



PART 2: FY 2004 HIGHLIGHTS

(Unaudited—See accompanying Independent Auditors' Report)

President George W. Bush determined that securing the homeland and winning the war on terror are the top priorities of our Government. In FY 2004, OPM focused its mission accordingly. Many of OPM's accomplishments during the year had an immediate impact on the Government's ability to protect and defend our Nation and respond to potential emergencies.

Two themes characterize OPM's present mission, supporting national security efforts and protecting the vitality and integrity of the U.S. civil service. There is commonality between these themes because the strategic management of the Federal Government's human capital *plays a vital role in shaping the workforce we rely upon to protect our nation.*

OPM led the way in reforming and invigorating the civil service. This was done through proactive initiatives designed to empower agency heads and Chief Human Capital Officers (CHCOs) so that they can better hire and manage employees and through measuring the human capital accomplishments of agencies and holding them accountable for results.

SUPPORTING AMERICA'S SECURITY

The concept of national security has expanded significantly from its traditional focus of protecting the Nation from foreign aggression or espionage and preserving the military strength of the United States. The attacks of September 11 increased the scope of the Nation's security needs to encompass a wide range of issues and national interests including, economic resources, information resources, natural and agricultural resources, and public health and safety. The consequence of failure is unimaginable. OPM supports Federal agencies responsible for each national interest and, together, we work to secure our Nation.

Modernizing Human Resources Management for Security-Related Agencies

The Federal Government does not, for the most part, create a product. It is a service-oriented workforce. Federal employees serve the citizens. If the personnel management system is not functioning properly, it follows that the citizens are not well served. The attack on our homeland and the promise by terrorists to continue to cause harm demonstrates that an agency's mission must be pre-eminent. In 2004, consistent with legislative intent and language, OPM Director Kay Coles James partnered with the Homeland Security Secretary Tom Ridge and the Defense Secretary Donald Rumsfeld — two Federal Government agencies working most directly to secure and protect America — to create effective human resources management systems that best enable them to fulfill their critical missions. OPM's involvement indicated to Department of Homeland Security (DHS) and Department of Defense (DOD) stakeholders a commitment to provide modern, flexible personnel systems that remained true to the core values of the civil service.

At this writing, the Secretary of Homeland Security and the Director of OPM are very close to issuing final enabling regulations that establish a human resources management system for DHS. That new system is mission-focused, merit-based and provides for far greater flexibility and accountability in the way employees are paid, developed, evaluated, afforded due process and represented by labor organizations. The system is the result of an unprecedented and extensive process of deliberation, discussion, and collaboration with employees, representatives of labor organizations, supervisors, managers, senior agency officials, and other stakeholders, begun in April 2003. All told, the process involved input from well over 2,000 DHS employees, just short of 100 subject matter experts, private sector, local, State, and Federal Government representatives, and

the leadership of the Department's three largest unions. In addition, approximately 3,500 comments were received in response to the release of the proposed regulations last February. That collaboration, led by the Director's Senior Advisor for Homeland Security, will continue as more detailed implementing directives are developed. The process has been praised by GAO, Congressional leaders, and the presidents of DHS's major unions, as being both inclusive and collaborative and will result in a human resources management system that both meets the critical needs of DHS and that will serve as a model for the Federal civil service system of the future.

Even as design work was getting underway with DHS, President Bush sent Congress a proposal to transform DOD's human resources management system to better support mission needs and DOD transformation efforts. Once again, Congress concluded that the linchpin of providing that flexibility was to give OPM a major role in establishing the system. The National Defense Authorization Act for FY 2004, signed into law in November 2003, gives the Secretary of Defense and the Director of OPM the authority to establish, through joint regulation, the National Security Personnel System (NSPS), a more flexible and contemporary civilian personnel management system. NSPS will use new rules for many aspects of human resources management. Specific system elements will also address labor relations and the employee appeals process. All of these components will be set within the framework of Merit System Principles, prohibited personnel practices, including application of veterans' preference and whistleblower protections, and employees' rights to organize and bargain collectively. As she did to support work with DHS, Director James appointed a Senior Advisor to oversee OPM's work as DOD's partner in this project. OPM has applied the DHS model process of collaboration with all stakeholders, including extensive collaboration and meetings with labor and management organizations. The NSPS design process will lead to a set of jointly issued enabling regulations followed by more detailed implementing regulations.

As work with DHS and DOD proceeded, another cross-agency issue associated with national security commanded attention as well. The demands on Federal law enforcement agencies and their frontline professionals are more global, more dangerous, and more dynamic than

ever before, rapidly evolving in ways that were never anticipated just a few years ago. Federal law enforcement work will no doubt continue to evolve at a dramatic rate in the post-9/11 world. However, the rules that govern the pay and retirement of our law enforcement personnel have not kept pace. The Federal law enforcement workforce today is covered by a rigid, half-century old retirement structure, an outdated classification and basic pay system that is not sufficiently sensitive to its unique labor markets and performance requirements, and a confusing patchwork of premium payments.

To meet this urgent need, Congress called upon OPM's expertise in pay and benefits to examine the facts and recommend a course of action. The resulting report from the Director recommended that Congress provide OPM with broad administrative authority to establish a Governmentwide framework for law enforcement retirement, classification and basic pay, and premium pay. Such authority would be exercised with the concurrence of the Attorney General and in consultation with employing agencies and employee stakeholders. This framework would be tailored specifically for law enforcement jobs, providing all law enforcement agencies with the same flexibilities that only a few now enjoy. OPM would play a central, coordinating role, with responsibility for balancing Governmentwide interests with unique agency needs, missions and cultures, in the development and future adaptation of pay and benefits for this critical national security workforce.

OPM supported a key Administration foreign relations initiative that is viewed as an essential element in long-term national security strategy. In January 2004, Congress established the Millennium Challenge Corporation to administer a new foreign aid program created to reduce global poverty by providing developmental assistance to those countries that rule justly, invest in their people, and encourage economic freedom — 21st century cornerstones to assuring international security. Its authorizing legislation was crafted to make maximum use of flexible authorities to optimize efficiency in contracting, program implementation, and personnel. OPM helped the corporation establish its internal human capital structure by granting appointing authorities, providing background investigations, and assisting in the design of recruitment incentives, compensation structures, employee and labor relations programs, and internal rulemaking.

Preparing for Emergencies and Ensuring Continuity of Operations

During FY 2004, OPM's role in positioning the Government to respond to emergencies and ensure that citizens will continue to receive services has continued to evolve. In the face of natural and man-made catastrophic events and their consequences, OPM still carries out its long-standing responsibilities to respond as an employer and address the needs of the Federal workforce. Since September 11, 2001, however, as the Government has re-examined its entire emergency response and continuity of operations infrastructure, OPM's presence and value has increasingly been acknowledged by the Nation's security leadership.

Under the leadership of Director Kay Coles James and with the active support of Administration teammates, OPM has come to play a critical role in ensuring the continuity of Governmental operations in the event of a catastrophe like 9/11. OPM has significantly enhanced its role in Governmentwide emergency preparedness and planning during FY 2004. During the past year, OPM fully participated in a number of regional and national committees focusing on security issues. Among the more prominent organizations with OPM representation is the Joint Federal Committee for Emergency Preparedness and the Metropolitan Area Council of Governments Emergency Readiness Committee. OPM is also one of the core government agencies who make up the Incident Communications Public Affairs Coordinating Committee (ICPACC) managed by the Department of Homeland Security. In the event of a national emergency ICPACC would help disseminate information from the Federal Government to the general public.

