



## PART 7: TOP MANAGEMENT CHALLENGES

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OFFICE OF  
THE INSPECTOR GENERAL

UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
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MEMORANDUM FOR LINDA M. SPRINGER  
Director

FROM: PATRICK E. McFARLAND  
Inspector General

SUBJECT: Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the most serious management challenges facing the agency. This year's submission is intended to highlight the key challenges facing OPM management, as well as note areas of improvement that we have observed.

While all of the challenges identified below and summarized in the enclosure are critical to the mission of OPM, we continue to believe that human resource management is especially critical given OPM's government-wide leadership role in this area. The challenges included on our list are:

- Human Resources Management;
- Background Investigations;
- Reducing the Time Required to Determine Full Annuity Payments;
- Retirement Systems Modernization;
- Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP);
- Implementing e-Government Projects;
- Financial Management System and Internal Controls for RF and S&E;
- Implementing OMB Circular A-123, Appendix A; and
- Performance Measurement.

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We have identified these issues as top challenges because they meet one or more of the following criteria:

- 1) The issue involves an operation that is critical to OPM's core missions;
- 2) There is a significant risk of fraud, waste, or abuse of OPM or other government assets;
- 3) The issue involves significant strategic alliances with other agencies, OMB, the administration, Congress, or the public;
- 4) The issue is related to the Presidential Management Initiatives; or
- 5) The issue involves a legal or regulatory requirement not being met.

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These write-ups include a description of the efforts of OPM management to resolve each challenge. This information was obtained through our analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented. I would like to point out that one of the challenges included on this list last year, *Accelerated Deadline for the Performance and Accountability Report*, has been removed as a result of successfully meeting the accelerated deadline mandated by OMB. The Department of Homeland Security challenge from last year has been combined with the Human Resource Management challenge in this year's letter.

I believe that your leadership and support of agency management is critical to meeting these challenges and will result in a better government for the American people. I want to assure you that my staff is committed to providing any technical support needed and that they continue to have an excellent working relationship with your managers.

If there are any questions, please feel free to call me at (202) 606-1200.

Attachment

**TOP MANAGEMENT CHALLENGES  
OFFICE OF PERSONNEL MANAGEMENT  
OCTOBER 17, 2005**

**1. HUMAN RESOURCES MANAGEMENT**

OPM, the Federal human resource management agency, establishes human resource policies that enable federal agencies to improve their ability to build a successful, high-performance organization. In addition, OPM provides advice to federal agencies and promotes best practice human resource solutions and strategies while monitoring the effectiveness of their implementation by federal agencies.

Given this leadership role, human resources management continues to be one of the top management challenges for OPM. It is essential to the success of any personnel system that it be merit-based, ensure fair and equitable treatment of employees and applicants, and that policies and procedures for implementing civil service systems allow for open and equal opportunity for compensation, training and development, and career advancement. Part of the challenge lies in educating federal managers about the human resource flexibilities that are available and monitoring the use of these flexibilities. To address this, OPM has a new Federal Hiring Flexibilities Resource Center on its website. The Resource Center provides access to all the hiring flexibilities at one accessible website.

OPM's leadership role requires significant attention and resources. The following are some of the areas in which OPM is facing this challenge, and the progress being made by OPM to improve human capital management throughout the government:

- OPM continues to work with the Office of Management and Budget (OMB) to assess the status of each agency's strategic human capital action plans, assessing them for weaknesses, and suggesting new strategies to make them successful. OPM's impact on assisting agencies is demonstrated in the most recent scores for the human capital initiative under the Presidents Management Agenda, with 11 of 26 agencies receiving a status rating of Green and 14 of 26 receiving a status rating of Yellow as of June 30, 2005. Only one agency remains at a Red status rating. This is an improvement from last year, when only 7 agencies had a status rating of Green and 5 of 26 had a Red status rating.
- OPM continues to work with the Department of Homeland Security (DHS) and the Department of Defense (DOD) on their new federal personnel systems. After two years, the proposed personnel systems are still being contested and have not been fully implemented. A federal judge has ruled that the DHS proposed personnel system violates collective bargaining rights and other employee protections. OPM, and others, are challenged to improve the proposed personnel systems, protecting the merit system principles while avoiding prohibited personnel practices, and allowing DHS and DOD to successfully achieve their missions of national security.
- OPM published regulations and guidance dealing with the new Senior Executive Service (SES) pay-for-performance system; however implementation of the Senior Professional System has been postponed.

OPM continues to put forth considerable resources toward the DHS and DOD human resource initiative, which will benefit OPM's overall strategic approach to human resource management for all federal agencies. The implementation of the DHS regulations will require significant attention and support from OPM on an ongoing basis. The process used with DHS and DOD will serve as an example of the benefits of early and continuing collaboration with all stakeholders as OPM addresses the need for other human resource changes throughout the federal government.

