(Unaudited—See accompanying Independent Auditors' Report)

Management Challenges

As required by the Reports Consolidation Act of 2000, on October 20, 2006, OPM's Office of the Inspector General identified and reported to the Director the most serious management challenges facing the agency. OIG's report highlighted the key challenges facing OPM management going into FY 2007, as well as noting areas of improvement.

Though all of the challenges identified by OIG and summarized in the following pages are critical to the mission of OPM, the OIG believes that the strategic management of human capital is especially critical given OPM's Governmentwide leadership role in this area. OIG identified the top management 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.

Below are written summaries of each of the challenges, including a description of the efforts of OPM management to resolve them. OIG developed this information through its independent analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented. It should be noted that the Recruitment-One-Stop portion of the e-Gov challenges reported in the FY 2005 PAR has been removed due to the successful implementation of USAJOBS. In addition, one challenge, Protection of Personally Identifiable Information (PII), has been added in this year's report.

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 task lies in educating federal managers about the human resource flexibilities available and monitoring the use of these flexibilities.

In August 2006, the Human Resources Products & Services' Center for Talent Services opened a Human Resources Consulting Program. The new organization, located at OPM's headquarters, offers such things as staff acquisition, HR strategy, and nationwide testing services on a cost-reimbursable basis in an effort to assist Federal agencies. OPM also plans to assist agencies by publishing eight human resources regulations; assisting agencies to ensure that their performance appraisal systems focus on goal achievement; and, setting guidelines for managerial development.

OPM continues to be confronted with assisting in the improvement of the personnel systems of both DHS and DoD while protecting the merit system principles, avoiding prohibited personnel practices, and allowing DHS and DoD to successfully achieve their missions of national security. OPM is expecting to produce its first implementation assessment by May 1, 2007 and has included it as a goal in the agency's *Strategic and Operational Plan*.

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 is working on ways to effectively handle the potential loss of thousands of federal employees who are or will soon be of retirement age. OPM estimates that 60 percent of the federal government's workforce will be eligible to retire over the next 10 years. In addition, OPM is faced with the need to create a new work environment that takes into consideration the needs of the future workforce. In May 2006, OPM announced the launch of a major media campaign, consisting of four commercials, to highlight the diverse and exciting work available in the federal government and to highlight the government's USAJOBS website. The media launch is an effort by OPM to fill positions using a 21st Century hiring mindset and approach, in which prospective workers desire more diverse employment arrangements and seek employer-employee relationships that vary across many dimensions and are not limited to traditional career patterns.
- 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 15 of 26 agencies receiving a status rating of Green and 11 of 26 receiving a status rating of Yellow as of June 30, 2006. No agencies received a Red status rating. This is an improvement from last year, when only 11 agencies had a status rating of Green.
- OPM published regulations and guidance dealing with the new Senior Executive Service (SES) pay-for-performance (PFP) system, although the Senior Professional System has received criticisms from the SES members it's supposed to serve. OPM also updated the Executive Core Qualifications and reported on the Senior Executive Service performance-based pay system. OPM will continue to report on SES performance-based pay system results each calendar year by December 12, 2006.

Background Investigations

OPM conducts background investigations for Federal agencies so they can make suitability and national security decisions regarding personnel. Since February 20, 2005, OPM has had responsibility for about 90 percent of all personnel background investigations for the Federal government. The Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, supports over 100 Federal agencies with thousands of security offices worldwide. OPM is expected to process over 1.7 million investigations in 2006. In July of this year, OPM awarded contracts to five companies to perform background investigations on current and prospective federal employees, military personnel and contractors. In addition, OPM awarded a contract to USIS in July of this year to provide a range of administrative services in support of the investigations program. FISD is currently staffed with over 8600 contractors and employees and expects the staffing level to reach over 9000 by the end of calendar year 2006. OPM has been working closely with the Office of Management and Budget and other clearance granting agencies to improve the performance of its investigative program. A number of agencies involved in providing security clearances as well as OMB and OPM makeup the Security Clearance Oversight Steering Committee. This committee first met in August 2005 and is committed to improving the investigative work done by OPM. OPM's achievements in improving the background investigations program are noted below.

Personnel Security Clearance Process

Since the enactment of the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA), the administration has taken steps to improve the security clearance process. Executive Order 13381 assigns OMB the responsibility for improving the security clearance process. OPM is charged with the day-to-day supervision and monitoring of the background investigations and clearance functions. This order was set to expire on July 1, 2006; however, the President extended the order by one year. The extension of the Executive Order reinforces the administration's commitment to improving the clearance process. However, challenges remain in order to meet the deadlines imposed by the IRTPA.

The first deadline, set for the end of December 2006, would require that 80 percent of initial background investigations for security clearances be completed within 90 days of receiving the necessary information. While OPM is improving the amount of time it takes to complete investigations for initial security clearances, it is still well short of the mandated 90 days. In April 2006, investigations supporting a Top Secret clearance averaged 171 days to process. In June 2005, these investigations averaged 284 days to process. Improvements in timeliness can be attributed to FISD's staffing increase and increased productivity of field agents. In addition, the increased use of electronic Questionnaires for Investigations Processing (e-QIP) has improved agency submission of investigation information. In June 2005, 27 agencies were using e-QIP with over 17,000 investigations requested electronically. In 2006, over 50 agencies are using e-QIP and over 221,000 investigations have been requested through this process.

Another deadline set for the end of December 2006 requires that 80 percent of adjudications be completed within 30 days of receipt of a completed background investigation. During the second quarter of 2006, agencies reported their investigative actions to OPM on approximately 39 percent of their investigations. Of those reported, agencies averaged 78 days to adjudicate their investigations, with only 9 percent done within 30 days of completion of the investigation. OPM is working with agencies to improve the time it takes to deliver completed investigations and report their adjudicative actions. One effort includes electronically transmitting the completed investigation to the adjudications facility and linking an agency's in-house record system to OPM's data base for electronic updating of their actions.