The Domestic Threat Response and Incident Management group, an arm of the Homeland Security Council, crafted the new National Response Plan (NRP) which identifies OPM's roles in four major areas: Emergency Support Function (ESF) #5, Emergency Management; ESF-6, Mass Care, Housing and Human Services; ESF-7, Resource Support; and ESF-15, External Communications. Throughout the drafting of the NRP and each of its annexes, OPM was a full partner with the 27 other major departments and agencies that make up the NRP community.

In addition, the Director of OPM maintains the authority and responsibility for determining the operating status

of the Federal Government in the National Capital Region (NCR). That decision process, the Federal Emergency Decision and Notification (FEDN), is integrated in the National Response Plan.

In FY 2004, OPM was asked to be one of five departments and agencies to participate in the Joint Federal Committee's study of a credentialing program for use in the NCR. The emergency credential, once approved, will be used by continuity of operations (COOP) personnel who will be transitioning to an alternate work site from the NCR, during a major emergency. OPM will also be a test-bed for the new credential once it is approved by the Office of the NCR and DHS.

OPM participates on the Interagency Working Group for Federal Workplace Emergencies, including hosting a monthly meeting where OPM presented to the 70+ attendees, "best-practices" briefings on OPM's shelter-in-place, COOP, and occupant emergency plans.

OPM supports the DHS interagency COOP Working Group, the Interagency Advisory Group (IAG) and during FY 2004 served on the Federal Preparedness Circular (FPC) Writing Team where FPCs-65, 66 and 67 were consolidated and updated to include an entire chapter on Human Capital, developed by OPM technical experts. Additionally, due to the demand from the interagency community, the Federal Emergency Management Agency (FEMA) requested OPM to staff the new COOP Manager's Training Course with human capital experts to discuss the new human capital chapter and its applicability during emergency situations. The first sessions of this train-the-trainer course was very well received.

OPM was selected to participate in a Homeland Security Council working group looking at the Continuity of Government (COG) program and how it interfaces with COOP. The efforts of this group resulted in the first major review of COG since 1993, and will serve as the framework for future program direction.

During FY 2004, OPM supported FEMA and DHS in a number of test, training and exercise events. FORWARD CHALLENGE 04 served as the first of its kind national-level COOP exercise involving the deployment of all department and agency COOP teams from Washington, DC to their COOP sites. Table top activity continued over a day and a half schedule, and OPM was one of the very few departments or agencies who

deployed both of our COOP teams to both of our COOP locations in two different states. This agency is also playing a role in the planning of the next Governmentwide training exercise entitled TOPOFF 3, which is scheduled for the spring of 2005. On a monthly basis, OPM participates in the TITLE GLOBE communications tests and routinely has a 100% success rate. OPM also serves on the DHS National Exercise Working Group which establishes the baseline test, training, and exercise activities for emergency preparedness programs, including COG, COOP and disaster response.

FEMA identified three departments and agencies to serve as the test-beds for the new Readiness Reporting System (RRS). The RRS will be a secure community system that captures the real-time status of department and agency COOP and COG programs, and OPM has been designated as the small-agency test bed. This system will significantly enhance the timeliness, accuracy and efficiency of these important programs.

In FY 2004, OPM was established as a full member of the Emergency Support Function Leader's Group and the Catastrophic Disaster Response Group under ESF-7. As a result, OPM personnel actively participated in the response to several major hurricanes in late 2003 as well as multiple hurricanes impacting Florida in 2004.

On a more general operating level, OPM continued to emphasize agencies' requirements and responsibilities to secure their most valuable assets — their employees — as well as their physical facilities. Besides ensuring continuity of operations, the Federal Government must serve as a model employer with respect to employee safety and emergency planning. In FY 2004, OPM again offered agencies training and updated guides on advance planning and emergency preparedness. To date, over 620,000 guides for managers, employees and their families have been downloaded or distributed. OPM developed training courses and tool kits to highlight the potential of teleworking in ensuring continuity of operations in a variety of emergency situations.

The results of OPM's annual survey of agency preparedness activities drew attention from the President's Management Council and agency chiefs of staff through the coordination of the White House Office of Cabinet Affairs. In issuing the second annual survey in January

2004, OPM Director James had reminded agency heads of the role their Chief Human Capital Officers must play in ensuring the security of their workforce. Survey results issued in February revealed that considerable progress had been made over the prior year. For example, 87 percent of all reporting agencies had designated emergency personnel, 92 percent reported positive action to ensure the safety of their special needs employees during an emergency, and there was a 52 percent increase in the number of agencies that had already conducted shelter-in-place drills. OPM will continue to focus attention and assess agency action on these important issues.

OPM developed training courses and tool kits to highlight the benefit of teleworking in ensuring continuity of operations in a variety of emergency situations. OPM conducted six Emergency Preparedness Forums in Washington, DC and forums in New York and Boston to address agency authorities upon closure of the Federal Government and to ensure continuity of operations in the event of an emergency. OPM issued instructions to all Federal Executive Boards (FEBs) throughout the country to update their emergency communications systems to facilitate regional communication with Federal agencies and personnel.

In preparing for the summer's national political conventions, OPM Director Kay Coles James directed the agency to work with the FEBs in Boston and New York City to ensure the security and preparedness of the Federal workforce in these two cities, while promoting available flexibilities to enable Federal agencies to provide uninterrupted service to the citizens. This preparation has served as a pilot for shaping more general guidance, training, and protocols to use with FEBs throughout the Nation to equip them to better handle future national security events at the regional level.

OPM issued guidance to Federal agencies on pay, leave, and staffing flexibilities for agencies and employees affected by emergency situations, such as wildfires in the western states and the hurricanes hitting the southeastern part of the country.

Getting the Right People To Secure and Serve the Nation

To ensure that agencies within the Federal Government are able to hire the right people at the right time to

secure and serve the Nation, OPM employed and authorized various human resources management flexibilities, issued personnel regulations and standards, and streamlined and modernized the investigation and security clearance process.

OPM took a number of steps to ensure that agencies have the ability to hire the people they need, particularly in jobs that affect national security. OPM granted dual compensation waivers to various agencies to ensure continuity in critical occupational skills. The agency established a Schedule A appointing authority for DOD to fill temporary positions directly supporting efforts in Iraq. OPM also used the powerful www.USAJOBS.opm.gov website to expand the recruiting and identification of new personnel for DOD activities in Iraq and Afghanistan. OPM also granted direct hire authorities to DHS and the Department of Agriculture to address severe shortages or critical hiring needs with national security impact.

OPM issued regulations, standards and guidance to assist agencies in the staffing process. The agency established a new occupational series — customs and border protection officers — covering work carried out at airports, borders, and seaports. The standards bring under one occupational series approximately 18,000 DHS employees who previously worked as immigration inspec-

tors at the Immigration and Naturalization Service in the Department of Justice, customs inspectors at the U.S. Customs Service in the Department of the Treasury, and agricultural quarantine inspectors at the Animal and Plant Health Inspection Service in the Department of Agriculture. Creation of the new series integrates the work of each function, supports DHS's "one face on the border" initiative, and creates cross-training opportunities that will result in more versatile and highly skilled DHS employees.

OPM also modernized classification standards for law enforcement officers and related personnel on the front lines of the war on terror to reflect the post-9/11 world. OPM issued an enhanced position classification standard Fire Protection and Prevention Specialists (series 0081) to more accurately reflect the emerging security responsibilities for first responders, such as the emergency medical services work and hazardous material response assignments performed by firefighters.