## **2. BACKGROUND INVESTIGATIONS**

OPM conducts background investigations for Federal agencies so they can make suitability and national security decisions regarding personnel. In February of this year, OPM accepted a transfer of function and nearly 1600 personnel from DoD's Defense Security Service (DSS). As a result of the transfer, OPM is now responsible for conducting background investigations/clearances for 90 percent of the federal workforce and contractors. In terms of volume, OPM was expected to receive over 1.4 million new requests for various levels of investigations from over 100 agencies during fiscal year 2005. It was estimated that 550,000 of these would be for initial or periodic reinvestigations to support security clearance actions. In anticipation of the increased workload and to help reduce delays in completing investigations, OPM awarded contracts to five additional companies in 2004. It was estimated that 8000 staff would be needed to handle the projected workloads. OPM has reached that staffing level, with the six contractors providing 6000 resources which supplement OPM's 2000 Federal staff dedicated to the investigations program. OPM's investigations program is challenged in the areas noted below.

### **Personnel Security Clearance Process**

In January 2005, GAO placed the security clearance program on its high-risk list. OPM faces challenges as it tries to reduce the backlog of all pending investigations (including those for suitability), restore acceptable processing timeliness and meet the requirements specified in the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA). The key requirements of this act are: 1) ensuring reciprocity of security clearances and access determinations; 2) creating a database on security clearances; 3) evaluation of use of available technology in clearance investigations and adjudication; and 4) reduction in length of personnel security clearance process.

#### Ensuring Reciprocity of Security Clearances and the Government-wide Database for Clearances

Per the IRTPA of 2004, all security clearance background investigations and determinations completed by an agency shall be accepted by all agencies. This act requires that not later than December 17, 2005, OPM establish, operate and maintain a secure, consolidated database of security clearances with information on granting, denial, or revocation of clearance actions pertaining to military, civilian or Government contractor personnel. This database must be able to integrate information from existing Federal clearance tracking systems with information from other authorized investigative and adjudicative agencies. DoD's Joint Personnel Adjudication System (JPAS) has consolidated 10 DoD adjudication databases. OPM has already taken steps

to develop this database by consolidating OPM's and DoD's clearance investigations. Though the e-Clearance initiative, OPM has developed the Clearance Verification System (CVS). CVS connects DOD's JPAS and OPM's Security/Suitability and Investigation Index (SII) to account for over 90 percent of the government active security clearances. Additional work is necessary to fully integrate information from existing Federal clearance tracking systems. OPM is meeting with the clearance granting agencies to determine data elements and to determine the most effective methods for recording the actions and keeping the data accurate and up to date. The establishment of the government-wide security clearance database will help facilitate reciprocity.

#### Evaluation of the Use of Technology in Clearance Investigations and Adjudication

DoD has plans to bring on-line later this year an automated tool that will identify information of potential security concern about cleared personnel on a continuous basis. The Automated Continuous Evaluation System (ACES) is still under design and testing. The initial testing of the system has resulted in identification of security issues that may have gone undetected until the individual's next scheduled periodic reinvestigation. OPM is charged with reviewing and coordinating the development of tools and techniques for enhancing the conduct of investigations and granting of clearances.

#### Reduction in Length of Personnel Security Clearance Process

At any given point in time, OPM has about 400,000 pending investigations. This represents suitability investigations and clearance investigations. The total initial clearance investigations backlog, including the Defense Department's, currently stands at 110,000. This represents pending clearance investigations that are more than 120 days old. The number is down from 185,000 in February 2005. Clearly, the agency is making progress in reducing the clearance backlog, however, additional work is necessary to meet the goals mandated in the IRTPA. The IRTPA of 2004 requires that not later than December 17, 2006, and ending December 17, 2009, each authorized adjudicative agency shall make a determination on at least 80 percent of all applicants for personnel security clearances within an average of 120 days – 90 days to complete the investigation and 30 days to complete the adjudication – of receiving the security clearance application. Beginning December 2009, adjudicate agencies must make determinations on at least 90 percent of all applicants for personnel security clearances within 60 days – 40 days to complete the investigation and 20 days to complete the adjudication.

#### Factors Affecting Meeting Requirements of IRTPA

Factors that affect OPM meeting the requirements of the IRTPA include unanticipated increased workload, staff proficiency and retention, and data-systems compatibility.

Workload – In FY 2005, OPM expected to receive over 550,000 new requests for initial or periodic reinvestigations to support security clearance determinations. In addition, OPM was expected to conduct approximately 900,000 background investigations of various levels to determine suitability for federal employment. OPM will also be affected by the volume of new investigation requests as a result of the Homeland Security Presidential Directive 12, the Personal Identity Verification Project.

