM says it will report this information in future performance reports, beginning with the report for fiscal year 2001.
 - Planned outcome: Retirement and insurance services are timely and accurate. OPM's performance report indicates a generally high level of customer satisfaction for its retirement and insurance services. However, the timeliness of retirement claims processing has decreased. OPM is addressing this challenge and says it has already seen improvements in fiscal year 2001. For the long term, OPM is implementing a retirement systems modernization project in phases and expects that it will realize significant business benefits each year as well as significantly improve all aspects of the delivery of retirement services. However, OPM will continue to face potential retirement claims processing delays because the modernized retirement system is being implemented in phases and is not expected to be fully operational until 2009.

Within OPM, strategic human capital management and information security, the governmentwide high-risk areas designated by GAO, are

addressed in both the fiscal year 2000 performance report and fiscal year 2002 performance plan. However, both areas could be strengthened. Specifically, OPM has established several goals to address its internal human capital management, including employee education and training. To make these goals more useful they should be linked to specific OPM programs. For example, OPM's plan calls for continuing to increase the employee-to-supervisor ratio, but it does not discuss how this change will impact OPM programs or what human capital strategies might be needed to address the reduction in the number of supervisors. Regarding information security, OPM included a goal related to information security in its report and plan. The fiscal year 2000 report states that progress on improving information security is sufficient to indicate that the specific goal has been accomplished; however, the report also continues to report that there are remaining information security issues. In fact the audit of OPM's fiscal year 2000 financial statements included a reportable condition⁷ related to several information security weaknesses.

As OPM has recognized, it needs to link its strategic and performance goals to outcome measures that assess the actual state of strategic human capital management in the federal government. Even though OPM does not directly control these outcomes in federal agencies, OPM understands it needs to measure the results to assess the effectiveness of its programs. Building on its ongoing efforts, OPM needs to make other improvements to its performance report and plan, including (1) improving the reliability of its performance measures, (2) linking its internal human capital goals to specific OPM programs, and (3) establishing a Retirement and Insurance Service goal to assess fraud in the Federal Employees Health Benefits Program. We are making recommendations to address these issues.

OPM's Acting Director, in providing comments on a draft of our report, generally agreed with the results of our review, including our recommendations. He also expressed appreciation for our recognition of the strategic challenges OPM faces with regard to human capital management as well as its efforts to improve its measurement framework, including the shift to measuring governmentwide outcomes. OPM also provided specific comments to clarify information we presented on four of

⁷A reportable condition is a matter that in the auditor's opinion should be communicated because it represents a significant deficiency in the design or operation of internal controls, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

the five selected key outcomes. Accordingly, we made several changes to this report to address these comments.

Background

GPRA is intended to shift the focus of government decision-making, management, and accountability from activities and processes to the results and outcomes achieved by federal programs. New and valuable information on the plans, goals, and strategies of federal agencies has been provided since federal agencies began implementing GPRA. Under GPRA, annual performance plans are to clearly inform the Congress and the public of (1) the annual performance goals for agencies' major programs and activities, (2) the measures that will be used to gauge performance, (3) the strategies and resources required to achieve the performance goals, and (4) the procedures that will be used to verify and validate performance information. These annual plans, issued soon after transmittal of the president's budget, provide a direct linkage between an agency's longer-term goals and mission and day-to-day activities.⁸ Annual performance reports are to subsequently report on the degree to which performance goals were met. The issuance of the agencies' performance reports, due by March 31, represents a new and potentially more substantive phase in the implementation of GPRA—the opportunity to assess federal agencies' actual performance for the prior fiscal year and to consider what steps are needed to improve performance and reduce costs in the future.⁹

OPM's mission is to support the federal government's ability to have the best workforce possible to do the best job possible. OPM is to accomplish this mission by leading federal agencies in shaping human resources management systems to effectively recruit, develop, manage, and retain a high-quality and diverse workforce; protecting national values embodied in law, including merit principles and veterans' preference; serving federal agencies, employees, retirees, their families, and the public through technical assistance, employment information, pay administration, and benefits delivery; and safeguarding employee benefit trust funds. The results of OPM's efforts largely take place at federal agencies outside of the direct control of OPM.

⁸The fiscal year 2002 performance plan is the fourth of these annual plans under GPRA.

⁹The fiscal year 2000 performance report is the second of these annual reports under GPRA.

Assessment of OPM's Progress and Strategies in Achieving Selected Key Outcomes

This section discusses our analysis of OPM's performance in achieving its selected key outcomes and the strategies it has in place, particularly strategic human capital management¹⁰ and information technology, for accomplishing these outcomes. In discussing these outcomes, we have also provided information drawn from our prior work on the extent to which the agency provided assurance that the performance information it is reporting is credible.

An Appropriately Constituted and Properly Skilled Workforce

We cannot assess progress made by OPM in contributing to the outcome that the federal government has an appropriately constituted workforce with the proper skills to carry out its missions. OPM has several goals that relate to this outcome, but none that focus squarely on the degree to which the federal workforce has the right skill mix. Specifically, OPM's fiscal year 2000 performance report includes goals that "federal human resources management policies and programs are merit-based, mission-focused, and cost effective" and "a model for workforce planning . . . is in place" for use by agencies. OPM's performance report states that both of these goals were met. OPM states that the first goal was met because it produced a few studies that contributed to human resource policy or program proposals. The second goal was met, according to the OPM fiscal year 2000 performance report, because OPM has provided the workforce planning model to several agencies. This model, and other important steps OPM has taken to support better workforce planning—including developing research tools and launching a website to facilitate information sharing about workforce planning issues—could prove helpful to agencies in addressing their individual strategic human capital challenges. As a next step, OPM needs to measure, for example, how the studies and workforce planning model actually contributed to improved strategic human capital management at the agencies. Specifically, as an intermediate outcome, OPM could measure the number of agencies that were able to identify skill shortages and solutions as a result of using workforce planning. Previously, we have reported that OPM should take a more proactive role in agency workforce planning efforts, and our April 2001 report on

¹⁰Key elements of modern strategic human capital management include strategic human capital management planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

expected trends in federal employee retirements further highlights the need for improved workforce planning.¹¹

Other information indicates that this outcome is not commonly being achieved. Our high-risk series gave many examples of agencies not having the appropriate workforce to carry out its mission. For example, the Department of Energy did not have employees with adequate contract management skills to oversee the clean up of hazardous waste sites, and nursing shortages at Veterans Affairs facilities could put veterans at risk.¹²

OPM's fiscal year 2002 plan contains several strategies that, for the most part, appear to be reasonable. For example, OPM plans to obtain input from agencies on how workforce policies need to be changed and to explore policies on dual compensation and phased retirement to bolster retention of federal employees. Determining whether these strategies are successful will require OPM to develop indicators of whether federal agencies and departments have appropriately skilled workforces and how these strategies are being used to build workforce skills.