Reciprocity

The strain on the security clearance process would be diminished greatly if reciprocity was followed. Reciprocity means that for individuals transferring from one agency to another where a clearance of the same level is required, an agency may not: 1) request a new security questionnaire, 2) review existing background investigations, 3) review existing security questionnaires, and 4) initiate any new investigative checks. Narrow exceptions must be present in order for an agency to require additional investigative actions. Clay Johnson, Deputy Director of Management for OMB, issued a memorandum to agency heads on December 12, 2005 identifying factors inhibiting reciprocity and actions to be taken by agencies to address them. A follow-up memorandum was issued on July 17, 2006 addressing actions to further reciprocity with respect to special access programs (SAPs). OMB is working on ways to measure agency compliance with the reciprocity guidelines in order to hold them accountable for abiding by the new conditions under which reciprocity should be honored. Agencies are moving to adopt clearer conditions under which clearance reciprocity should be granted.

Challenges Remain

Agencies responsible for granting clearances will have an even bigger task when the government's aging workers begin to retire in large numbers. As much as 60 percent of the federal workforce could retire within the next decade. OPM is going to be very busy doing background investigations as the new hires come to work. One of the biggest difficulties facing FISD is accurate projections of workload. FISD has asked agencies to re-evaluate their workload projections for the remainder of FY 2006. Accurate workload projections are necessary to staff the investigative program responsibly. Based on changes in workload, FISD may need to increase Federal and contractor staff to keep pace with demand.

OPM must meet the mandates of the IRTPA—and the demand for investigations will increase as increasing numbers of the federal workforce retire over the next decade—making the mandates even harder to meet. Even so, OPM is making significant progress in improving the performance of the investigations and clearance program and with OMB's oversight, is committed to making security clearance reforms one if its biggest priorities.

Background Investigations Conducted for OPM Employees

Internal reviews at OPM in past years 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. The OIG audited the background investigations process at OPM in 2004 and noted that some employees had been working at OPM without ever having a background investigation performed, while some had an investigation performed, but it was not correct for their position description and risk level. Per a CSEA representative, all of the required reinvestigations have been initiated; however, as of June 2006, they were still experiencing problems receiving completed background investigations paperwork from some employees. They are working with Employee Relations to take disciplinary action against those who have failed to submit necessary paperwork. OPM has also populated its position description database and continues to work with the Center for Human Capital Management Services (CHCMS) to ensure position descriptions are rated appropriately and populated in the database. CSEA has also updated its procedures manual as of April 2006 and sends out updates via email to the staff. OPM has improved the state of its internal personnel background investigations program and has developed internal procedures and policies to help improve controls over ensuring compliance with background investigations laws and regulations.

A new requirement last year was the Homeland Security Presidential Directive 12 (HSPD-12). OPM successfully developed a plan to address the requirements of the directive in compliance with the October 27, 2005 deadline. CSEA has developed procedures addressing the HSPD-12 requirements and has also developed a spreadsheet to track investigations for new hires for employees and contractors noting various dates throughout the investigative process, including the entry-on-duty (EOD) date. The EOD eligibility is not issued to OPM human resources until, at a minimum, the individual successfully completes all investigative paperwork and a favorable adjudication of the National Criminal History Check has been made. National Security positions require additional items to be completed and favorably adjudicated prior to the EOD eligibility being issued.

The second part of the HSPD-12 requires OPM to begin issuing and requiring the use of identity credentials for new employees and contractors by October 27, 2006. On September 29, 2006, OPM entered into a Memorandum of Understanding (MOU) with GSA for management and service support for personal identification verification (PIV) II compliant identity credentials through a shared service solution. This MOU provides for the issuance of at least one PIV compliant credential to a new employee or contractor by October 27, 2006. Funding was provided for the first 1,000+ cards to be produced over the ensuing months by GSA and its contractor.

Reducing the Time Required to Determine Full Annuity Payments

A letter sent to OPM Director Linda Springer in FY 2005 by several House members expressed their concern over delays in the determination of the full pension payment for new retirees. More specifically, the letter stated 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.”

Until retirement claims’ processing is completed, OPM provides annuitants with interim payments averaging about 85 percent of the full annuity payment. Reasons for delays in processing retirement claims vary, but include increased processing times for retirees with more complicated work histories, incomplete documentation submissions and retirement laws and regulations. For example, if a retiree worked at several different agencies during his or her career, there is an increased likelihood that incomplete documentation submissions may occur and each agency must then be contacted to ensure that the retirees’ records are complete to process payment. In addition, delays in processing retirement claims are the result of retirement laws and regulations which require that information be obtained from the Social Security Administration or Office of Workers Compensation Programs. Once the final annuity payment is determined, a lump-sum payment is made to the annuitant to cover the difference between the final annuity and the interim payments. No interest is payable by law on the lump sum difference paid.

Retirement claims have increased about 10 percent annually for several years and coupled with processing delays resulted in approximately 20,000 claims to be processed as of September 30, 2005. To address this issue OPM initiated a pilot program in FY 2006 that strives to eliminate interim payments for retirees of four agencies. Retirees from these agencies will receive their annuities on-time, the day it is due.

OPM also 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 Center for Retirement and Insurance Services (CRIS) formed a project team to eliminate backlogged claims and process claims received in FY 2006 within 30 days.

During FY 2006, OPM received and processed more than 100,000 retirement claims with an average processing time of about 30 days.