Staff - OPM has increased its resources available to support the background investigations program with the acquisition of DSS personnel and the addition of 5 contractors. Contractor staff turnover was reported high last year. If it continues, the high turnover would negatively impact the investigative capacity of the staff. Realized productivity and proficiency gains remain to be determined. The quality of investigations is also an issue. As part of its oversight of the contracts for investigative services, OPM reviews case quality on a regular basis. While the contractual standard for deficient cases is no more than 3 percent, the actual deficiency rate on background investigation cases for the period July 2004 through June 2005 for OPM's prime contractor was 11.9 percent.

Data-Systems Compatibility - DoD has not been able to make full use of OPM's electronic system for submitting requests for clearance investigations (eQIP), despite having 2 years between the time when OPM and DoD announced an agreement for the transfer of DoD's investigative functions and personnel to OPM and when this transfer actually occurred. Converting a DoD request for investigation into a format that is acceptable to OPM delays the completion of the clearance process. DoD has developed software that will convert their submissions into the eQIP format. Compatibility of data may become an issue with the creation and population of the government-wide clearance database.

### **Background Investigations Conducted for OPM Employees**

Internal reviews at OPM have identified numerous concerns regarding the management of this program. The Center for Security and Emergency Actions (CSEA) spent a great deal of FY 2005 addressing and correcting the deficiencies. They include:

- Investigative actions – A clean-up effort began in late 2003 aimed at bringing all investigations of OPM employees up to date. As of September 30, 2005 all 1340 individuals identified as needing some investigative action will have been supplied with the investigative paperwork required to initiate their investigation.
- Updating the position description database with position designations - CSEA has recorded approximately 2975 position descriptions to date. The Center for Human Capital Management Services (CHCMS) and CSEA consistently coordinate to ensure position descriptions are rated appropriately.
- Receiving reports from CHCMS to identify personnel changes which would affect a background investigation - Further enhancements include automatic updating of the individual records based on CHCMS records and the automatic generation of reports to identify individuals requiring an upgraded investigation.
- Maintaining security files on all employees and contractors – CSEA has established security files for employees and contractors and successfully integrated over 1600 additional security files into their system for the DSS staff.
- Personnel Investigations/Clearance Tracking System (PICT) – the database was transferred to an Oracle database in February of 2005 to allow for improved stability of the data and to allow for more administrative capabilities.

- Enhancing new employee processing – CSEA now attends new hire orientation to ensure investigative paperwork is returned in a timely manner. A temporary badge is provided until the investigative paperwork is submitted.
- Contractor investigations – CSEA has been coordinating with Contracting to ensure that contractors are properly screened for investigative requirements and that appropriate background investigations are initiated prior to a contractor being granted unescorted access to OPM.

Challenges that remain include:

- Approximately 300 individuals are protesting the need for their background investigation and have not completed and submitted their investigative packets. CSEA is working with CHCMS and OGC to resolve this issue and have developed procedures for addressing the situations where individuals have not complied with the investigative process. The process of dealing with non-compliers is currently being coordinated with the Director.
- Ensuring compliance with the Homeland Security Presidential Directive 12. CSEA is working with representatives from the other centers to identify requirements and to address processes specific to their departments that require modification or development. For all new employees, contractors, and other applicable individuals, OPM must develop a plan and begin the required background investigations for those who require long-term access to federally controlled facilities and/or information systems by October 27, 2005. All new contracts for contractors who have long term access to federally controlled facilities or access to federally controlled information systems shall include a requirement to comply with the Directive. In order to be in compliance with the directive requirements, personnel that are being hired for OPM positions will be required to submit investigative paperwork prior to an entry on duty date being established. Badging requirements will be adjusted to accommodate this process change.
- By October 27, 2006, OPM must begin issuing and requiring the use of identity credentials for new employees and contractors and must phase in issuance of identity credentials for current employees and contractors by October 27, 2007.

### **3. REDUCING THE TIME REQUIRED TO DETERMINE FULL ANNUITY PAYMENTS**

Several House members recently sent OPM Director Linda Springer a letter expressing their concern over the delays in the determination of the full pension payment for new retirees. In the letter the House members wrote that “The discrepancy in their annuity can harmfully affect retirees’ financial management plans and impair their ability to earn interest on accounts or investments, or in some cases even affect their ability to pay current living expenses.”