Employee Performance Accountability

As is the case with the first outcome, OPM's performance report does not contain sufficient outcome measures to fully assess the extent to which federal employees are held accountable for their performance. OPM's performance report contains several goals related to this outcome. For example, OPM is to develop performance-oriented approaches to employee compensation and to provide assistance in developing performance management systems. OPM measures goal achievement by such indicators as the number of workshops offered, the number of performance studies available on the OPM Website, and whether performance management guidance is issued in a timely manner.

Other information indicates that much more needs to be done to improve performance management at federal agencies. For example, in our October 2000 report, we noted that surveys we had administered to managers showed that only 26 percent in 1997 and 31 percent in 2000

¹¹*Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning* (GAO/GGD-00-113BR, May 2000) and *Federal Employee Retirements: Expected Increase Over the Next 5 Years Illustrates Need for Workforce Planning* (GAO-01-509, April 27, 2001).

¹²*High-Risk Series: An Update* (GAO-01-263, January 2001).

reported that employees in their agencies had received positive recognition to a great or very great extent for helping agencies accomplish their strategic goals.¹³ Also, the Merit Systems Protection Board (MSPB) and we have previously reported that holding employees accountable for their job performance continues to be perceived as a challenge because employees perceive the process as cumbersome.¹⁴

OPM's plan identifies a variety of strategies for achieving goals that relate to the outcome of evaluating, rewarding, and otherwise holding federal employees accountable for their performance. The strategies call for providing guidance and information to agencies, including information on best practices, as well as working with internal and external stakeholders to identify needed changes in compensation and performance policies and programs. Although the strategies appear reasonable, how they will help to achieve the outcome of holding employees accountable for performance is not always clear. For example, a strategy OPM cited to help achieve its goal of identifying options for performance-oriented approaches to compensation was to maintain comprehensive research on best practices in private and public sector compensation systems and tools that the federal government can use. But OPM offers no explanation of how the use of such systems and tools will aid the federal government in holding employees accountable for their performance.

Adherence to Merit System Principles

OPM has made mixed progress on the outcome that federal agencies adhere to merit system principles. On the one hand, OPM's fiscal year 2000 performance report states that OPM's periodic reviews of agencies have identified no systemic merit principle weaknesses. On the other hand, the results of OPM's government-wide survey of federal employees conducted in fiscal years 1999 and 2000 indicate that a sizable percentage of employees think that certain merit principles are not being followed. The fiscal year 2000 performance report includes goals related to the overall adherence to merit principles by agencies, including agencies with

¹³*Managing for Results: Federal Managers' Views Show Need for Ensuring Top Leadership Skills* (GAO-01-127, October 20, 2000).

¹⁴*Performance Management: How Well Is the Government Dealing With Poor Performers* (GAO/GGD-91-7, October 2, 1990); *Veterans Health Administration: Performance and Conduct Issues Involving Senior Managers at VA Medical Centers* (GAO/GGD-98-92, April 30, 1998); *The Changing Federal Workplace: Employee Perspectives*, Merit Systems Protection Board, March 1998; and *Federal Supervisors and Poor Performers*, Merit Systems Protection Board, July 1999.

delegated examining authority.¹⁵ OPM uses a variety of measures to determine if this outcome is being achieved, including (1) the results of merit system reviews of federal agencies, (2) agencies' satisfaction with the reviews, and (3) the views of federal employees regarding adherence to merit principles. OPM's report states that the reviews indicated that agencies, including those with delegated examining authority, were adhering to merit principles. According to the performance report, the problems found in OPM's reviews were not systemic. Once problems were identified in the review, OPM worked with the agency to resolve the problems. In its reviews, OPM also identified best practices and shared them with other agencies.

The views of federal employees on adherence to the nine merit system principles, as provided in an OPM survey, indicated that there was no significant change from the fiscal year 1999 survey. OPM's goal was to increase by two percentage points the percentage of federal employees who believed each of the merit principles were being adhered to by their agencies. There are a variety of factors that influence employees' responses to this question, including governmentwide economic, cultural, and social conditions. For this reason, OPM expects substantive change in the perceptions of these principles to take place over several years. This year's survey indicates that a relatively large portion of federal employees believed that employees maintain a high standard of integrity and concern for the public and that employees are protected from improper political influence. But on the other hand less than half believe that employees are protected against reprisal for the lawful disclosure of information or are provided equal pay for equal work and rewarded for excellent performance; and only a little more than half think that employees are managed efficiently and effectively. Similar results were reported in the merit system principles survey conducted by MSPB in 2000.¹⁶

OPM's fiscal year 2002 performance plan identifies a variety of strategies that are consistent with its current efforts. The current strategies should help OPM achieve its goals as well as contribute to the outcome of ensuring that agencies adhere to the merit system principles. For example, to help ensure that personnel practices are carried out in accordance with

¹⁵Title 5 U.S.C. Section 1104 provides OPM authority to delegate to agencies the competitive examining process used to fill most federal civil service positions.

¹⁶*Issues of Merit*, Merit Systems Protection Board, Office of Policy and Evaluation, February 2001.

these principles, OPM's strategies include conducting nationwide agency merit system oversight reviews, auditing agencies with delegated examining authority and reviewing reports filed by these agencies to identify any training needs, and reviewing all agency selections for initial career Senior Executive Service appointments for compliance with merit system principles.