The challenge still remains for OPM to meet its Operational Goals of completing the following:

- Adjudicate 90% of initial retirement benefit applications within 30 days of Agency receipt by October 1, 2006.
- By January 1, 2007, completion of a pilot program to process 50% of claims from two agencies before the first payment is scheduled to be made. Four agencies have been participating in the pilot since April 2006 and well over 50% have been processed within the target through September. Following completion of the pilot, the program will be evaluated and recommendations made regarding its expansion.

Retirement System Modernization

The Retirement Systems Modernization (RSM) Program is a long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. RSM is critical for two reasons: 1) the workload of the Retirement Program staff has grown over the years and will continue to grow as up to 60 percent of the federal workforce will become eligible to retire in the next ten years; and 2) the Retirement Program's existing systems and paper-based processes cannot support the most fundamental needs of the program—providing timely and accurate benefit payments to more than 2.4 million annuitants and their families. Over the past year, OPM has made significant progress in building a contemporary retirement processing system by awarding three contracts and selecting a program Director to coordinate the RSM initiative. However, 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. On April 28, 2006, OPM awarded a 10-year contract to develop the electronic environment for the retirement system. The Defined Benefits Technology Solution (DBTS) moves OPM and federal agencies to an electronic environment which gives employees, retirees, and authorized agency officials open and immediate online access to retirement records and benefits elections.

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. OPM awarded a contract to convert retirement-related paper records on all active federal employees into electronic form, which will feed into the technology solution. The three-year contract was awarded in September 2006.

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. On May 23, 2006, OPM awarded a contract to Accenture to develop Business Transformation (BT) and Information Technology (IT) models. The first component of the contract, BT, will align the people, processes, and organization to achieve maximum benefits and efficiencies of the solution. It will include organization and process redesign, training, communication, and competency assessment. The second component, IT, will ensure all supporting technology allows people processes, and organizations at OPM to utilize DBTS capabilities to the fullest extent possible.

OPM's plan is to build the technology and organize the transition to the technology solution through 2008. The plan is to "go live" with the system by February 2008. Migration of current employees' retirement records will take place through the end of calendar year 2009. OPM faces several management challenges as the modernization moves into the implementation stage, including maintaining acceptable levels of customer service during the modernization, as processes and technology changes, and support for the implementation strains program delivery resources. The entire transformation will involve changing or re-engineering processes, loading annuity calculation formulas into the technology, converting and transitioning historical legacy systems information into the new technology, and converting paper records into an electronic format. In addition, many OPM offices are involved in the RSM initiative and they all have to work together to ensure the modernization will deliver the results intended. As the modernization progresses, OPM's retirement system accounting activities will require enhancement to support the new retirement system.

Maintaining and Improving the Performance of the Federal Employees Health Benefits Program

OPM faces ongoing difficulties in ensuring the FEHBP contracts with insurance carriers to offer comprehensive healthcare benefits at a fair price. 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 Federal enrollees and dependents. There are several key factors that affect the program's 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 and prescription drug services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For 2007, however, OPM was able to hold the average FEHBP premium increase to 1.8 percent, the lowest premium increase in 10 years. Next year, 63 percent of FEHBP enrollees will see no increase in their premium. Controlling these costs is an area of great concern to the government (which is responsible for 71 percent of the total premium), FEHBP enrollees, and OPM management.

Effective December 31, 2006, OPM will offer dental and vision benefits to current and retired federal employees, as well as their beneficiaries. Prospective enrollees will be able to choose from seven dental providers and three vision providers. This new coverage will be voluntary and does not have any subsidy from the government. OPM is tasked with negotiating with health insurance providers for the new program to keep costs low enough to attract enrollees to the program.

Further, OPM will have responsibilities and challenges as insurance carriers begin to implement Health Information Technology (HIT) initiatives proposed during 2006. HIT covers a broad range of initiatives including electronic personal health records, ePresciptions, and disease management programs. It is hoped that these initiatives will reduce health care costs and improve the quality of care; the thinking is that manual tasks and unnecessary procedures will be avoided, and medical errors from incomplete information will be reduced. OPM will have at least some responsibility in each of these areas as the concept matures.

A proposed amendment to the Federal Family Health IT Act of 2006, introduced in March 2006, will promote electronic health records for federal employees. The legislation will require that FEHBP health plans provide electronic health records for 8 million federal workers and their dependents within four years. Within five years, the plans would have to provide integrated carrier and provider records in digital format upon the request of the federal employee.

Health plans will provide grants and incentives to health professionals to promote the implementation of the technology needed to establish electronic health records. OPM will also administer a trust fund to receive grants and donations intended to encourage the use of electronic health records. Under the amendment, carriers will be required to credit savings generated by the electronic health records to the FEHBP. This implies that OPM will have at least some oversight responsibility associated with managing the proposed trust fund and ensuring that carriers credit cost savings to the program.

OPM has already taken steps to promote health information technology. Since 2005, OPM's annual call letter to carriers has addressed the HIT initiatives. The letters have instructed carriers to enhance educational efforts among FEHBP members, offer personal health records based on existing data and technology, encourage pharmacy benefits managers to promote ePrescribing, and use HIT to improve disease management programs. OPM has also identified the need to adequately protect the security of personally identifiable health care information.

As it stands now, OPM appears to be ahead of the curve on health information technology. However, this area will clearly be a major task for OPM management and will require continuing attention if the effort is to be a success.