When a federal employee retires, OPM begins processing their retirement claim to determine the amount of their annuity payment. Until the claim processing is completed, OPM provides the annuitant with an interim payment, typically about 85 percent of the full annuity payment,

designed to avoid overpaying the retiree. For fiscal year 2005, the average time for a claim to be processed and a full annuity payment to be determined was 80 days for a CSRS case and 93 days for a FERS case. In some instances, however, it can take several months to process a case and determine the full annuity amount. Once the full annuity payment is determined, a lump-sum payment is made to the annuitant to cover the difference between the full annuity and the interim payments. The lump-sum payment that OPM provides when the full annuity payment is determined does not include interest on the difference.

Reasons for delays in processing retirement claims vary, but typically the more complicated the retirees' work history was, the longer the processing will take. For example, if a retiree worked at several different agencies during his or her career, documentation must be received from each agency and this can add to the time required to process the case. In addition, retirement claims have been increasing about 10 percent annually for the last several years. This has resulted in a backlog of approximately 20,000 claims as of September 30, 2005.

To address this situation, OPM has put together a plan to not only eliminate the backlog, but also to attempt to reduce the processing time of new claims received to an average of 30 days. The plan involves the assignment of managers with extensive experience in the Retirement Program to lead teams to process backlogged claims and new claims, accelerated training of new staff to help process claims, and the use of reemployed annuitants to adjudicate claims. Part of the plan involves identifying by agency what documentation is most often missing from case files when received so that this can be addressed and corrected. The goal is to eliminate the majority of the backlog by the end of February 2006.

#### **4. RETIREMENT SYSTEM MODERNIZATION**

The Federal Retirement Program, which includes the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), is supported by technology that no longer meets the demands of its most important stakeholders. For this reason, OPM has long recognized the need for modernizing the program. During the last several years, OPM has re-evaluated the best means of modernizing the retirement systems. These studies are now completed and the business case for investing funds in a modern defined benefits technology solution services contract has been approved. Retirement System Modernization (RSM) will continue to be a management challenge over the next several years as the program transitions to the new technology and moves from paper to electronic recordkeeping.

One of the three major components of the modernization is acquiring a modern technology solution from an existing commercial administrator of defined-benefits retirement plans. Modern commercial technology will support increased self-service to plan members and reduce current paper-intensive processes through automation. In FY 2004, OPM issued a draft request for proposals (RFP) to solicit comments and input from companies prior to release of a final RFP. A final RFP was subsequently issued with a goal of awarding a contract for the technology services in December 2005.

The second major component of the modernization is moving from paper to electronic recordkeeping. Today, most of the data used to pay retirement benefits is stored electronically in

Federal agencies' payroll and Human Resources systems or on paper and is forwarded to OPM as paper records when an employee retires, transfers to another agency, or separates from Federal service. These paper records will be converted to recurring electronic feeds from Federal agencies' payroll offices and historical paper records will be converted to electronic data by a commercial data conversion company. In October 2005, OPM issued a request for proposals for the paper record conversion with a goal of awarding a contract for conversion services in the spring of 2006. The Enterprise Human Resources Integration (EHRI) Project, one of OPM's e-government projects, will provide much of the recurring data needed by the modernized retirement systems. The RSM and EHRI staffs work together to ensure their data management minimizes duplication and coordinate their schedules to maximize the benefits achieved through the sharing of data.

The third major component of the modernization is transforming the business processes to maximize the effectiveness of the modern technology, communicating change to stakeholders and plan members to prepare them for change, training program administrators as they assume new roles and responsibilities, and aligning the organization with the new processes and enhanced customer focus. OPM issued a request for proposals for the business transformation services with a goal of awarding a contract in the spring of 2006.

OPM faces several management challenges as the modernization moves into the implementation stage. The immediate challenge is completing the acquisition of the three contracts that will support the modernization, followed by coordinating the various activities in each of the major component projects to achieve real business benefits throughout the implementation. Another challenge OPM faces is maintaining acceptable levels of customer service during the modernization, as processes and technology changes, and support for the implementation strains program delivery resources.

The Government Accountability Office (GAO) completed a review of the Retirement Systems Modernization effort late last year. Their report included nine recommendations addressing project management disciplines that should be implemented prior to beginning major project component activities. OPM agrees with the recommendations, and has taken steps to address them. In September 2004, OPM contracted with Booz-Allen & Hamilton Inc. to provide project management support to the modernization effort. GAO recently completed a six-month follow-up to determine the status of the recommendations. GAO reported that three of the recommendations have been fully implemented. OPM's goal is to complete implementation of the remaining six recommendations prior to beginning the major project activities.

OPM has made significant progress on two RSM challenges over the past two years. As reported last year, OPM implemented a tool to assist personnel specialists throughout government in making accurate retirement coverage decisions and reduce the need for costly coverage corrections when employees are placed under the wrong retirement system. OPM continues to promote the use of this tool by demonstrating the tool and training Federal agencies' staff on the use of it. This tool will be phased out as the new defined-benefit technology is implemented over the next two years.