OPM does not include coordination with MSPB as a strategy for achieving performance goals within its Office of Merit Systems Oversight and Effectiveness—the program office that is responsible for leading the federal government's efforts in overseeing the merit system. MSPB's mission, in part, is to ensure that agencies make employment decisions in accordance with the merit system principles. In support of its mission, MSPB hears and decides cases involving abuses of the merit system. It also administers the merit principles survey to gather data on the "health" of the federal civil service. OPM's strategy should also consider MSPB's decisions and merit principles survey in helping to achieve this outcome. However, even though both agencies administer programs and conduct similar activities that share a common purpose, OPM's strategic plan for fiscal years 2000 through 2005 states that coordination with MSPB is limited to adjudicatory issues.

Fraud and Error in the Federal Employees Health Benefits Program

We could not fully assess the progress OPM is making to reduce fraud and error in the Federal Employees Health Benefits Program. The OPM OIG has identified health care fraud in the Federal Employees Health Benefits Program as one of the most serious management challenges facing OPM. The fiscal year 2000 performance report contains an OIG goal to have fraud against OPM programs detected and prevented. This goal has several measures, including the number of convictions for health benefit program fraud (51 in fiscal year 2000) and the number of health benefit providers who are debarred and not allowed to participate in the Federal Employees Health Benefits Program (2,706 in fiscal year 2000). Although these are measures for the OIG, there were no goals or strategies related to the detection and prevention of fraud at the programmatic level for the Federal Employees Health Benefits Program in the Office of Retirement and Insurance Service (RIS), whose mission, in part, is to provide accurate

and cost-efficient benefit services.¹⁷ For example, there were no goals or strategies to decrease the number of errors or fraud cases to a minimum. In addition, there were no baseline indicators of the dollar amount of fraud or errors found in the health benefits program or quantitative targets against which to measure progress. OPM believes that measures identified by the OIG are consistent with RIS' expectations and says that RIS has worked in unison with the OIG to minimize fraud and abuse in the Federal Employees Health Benefits Program. While we recognize this, we believe that OPM needs to develop goals and measures within RIS for detecting and preventing fraud and errors in the health benefits program.

The fiscal year 2002 performance plan contains a strategy to have the employee benefit trust funds be models of excellence and integrity in financial stewardship. The OIG includes strategies related to reducing fraud and errors, such as pursuing debarment of untrustworthy health care providers and conducting aggressive investigations where fraud and abuse are suspected, which seem reasonable. The RIS had no goals or performance indicators related to fraud and errors in the health benefits program, but included strategies such as (1) working with carriers participating in health benefits to ensure that audits are performed and (2) conducting financial statement audits to reduce the incidence of payment errors, which in part will help detect fraud and errors in the health benefits program. Although these strategies generally will help detect and reduce fraud and errors, it is unclear how this will be accomplished and how they plan to measure progress because there were no baseline indicators for the dollar amount of fraud or errors found in the health benefits program, or performance indicators against which to measure progress.¹⁸ In addition, performance indicators for the OIG measured progress in processing cases (debarments, indictments, and convictions) once the fraud is discovered but did not address measures for preventing it.

¹⁷For examples and case illustrations of information that federal agencies should consider when developing strategies and planning and implementing actions that will help prevent and detect fraud and errors, refer to our exposure draft: *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations* (GAO-01-703G, May 2001).

¹⁸See footnote 17.

Retirement and Insurance Services

The fiscal year 2000 performance report describes mixed progress in the provision of timely and accurate retirement and insurance services. OPM's retirement and insurance program continues to receive high satisfaction ratings from its customers, but timeliness of retirement claims processing has declined. The fiscal year 2000 performance report outlines several outcome-oriented goals that include increasing customer satisfaction with services and reducing processing times. Customer satisfaction with OPM's retirement and insurance programs remained high during fiscal year 2000. For example, more than 90 percent of new retirees said they were very or generally satisfied with how their claims were handled. Claims processing times, however, did not meet target levels, particularly the time to process Federal Employees Retirement System (FERS) claims. Specifically, Civil Service Retirement System (CSRS) claims processing time increased to 44 days from 32 days in fiscal year 1999 and FERS processing time increased to more than 6 months from 3 months in fiscal year 1999. The goal for CSRS processing time is 25 days and for FERS processing time is 60 days.

OPM recognizes that it needs to address lagging times in retirement claims processing, and the fiscal year 2002 performance plan contains strategies that could improve claims processing timeliness. The plan states that the current processing is based on "aging technology, paper-based business processes, and a heavy reliance on human resources." One of the strategies cited in OPM's plan for reducing claims processing times is to add more resources to the processing of FERS claims. OPM's measure of its success in achieving this goal is to gradually reduce processing times for these claims from a fiscal year 2000 level of 6 months to 5 months in fiscal year 2001 and 3 months in fiscal year 2002. The number of FERS claims is expected to increase by nearly 40 percent between fiscal year 2000 and fiscal year 2002. The number of employees seeking retirement services is expected to dramatically increase beyond 2002. To address long-term needs, OPM is implementing a Retirement Systems Modernization project that is expected to significantly reengineer and automate retirement claims processing. OPM is implementing the modernization of the retirement systems in phases and expects to realize significant business benefits each year. OPM says it has already seen improvements. For example, OPM says it implemented a prototype FERS Benefit Calculator that has helped to reduce processing times and the balance of aged cases. However, the modernized retirement systems will not be fully operational until 2009. Reducing claims processing times with an increasing workload will be a significant challenge for OPM.

Comparison of OPM's Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan With the Prior Year Report and Plan for Selected Key Outcomes

OPM has made some improvements to its fiscal year 2000 performance report and fiscal year 2002 performance plan over previous years. However, a number of weaknesses continue that OPM recognizes. This section describes improvements and remaining weaknesses in OPM's (1) fiscal year 2000 performance report in comparison with its fiscal year 1999 report, and (2) fiscal year 2002 performance plan in comparison with its fiscal year 2001 plan.