OPM also issued final regulations on information security responsibilities for employees who manage or use Federal information systems. These rules support agency operations and assets by facilitating prompt access to changes in requirements for information systems security awareness training guidelines, as well as supplementary information systems training and standards resources.

"On this solemn occasion of the Sept. 11 anniversary, it is right and fitting that Federal firefighters should receive this recognition of their special contribution to the American people. This courageous group of Government workers, who every day put their lives on the line for their country, have been paid too little for too long. AFGE has worked tirelessly for the last several years, advocating changes to the pay and entry-level grades of Federal firefighters, and we thank Director James for her work with us on this important issue."

*—American Federation of Government
Employees President John Gage*

OPM's programs also have a significant impact on ensuring that the individuals the Federal Government employs meet suitability and security standards. Employees may occupy positions that require national security clearances. Likewise, they may be in positions of public trust where the risks — for example, to a major government information system or to the security of Federal employees and facilities — reach a sufficient level for an agency to provide specific assurance that the incumbents merit the trust placed in them. Agencies rely on OPM to conduct the background investigations they need to make such suitability and clearance determinations. In the post-9/11 world, demand for those investigations has risen dramatically, with the average workload doubling from pre-9/11 to today. Beyond the expected increase owing to heightened security concerns, this rise is due in part to OPM's increasing its emphasis on holding agencies accountable for maintaining active and up-to-date personnel security programs that meet Governmentwide standards.

In FY 2004, at the direction of Director Kay Coles James, OPM took steps to reduce the turnaround time on investigations. In an effort to build national investigative capacity, jumpstart private sector competition, and increase provider options available, the agency awarded contracts to five investigative companies to assist in performing background investigations. It also continued to implement various components of the e-Clearance initiative to streamline the investigation process. By providing portal-based access to the new Clearance Verification System (CVS) — a system for Federal civilian agencies that lets them share investigative and security clearance and clearance eligibility status information — e-Clearance now enables agencies to update and ver-

ify an employee's security clearance status more quickly. Agencies can thus grant employees appropriate building and meeting access based on their security clearance status. Also this fiscal year, OPM further enhanced the CVS by implementing a link between DOD's adjudication processing system and OPM's own Personnel Investigations Processing System (PIPS); this link allows users to "bridge" both agencies' record systems to share active clearance information.

OPM has also developed electronic versions of the forms needed in background investigations. The Electronic Questionnaire for Investigative Positions, or e-QIP, serves as the vehicle to capture applicant background information, permit online agency review, and pass the data to an investigative service provider. All departments and agencies have signed agreements with OPM to use e-QIP, and it has been deployed in 17 agencies. As a result of the e-Clearance initiative, OPM has reduced the time applicants need to complete investigations forms and has enabled Federal agencies to schedule and complete the research and interviews needed for background investigations more rapidly.

To prepare for a possible transfer of the Defense Security Service's (DSS's) personnel security investigative program to OPM, the agency entered into an agreement in February 2004 which allows DSS investigative staff use of OPM's PIPS to schedule, track, and close investigations. This reimbursable cross-servicing agreement provides for DSS staff training in the use of OPM's investigations systems in the event that a transfer of function is made in the future. During FY 2004, and consistent with commitments to the Congress, all DSS investigative personnel were trained. OPM's

"Mrs. James is leading the way...I applaud you for your leadership. This is the most significant statement of support — the one that we sign here today. What you're doing here today sets the standard, and it is going to make a difference to folks."

*—Major General (Ret.) Bob Hollingsworth, Executive Director,
National Committee for Employer Support of the Guard and Reserve*

“I want to thank you, the people of OPM, for your magnanimous support of the men and women of the USS Theodore Roosevelt. The men and women of OPM opened up their hearts and their pocket books to show their support for the sailors aboard the USS TR. The morale boost given to these sailors by your kind gestures is immeasurable.”

—Turk Green, Captain, USS Theodore Roosevelt

prime contractor has been successfully supporting this effort through data entry, case scheduling, and closing of cases covered under the agreement. Between February and September 30, 2004, 119,511 DSS cases were scheduled through PIPS. OPM continued to plan the activities that would be required for a full program transition of DSS to OPM.

Supporting Active Duty Military and Reserves

OPM took a variety of steps to support the Nation’s armed forces as they bear the burden of war against terrorism, both at home and abroad. OPM continued to work with agencies to ensure that the rights and benefits of Federal employees performing active military service are provided under the Uniformed Services Employment and Reemployment Rights Act of 1994. In November 2003, OPM issued guidance to Federal agencies on implementing President Bush’s memorandum granting five days of administrative leave to military reservists returning from active duty deployment to their Federal positions, giving them needed time to reintegrate their personal and professional lives.

Director James met personally with wounded servicemen and servicewomen at Walter Reed Army Medical Center to brief them on Federal job opportunities following active military service, and to reassure them that OPM would continue its close monitoring of Federal agency compliance with all aspects of veterans’ preference law. OPM conducted several seminars at the facility to explain the features of preferential hiring opportunities, appoint-

ing authorities, and benefits. Soldiers were instructed on how to use the USAJOBS website, including the features dealing with resume writing and interviewing techniques.

The OPM team has found innovative ways to support our fighting men and women and their families, highlighted by the “adoption” of the aircraft carrier *USS Theodore Roosevelt (USS TR)* shortly after 9/11 — partly to acknowledge our eponymous connection to the carrier and partly to serve as an example to other Federal agencies. OPM has supported the ship’s crew and family through the present day. During FY 2004, OPM employees donated 1,100 toys during the annual holiday toy drive for the children of the men and women serving on the *USSTR* and a huge birthday card signed by over 2,500 employees commemorating the carrier’s 18th birthday.

OPM employees supported the American Red Cross by providing donations for wounded service members being treated at the Walter Reed Army Medical Center. The wounded at Walter Reed, all veterans of Operations Iraqi Freedom, Enduring Freedom, and Noble Eagle, received donations of items such as telephone calling cards, luggage that rolls on wheels, and comfortable clothing for physical therapy and other necessary treatments.

ENSURING THE VITALITY AND INTEGRITY OF THE CIVIL SERVICE

The vitality and integrity of the U.S. civil service depend on the leadership and stewardship that OPM provides — that is, its leadership to champion effective policy and more modern practices and its stewardship to protect core public service values. In this regard, FY 2004 was a year of

“This [Federal Workforce] conference will allow Federal government leaders and managers to enhance their knowledge of human capital strategies in order to deliver better and more effective services.”

—Kay Coles James, OPM Director

unprecedented challenge, learning, and success in balancing those paramount roles. Change will be a constant in the 21st century civil service, as it will be in every aspect of our modern world. Successfully coping with and adapting to that change requires a sure knowledge of where the bedrock lies upon which to build new structures and develop new ways of taking action to achieve results. OPM has the prime responsibility to lead the modernization of that civil service and to be the steward of the Merit System Principles and the Theodore Roosevelt tradition on which it is founded. For OPM, neither the leader role nor the steward role is more important than the other, and OPM cannot be successful in either role unless it is successful in both. This section relates OPM’s signal achievements during FY 2004 as it served as both leader and steward of the best civil service in the world.

Advancing the Strategic Management of Human Capital

Serving as leader of the President’s initiative to improve the Federal Government’s strategic management of its human capital has been a key assignment for OPM. *Improving the Strategic Management of Human Capital* is the first initiative in the President’s Management Agenda (PMA), and the Government’s overarching strategy to transform how agencies manage their most valuable asset — their people. Under OPM’s leadership and through a strategic approach to human capital management, agencies will ensure that they have the leadership and knowledge to acquire and nurture the talent their missions require and to maintain a culture of performance to attract and keep that talent while delivering excellent results to the American people.