Implementing e-Government Projects

The e-government (e-Gov) initiative began as a collection of 24 agency projects. The projects were spread across four categories: government-to-citizen, government-to-business, government-to-government and internal efficiencies and effectiveness. Since then, the administration has added nine "line of business" initiatives aimed at consolidating agency back-office systems. The "line of business" initiatives are designed to consolidate the systems and services in areas common across government such as human resources and financial management. The OPM e-Gov initiatives consist of inter-related systems that support a government worker's life cycle. They are the Human Resources Line of Business (HR LOB), Enterprise Human Resource Integration (EHRI), e-Clearance, e-Training, e-Payroll and USAJOBS. The initiatives have made the transition from concepts and ideas to fully deployed systems. The OPM e-Gov initiatives of USAJOBS and e-Clearance are operational and are being managed by their respective program offices, HRPS and CFIS. OPM received a red rating for the scorecard ending 7/30/06 and received a yellow rating for progress in implementing e-Gov initiatives due to the Congressional prohibition on transferring OPM funds to other Federal agencies to support their e-Gov initiatives. But now the effort faces its greatest challenge to date, from lawmakers who are less interested in the cultural changes e-Gov could bring to federal operations and more concerned about concrete cost savings. In August 2006, OMB told agencies to begin documenting the savings associated with e-Gov initiatives by Sept. 30.

HR LOB

The Human Resources Line of Business (HR LOB) vision is to implement a common solution that identifies systems, best practices, migration strategies and key interfaces to develop common business processes and system solutions in the human resource area. The current suite of the e-Government initiatives managed by OPM will be transitioned and integrated into the HR LOB. The HR LOB initiative has established Federal Shared Service Centers (SSCs) to provide technology solutions to support multiple agencies with human resource activities. Five Federal SSCs have been selected to leverage economies of scale, reduce costs, and increase the quality and consistency of services provided. Private SSCs will be established during FY 2007.

In September 2006, OPM established the complete set of target requirements for SSCs, to include performance management, compensation management, labor relations, etc. Also, the HR LOB has developed the enterprise architecture for the HR functions in line with the Federal Enterprise Architecture (FEA) to assist SSCs and agencies in standardizing their human resource processes and technology. The HR LOB EA Models created in 2006 are: the Business Reference Model v.2, the Data Model, the Service Component Model and the Performance Reference Model.

Although the HR LOB has made significant process towards the development of a common solution, establishing standardization and governance, many milestones remain. These include: establishing a private sector SSC schedule, continued migration of agencies to SSCs, and completing the migration of agencies to payroll providers. In addition, the other e-Gov initiatives such as EHRI, e-Clearance, e-Training Service Providers, and USAJOBS will be expected to interface with Shared Service Center systems as dictated by the HR LOB concept of operations. This may present challenges in ensuring that the current set of e-Gov initiative systems are able to operate in an SSC environment. OPM is also challenged with working with OMB and GSA to establish a Private Sector SSC schedule, managing the resultant competitions and providing management and oversight of agency migrations to SSCs.

Enterprise Human Resource Integration (EHRI)

EHRI is a collaborative e-Gov initiative to transform human resource processes from paper-based processes to electronic-based processes. By working with a large inter-agency stakeholder group, EHRI has established reporting requirements and standards for human resource data and records management and developed a consolidated EHRI data warehouse containing human resources data on 1.8 million Executive Branch civilian employees.

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. In FY 2006, 355,000 OPFs were created. In addition, an eOPF module was created for 11 agencies in FY 2006. Performance metrics have been developed to increase the number of personnel records converted and to increase the number of agencies with an eOPF module. The metrics are contingent on the agencies ability to provide funding for their conversions.

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.

e-Clearance

The e-Clearance initiative streamlines and improves the quality of the current security clearance process through automation and deployment of common systems and policies to manage the security clearance process. E-Clearance seeks to ensure sensible policies and procedures are in place to improve the current security clearance process. The initiative's first component is the Electronic Questionnaire for Investigations Processing (e-QIP), an automated on-line version of security clearance application form SF-86. With e-QIP, current work processes have started to move from a paper-based to an electronic environment, with information requested and transmitted remaining the same. All agencies are currently set up and submitting investigation requests to OPM via e-QIP. However, only about half of the requests for investigations were submitted via e-QIP in 2006. The second component entails the development and implementation of a cross-agency Clearance Verification System (CVS). The CVS provides OPM and all partnering agencies access to the clearance data of each participating agency database. By increasing the availability of each agency's database and making clearance information more accessible, CVS has improved agency accountability and supported the transfer of clearances from one agency to another.

As of March 31, 2006, all agencies are providing daily updates to the CVS database. OPM is making good progress in increasing usage of e-QIP, but is still slow in getting all investigative requests submitted using the application.

e-Training.

The e-Training initiative supports the development of the Federal workforce through a one-stop access to e-Learning products, tools, and services. The e-Training initiative is now referred to as the HR LOB Human Resources Development Program (HRD). As of September 2005, 132 Government entities migrated to e-Training. In FY 2006, courses were available to the foreign affairs community through a memorandum of understanding signed between OPM and the State Department's Foreign Service Institute (FSI). OPM's GoLearn, the National Security Agency's FasTrac, and the Commerce Department's National Technical Information Service contribute general content and services, including learning management systems, systems integration and contracting vehicles, to the e-training initiative. FSI marks the first participant brought in for its specialized content.

e-Payroll.

Payroll has been identified as one of the core business processes within HR LOB, and is now part of that greater initiative. The e-Payroll providers furnish core payroll services to the HR LOB SSCs. As part of the HR LOB, the e-Payroll initiative plays a key role in replacing legacy technology and integrating human resources and payroll systems as the HR SSCs come online. By 2008, all agencies will have migrated to an e-payroll provider and the e-Payroll initiative will be fully operational under the SSC environment.

While OPM has made great progress in moving forward with its e-Gov initiatives, many difficulties still lie ahead. In general, e-government projects are suffering from funding shortages. 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 documenting real savings with the e-Gov initiatives as migrations to common solutions continue and legacy systems are retired.