Comparison of Performance Reports for Fiscal Years 1999 and 2000

OPM's fiscal year 2000 performance report represents an improvement over the fiscal year 1999 report, but opportunities remain for additional improvements. In our June 2000 report we indicated that OPM's fiscal year 1999 performance report did not identify the most critical performance measures towards goal achievement.¹⁹ The fiscal year 2000 report clearly identifies the most critical measures of the several measures that are included under most goals. If the critical indicator was met, then OPM considered the goal met. Last year we noted a number of performance report weaknesses, including the use of activity-based indicators instead of outcome-based indicators and the lack of specific target measures for goals. Again for fiscal year 2000, many indicators are activity based or do not contain specific targets. The following are examples of activity-based measures or those without targets:

- To determine whether delegated examining is conducted in accordance with merit system laws, OPM measured the number of reviews conducted of agency-delegated examining activities.
- An OPM measure is to ensure that the OPM workforce is well trained for current and future needs; however, there is no target identified to determine when this has been achieved.
- In measuring customer or employee satisfaction, OPM uses terms such as "high degree" of satisfaction without defining what constitutes a "high degree" of satisfaction. OPM does not identify which positive feedback

¹⁹Observations on the Office of Personnel Management's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan (GAO/GGD-00-156R, June 30, 2000).

rate (e.g., 80 percent or 90 percent) is judged to be “high satisfaction” for the particular indicator.

- A performance management goal is for OPM to formulate performance-oriented approaches to compensation. OPM considered this goal met because it disseminated information on state-of-the-art compensation practices.

Even though these measures indicate positive activity, they are not measures of actual goal achievement, and without specific targets it is not possible to determine whether the goal was met.

The fiscal year 2000 performance report also contains some measures that were not considered reliable by the OPM OIG. The performance report states that the Inspector General reviewed 116 of the 458 performance measures and found that 59 percent were based on reliable information and 17 percent were based on unreliable information; for 24 percent of the measures, the OIG could not determine their reliability. Further, concerns exist about the reliability of key surveys that are used by OPM as measures for goal achievement throughout the performance report. The low participation rates for the current Human Resources Directors’ Survey and the earlier Human Resources Specialists Survey (which was not conducted in fiscal year 2000) pose a material risk that the respondents may not be representative of the overall survey population. In addition, in the case of the Human Resources Directors’ Survey, the low participation rate caused a margin of error of 9.9 percent, limiting the usefulness of the results.

Comparison of Performance Plans for Fiscal Years 2001 and 2002

The fiscal year 2002 performance plan continues with several of the strengths of the 2001 plan. The plan is directly linked to the OPM strategic plan and is integrated with the OPM Congressional Budget Justification. The plan also includes a resource summary by major OPM strategic goal, including the dollars and full-time equivalents requested by goal. The fiscal year 2002 plan, like the fiscal year 2000 report, contains a number of OPM activity-based, rather than outcome-based, goals and measures or indicators. The fiscal year 2002 plan continues to rely on the results of some governmentwide surveys and secondary anecdotal information to measure whether target levels established in the previous years’ plans have been met. The 2002 plan discusses steps that OPM will take to address some of the weaknesses with these surveys and anecdotal information. For example, OPM states in its 2002 plan that it discontinued several indicators that were based on unreliable data sources. The reliability and validity of informal feedback has inherent limitations that

cannot be made more reliable and statistically valid by the planned enhancement of procedures to collect and track the information.

OPM is proceeding with the implementation of a new measurement framework. It plans to conduct more formal evaluations of the outcomes of specific policies and programs, identify agency-level performance measures, use agency-level measures as the primary basis of performance reporting, and tie the measures more closely to the strategic goals.

OPM's Efforts to Address Its Major Management Challenges Identified by GAO

This section discusses the extent to which OPM is internally addressing strategic human capital management and information security. Both OPM's performance report, as well as its plan, address these challenges within the agency. Regarding OPM's internal strategic human capital management, we found that the fiscal year 2002 performance plan contains several goals and measures related to OPM's internal strategic human capital management, and OPM's fiscal year 2000 performance report describes progress in resolving some of these OPM-level strategic human capital management challenges. For example, both the report and the plan contained goals related to recruiting, retaining, and managing a workforce to meet OPM program needs. Of particular note was the requirement that all employee performance plans be linked to agency strategic goals and the establishment of baseline data to measure the rate of retention among employees who complete career development programs. To further improve its strategic human capital management goals and strategies, OPM needs to link these strategies to specific OPM programs. For example, the OPM performance plan states that OPM has significantly changed its ratio of employees to supervisors to now exceed the governmentwide average. OPM's performance plan also states that it wants to further increase this ratio. The plan needs to also discuss what impact this ratio change will have on program outcomes and what additional human capital strategies might be needed to address the reduction in the number of supervisors. OPM also could establish the relationship of impending retirements to OPM succession planning processes to ensure that critical competencies and leadership are available for mission-critical activities.

With respect to information security, we found that OPM's fiscal year 2002 performance plan contains a goal and measures related to information security, and the agency's fiscal year 2000 performance report explains its progress in resolving its information security challenges. OPM reports that in fiscal year 2000, it met its goal of ensuring that the information security program provided adequate computer security commensurate with the

risk and magnitude of harm that could result from loss or compromise of mission-critical information technology systems. However, the results of the independent public accountant's audit of OPM's fiscal year 2000 consolidated financial statements show that a reportable condition continues to exist in the electronic data processing general control environment.²⁰ The audit noted weaknesses in (1) entity-wide security, (2) access control, (3) control over application changes and software development, and (4) service continuity planning. The target date for describing the corrective action taken to resolve these deficiencies is fiscal year 2001. The fiscal year 2002 performance plan includes a goal to enhance information security. The plan states that the absence of critical security problems is the critical indicator for achieving this goal.

Conclusions

OPM's mission, in part, is to provide strategic human capital management leadership and services to federal agencies. OPM's fiscal year 2000 performance report and fiscal year 2002 performance plan contain many goals that measure the extent of their activities, but there are few goals and measures that assess the actual state of strategic human capital management in the federal government or the specific contributions that OPM's programs and initiatives make. Even though OPM does not directly control these outcomes in federal agencies, it needs to measure the results to assess how well its leadership and services are working. OPM has recognized this weakness and is working with federal department and agency human resource directors to develop a series of human capital measures.