OPM also established data storage and applications for retirement data from agency payroll offices as they migrate to e-Payroll service providers. This application, the electronic individual retirement record (e-IRR), allows migrating agencies to transmit the data to OPM, rather than creating paper retirement records. This application is the first step in moving from paper to electronic recordkeeping, reduces the costs for agencies in creating the paper records, and avoids the OPM cost of converting these paper records back to electronic data under retirement modernization.

## **5. MAINTAINING AND IMPROVING THE PERFORMANCE OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM**

As administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately 8 million individuals. Optimizing the programs' performance requires a continuous program improvement process. There are several key strategies that will have to be more fully considered in how best to maximize the performance of the FEHBP. In addition, there are several key factors that affect the programs performance, such as an aging population; increases in the use of prescription drugs and medical services; advances in medical technology; and overall inflation related to general health care services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For 2006, OPM was able to hold the average FEHBP premium increase to 6.6 percent, the lowest premium increase in nine years. Controlling these costs is an area of great concern to the government (which is responsible for 72 percent of the total premium), FEHBP enrollees, and OPM management. However, OPM is often limited in how much it can control premium cost increases without also cutting desired benefits.

OPM is challenged with determining and implementing the program changes that allow for maximizing resources and obtaining the flexibilities that produce the most cost beneficial benefits package to a population of enrollees that is aging overall. Over the last few years, OPM has implemented significant changes to improve the performance of the FEHBP, such as offering new Consumer Driven plans that give consumers additional choices that allow them to manage their own health care needs and their health care dollars. In addition, High Deductible Health Plans with Health Savings Accounts or Health Reimbursement Accounts were added as additional options for 2005. Flexible Spending Accounts have been available to employees since July 2003.

Beginning in January 2007, OPM will offer dental and vision benefits to nearly 4 million current and retired federal employees. This new coverage will be voluntary, and does not have any subsidy from the government. OPM is challenged with negotiating with health insurance providers for the new program to keep cost low enough to attract enrollees to the program.

Controlling costs and improving the performance of the FEHBP will require a continuous effort to explore new alternatives and ideas.

## 6. IMPLEMENTING E-GOVERNMENT PROJECTS

The President's electronic government (e-Gov) initiative seeks to enhance access to and delivery of government information and services through expanded use of technology. OPM is challenged with providing human resource management (HRM) solutions that federal agencies can use to improve their ability to build and maintain a high quality and high performing Federal workforce. These HRM solutions will consolidate and/or standardize many of the essential, but now separate, functions of current HR systems including: payroll, training, security clearance, recruitment, and enterpriseHR data warehouse, among others. With modern, interoperable and integrated HRM solutions in place, HR professionals can gain greater efficiencies and effectiveness in the management of human capital development and human resources administration.

The OPM e-Gov initiatives consist of six inter-related systems that support a government worker's life cycle. They are Human Resources Line of Business (HR LoB), Enterprise Human Resource Integration (EHRI), Recruitment One-Stop, e-Clearance, e-Training, and e-Payroll. The OPM e-Gov initiatives of Recruitment One-Stop and e-Clearance are operational and are being managed by their respective program offices, HRPS and CFIS.

- **HR LoB:** The objective of the Human Resources Line of Business (HR LOB) is to create a framework for Government-wide, modern, cost effective, standardized, and interoperable Human Resources (HR) solutions that provide common core functionality and maximize automation of processes to support the strategic management of human capital. The current suite of the e-Government initiatives managed by OPM will be transitioned and integrated into the HR LOB. The HR LOB initiative will establish Shared Service Centers (SSCs) to provide technology solutions to support multiple agencies with HR management and back office activities. Multiple SSCs will be established to leverage economies of scale, reduce costs, and increase the quality and consistency of services provided. OPM is challenged with the development and implementation of a shared services environment to provide full HR services to agencies of the Federal Government. Managing the process of selecting agencies to become SSCs and managing migration of agencies to a SSC will be challenging. This is a multi-agency initiative and all Executive Branch agencies will be affected by the HR common solution. In addition, the other e-Gov initiatives such as EHRI, e-Payroll, e-Clearance, e-Training, USAJOBS, and others will be expected to interface with Shared Service Center systems as dictated by the SSC offerings. This may present challenges in modifying the current set of e-Gov initiative systems to operate in an SSC environment. OPM is also challenged with managing the compatibility and different technical requirements between the HR LOB environment and individual department environments.
- **Enterprise Human Resource Integration (EHRI):** The purpose of the EHRI initiative is to facilitate human capital management activities by providing storage, access, and exchange of standard electronic information, through development of a data repository of standard core human capital data for all 1.8 million executive branch employees. During

FY 2005 EHRI loaded 32 years of the Central Personnel Data File (CPDF) historical data into the data warehouse. In FY 2006, EHRI will work with the CPDF organizations to begin the full transition to EHRI and enable the decommission of CPDF.