Financial Management System and Internal Controls: RF and S&E

Faced with the need to upgrade its current Revolving Fund (RF) and Salaries and Expenses (S&E) accounts financial system or identify an alternative, OPM decided in FY 2005 to use a service provider to host its core financial management and procurement systems for its administrative accounts beginning in FY 2007. OPM selected the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC), designated by OMB as a Center of Excellence, to provide financial management systems support services. However, BPD conference room pilots indicated that significant flaws existed in the plan and the accounting package with BPD was not implemented. OPM is in the process of establishing new guidance to rebid the contract, with the assistance of OMB, and BPD has returned the funds they received for the project. OPM is tasked with ensuring and validating that any firm proposing to provide a new accounting system address the S&E and Revolving fund, as well as the Trust Fund assuming a move to a consolidated system occurs after the S&E and Revolving fund Implementation.

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 has begun 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. In addition, instituting a service provider forces OPM to reengineer business processes, as well as conducting a data clean up, security access clean up and other business process analysis to ensure implementation is smooth and effective. To deal with these challenges, OPM established a Financial Modernization Project Office to coordinate the transition.

In KPMG's November 14, 2005 report on OPM's financial statements, they cited a reportable condition in which significant deficiencies in the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF and S&E accounts still existed even after OPM implemented corrective actions to remedy the conditions. In an effort to correct this condition, as well as prepare for the transition to a service provider, OCFO management has established a project management office to lead, direct and coordinate all processes and activities to modernize financial systems and reengineer business processes. The following is a brief discussion of the deficiencies and the corrective actions taken by OCFO:

- The Government Financial Information System (GFIS) does not properly capture certain financial information and is not properly configured to produce useful financial reports providing accurate information regarding related intragovernmental activities and balances. During FY 2006, OPM did finalize requirements definitions for the transition to the Bureau of Public Debt's system, however no further implementation efforts for the new system were completed. Further, accounts balance clean-up efforts will continue to ensure only valid data are converted into the new systems and will be completed during FY 2007.
- Reconciliations were not consistently or always clearly documented and were not always performed in a timely manner. OPM actively began enforcing procedures regarding documentation and timely performance of reconciliations in accordance with Treasury Financial Manual guidelines and OPM's Cash Management Policy and Procedures in June 2006.
- Supervisory reviews of financial statements and other financial reports submitted to oversight agencies were not documented for mathematical accuracy and receipt of appropriate support. OPM established formal procedures and a checklist for supervisory review of the financial statements and other financial reports in March 2006.

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, 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 the agency head to provide an assurance statement addressing the effectiveness of the internal control over financial reporting based on the results of management's assessment.

OPM's management team successfully completed its assessment of the internal controls in place over its financial reporting and operations as required by Circular A-123 during FY 2006. The Senior Assessment Board (Board) approved 87 recommendations for improving financial reporting and operations and designated 6 reportable conditions. Absent the determination of any related material weaknesses, the Board recommended the Director issue an unqualified statement of assurance that internal control over financial reporting as of June 30, 2006, was operating effectively.

OPM's commitment to the implementation of OMB Circular A-123 is apparent in the internal control infrastructure that was established over the past year. However, it will be critical that OPM puts forth an extensive effort to monitor the design of the controls identified for improvement and testing whether those controls are working as intended. The Agency will continue to be further challenged in effecting the cultural changes necessary to continue the success achieved in implementing this Circular.

Monitoring Performance Results for Competitive Sourcing

OMB Circular A-76, "Performance of Commercial Activities," requires agencies to develop performance work statements (PWS) for all public/private competitions and identify the methods that will be used to measure performance. Regardless of the selected provider, after implementing a performance decision, an agency must monitor performance for all performance periods stated in the solicitation and implement the quality assurance surveillance plan (QASP). The QASP is the Government's inspection plan, which documents the methods used to measure performance of the service provider against the requirements in the PWS. The criteria call for assigning accountability to both managers and staff for performance of activities.

There is a structured oversight process to ensure the service provider's performance is at an acceptable level and the costs incurred in performing the activity are in line with the proposals upon which the service provider was selected. For each completed competition, a QASP is developed with detailed quantifiable performance measures and standards which are monitored throughout the performance period. Additionally, costs incurred in performing the activity are monitored to ensure it is being performed for the amount specified in the winning proposal. For in-house performance, an agency tender official is appointed by the Contracting Officer who has the direct responsibility for monitoring performance against the performance measures and standards using the QASP. Costs incurred by OPM's employees are tracked by receiving quarterly payroll reports from OPM's GSA payroll system. For competitions won by the private sector, OPM employees are appointed and trained as contracting officer's technical representatives and quality assurance evaluators whose responsibility it is to track and measure the performance of the work against the quantifiable performance measures and standards. Costs of contractor performance are monitored by the contracting officer's representative. Improvements in the oversight process include better quality cost reports coming from the GSA payroll system and stronger quantifiable performance measures and standards which are tracked closely over the performance period whether the service provider is OPM's employees or a private contractor.

OPM has completed 19 public/private competitions. OPM's employees have won 17 of the 19 competitions. Managing the performance measurement process for each of these competitions involves OPM developing, implementing, and documenting surveillance methods to monitor and analyze the measures and tasks in the PWS. Documentation supporting performance results and the monitoring of performance must be maintained, including any changes to the performance measures on the PWS. Each of these steps in the process presents a challenge, and with the number of public/private job competitions increasing, the amount of effort and management attention required will be significant.

Protection of Personally Identifiable Information (PII)

Following numerous incidents involving the compromise or loss of sensitive personal information, the Office of Management and Budget (OMB) issued memorandum M-06-16 on June 23, 2006. The memorandum stressed the need for all Federal agencies to take necessary and reasonable measures to protect their sensitive data. It required agencies to take certain actions to ensure that safeguards are in place and appropriately reviewed within 45 days (August 7, 2006) from the issuance of the memorandum.

Sensitive PII is defined by OMB as "any information about an individual maintained by an agency, including, but not limited to, education, financial transactions, medical history, and criminal or employment history and information which can be used to distinguish or trace an individual's identity, such as their name, social security number, date and place of birth, mother's maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual."