OPM also needs to make other improvements to its report and plan, including strengthening goals and measures to improve their reliability, linking its internal human capital goals to OPM programs, and establishing a program management performance goal to assess fraud and error in the Federal Employees Health Benefits Program.

Recommendations for Executive Action

To better assess OPM programs, we recommend that as a part of OPM's continued strengthening of its efforts to clearly define goals, measure its performance, and provide leadership over strategic human capital management, the Director of OPM

²⁰OPM's Fiscal Year 2000 Financial Statements and accompanying audit report are included in the OPM Fiscal Year 2000 Performance Report.

-
- develop goals and measures that assess the state of human capital at federal departments and agencies,
 - replace informal feedback measures with indicators that are more reliable, and
 - better link internal strategic human capital management goals to specific OPM programs and outcomes.

In addition, we also recommend that the Director of OPM develop goals and measures that assess the prevention and detection of fraud and errors in the Federal Employees Health Benefits Program, perform a risk assessment to identify areas most vulnerable to fraud and errors, and institute internal controls to prevent and detect occurrences.

Scope and Methodology

Our evaluation was generally based on the requirements of GPRA, the Reports Consolidation Act of 2000, guidance to agencies from the Office of Management and Budget (OMB) for developing performance plans and reports (OMB Circular A-11, Part 2), previous reports and evaluations by us and others, our knowledge of OPM's operations and programs, our identification of best practices concerning performance planning and reporting, and our observations on OPM's other GPRA-related efforts. We also discussed our review with OPM officials and with OPM's OIG. The agency outcomes that were used as the basis for our review were identified by the Ranking Minority Member, Senate Governmental Affairs Committee as important mission areas for the agency and generally reflect the outcomes for all of OPM's programs or activities. The major management challenges confronting OPM—including the governmentwide high-risk areas of strategic human capital management and information security that we identified in our January 2001 performance and accountability series and high-risk update—were identified by us and by OPM's OIG in December 2000. We did not independently verify the information contained in the performance report and plan, although we did draw from other GAO work in assessing the validity, reliability, and timeliness of OPM's performance data. We conducted our review from April 2001 through June 2001 in accordance with generally accepted government auditing standards.

Agency Comments

We provided a draft of this report to OPM for its review and comment. OPM's Acting Director provided written comments, which are reprinted in appendix II. Overall, he agreed with the results our review, including our recommendations, and appreciated our recognizing the strategic challenges OPM faces with regard to human capital management as well

as its efforts to improve its measurement framework, including the shift to measuring governmentwide outcomes. OPM also provided specific comments to clarify information we presented on four of the five selected key outcomes. We made several changes to this report in response to these comments. Our responses are given in appendix II as well as in various sections of this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to appropriate congressional committees; the Acting Director of OPM, and the Director of OMB. Copies will also be made available to others on request.

If you or your staff have any questions, please call me at (202) 512-6806. Key contributors to this report were Bill Doherty, Danielle Holloman, Linda Lambert, Mary Martin, Elizabeth Martinez, Ben Ritt, Ed Stephenson, and Scott Zuchorski.

Sincerely yours,

A handwritten signature in black ink that reads "J. Christopher Mihm". The signature is written in a cursive style with a large, stylized initial "J".

J. Christopher Mihm
Director, Strategic Issues

Appendix I: Observations on OPM's Efforts to Address Its Major Management Challenges

Table 1 identifies the major management challenges confronting OPM, which include the governmentwide high-risk areas of strategic human capital management and information security. The first column lists the challenges that we and/or OPM's OIG have identified. The second column discusses what progress, as discussed in its fiscal year 2000 performance report, OPM has made in resolving its challenges. The third column discusses the extent to which OPM's fiscal year 2002 performance plan includes performance goals and measures to address the challenges that we and/or OPM's OIG identified.

We found that OPM's performance report discussed the agency's progress in resolving all challenges. Of the agency's seven major management challenges, its performance plan had goals and measures that were directly related to all seven of the challenges. OPM can build upon its efforts by more clearly identifying the specific strategies that it is using to address its challenges. Such information is important to help OPM, the Congress, and other decisionmakers determine whether the best mix of strategies is in place and to help pinpoint improvement opportunities.

**Appendix I: Observations on
OPM's Efforts to Address Its
Major Management Challenges**

Table 1: Major Management Challenges

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
GAO-designated governmentwide high-risk		
<p><u>Strategic human capital management:</u> GAO has identified shortcomings at multiple agencies involving key elements of modern strategic human capital management, including strategic human capital management planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.</p>	<p>The report contains several goals for OPM's Office of Human Resources and Equal Employment Opportunity. These include:</p> <ul style="list-style-type: none"> • recruiting and training a diverse workforce to meet OPM needs; • helping OPM employees achieve top performance, productivity, and job satisfaction; and • linking all individual performance plans to agency strategic goals. <p>The report discusses progress in meeting these goals. These are positive but should be better linked to the specific human capital requirements of individual OPM programs and outcomes.</p>	<p>The plan has several goals directly applicable to this challenge. For example,</p> <ul style="list-style-type: none"> • OPM manages and aligns its workforce to support OPM strategic goals; • recruiting and staffing are based on workforce planning; • innovative employee education and training results in a flexible, optimally-trained workforce; and • OPM's work environment values diversity. <p>However, these goals could be better linked to individual OPM program and outcome needs.</p>
<p><u>Information Security:</u> Our January 2001 high-risk update noted that the agencies' and governmentwide efforts to strengthen information security have gained momentum and expanded. Nevertheless, recent audits continue to show federal computer systems are riddled with weaknesses that make them highly vulnerable to computer-based attacks and place a broad range of critical operations and assets at risk of fraud, misuse, and disruption.</p>	<p>OPM reports that in fiscal year 2000 it met its goal, which ensured that the information security program provided adequate computer security commensurate with the risk and magnitude of harm that could result from loss or compromise of mission-critical information technology systems. In particular, the one measure stated that few security programs were identified as being problematic during internal and external evaluations and those issues that were identified were not material weaknesses and were rectified promptly.</p> <p>According to the performance report, the results of the independent public accountant's audit of OPM's consolidated financial statements and individual statements of the programs as of and for the year ended September 30, 2000, noted that the electronic data processing (EDP) general control environment continues to be a reportable condition. OPM further reported that the following four areas of EDP general control need to be strengthened: (1) entity-wide security, (2) access control, (3) control over application changes and software development, and (4) service continuity planning.</p> <p>The target date for describing the corrective action taken to resolve these deficiencies is fiscal year 2001.</p>	<p>OPM has a performance goal that mission-critical systems, infrastructure, and information are protected by a robust IT security program. Performance indicators include:</p> <ul style="list-style-type: none"> • Few security problems are identified during internal and external evaluations and those that are identified are not material weaknesses and are rectified promptly. • Staff are trained in computer security, as necessary, based on assessment of needs. • A tested disaster-recovery capability is in place for OPM's information technology support systems. <p>The plan does not include any numerical targets or projections regarding the achievement of the goal. However, the fiscal year 2002 plan shows that during fiscal year 2001 progress has been made in ensuring that few security problems are identified during internal and external evaluations.</p>