Operational elements of the current EHRI system include a portal, the EHRI data warehouse, business intelligence/analytical tools, the Central Employee Record system (CER) and the eOPF system that houses Federal employees' digitized paper OPFs. By FY 2007, all of these applications will be fully operational. EHRI is closely linked to and maintains active contacts with other Government HR systems and initiatives, OPM's current HR-related e-Government initiatives and the HR LOB Initiative to ensure that it continues to provide a data foundation for the future government-wide management of HR records, both images and data objects. OPM is challenged with integrating EHRI with the other OPM e-Gov initiatives and the Retirement Systems Modernization effort. In addition, OPM is challenged with interfacing with agency data systems and managing the data and paper migration to the EHRI environment. Further, OPM is challenged with developing data standards as new data items are incorporated into the data warehouse. Most of all, the success of EHRI's fee-for-service component depends on the continuation of incoming funds through existing and new partner agencies subscribing to EHRI services.

- **Recruitment-One Stop:** USAJOBS is the United States Government's official system and program for Federal jobs and employment information. The USAJOBS system delivers the service by which Federal agencies meet their legal obligation (5 USC 3327 and 5 USC 3330) to provide public notice of Federal employment opportunities to Federal employees and American citizens. The technology and program operations offer Federal agencies and job seekers a modern platform to support online recruitment and job application. OPM both understands the supreme importance of, and bears the responsibility for, providing the leadership necessary to ensure the success of this initiative. This leadership is especially important with a multi-agency initiative that requires coordination and support across a spectrum of managers and support staff.

Migration of agencies to USAJOBS and its job search engine capabilities and resume builder is well underway. Ongoing system enhancements are in development and will continue to be implemented through ongoing program operations. During FY 2005, 114 agencies participated in funding the USAJOBS Federal Employment Information Program. Successful implementation of this project will require that all Federal agencies continue to be knowledgeable and supportive of the current program requirements for job search engine adoption and back-end staffing system integration. They must be willing to continue to engage in specific change management and technical system redesign efforts. OPM will need to continue working with agencies to ensure they are well prepared to integrate with USAJOBS to provide the full range of services to job seekers.

- **e-Clearance:** Since its inception in FY 2002, the e-Clearance initiative has developed and deployed three government-wide information technology systems to enhance the security clearance process for federal agencies: The **Electronic Questionnaires for Investigations Processing (e-QIP)** involves the automation of the Questionnaire for

National Security Positions, Standard Form 86 (SF-86). With e-QIP, current work processes have started to move from a paper-based to an electronic environment, with the information requested and transmitted remaining the same. The e-QIP functionality was made available on June 30, 2003. During FY 2005, OPM also deployed Standard Forms 85 and 85P on e-QIP. The **Clearance Verification System (CVS)** enables agencies to verify clearances granted by other agencies in near real time. The CVS consists of a cross-agency system providing a single search capability to locate investigative and clearance information from any agency. The CVS functionality was made available on January 31, 2003. Since its deployment, the CVS has provided unified access to 98 percent of all clearances in a single portal system by connecting the DOD's JPAS with OPM's SII. The third module, **Imaging Courier System**, focuses on making digitally imaged investigative records held by investigative agencies available electronically for all authorized federal users through a secure web-based system. A commercial off-the-shelf system based system that digitizes and stores investigative records was developed and deployed in production during FY 2005. The processing that supports the assembly and transmission of the closed investigative file will be completed by the end of FY 2005. A phased roll-out of the Imaging Courier System will begin during the first quarter of FY 2006. During FY 2006, CFIS will assume management oversight and responsibility for e-QIP, CVS and the Imaging Courier System from OPM's Office of the HR Line of Business. CFIS and the HR LOB program management office will need to work together to establish interfaces between these systems to the HR LOB Shared Service Centers as appropriate.