Using human capital systems, standards and metrics as defined by the Human Capital Assessment and

Accountability Framework (HCAAF) and envisioned by the Chief Human Capital Officers (CHCO) Act of 2002, OPM provides both the necessary leadership and the foundation for Federal agency progress in human capital management. The successful alignment of the Human Capital Standards for Success with the PMA has provided agencies and OPM a strong yet flexible tool with which they can truly transform organizations. OPM supports agencies’ human capital efforts through its cadre of Human Capital Officers (HCOs) and other experts in the strategic management of human capital who provide liaison and consultation.

In addition to one-on-one work with the agencies, throughout the year OPM rolled out an array of initiatives to support agency efforts. Educational events included the Human Capital Professional Development Workshops, which covered all systems of the HCAAF, and were attended by over 350 HR professionals; and the first ever Governmentwide OPM-sponsored Federal Workforce Conference, which brought together over 2000 agency leaders.

This year, OPM Director James sought to leverage efficiencies by combining several OPM conferences into the Federal Workforce Conference, demonstrating human resources issues could no longer be “stovepiped” into separate areas. Such former conferences as the Symposium on Employee and Labor Relations and the Federal Benefits Conference became part of this “Super Conference” so more had an opportunity to work with top leaders in the Federal Government, learning about emergency preparedness and telework while receiving updates on more traditional issues. Using as a framework the Human Capital Standards for Success that agencies are measured against under the PMA, the conference provided six different workshop tracks for the participants, specifically Strategic

Alignment, Workforce Planning and Deployment, Leadership and Knowledge Management, Talent, Results-Oriented Performance Culture, and Accountability. Employee benefits were the topic of numerous workshops within the Talent track, and emergency planning and readiness workshops were featured in the Accountability track.

According to a post-conference survey conducted for OPM, two-thirds of the participants attended more than one track of workshops during the conference, taking advantage of the training available outside of a specific interest. In surveying the participants, OPM found very high levels of satisfaction on the quality of the materials, the registration process and logistical arrangements, and more than 7 in 10 of the attendees mentioned knowledge/information/learning as a reason for attending.

Programmatic initiatives included the Improve Hiring Initiative, Pay for Performance, Veterans Outreach and Recruitment Outreach. OPM also completed design and development of three important tools to assure that human resources professionals throughout Government are ready to play the new roles called for in human capital transformation. These tools will be rolled out to agencies early in FY 2005 and include: a competency model for development and selection of human resources professionals; a curriculum framework for human resources professionals based on these competencies; and Human Capital Practitioners Guides which spell out in practical terms the elements of successful human capital management and provide tools and resources for addressing them.

Through this rich array of programs and initiatives OPM is developing the framework for a Governmentwide human capital community of practice. The leadership for the COP is provided by the CHCO Council which was established by the CHCO Act of 2002. OPM Director

James chairs the CHCO Council and organized the charter and developed subcommittee structures. The Council meets regularly to consider both strategic and tactical issues; participates in a CHCO Academy to keep abreast of the latest developments in the state of the art of human capital management; and operates five subcommittees to address specific problems and guide future action. The direction set by Director James and the CHCO Council is then cascaded to other human resources management leaders and specialists in the agencies to create an interlocked network of strategically driven communities of practice.

OPM's Human Capital Officers and other the experts play two important roles in furthering agency human capital management efforts: consultants to agencies on human capital issues; and liaisons to assure strong linkage with OPM and among agencies. As consultants, OPM staff help diagnose agency issues, set realistic goals to address them; and monitor and support continuous improvement. OPM experts interpret technical and administrative information regarding the HCAAF and assure that agency requests to OPM are handled in accordance with the agency's plan for its strategic management of human capital. As liaisons, OPM staff provide a strong link between the direction set by President Bush and Director James and the human resources management work going on in the agencies. They also provide a vehicle for agencies to share knowledge and best practices among each other. They serve as a two-way conduit of information and have the full knowledge of agency issues and environment necessary to assure smooth communication and prompt action. Through their communication, technical assistance and advocacy, OPM human capital management experts are full partners with agencies in developing and implementing their human capital initiatives.

“Americans are looking for career opportunities that enable them to serve their country, and OPM is actively committed to providing those opportunities.”

—Kay Coles James, OPM Director

The role OPM plays in agency human capital efforts has contributed to significant results. Virtually all of the agencies scored on human capital have improved their status and eight agencies achieved green status scores in FY 2004. This partnership between OPM and agencies has had a significant impact on the Federal workforce. Prior to the introduction of the human capital initiative, 95 percent of Federal employees worked in agencies with a red status score. Through the efforts of agencies and OPM this number has since been reduced to just 9 percent. OPM is encouraged by the responsiveness, speed and innovation agencies have shown in transforming human capital and is proud to be a catalyst, partner and core resource for bringing this about.

OPM's efforts to direct agency improvement of human capital management must be matched with robust measures of whether human capital efforts are making a difference in agency performance. While this is a self-evident question, the state of the art for addressing it is limited. There is a significant body of knowledge about measuring the efficiency of human capital transactions, and the effectiveness of activities, such as whether recruitment leads to filling jobs.

Much more difficult to address is whether the way people and human resources management processes are managed contributes to improved results on agency missions. OPM is a bold leader in addressing this challenge. OPM pioneered large-scale survey and analysis of employee perceptions in the Federal Government through the Federal Human Capital Survey (FHCS), launched in 2002. Agency results were analyzed on the key dimensions of human capital, and published on the web to stimulate broad understanding and cross-organization learning. Many agencies, and OPM itself, use baseline data from the 2002 FHCS to set human capital improvement goals. The 2004 FHCS, with results due in January 2005, will provide the first period to period comparison Governmentwide.

Employee perception is, however, only one dimension of the results equation, so OPM is also developing measures on the other critical dimension, organizational performance. In FY 2004, OPM completed development of measurement requirements that match "best of breed" in human capital results. These measures focus

on whether the Government has the talent necessary to perform its missions, and whether pay is linked to results achieved. Congress has recognized the importance of this measurement as well. OPM's metrics work meets two important congressional requirements: the CHCO Act of 2002 requires OPM to issue systems, standards and metrics to guide agency human capital performance; and the 2004 National Defense Authorization Act requires agencies to survey employees annually on many aspects of their work environment. OPM's evolving work on human capital systems standards and metrics, and on core questions for measuring employee perceptions through the FHCS, is leading the executive branch in responding to this mandate. OPM also recognizes that measures alone are not enough. They must be tied to clear organizational issues, must be carefully tracked and must lead to continuous improvement. This requirement for clear results, measures and continuous improvement is set forth in the accountability system of the HCAAF, and each agency must have such a system in place in order to progress on human capital. OPM provided agencies with a working model of a human capital accountability system at the 2004 Federal Workforce Conference.

Transforming the Civil Service

In the near future, over one-half of the civil service will be covered by more flexible, high-performing, accountable systems of human resources management as a result of Congress' support for significant change. Those impending and prospective changes — in the Departments of Homeland Security and Defense — and the processes employed to make those changes were noted earlier. OPM has served as leader to be entrusted with guiding the changes. As these transformations proceed, Congress clearly expects OPM also to exercise its stewardship of fundamental principles and employee rights. The understandable spotlight on the human resources management system components where change may arise at DHS and DOD often overshadows the substantive areas where Congress made very clear that no change is to occur in those departments, particularly with respect to the merit system principles, prohibited personnel practices, veterans' preference, and the right of employees to organize and bargain collectively, as well as continuing oversight by OPM.