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
	<p>Additionally, in June 2000, OPM's OIG presented the results of an external audit of Blue Shield of California, which was conducted to obtain reasonable assurance that proper controls over the integrity, confidentiality, and availability of computerized data associated with OPM's Federal Employees Health Benefits Program contracts had been implemented. As a result of the audit, the OIG identified several areas in need of improvement, including developing a comprehensive security plan and strengthening internal controls for safeguarding assets and data.</p>	
IG-designated major management challenges		
<p><u>Deficiencies in the Revolving Fund (RF) and Salaries and Expenses (S&E) Accounts:</u> Deficiencies include (1) inadequate controls over the reconciliation of the RF and S&E expense cash account with its fund balance with Treasury, (2) inadequate controls over data entered into general ledgers for the RF and S&E accounts, and (3) inadequate financial statement preparation and noncompliance with the Federal Financial Management Improvement Act (FFMIA).</p>	<p>OPM stated in its performance report that deficiencies in RF and S&E general ledgers, and their non-compliance with FFMIA, should be addressed with the replacement of the financial management system. The new system is expected to be fully operational by fiscal year 2003. However, OPM's performance plan target dates to correct these deficiencies are fiscal years 2001 and 2002.</p> <p>The report also states that the goal of reconciling Treasury accounts in 30 days was met. However, the report does not address the correction of outstanding differences and if there is a goal to reduce these differences to a specific amount.</p>	<p>OPM's fiscal year 2002 performance plan included a goal to have the trust funds financial systems in substantial compliance with FFMIA and all financially related management challenges addressed. In addition, the Office of the Chief Financial Officer included two related annual goals: (1) Prepare financial statement by statutory date and earn an unqualified audit opinion on the OPM financial statement. Performance indicators include:</p> <ul style="list-style-type: none"> • improved accounting, including reconciling Treasury accounts in 30 days; • eliminating material weaknesses; and • improving IG and GAO audit results. <p>(2) Modernize OPM's administrative financial management systems. Performance indicators include:</p> <ul style="list-style-type: none"> • Implementation of new core accounting systems proceeds on schedule. SGL and Budget/Funds Management modules are installed and implemented for FY 2002.
<p><u>OPM's Financial Management Oversight of the Federal Employees Health Benefits Program (FEHBP):</u> OPM's oversight and monitoring of enrollment and premium reconciliations with community-rate carriers need to be strengthened. OPM's</p>	<p>OPM stated in its performance report that it is working with a contractor to implement a centralized enrollment system that will greatly facilitate the enrollment and premium reconciliation process in the program. Systems requirements are being defined and a pilot process is expected to be</p>	<p>OPM's fiscal year 2002 performance plan reported a goal to have the trust funds financial systems in substantial compliance with FFMIA and all financially related management challenges</p>

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p>systems are not adequately designed to centrally reconcile monies paid for insurance with the respective enrollees.</p>	<p>completed in the next year. OPM expects to resolve this deficiency in FY 2001.</p>	<p>addressed.</p> <p>Performance indicators include:</p> <ul style="list-style-type: none"> • FY 2001 financial statement audits receive unqualified opinions for all three benefit programs. • OPM's FY 2001 FFMIA assurance letter shows that identified material weaknesses, such as the reconciliation of FEHBP premiums and enrollments and other related deficiencies, are resolved.
<p><u>Health Care Fraud and Abuse in the Federal Employees Health Benefits Program:</u> OPM's ability to investigate and prosecute health care fraud and abuse continues to be adversely affected by the exclusion of FEHBP from certain civil enforcement provisions of the Health Insurance Portability and Accountability Act of 1996, which apply to all of the other health care programs.</p>	<p>OPM reported that it has been working to amend existing law to include language that would allow the Health Benefits Program to investigate and prosecute fraud. Several congressional bills now have the necessary language, although to date none have been reported outside of their respective committees.</p> <p>The performance indicators for OIG's goal to have fraud against OPM programs prevented and detected showed that the number of investigations resulting in referrals to the Department of Justice, and positive dispositions (arrest, convictions, etc.), increased in FY 2000. However, these indicators relate to the processing of fraud cases once discovered and do not address preventing fraud cases from occurring. In addition, the report did not discuss agency programs goals for preventing fraud.</p>	<p>The OPM performance plan includes an OIG goal to have fraud against OPM programs detected and prevented. It includes performance indicators such as the number of investigative referrals, arrests, indictments, and debarments. However, performance plan strategies relate to the processing of fraud cases once discovered and do not address preventing fraud cases from occurring. In addition, agency programs do not include strategies for preventing fraud, such as plans to establish programs or new techniques for preventing fraud.</p>
<p><u>Retirement Systems Modernization:</u> The Retirement Systems Modernization is OPM's central strategy to meet the long-term customer services and financial management objectives for the Civil Service and Federal Employees Retirement Systems.</p>	<p>One of the goals of OPM's Retirement and Insurance Service addresses this challenge in that it calls for accelerated information technology solutions for a modernized retirement system to be designed, developed, and implemented. According to OPM's performance report, the agency met the goals and objectives related to this challenge that were envisioned for fiscal year 2000. Namely, OPM reported that it had (1) completed the new business model that it plans to use for the modernization and (2) developed four of six planned core process blueprints and (3) begun working on the technology blueprint.</p>	<p>OPM changed the goal associated with this management challenge to performing acquisition planning and beginning implementation of the redesigned business processes and supporting technology for the modernized retirement system. OPM reported that it planned to implement its new business model in a phased approach beginning in fiscal year 2002. In addition, OPM stated that it would adhere to (1) commitments and project timetables, such as completing the first phase overall planning segments for customer service,</p>