- **e-Training:** The USALearning portal, formerly GoLearn.gov, is a government-wide resource for the Federal workforce and appropriate non-Federal workers to access formal and informal learning opportunities including e-Learning systems, content, and/or performance support tools available within the Federal Government. At the conclusion of FY 2005, the e-Training Initiative will graduate and transition in FY 2006 into the Human Resources Line of Business (HR LOB). The former governance of the e-Training initiative will be transitioned to overseeing Human Resources Development (HRD) through the identified Employee Development (ED) sub-function. In FY 2006, through the HR LOB, OPM plans to complete the majority of migrations and consolidations of agency systems to an enterprise system within an agency through e-Training service providers; begin connecting agency enterprise learning solutions to the USALearning.gov portal; and integrate an e-Authentication Federated Identity solution into the USALearning.gov site. USALearning.gov will soon interface with e-Authentication and data sets required by training policy to EHRI's Human Resources Management data warehouse.
- **e-Payroll:** In January 2003 the e-Payroll initiative transformed payroll in the Federal government by consolidating twenty-six Executive Branch payroll providers to four. The consolidation of Federal payroll established the foundation for streamlined and effective processes, created the structure for an integrated HR/payroll solution, and advances the e-Government agenda by creating greater efficiencies. The e-Payroll providers now serve 1.4 million Federal employees, comprising 82 percent of the Executive Branch as well as certain other non-Executive Branch agencies. The current e-Payroll providers include:

The Department of Agriculture's National Finance Center (NFC); The Department of Defense's Defense Finance and Accounting Service (DFAS); The Department of the Interior's National Business Center (NBC); and The General Services Administration (GSA). As part of the HR LOB, the e-Payroll initiative will play a key role in replacing legacy technology and integrating human resources and payroll systems as the HR SSCs come online.

While OPM has made great progress in moving forward with its e-Gov initiatives, many challenges still lie ahead. The OPM e-Gov solutions must continue to evolve as the Federal Human Resources environment and agency needs change and as technology advances. In addition, OPM is challenged with managing the performance of the initiatives through an Earned Value Management System (EVMS) and is charged with meeting OMB requirements regarding EVMS. While an EVMS may be fully implemented and functional, much effort is necessary to establish baselines and track performance of the initiatives.

## **7. FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: RF AND S&E**

Faced with the need to either upgrade its current Revolving Fund (RF) and Salaries and Expenses (S&E) accounts financial system or identify an alternative, OPM has decided to use a service provider to host its core financial management and procurement systems for its administrative accounts scheduled to start in FY 2007. OPM selected the Bureau of Public Debt's Administrative Resource Center (ARC), designated by OMB as a Center of Excellence, to provide financial management systems support services. Now that this decision has been made, OPM is challenged with data clean up, security access clean up and other business process analysis to ensure implementation is smooth and effective.

Developing and implementing strong internal control procedures in OPM's financial management systems for the RF and S&E accounts has been a top agency challenge for several years. The weaknesses in this area have been reported not only in previous management challenges letters, but also in the CFO Act audit reports and FMFIA reports over the past years as well. Using a financial management service provider does not diminish OPM's role in developing and implementing strong internal control procedures. In fact, OPM will need to change the way it currently processes many transactions and develop and implement new internal control procedures that support the technical and functional requirements of the new financial and procurement systems

OPM's Independent Public Accountant, KPMG, in audit work that they performed related to the FY 2004 Consolidated Financial Statements, included in their FY 2004 audit report the following areas as components of a material weakness related to the accounting for the RF and S&E:

- **Timeliness of Transaction Entry and Reconciliation** – OCFO did not consistently record financial transactions or analyze its financial records in a timely manner, or consistently reconcile general ledger accounts to subsidiary ledgers.
- **Budgetary Accounting Structure** – OCFO had not fully implemented budget controls to provide reasonable assurance that budgetary transactions were properly recorded,

processed, and summarized to permit the proper preparation of the Funds' financial statements.

In FY 2005, OCFO management continued to implement a number of initiatives to address RF and S&E issues. OCFO management has:

- Established and closely followed a comprehensive remediation plan to mitigate the material weakness and reportable conditions for other deficiencies reported;
- established Fund Balance with Treasury reconciliation procedures;
- developed CFS monthly close-out instructions;
- implemented more stringent management oversight and review of RF and S&E transaction processing, controls and financial reporting; and
- conducted extensive staff training.

While KPMG has not completed their audit work in this area for the FY 2005 financial statement audit, there is a possibility that enough progress has been made to reduce this area from a material weakness to a reportable condition. Even if this is the case, OPM is still faced with a significant data clean-up task in preparation for the conversion to a new financial management system.

Obviously, changing long-standing habits and practices related to the accounting for and internal controls over RF and S&E transactions will require time, resources and dedication by OCFO management. Going with a service provider forces OPM to reengineer business processes. OPM understands the daunting task ahead of them and has established a Financial Modernization Project Office to coordinate the transition to a new financial management and procurement system.