As the principal steward of the provisions of title 5, U.S. Code, OPM takes particular note that rather than taking agencies *out* of title 5, as granting civil service flexibilities is often mistakenly characterized, Congress specifically acted to incorporate these latest changes for DHS and DOD, as well as for the National Aeronautics and Space Administration (NASA), *into* title 5. This was accomplished by adding new agency-specific chapters that cross-reference the unchanging principles and provisions codified elsewhere in the title that will *not* change, including the Merit System Principles and veterans' preference. Based on this precedent, OPM stands ready to lead further transformations, but still preserve the timeless values of merit and due process.

OPM Director Kay Coles James shared one expression of that readiness in April 2004 in a seminal document, *OPM's Guiding Principles for Civil Service Transformation*. She described how progress to date in the 21st century has been — and should continue to be — led by four strategic principles: preserve the ideal, maximize flexibility, leverage economies of scale, and ensure collaboration and coordination. This document also sets out a framework for further civil service modernization for the Federal Government.

In some of the more recent instances where OPM has been tasked with leading further possible transformations, such as the law enforcement pay and benefits study and report, another important theme emerges. Growing recognition of the complexity of the Federal workforce within a national economy of rapidly changing labor markets and the importance of allowing for occupation-based systems and approaches is a natural fit with the strategic management of human capital. Such strategic approaches focus attention on requirements for mission-critical occupations, roles, and competencies, rather than the workforce at large. The Federal Government must move beyond “one size fits all” answers, and OPM has been trusted to lead such mission-driven efforts and has demonstrated its expertise in doing so.

Fixing Hiring Practices

Having the right people in the right job at the right time is at the heart of effective human capital management. In 2004, OPM surveyed agencies as to whether they were

optimizing hiring flexibilities and streamlining that OPM had put in place in the preceding two years. The 2004 Survey of Agency Hiring Practices confirmed that agency attention to progress on this critical area was not as strong as it needs to be, so OPM moved into action on multiple fronts. Director James issued a memorandum titled “*Ten Things You Can Do to Fix Hiring*” to all Federal agency heads and CHCOs. The cornerstone of the OPM action was setting a clear, measurable goal: 45 days from end of recruitment to extending a job offer. This simple but powerful goal was shared with CHCOs and has since been added to agency Human Capital Scorecards, and OPM's human capital experts are working with agencies to meet this standard. OPM also asked agencies to recommit to the Pledge to Applicants first unveiled in FY 2003 and is monitoring agency activity in this regard.

To assure action on this important front, OPM marshaled its resources into an intense campaign to improve agency performance. The CHCOs were convened to learn first hand all of the hiring flexibilities available to them, and similar reinforcement training was delivered to over 800 human resources specialists in Washington and key field cities. This educational effort is ongoing and will continue in FY 2005. All the information in this training, complete with comprehensive supporting information has been compiled into a web-enabled Hiring Resource Center which will soon be available on www.opm.gov. OPM's Human Capital Officers rolled up their sleeves to work one-on-one with agencies through “Hiring Makeovers” designed to get under the hood of agency hiring practices to identify and eliminate barriers, inefficiencies and outmoded practices. At the same time Director James hit the road to make sure the diverse talent from all parts of the country was invited to consider the Federal Government as their first choice for employment.

In eleven recruitment fairs conducted around the country, results consistently exceeded expectations. Statistics from the fairs tell the stories. Over 55,000 well qualified citizens participated in the fairs, in which nearly 50 Federal organizations participated. In New York alone 15,000 showed up, 55 percent with an undergraduate degree or higher. Their responses to a survey conducted on site reveal that by a ratio of almost 6 to 1, respondents who had a preference said they would rather work for the Federal Government (41%) than have a job in the private

“LULAC (League of United Latin American Cities) is happy to partner with OPM and link from our website to OPM’s USAJOBS website. The USAJOBS website is a tremendous resource and can offer great benefits to Latinos as they look for employment in the Federal Government. The recently improved USAJOBS website allows visitors to readily access job information.”

—Brent Wilkes, LULAC Executive Director

sector (7%). Respondents were also very specific about why Federal jobs hold appeal for them, with upwards of 75% citing helping people make a difference, job security, pay and benefits, and serving community and country as strong reasons to consider Federal employment.

One of OPM’s e-Government initiatives, Recruitment One-Stop, is designed to simplify the hiring process by allowing job seekers to go to a single location for pertinent information on finding and applying for vacant Federal positions. OPM renovated the USAJOBS website in FY 2004 so that agencies can now more fully communicate specific details of job responsibilities to applicants, and establish individual agency “brands” which clearly distinguish opportunities at one agency from those at another and highlight the benefits available in Federal service in contrast to those in the

private sector. The site is attracting 200,000 visits per day from job seekers, who have submitted more than 600,000 resumes for the 350,000 vacancies posted.

USAJOBS was selected to assist DOD in recruiting efforts to find Americans who were eager to answer the call to serve their Nation and the people of Iraq and Afghanistan in the reconstruction efforts in those two countries. It was also used by DOD to hire temporary Federal employees to work with the Coalition Provisional Authority in Iraq to rebuild civil infrastructure and provide governmental services during this emergency situation.

OPM’s efforts to improve USAJOBS are paying off. The American Customer Satisfaction Index rating for the USAJOBS website jumped from 71 points out of 100 in FY 2003 to 76 in FY 2004. Ninety percent of the site’s visitors reported that they were likely to return, and 86

“One of the best ways to attract top talent to the Government is to let them know what we are about. These brave men and women have served this Nation well and earned these benefits; some of them with their own blood. It is our duty to make sure they are armed with the right information so they can use the tools and preferences they fought for so valiantly.”

—Kay Coles James, OPM Director

“Director James’ OPM recruiting team could not have come at a better time. We get a lot of questions about Government careers and requests for help on the application process. We have never seen this much interest in a single employer visit to our center. This has proven to be a tremendous addition to our job assistance program and hope we can schedule another visit soon.”

Bob Oakes, Army Career and Alumni Program Center Counselor, Ft. Hood, Texas

percent indicated that they were likely to recommend it to others. The website has logged more than 91 million visits and these visitors have created more than 800,000 resumes on the site.

OPM has followed the lead of the President and Congress in putting key hiring flexibilities such as category rating, intern programs, and direct hire into place; it has proven that talented American citizens want to work for the Federal Government, and it has developed a world class web-based Recruitment One Stop. The challenge now is for agencies to put these new tools to use and demonstrate real commitment to attracting and retaining top talent.

Upholding Veterans’ Preference

Although OPM’s role with respect to veterans’ preference has been viewed traditionally as one of stewardship, under Director Kay Coles James’ guidance, OPM has strongly embraced a leadership role as well. For the second year in a row, the rate of new hires of veterans in the Federal Government showed a strong increase — 10.2 percent over the past year. Veterans represent 17 percent of all new hires in the Federal Government and 26 percent of full-time permanent new hires.

FY 2004 marked the 60th anniversary of the Veterans’ Preference Act of 1944, and OPM is charged with maintaining and ensuring Federal compliance with veterans’ preference. OPM continued aggressive audits to ensure that veterans’ preference law was upheld. A Governmentwide audit was designed to capture a broad and comprehensive review of veterans’ employment in the federal government by determining whether agencies have been taking affirmative measures to employ veterans

and providing them with employment preferences under the Veterans’ Preference Act.