Various laws and regulations have addressed the need to protect sensitive information held by government agencies including the Federal Information Security Management Act (FISMA), the E-Government Act of 2002, the Privacy Act of 1974, and OMB Circular A-130, *Management of Federal Information Resources*. FISMA requires Agencies to have a security program and controls for systems to protect their sensitive information.

FISMA also requires Agencies to implement standards and guidelines developed by the National

Institute of Standards and Technology (NIST), including Special Publication 800-53, *Recommended Security Controls for Federal Information Systems.* This guidance forms the basis for the OMB M-06-16 Security Checklist covering protection of remote information. OMB's memorandum conveys the intent of implementing the checklist and specific required actions to be taken by Federal agencies for the protection of sensitive information.

OPM has made significant progress in strengthening its information technology (IT) security program since the FISMA requirements of 2002. OPM management is clearly committed to developing and maintaining strong IT security controls. However, a number of difficulties remain, including updating policy and implementing the technical solutions required to protect the Agency's PII data. Although OPM has not fully implemented the requirements of OMB Memorandum M-06-16, there is an implementation plan that should enable the agency to be compliant by March 31, 2007.

Improper Payment Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. The President has made the development of management controls to detect and prevent improper payments a major focus of his Management Agenda. The Congress followed the President's lead by enacting the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities. In Appendix C to OMB Circular A-123, a program was defined as being susceptible to significant improper payments if it has improper payments that exceed both 2.5 percent and $10 million of program spending. OPM's estimated improper payments for FY 2006 are $253 million in retirement benefits; $62.5 million in health benefits; and $0.8 million in life insurance benefits, for a total of $317.2 million dollars.

Due to their size, OMB has deemed that OPM's three earned benefit programs—Retirement, Health Benefits and Life Insurance—are, by definition, susceptible to significant improper payments. OPM has an approved Improper Payment Plan that discusses the causes of benefit program improper payments; sampling approaches; actions taken and underway to correct causes; results of actions; timelines for reducing improper payments; statutory barriers; and projected reduction targets. To ensure compliance with the recently issued Appendix C to Circular A-123, OPM will assess in FY 2007 whether any other agency payment streams are susceptible to improper payments and expand the Agency's Improper Payment Plan accordingly. A description of the payments in the currently covered earned benefit programs follows:

Program Descriptions

Retirement Program

The Retirement Program pays nearly $57.9 billion per year in defined pension benefits to most Federal retirees and their survivors and families. The Program is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, when covered employees leave the Federal service before they are eligible for benefits, their retirement contributions, if so requested, will be returned to them in a lump-sum refund payment.

Health Benefits Program

The Program is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the Program contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of over $25 billion on behalf of the Program and the Program paid $6.1 billion in premiums to CRCs.

Life Insurance Program

The Program provides life insurance benefits of $2.23 billion in FY2006 to over 90,000 survivors of Federal employees and annuitants. It is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The Program provides basic life insurance coverage as well as three life insurance options and living benefits.

IMPROPER PAYMENT SAMPLING

Retirement Program

As is the usual practice, for FY 2006 improper payment analysis, OPM contracted with its statistician to analyze the improper payment rate embedded in its benefits payments. There are two distinct retirement systems (CSRS and FERS); as such, the statistician stratified the sample to adequately sample each retirement system. OPM reviewed pension and survivor cases over a span of nearly four decades. Statistically valid samples were chosen proportional to payment size, because larger payments are more material to improper payment analysis than are smaller payments. To minimize the potential errors correlated to anomalies within the sample months selected, cases are selected from three randomly determined months from the sampling universe. For each retirement system, 75 cases were selected for each of the three sample months, or 225 cases per retirement system, and 450 cases overall. This was done to maximize confidence in the sampling methodology. Projections are based on a 95% confidence that the size of the Improper Payments we estimated is within the upper and lower limits identified in the report.

Health Benefits Program

As is it did for FY 2005, OPM will use the results of historical audits of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs. One hundred percent of FEHBP premium payments are subject to audit, and based upon selected criteria from OPM Management and themselves, the Health Plans selected for audit do in fact, exceed the sample size required by OMB in Appendix C to OMB Circular A-123. This sample is judgmental, not random, targeting the most likely areas of improper payments in the Program. In fact, it likely overstates erroneous payments in the Program because those carriers chosen for audit tend to be those more prone to improper payments.

OPM, for FY 2007, will continue to rely upon the existing audit procedures to estimate improper payments to CRCs. For ERCs, OPM will implement a process to estimate statistically the extent of improper payments of benefits by the ERCs as well as the charges to the Program they make for administrative expenses. In accordance with OPM reporting and auditing guidelines, all ERCs have for a number of years prepared annual financial statements and have subjected those financials to audit by independent public accounting firms (IPA). While OPM's guidelines require the IPAs to sample paid benefits and administrative expenses, they do not provide for detailed reporting of the results, nor do they prescribe sampling procedures that allow for the aggregation of those results. OPM is working with a statistician to develop a methodology to capture and aggregate information from the IPAs to derive a statistically valid annual improper benefit payment rate. The information will be available in FY 2007.

Life Insurance Program

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife.

To more fully represent the FEGLI disbursement in its entirety, OPM expanded its analysis to include non-annuitants, and developed a match for this group of payments comparable to the annuitant paid-claims match. In FY 2006, OPM piloted and substantially implemented this match comparing CPDF data against MetLife payment files. While significant progress has been mode to add non-annuitant payments to its improper payment review, OPM has encountered several challenges using the CPDF as a primary data source to validate FEGLI coverage. The non-annuitant match requires subsequent labor-intensive reconciliations, which will continue until agencies' conversion to e-OPF has been completed and full FEGLI coverage data is available for both Executive and Postal employees. Until that time, reported results may be based on a combination of actuals, error sampling and projections performed using raw output from the non-annuitant match.