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p><u>Human resources management:</u> Human resources management and accountability will continue to be a demanding, government-wide challenge for the foreseeable future as the labor market becomes more competitive, large numbers of employees become eligible for and are expected to retire, the need for better skills in technological positions increases, and performance management awareness increases. Although OPM plays a key role in leading and ensuring accountability in the management of the federal government's human resources, meeting this challenge is more than an OPM issue. It requires the effective planning and participation of each individual agency.</p>	<p>(See section of this report on our assessment of OPM's progress in achieving the first three outcomes identified by the Senate Governmental Affairs Committee—an appropriately constituted and properly skilled federal workforce, employee performance accountability, and adherence to merit system principles.)</p>	<p>annuitant service, and recordkeeping and (2) cost management (i.e., fiscal year 2002 activities are to be completed within allocated funding).</p> <p>Human resources management includes recruiting, developing, and retaining a qualified workforce, as well as assessing the performance of these functions. OPM's fiscal year 2002 plan contains several activity-based goals and measures that are aimed at helping agencies recruit, develop, manage, and retain the workforce necessary to accomplish their missions while also adhering to the merit system principles. For example, OPM has a goal to develop and implement employment policies and initiatives that are sound, innovative, and flexible in order to recruit and retain a high quality and diverse federal workforce.</p> <p>Performance indicators include:</p> <ul style="list-style-type: none"> • Informal feedback and favorable ratings on the Customer Satisfaction Survey of Human Resource Directors show an increase in the level of agency human resource directors' satisfaction with OPM's employment policy leadership. • A favorable perception of employees governmentwide that staffing is conducted in accordance with the first merit system principle—"recruit, select, and advance on the basis of merit." • Meetings are held with stakeholders to share information and gather ideas about improving OPM-provided services.

Appendix II: Comments From the Office of Personnel Management

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE DIRECTOR

Mr. J. Christopher Mihm
Director, Strategic Issues
U. S. General Accounting Office
Washington, DC 20548

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT

WASHINGTON, D.C. 20415

JUN 26 2001

Dear Mr. Mihm:

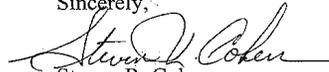
We were pleased to receive your overall favorable review of the Office of Personnel Management's fiscal year 2000 Performance Report and fiscal year 2002 Performance Plan. We were particularly pleased that you noted that, in regard to the critical task of helping executive agencies with their human capital management, OPM "clearly recognizes the strategic challenges it faces, has committed to responding to them, and has important initiatives underway in that regard."

We were also pleased that your report noted many of the specific improvements we have either made, or have underway, to improve our measurement framework, including the important shift to measuring Governmentwide outcomes. This was a priority for us during the past fiscal year. Your review also confirms that our 2002 plan and our 2000 report both clearly address the management challenges identified by the GAO within the agency. This also was a specific improvement action we took after your review last year.

We, like all agencies, will continue to improve the plans and reports that are part of the Government Performance and Results Act process. Many of the improvements you noted in our fiscal year 2000 report and our fiscal year 2002 plan were made in response to suggestions from you and other stakeholders, and we are already planning additional actions based on the results of this current review. For example, we have greatly enhanced our data collection and verification procedures, and will continue this process as we prepare the next fiscal year products. Overall, the recommendations for additional actions that are included in this GAO report are entirely consistent with our own plans for further improvement.

We appreciate the cooperative and helpful approach your staff followed in the review process. Thank you also for taking the time to meet with us to clarify some of the conclusions described in your draft report, and for the substantive changes you made as a result. However, I have enclosed some additional clarifications found in our final review that I would appreciate being included in the final report.

Sincerely,


Steven R. Cohen
Acting Director

Enclosure

Specific Comments

See comment 1.

- Planned outcome: retirement and insurance services are timely and accurate. (page 4)

GAO reported: "For the long term, OPM is implementing a retirement systems modernization project that is expected to significantly improve all aspects of the delivery of retirement services. However, OPM will continue to face potential retirement claims processing delays because the modernized retirement system is now not expected to be operational until 2009".

While it is true that a totally modernized RSM will not be completed until about 2009, we are implementing the modernization in phases that will realize significant business benefits each year. We have already implemented a prototype FERS Benefit Calculator that has aided in a significant reduction in processing times and the balance of aged cases has been reduced by almost 90% from a high of almost 7,000 cases early in calendar year 2000. The prototype is being enhanced to expand the functionality this year, and in FY 2003 will be further developed for use by other Federal agencies and members in benefits counseling and retirement planning.

In FY 2002, we will begin our conversion of data to electronic format, making it available to other agencies through a web browser. This is the first step in eliminating the paper environment, and the program-wide availability of the electronic data will increase the number of claims that are complete when received, reducing processing times and costs. The electronic data will also be used to automatically populate tools to calculate benefits and determine retirement coverage, improving the accuracy and reducing the time it now takes to perform these activities. Each year through 2009 will bring improvements and benefits such as these to the retirement program.

See comment 2.

- An Appropriately Constituted and Properly Skilled Workforce (page 6)

GAO reported: "We cannot assess progress made by OPM in contributing to the outcome that the federal government has an appropriately constituted workforce with the proper skills to carry out its missions."