The audit revealed four specific cases in three agencies where veterans’ preference had not been properly applied. OPM and each of the agencies in violation worked together to ensure that the actions were corrected, and OPM continues working with the agencies to guarantee appropriate safeguards are in place to prevent future veterans’ preference violations.

To further drive results in veterans’ hiring, OPM created the Veteran Invitational Program, a new initiative which provides men and women in transition from military service to civilian life with timely, accurate, and useful information regarding civilian employment opportunities in the Federal sector. The program provides recruitment materials that inform veterans of the Government’s obligation to grant them preferential hiring rights. OPM is sending recruitment teams in a nationwide outreach to America’s veterans, especially disabled veterans. OPM staff experts visited Veterans Affairs Medical Centers in Albany, NY, Cleveland, OH, Hampton, VA, Minneapolis, MN, and Kansas City, MO. Additionally, OPM staff met one-on-one with soldiers about the opportunities and benefits within the Government and the processes entailed in obtaining a Federal job. A key element in this effort was the OPM-produced DVD *What Veterans Need to Know about Veterans’ Preference*, a comprehensive 40-minute video seminar covering veterans’ rights and eligibilities.

OPM also worked with the Department of Veterans Affairs to revise, simplify, and — in many cases — eliminate, the dozens of form letters the agency had been using to document service-connected disabilities to

“I want to take this opportunity to recognize the tremendous leadership and stewardship of OPM...not a day goes by where OPM is not making news improving the lives of the Federal worker.”

—Cari Dominguez, Chair, U.S. Equal Employment Opportunity Commission

determine preference eligibility. These improvements make it much easier for veterans to claim the appropriate level of preference and for agencies to accord it.

In addition, OPM met on a regular basis with veterans' service organizations to foster a partnership and address the important issues that surround veterans' employment. Incorporating feedback from these organizations into the veterans' hiring process was a top priority for the agency.

In October 2004, OPM signed a Memorandum of Understanding with the American GI Forum, the only Hispanic American veterans' organization chartered by Congress, to develop and establish a partnership to aid in recruiting for Federal employment from this traditionally underrepresented community.

Promoting Workforce Diversity

One of the many leadership and outreach efforts OPM engaged in this year was increasing diversity in the Federal workforce. Reflecting the commitment and resolve of

President Bush and Director James to eliminate barriers to minorities and women in public service, OPM is leading the Governmentwide effort to change old hiring practices and look toward nontraditional, creative ways to market job opportunities to these populations.

OPM reached out to historically black colleges and universities by meeting with their students and hosting recruitment fairs at these institutions. Deploying a recruitment team at the National Hispanic Business Association Leadership Conference, OPM used this opportunity to offer a competitive alternative to employment in the private sector for talented individuals who want to use their business degrees to make a difference. OPM hosted two meetings of the Interagency Task Force on Hispanic Employment at OPM headquarters this year, specifically scheduling one during National Hispanic Heritage Month. At that meeting, Director James noted that OPM's most recent statistical report on Hispanic employment revealed nearly 10 percent of all new Federal hires in 2003 were Hispanic, with the percentage of new hires

“We applaud the U.S. Office of Personnel Management for its leadership in making diversity in Federal employment recruiting and training policies a top priority for all Federal agencies. The Office of Personnel Management is directly addressing the underrepresentation of Hispanics in the Federal workforce by opening new doors to promising careers in public service for our students.”

*—Antonio R. Flores, President and CEO of HACU
(Hispanic Association of Colleges and Universities)*

“Director James was selected as a recipient of this prestigious award because she has fostered and maintained an outstanding and pro-active relationship between OPM and NAHFE. In addition, she has established a greater focus on efforts by OPM and other agencies to create a truly diverse Federal workforce. I am extremely appreciative of the fact that Director James has initiated and kept an open door policy that has created a long-lasting and fruitful relationship that goes beyond the professional level. It is producing results and for that she should be honored.”

*—Manual Oliverez, President and CEO,
National Association of Hispanic Federal Executives (NAHFE)*

into professional and administrative positions increasing by nearly 8 percent over 2002. The overall number of Hispanics in the workforce increased by 2 percent and the number of Hispanic executives increased by 4 percent. Despite these advances, Director James reminded agency representatives more work remained to be done. These meetings continued a discussion with various representatives from across the Federal Government and Hispanic organizations on how to move forward with various outreach efforts aimed at creating a workforce that draws on the diverse strengths of America.

The Federal Equal Opportunity Recruitment Program Report issued in FY 2004 demonstrates that OPM leadership efforts to increase the diversity of the Federal workforce is getting results. The report shows the representation of women among Federal executives and managers has increased, and the Federal Government succeeded with providing employment opportunities to minorities during the last year. The results underscore that agencies can continue outreach efforts in Hispanic and other minority communities to ensure the Federal workplace welcomes and draws on the strengths of America’s diversity.

Preserving the Merit System

As agencies move further into an era of increasing flexibility in human resources management systems and practices, OPM is particularly mindful of its role as steward of

the merit system and recognizes the need for adherence to the nine merit system principles that represent the foundation of the civil service system. Accordingly, OPM continued to carry out its responsibilities for oversight of the merit system principles by conducting cyclical evaluations and audits of agency human resources operations to assess compliance with these principles, laws, and regulations.

The agency conducted 10 audits of human resources operations in large agencies in FY 2004, and 9 such audits at small agencies. These audits included visits to field sites, reviews of human resources records, and analyses of data from a variety of sources; they focused on the human capital drivers of talent, results-oriented performance culture, and leadership and knowledge management. OPM is now designing new audit guidelines, patterned after the Government Auditing Standards, which will heighten the rigor of these audits and is creating a new handbook for agency contacts. These products should lead to improved agency scores in the strategic management of human capital in the PMA, and ensure that agency plans are effectively implemented. They will also provide vital information for further analyzing the factors that influence the varying human capital results among agencies.

“Diploma mills” became a priority for OPM accountability and suitability efforts in 2004. These are organizations that provide academic degrees for a fee even though the buyer has not performed academic work. The degree may then be offered as evidence that

the buyer has the knowledge and experience needed to qualify for a specialized job or career advancement. In May, OPM conducted two seminars with more than 400 frontline Federal officials to train them in how to identify these bogus credentials and how to then take appropriate action to ensure that American citizens receive quality, professional services for their tax dollars. In addition, OPM led a team in reviewing existing policy and identifying the forms and publications that need to be changed to clarify educational credential reporting requirements, and is revising its investigator and suitability handbooks to include information on diploma mills.

Supporting a Meaningful Performance Culture

In FY 2003, the Homeland Security Act included momentous Governmentwide provisions that created real opportunities for agencies to change their hiring practices and reshape their workforces strategically. In FY 2004, the National Defense Authorization Act for 2004 (NDAA) produced an equally momentous change for the Federal Government as it enacted proposals transmitted by the President to establish a pay-for-performance system for senior executives and authorize a Human Capital Performance Fund for the general workforce. The way senior executives are paid changed forever in January 2004, as these new provisions took effect. No longer limited to just six specific pay levels that were adjusted upward automatically irrespective of performance when the January increases to the Executive Schedule took effect, agencies can now pay their executives any rate in an open range,

subject to certain statutory and regulatory restrictions that assure fairness (e.g., no executive's pay could be reduced for the first year).