Causes of Improper Payments and Actions to Reduce Them

Retirement Program

The following are the principle causes for improper payments in the Program:

- beneficiaries or family members delay reporting (or do not report at all) changes in status (death, marriage,
  recovery from disability, etc.) that result in a different (or no) benefit payment.
- inaccurate and/or incomplete information provided by former employing agencies about a retiree's Federal service history.
- individuals receive two types of Federal benefits (the law generally allows only one).
- adjudication errors by OPM employees comprise only a very small percentage of the total improper payments in the Program.

To reduce improper payments, OPM currently takes several actions. OPM surveys benefit recipients annually to verify that they continue to meet eligibility requirements and administer active data-matching programs with Departments of Defense, Labor, Veterans Affairs (VA), and the Social Security Administration (SSA). OPM is also exploring alternate methods to learn in a timelier manner when eligibility for benefits has changed. For instance, OPM is piloting a process with the National Funeral Home Directors Association (NFDA) whereby funeral homes will provide notifications of death so that additional posthumous payments of benefits may be avoided. OPM has recently signed a memorandum of understanding with the NFDA. In addition, OPM will continue to pursue cost-effective methods to inform the recipients of benefits of the events that have the potential to affect the amount of their retirement benefits.

To further reduce improper payments in the Program, OPM must modernize its information systems and reengineer its business processes. The Retirement Systems Modernization (RSM) project is OPM's effort to reengineer the procedures used to administer the Retirement Program. OPM expects RSM to change fundamentally the way OPM does business—and to afford even more accurate payments. More specifically, RSM will allow OPM to reduce improper payments by establishing automated interfaces with:

- Federal personnel offices and payroll providers to collect the employment records and other documentation needed to adjudicate benefits.
- The Department of the Treasury for annuity payment delivery.
- The SSA and the Defense Finance and Accounting Service and other private and public entities for coordination of benefits.

The increase in the estimated improper payment rate in the Retirement Program during FY 2006 (see table 22) resulted primarily from expanding the number of sample months used to derive the estimate. Underpayment amounts used in the estimate are based on statistically valid ranges, necessitated by the size of the disbursement, the nature of the sampling, and the previous year's improper payment rate. In 2005, 2 sample months were used and the dollar value of the errors identified was smaller than in 2006, where 3 months were used for projection purposes. OPM is converting to an approved monthly sampling methodology for 2007, which will reduce the variance of the annual estimated error projections.

Health Benefits Program

Two types of carriers participate in the Program. The first type is community-rated carriers (CRC). The Community-rated method is based on a "per enrollee per month" carrier premium rate. OPM negotiates adjustments to this base rate for a variety of reasons, including changes to the community-rated carrier's (CRC) standard benefits package, the demographics of the Federal group, and the utilization of benefits by the Federal group. CRCs are subject to audit by the OPM's Inspector General (OIG), which may find that a CRC has negotiated a defective community rate and/or that they have charged unallowable administrative expenses to its contract with OPM or benefit cost findings.

The second type of carrier participating in the Program is the experience-rated carrier (ERC). An ERC pays benefits on behalf of OPM and incurs necessary and reasonable administrative charges. Benefits payments consist of the payments an ERC makes to health care providers and participants for covered hospitalization and major medical protection. Administrative expenses generally include such items as taxes (excluding premium taxes), insurance and reinsurance premiums, medical and dental consultants used in the adjudication process, utilization review, carrier personnel, equipment, and facilities directly used in the delivery of health care services. Administrative expenses are subject to a limitation, or a ceiling, which is negotiated each year and included in ERC contracts.

To reduce improper benefit payments, OPM is expanding its audit program and has already begun audits targeting coordination of benefits problems. Furthermore, the contracting official is taking a proactive approach by focusing on the most common causes of improper payments and charges of administrative expenses to reduce their frequency.

Life Insurance Program

The amount of benefits paid to the beneficiary of a participant is based upon an employing agency or Retirement Program (for annuitants) certification of the participant's eligibility and level of coverage. Most of the improper payments in the Program result from incorrect life insurance certifications. OPM has implemented a new, automated method to certify life insurance for deceased annuitants that has reduced improper payments significantly. This Automated Certification of Life Insurance (AutoCert) process has taken the place of hard-copy certification for most deceased annuitants.

FY 2006 was the first full year for which the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims, driving the reduction shown in table 22 for the Life Insurance Program. FEGLI payments to annuitants were extremely accurate during FY 2006. OPM also fully implemented review of a very specialized error type (Error Codes "40-44") caused by the anomalies of implementing legislation that allowed annuitants for the first time to elect unreduced Option B and Option C after retirement. Errors associated with the implementation of these new coverages have been identified and are being reviewed for corrective action.

Table 21—Improper Payments (Recovery Audits Data)

OPM Fund	Dollar Amount Subject to IP Review (in Billions)	IP Amount Received and Reported (in Millions)	IP Amount Identified for Recovery (in Millions)	FY 2006 IP Amounts Recovered (in Millions)	Prior Year IP Amounts Recovered (in Millions)
Retirement	57.9	179.0	184.7	153.0	129.5 *
FEHB	31.7	59.6	39.3	36.1	32.3 *
Life Insurance	2.2	.3	.3	.6	.9 *