## **8. IMPLEMENTING OMB CIRCULAR A-123, APPENDIX A – INTERNAL CONTROL OVER FINANCIAL REPORTING**

Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, has been revised and will be effective for FY 2006. The Circular requires that agencies and Federal managers take a systemic and proactive approach in developing and implementing appropriate, cost effective internal controls. Appendix A of the Circular further prescribes a strengthened management process for specifically assessing internal control over financial reporting. The Appendix requires a new assurance statement addressing the effectiveness of the internal control over financial reporting based on the results of management's assessment.

OPM has taken several steps to prepare for the new requirements.

- OPM established the Center for Internal Control and Risk Management (CICRM) to improve internal controls throughout the agency and also monitor corrective actions to address audit findings.
- OPM established a Directives Management Task Force to set a standard for developing, reviewing, approving, publishing, revising, and canceling OPM policies and procedures.
- OPM managers and staff are being trained in basic, advanced and specialized internal controls and risk management courses.
- OPM formed a Senior Assessment Board and an Assessment Support Team for internal controls over financial reporting.
- OPM has started efforts to identify and document key business processes and the major internal controls for those business processes.

From the actions above, OPM's commitment to implementing OMB Circular A-123 is apparent. However, extensive effort will be required to assess the internal control environment, assess the risk associated with business processes, and update or create policies and procedures. The challenge is not only documenting policies and procedures; OPM will be further challenged with monitoring the design of the controls, testing whether the controls are working as intended and reporting control weaknesses.

OPM leadership is critical to effecting the cultural changes necessary to the success of a unified approach to implementing this Circular. OPM must integrate and coordinate internal control assessments with other internal control-related activities to successfully improve the accountability and effectiveness of OPM programs and operations.

## **9. PERFORMANCE MEASUREMENT**

Congress, agency managers, and taxpayers all desire relevant and credible performance measures and data to effectively monitor the performance of federal programs.

The Government Performance and Results Act of 1993 (GPRA) was designed to ensure the availability of such data by mandating that agencies set goals for program performance and report outcomes measured against those goals. In addition to overall agency performance measures prescribed by GPRA, OMB Circular A-76, "Performance of Commercial Activities", requires agencies to develop performance work statements (PWS) for all private-public competitions and identify the methods that will be used to measure performance. The above criteria both call for assigning accountability to managers and staff for performance of activities.

Managing the performance measurement process involves the development of the measures, the determination of how to effectively measure results, and the implementation of internal controls to ensure the accuracy and reliability of the results measurements. Each of these steps in the process presents a challenge, and with the number of private-public job competitions increasing, in addition to the GPRA-related performance measures, the amount of effort and management attention required is significant.

OPM's process to measure and report on GPRA-related performance measures has evolved and improved over the years. Our past audits of several performance measures have indicated a need for stronger internal controls over the accuracy, reliability, and completeness of performance data. During FY 2005, OPM took steps to improve controls over performance data by requiring offices to describe the performance indicators, their data sources, the frequency of data collection, and how they ensure the data they submit is correct and is a valid indicator of performance.

OPM is still in the beginning stages of developing and implementing performance measures for private-public competitions. Whether the competition is won by a private sector entity or OPM employees, the winning entity (service provider) is required to develop a quality assurance plan for meeting the requirements of the PWS. In addition, OPM is required to implement a quality surveillance plan to ensure and show evidence that the entity that won the competition is working effectively and providing quality service. While general policies and procedures have been developed, formal training programs to facilitate the development and reporting of quantifiable performance goals and measures are needed for staff involved with overseeing the service provider's performance.

OPM employees have won all but 2 of 15 private-public competitions, and the OIG has conducted reviews of three of the competitions that were won by OPM employees. OPM has performance measures and surveillance methods in place for each completed competition, however our reviews revealed that stronger controls over performance measures are needed to ensure that OPM can demonstrate that the service providers are providing quality services and meeting the requirements of the PWS. OPM is taking correcting action to improve performance measures and surveillance methods.

While OPM has already developed agency-wide goals and measures in accordance with GPRA, more specific performance measures are needed for the activities or operations included in the private-public competitions. For each competition, in accordance with OMB Circular A-76, OPM needs to assess the availability of workload data, develop quantifiable outputs of activities or processes, and establish data collection systems as necessary. In addition, OPM needs to verify and validate the procedures used to meet the quality, quantity, timeliness, responsiveness, customer satisfaction, and other requirements of each job function competed.

It is critical for OPM to verify and validate the performance results to ensure the service provider's ability to perform the services meets the established performance requirements. If a contracting officer determines that a service provider has failed to meet the requirements of the PWS, the contracting officer may issue a notice of termination and award the work to the next lowest offerer who participated in the cost competition, if feasible, or conduct another competition.

We believe that performance measurement continues to be a management challenge, as laws and regulations hold agencies accountable to the public for using resources wisely and achieving results.