OPM acted swiftly to issue implementing regulations that assured that any increase in pay an agency might choose to give its executives had to be based on a determination that performance, rather than the turning of a calendar page, warranted the increase. Another feature of this new pay system will allow certain agencies access to higher rates of pay, up to Level II of the Executive Schedule, and a higher limit on aggregate compensation from pay, awards, and allowances. Agencies' ability to access those higher rates will hinge on the agency being certified, provisionally or fully, that it has a performance management system that makes meaningful distinctions among levels of its executives' relative performance. OPM has worked closely with agencies to position themselves to obtain such certification, and two agencies, the Department of the Interior and the Federal Energy Regulatory Commission, received provisional certification by the end of FY 2004. Achieving this change to the executive pay system was critical to OPM's leadership of a more comprehensive compensation reform effort for the rest of the civil service not already affected by other human resources management system changes, such as those in DHS and DOD.

In a related provision of the 2004 NDAA, Congress responded to President Bush's proposal and authorized a Human Capital Performance Fund. This initiative would provide a substantial opportunity to base some additional civil service pay adjustments solely on performance. Although Congress authorized the fund, indicating its strong support for pursuing performance-based pay, they

“Out of respect and admiration for our Nation’s honest and hard-working Federal civil servants, the Bush Administration is committed to weeding out those who would misrepresent themselves and their credentials in ways that put the Nation’s health and security in jeopardy.”

—Kay Coles James, OPM Director

did not meet President's request for \$500 million in FY 2004 funding, so no agencies sought or received any allocations, which would have been managed by OPM.

The future for performance-based pay remains strong, although there is wide recognition that its success or failure will be directly tied to the actions and accountability of the managers who will make such systems work. A great deal of concern was expressed about their current capacity to manage performance-related rewards effectively, and the Human Capital Performance Fund statute included a provision to support manager training in the competencies that will be necessary for successful implementation of pay-for-performance. Nonetheless, by taking action to link performance distinctions more strongly to pay, Congress provided a key element required for the Federal Government to establish and sustain a culture of high performance under OPM's leadership.

Upgrading Management Development

Improving agency leadership capacity and ensuring the continuity of that leadership and the quality of management talent in Federal agencies are crucial for the long-term strength of the civil service. Very often one of the issues raised when prospective human resources flexibilities are discussed concerns the capacity of Federal managers to use them effectively, particularly in areas where successful implementation is dependent on effective performance management practices. OPM recognizes the critical need for management and executive talent and skill and is providing strong leadership on several fronts to address this need.

FY 2004 saw the successful conclusion to the initiative OPM led to upgrade dramatically the Presidential Management Intern program — the Government's premier management development program — as it reached its 25th anniversary. On November 21, 2003, President Bush signed Executive Order 13318, which modernizes the Presidential Management Intern program by replacing it with a new Presidential Management Fellows (PMF) Program. Among other things, the new order increases the program's potential to make an important contribution to agencies' leadership succession strategies by removing the prior cap of 400 new appointments per year, expanding coverage to include excepted service agencies, and permitting

agencies to appoint qualified Fellows at higher pay grades than before. It also creates an entirely new Senior Fellows component within the overall program to attract experienced individuals with particularly outstanding management and leadership qualifications. These program changes reflect the Administration's interest in increasing the program's stature by providing more realistic development opportunities and ranges of pay to attract and retain a substantial supply of individuals with the greatest capacity to deliver superior performance to the American people and become future leaders in Government. The program's new regulations will give hiring agencies greater flexibility in increasing compensation and speeding up promotion for deserving individuals.

At the annual job fair held in April where agencies interview and recruit PMF finalists for specific appointments, participating finalists from the very stringent application process were surveyed to determine their interests and expectations. The results were very encouraging and indicate 9 out of 10 of these high-caliber applicants want to work in the Federal Government, compensation and benefits are considered competitive with the other employers, and the Government offers important opportunities for advancement.

OPM continued to expand and refine its management and executive development offerings. For example, OPM introduced a curriculum designed to cover the project management discipline, which is key for achieving the objectives of many initiatives throughout Government. This year OPM's Management Development Centers were certified as registered education providers by the Project Management Institute.

Leveraging Technology and Developing Shared Services

In April 2004, OPM was named the managing partner for the Human Resources Line of Business (HR LOB). The HR LOB is the continuation of the President's Management Agenda's initiative on expanding electronic government that promotes greater efficiencies by establishing cross-government shared service resources. Under the leadership of the managing partner, Director James, OPM led this ground breaking effort for the Federal Government

to rethink its approach to human resources management. The vision of the Human Resources Line of Business is to create Governmentwide, modern, cost effective, standardized, and interoperable human resources solutions providing common core functionality to support the strategic management of human capital. These common solutions will enable departments and agencies to work more effectively to meet the human capital goals of the President's Management Agenda.

They will also provide managers and executives across Government with improved tools to help agencies meet their strategic objectives. The solutions will also provide more efficient management of the automated information systems that support human resources activities. They will also allow agencies to transform their internal human resources focus from an emphasis on administrative processing to strategic planning support for agency leadership and increased customer service and counseling for managers and employees.

During FY 2004, OPM formed and led an inter-agency taskforce of 22 agencies that defined the vision, goals and objectives of the HR LOB and formulated the common solution, target architecture, and supporting business case. The President's Management Agenda emphasizes the need to have government that is more market-driven, citizen-centered and results driven. The HR LOB common solution is a market-driven approach where service providers competing for government business are driven to provide the best services and most innovative solutions at the

lowest cost. The HR LOB initiative will establish Governmentwide shared Service Centers to provide technology solutions to support multiple agencies.

The Government has the unique ability to leverage some of the "best of breed" solutions that have been developed and implemented by Federal agencies. Both the commercial off-the-shelf and government off-the-shelf solutions and applications can be incorporated to create a dynamic tapestry of innovative solutions and methods that meet the needs of a rapidly evolving Federal workforce.

One of OPM's major accomplishments in the e-Government arena contributed a great deal to the moving forward with HR LOB and with its shared services concept. During FY 2004, OPM's e-Payroll initiative continued to manage a successful migration of agencies away from disparate payroll systems toward selected providers working together in Payroll Partnerships.

OPM continued to expand its e-Training initiative, in its leadership role for e-Government on the President's Management Agenda. That initiative is now providing an increasing range of instructional opportunities through the Internet for Federal employees. In FY 2004, the Government Online Learning Center attracted nearly 250,000 customers, who completed more than 200,000 online courses. This same level of training would have cost approximately \$15 million if it were provided through traditional means. The success of this program was underscored by its selection for the 2003 Government Technology Leadership Award by the Academy of Governmental Technology.

"I applaud OPM and Director James for their leadership in making this important benefit available to Federal workers. I believe it will be an important tool in the Government's continuing efforts to recruit and retain the high-quality employees that are so critical to the delivery of services to the American people."

—Colleen Kelley, National Treasury Employees Union President

“OPM is leading the pack with regard to management improvement and are furthest along to becoming the well managed, results-oriented organization we want the whole government to become.”

*—The Honorable Clay Johnson III,
OMB Deputy Director for Management*

Keeping Employee Benefits Both Competitive and Strong

In carrying out its central role of developing and managing the benefits package offered by the largest employer in the Nation, OPM most clearly offers both leadership and stewardship. The Federal family expects and deserves excellence in this arena, and OPM continually delivers in innovative ways.

On the health benefits side, OPM provides consumers in the Federal family with a broader array of choices and cutting-edge products to remain competitive with other employers in the search for talent. The Federal Employees Health Benefits Program (FEHBP) served as a model of free market health care during the debate on Medicare and remains a model of excellence.

For 2005, customers will be able to choose from 249 competing health benefits plan options — 44 more than last year. The rise in premiums for FEHBP health plans was held to a stunning estimated average of 7.9 percent this year, the smallest average increase among major U.S. employers and the lowest increase in 8 years.