GAO said it reached this conclusion, in part, because there were no measures of the numbers of Federal agencies using the model for workforce planning, and because there were no measures of the impact that this model had on agency workforce planning. However, the goal for fiscal year 2000 was only to make the model available to agencies, and this goal was clearly met, as the model was posted on our OPM website prior to the end of the year. More importantly, the OPM performance report also describes that this model was created with the assistance of the Federal Human Resources Management Council, and endorsed by them for Governmentwide use. This provides fairly strong evidence that agencies expected to find this to be a useful tool as they address their human capital issues. And, for the record, there is already real evidence that the model has been of assistance, as all Federal agencies are meeting a deadline of June 29, 2001, to provide the Office of Management and

Budget with individual workforce analyses as a first step in meeting the President's initiative to use human capital planning to streamline Government, and bring better service to citizens. Many agencies, particularly small agencies, would have been hard-pressed to meet this deadline without the resource provided by the OPM workforce planning website and model.

See comment 3.

- Employee Performance Accountability (page 7)

GAO reported that it was difficult to tell from OPM's performance report whether we had achieved the outcome of "holding Federal employees accountable for performance," and cited, as an example, that we had maintained comprehensive research on best practices in public and private sector compensation systems and tools, but offered "no explanation of how the use of such systems will aid the Federal government in holding employees accountable." This is an unfortunate artifact of the performance reporting process, as the goal for the year 2000 was to complete research on these areas, as an initial step in the process of building a set of comprehensive options for a revised compensation strategy that could also address appropriate methods for establishing and maintaining employee accountability. This important first step was clearly met. Other documents, including OPM's revised Strategic Plan (issued in September, 2000), explain the logical link between creating a solid research base on best practices and the ultimate policy decisions on what such a system should look like in the future.

See comment 4.

- Fraud and Error in the Federal Employees Health Benefits Program. (page 9)

GAO reported: "although the OIG reported measures to achieve an OIG goal to have fraud against OPM programs detected and prevented, there were no goals or strategies related to the detection and prevention of fraud at the programmatic level for the FEHBP. For example, there were no goals or strategies to decrease the number of errors or fraud cases to a minimum. In addition, there were no baseline indicators of the dollar amount of fraud or errors found in the health benefits program, or quantitative targets against which to measure progress."

The Retirement and Insurance Service has worked in unison with the OPM Inspector General to develop an effective audit and provider debarment program to minimize abuses and fraud in the FEHBP. In addition to periodic audits performed by the Inspector General's Office, OPM also issued an "FEHBP Experienced-Rated Carrier and Service Organization Audit Guide" that provides authoritative guidance for an annual audit of Carrier financial information by certified independent public accounting firms. These activities, we believe, have a significant sentinel effect on the manner in which Carriers and health care providers conduct business under the FEHBP. In addition, the FEHBP is structured in a manner different from other Government sponsored health benefit payment programs by its inclusion of cost containment measures, i.e. pre-certification for hospital stays, concurrent review of hospitalization, second-surgical opinions and other managed care programs designed to render effective care. These programs will not always disclose fraudulent activities that are committed throughout the health system by health care providers; however, together, they do serve to deter such activity. While we believe the measures

See comment 5.

identified by the IG are consistent with any expectations of the Retirement and Insurance Service, we will look for ways to develop additional Program-wide goals and measures relating to fraud and errors in the FEHBP.

- Retirement and Insurance Services – (page 10)

GAO reported: “OPM is developing a Retirement Systems Modernization project that is expected to significantly reengineer and automate retirement claims processing. However, this system has been delayed and will not be operational until 2009.”

While it is true that a fully developed RSM will not likely be in place until 2009, efforts to reengineer and automate retirement claims processing has not been delayed as reported. A prototype claims benefits calculator is in place and is producing significant results in reducing processing times.

GAO's Comments

The following are GAO's comments on the specific comments contained in the enclosure to OPM's letter dated June 26, 2001.

1. We revised this report to show that the retirement systems modernization project is being implemented in phases and that it will not be fully operational until 2009.
2. In the draft of this report provided to OPM for comment, we stated that OPM's goal for fiscal year 2000 was to make the workforce planning model available to agencies for their use and that this goal was met. Although making the model available to agencies is a useful activity, OPM's performance report and plan do not make clear what the outcome or result was from this activity. For example, neither document provides information on how agencies have used this model to help ensure that they have an appropriately constituted, properly skilled workforce to carry out their missions. OPM comments "there is already real evidence that the model has been of assistance, as all Federal agencies are meeting a deadline of June 29, 2001, to provide the Office of Management and Budget with individual workforce analyses as a first step in meeting the President's initiative to use human capital planning to streamline Government." The basis upon which OPM makes this statement is unclear, because although OPM says the workforce planning model has been of assistance to agencies, it does not say how many agencies actually used it in responding to OMB's directive.
3. We recognize that OPM's goal for fiscal year 2000 was to complete its research on private and public sector best practices in compensation systems and tools. However, OPM does not describe in its fiscal year 2000 performance report or 2002 performance plan what outcome or result was expected for this activity-based goal in terms of ensuring employee performance accountability. Thus, we continue to believe that OPM needs to have goals, measures, and strategies in place that will show how the use of the compensation systems and tools identified as a result of its research will aid the federal government in holding employees accountable for their performance.
4. We changed the report to recognize OPM's belief that the measures the OIG identified for detecting fraud and error in the Federal Employees Health Benefits Program are consistent with RIS' expectations. However, as we have stated in this report, the OIG's measures relate to detecting fraud after it has occurred rather than preventing it. Accordingly, we continue to believe that OPM needs to develop goals

and measures within the program office, RIS, for detecting and preventing fraud and errors in the health benefits program. OPM commented that it will look for ways to develop additional program-wide goals and measures relating to fraud and errors in the federal health benefits program.

5. In addition to the changes described in comment 1, we changed the report to reflect that the retirement systems modernization project has not been delayed. We also cited an example of improvements OPM has seen thus far in implementing the modernized retirement systems.

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