Under Director Kay Coles James, efforts to contain rising health care costs followed a four pronged strategy initiated in 2001: first, recruitment of new carriers and rejection of any new mandates on the system; second, tough negotiations with carriers; third, vigorous support of the Office of Inspector General; and fourth, an aggressive effort to market prevention information and health awareness among Federal employees.

In negotiating contracts for the 249 benefit plan offerings, OPM worked with health insurance carriers to offer a new product, Health Savings Accounts

(HSAs). HSAs were created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The rapid inclusion of HSAs in the FEHBP is just the latest illustration of OPM’s hallmark leadership in the employee health benefits arena: offering a broad range of choices for enrollee consideration. HSAs provide enrollees with greater flexibility, opportunity for wealth creation, and discretion over how to use their health care dollars, enabling them to control costs through their decision-making. Customers have already shown significant interest in HSAs, with over 136,000 visits to OPM’s new HSA website in its first days of operation, and over 13,000 people signing up to receive additional information via e-mail.

The use of Flexible Spending Accounts (FSAs) by Federal employees continued to expand in FY 2004, increasing fourfold over this programs abbreviated rollout year in FY 2003. More than 125,000 Federal employees are enrolled in either a health care FSA, a dependent care FSA, or both. In addition, OPM celebrated the 50th anniversary of the Federal Employees’ Group Life Insurance Program by conducted a rare open enrollment period during September 2004.

In terms of retirement benefits, OPM provides the kind of stewardship of earned benefits that Federal employees and annuitants can rely on. During FY 2004, OPM processed more than 180,000 claims for retirement and survivor benefits, made benefit payments of more than \$51 billion to nearly 2.4 million retirees and survivor annuitants. In response to surging retirements across Government and increases in the time it takes to process these claims, OPM increased

staff in its retirement program offices during FY 2004. To improve customer service further this year, OPM is providing retirees and survivors with the option of self-service processing of post-retirement changes, such as Health Benefit Open Season Express. At this point, many customers are choosing the self-servicing route, with 40 percent of post-retirement changes being handled in this manner. OPM also is improving call center service to retirees and survivors; this past year, we responded to over 1.66 million telephone calls (97% of calls received), an 11 percent increase over FY 2003. OPM piloted a tool that automates retirement coverage decisions, thus improving the timeliness and accuracy of these decisions, and ensuring that an employee who re-enters Federal service, or transfers from another agency, is enrolled in the correct retirement program. Responding to a greater-than-anticipated upswing in retirement claims, OPM hired an additional 25 legal administrative specialists to help reduce retirement claims processing times for the more than 160,000 retirement and survivor benefit claims filed during FY 2004. OPM also arranged for additional call center services to handle overflow requests.

Continuously Improving OPM Management

OPM implemented a restructuring plan in March 2003 that established Team OPM—a new, results-oriented structure that aligns the agency according to its mission and strategic goals. In its first full fiscal year since the

major restructure effected in March 2003, OPM continued to strengthen its internal capacity to accomplish that mission as guided measured by the focused initiatives of the PMA.

OPM, cited in March 2004 as one of the two most improved agencies according to OMB, is making real, measurable progress toward becoming a results-oriented organization, as prescribed by the PMA. According to OMB, OPM has addressed deficiencies in three main areas and is a government leader in the area of e-Government and information technology management.

In support of both the spirit and the letter of the PMA's competitive sourcing initiative, OPM completed nine separate competitions between private sector offerors and current Federal employees, covering 164 positions. These competitions improved efficiencies and enabled OPM to avoid costs of approximately \$30 million over the long term, without causing any involuntary separations. The OPM competitions highlighted the fact that competitive sourcing forces employees operating through most efficient organizations to think creatively and to identify efficiencies in order to remain competitive. One example of improved efficiencies is in the field of recruiting and testing for jobs in DOD and DHS. OPM is developing a web-based system to make applicant test scheduling easier by listing all tests scheduled throughout the country, specific agency recruitment and mission information, and guidance for the test administrators.

“Our results prove it can be done. We have hired 278 people into a variety of important occupations, and many of these quality hires have been assigned to work directly with Federal agencies to revive and redesign their internal hiring processes. We are in a competition with the private sector for talent, and OPM is doing what it can to help agencies hire the very best job candidates.”

—Kay Coles James, OPM Director

OPM also made progress on the human capital initiative, achieving a green status score at the close of the third quarter. Consistent with guidance OPM provided to all Federal agencies, the agency overhauled its own internal hiring process and hired 278 employees during the first three quarters of FY 2004, at an average of 36 days per hire. This beats the 45-day model with which Director James challenged Federal departments and agencies in a May memorandum. In implementing the model at OPM, the agency cut 16 days off the average time it takes to bring new employees on board. By so doing, OPM has set an example to the other Federal agencies to better serve Americans seeking to join the civil service. More importantly, OPM demonstrated that with leadership, agencies can immediately act to reverse the public frustration over delays in the Federal hiring process.

These initiatives produced significant dollar savings for the American taxpayer while improving the efficiency with which OPM performed its internal functions; they made it possible for the agency to provide better service to its customers because vacancies were filled in a more timely manner.

During FY 2004, Director James took aggressive steps to assure continued improvement in OPM's financial management. She instructed the OPM financial management team to take on longstanding and languishing financial management problems by "tearing down drywall and ripping up floor boards" to address problems at their roots. Any agency worthy of green status scores bears an even greater burden to search continuously for additional ways to improve its management systems. Recognizing that longstanding financial management issues merited additional attention, Director James instructed her staff to self-elect a yellow status score when submitting OPM's draft scorecard for the financial management PMA initiative until outstanding issues are substantively resolved. Her team sought out and secured a noteworthy influx of new talent and focused on upgrading staff skills. As a result, OPM made significant strides in assessing and improving the agency's financial systems.

These improvements were in no small measure the direct result of OPM Director Kay Coles James giving

the agency's financial systems and management her extensive personal attention. She personally managed the assembly of a cadre of high-quality financial managers and professional staff, and applied the experience of OPM's successful Trust Fund management talent to addressing problems with the Revolving Fund Programs and Salaries and Expenses. She established an OPM Financial Advisory Committee (FAC), permanently chaired by the Chief of Staff and comprised of top agency executives, and personally conducted its meetings. She recruited a former lead manager from the GAO, who had reviewed OPM programs and was now a consultant to the National Academy of Public Administration, to participate as a member of the FAC and to provide an independent analysis of the state of OPM's financial systems. She established a new Center for Internal Control and Risk Management and recruited and selected a senior executive to lead it as an OPM Deputy Associate Director. The new Center is responsible for a high-level internal control review and quality assurance function to reinforce a changed management culture that Director James is determined to ensure is present throughout the entire agency.

The agency continued to strengthen its internal security throughout the year by substantially expanding its security staff, upgrading its emergency plans for continuity of operations in periods of emergency, and conducting frequent tests of disaster scenarios. OPM successfully defended its automated systems from more than 4 million unauthorized access attempts.

IN CONCLUSION...

OPM's accomplishments with respect to supporting America's security and to ensuring the vitality and integrity of the civil service are inextricably connected. Achieving security objectives requires a strong, reliable, mission-driven civil service capable of responding to emergencies and continuing to provide public services. Maintaining and modernizing that civil service requires OPM executing its leadership and stewardship roles and responsibilities with unstinting excellence. As this report demonstrates, OPM has met and will continue to meet this standard.

[Click here for Part 3, "Management Discussion and Analysis"](#)