* FY2005

Table 22—Improper Payment Reduction Outlook

	2005 Outlays	2005 IPs	2005 IPs	2006 Outlays	2006 IPs	2006 IPs	2007 Outlays	2007 IPs	2007 IPs	2008 Outlays	2008 IPs	2008 IPs	2009 Outlays	2009 IPs	2009 IPs
	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M
Retirement															
Total Program	54.8	0.28	153.0	57.9	0.44	253.5	60.8	0.44	267.1	64.0	0.44	281,2	67.3	0.44	296.1
Overpayments		0.27	147.9		0.31	178,9		0.31	188.2		0.31	198.1		0.31	201.9
Under Payments		0.01	5.1		0.13	74.6		0.13	79.0		0.13	83.1		0.13	87.5
Health Benefits															
All carriers	29.4	0.67	196.7	31.7	0.20	62.5									
Overpayments		0.65	190.9		0.20	61.9									
Under Payments		.0.02	5.8		0.002	0.6									
CRCs total *							*	*	*	*	*	*	*	*	*
Overpayments								*	*		*	*		*	*
Under Payments								*	*		*	*		*	*
ERCs total *							*	*	*	*	*	*	*	*	*
Overpayments								*	*		*	*		*	*
Under Payments								*	*		*	*		*	*
Life Insurance															
Total Program										*	*	*	*	*	*
Overpayments											*	*		*	*
Under Payments											*	*		*	*
Annuitant only	1.29M	*.27	*3.42	1.38M	0.06	.75									
Overpayments		*.12	*1.49		0.02	.27									
Under Payments		*.15	*1.93		0.04	.48									

* This data will be provided beginning in FY 2007 due to a change in methodology.

- OPM will re-examine overpayments in the Retirement Program to identify the potential for further improvements in targets and performance results after the implementation of the Retirement System Modernization initiative beginning in FY 2008.
- For the Health Benefits Program in FY2005 and 2006, the chart above presents a combined CRC/ERC improper payment rate and amount. Beginning with FY2007, separate rates and amounts will be presented for CRCs and ERCs, using divergent estimation methodologies.
- The Life Insurance Program improper payment data computation will change from "Annuitants Only," as reported in FY 2006 (through August 2006), to a program derived computation in FY 2007. *FY2005 has been recomputed to include "40-44" errors .

Recovery Auditing

For agencies with contracts with a total value of more than $500 million in a fiscal year, recovery audits are required as part of their system internal control. A recovery audit is a review of an agency's books and other information supporting its payments to identify overpayments to contractors. Table 22 reports disbursement, improper payment, and recovery activity across the benefit programs.

After passage of the Inspector General Act of 1978, as amended OPM realigned its audit resources with the OIG to administer audits in partnership and established an audit resolution function to validate audit findings and determine whether questionable charges are allowable per FEHBP regulation (e.g. FAR, FEHBAR). For instance, the $62.5 million in improper payments shown in table 22 for FY 2006 are the results of audits performed by OPM's OIG and are reported in OIG's Semiannual Report to Congress. The OIG audit reports are provided to program management for resolution and recovery. FEHB program management works with the health insurance carriers to determine whether and what portion of an audit finding is due the Government (in this case, the FEHB Program). The amount so determined is booked as a receivable in OPM's financial management system. As these amounts are recovered, the receivable is reduced and the amount is considered as a recovery. The results of the audit resolution process are reported in the Management Response to the Semiannual Report to Congress.

This process, described in OPM's approved Improper Payments Plan, has proven to be highly effective in detecting and recovering improper payments. It relies on judgmental, not random, sampling and provides a reasonable estimate of improper payments in the Program. In fact, it likely overstates erroneous payments in the Program because those carriers chosen for audit tend to be those more prone to improper payments.

OPM has a cost effective program of internal control to prevent, detect, and recover overpayments to contractors. As noted above, OPM conducts comprehensive audits of the FEHBP carriers to ensure compliance with contract provisions, provide program oversight and minimize fraud, waste and abuse. No contract recovery audit services are currently leveraged. The costs for this program include salary, administrative and other expenses across several Centers within the agency. All contracts negotiated by OPM are subject to audit and are included in audit universe. As part of OPM's day-to-day administration of the programs, corrective action plans are developed and implemented based upon the nature of the payment error identified in the audit. Corrective action plans are reviewed annually and may be incorporated into a Management Improvement Plan updated, as applicable, in our Improper Payments Plan.

While the Retirement and Life Insurance programs have robust procedures in place for identifying and recovering erroneous payments through various means and at different payment thresholds, each has nominal contract costs and internal staff perform audit and recovery functions, also described in the agency's Improper Payments Plan. Per OMB Circular A-136 (Revised July 2006), table 21 provides additional information on recovery efforts across the benefits programs.

Accountability for Reducing and Recovering Improper Payments

The Director has designated OPM's Deputy Associate Director for Retirement and Insurance Services, Human Resources Products and Services Division, as the official responsible for establishing policies and procedures to assess agency and program risks of improper payments for the benefit programs, taking actions to reduce those payments, and reporting the results of the actions.

Barriers to Reducing Improper Payments

Retirement Program

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek to collect from the individual who last withdrew money from the account. Based on current law and

Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The right to Financial Provacy Act (12-USC, 3401-3422) and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition, but not OPM. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. OPM has determined that the Act will need to be amended to overcome this prohibition. The Department of the Treasury has drafted legislative language to address this issue.

FERS disability overpayments occur because the law (5 USC, 8452 and 5 CFR 844 sub chapter c) requires that individuals applying for FERS benefits must also apply for Social Security disability benefits. If the individual receives both forms of benefits, they will have incurred a debt to the Government. Since FERS disability benefits usually begin well before the claim for Social Security benefits is fully processed, FERS annuitants will receive several unreduced months of benefits before they begin to receive Social Security benefits. The annuitant will owe OPM for the cumulative amount of the reductions that should have been made to their FERS annuity. Currently, OPM seeks to recover the bulk of the amount overpaid via its "off-roll" collection process. OPM's experience is that, although FERS annuitants are notified of their obligation to repay, by the time OPM bills them, many recipients claim that they do not have the wherewithal to repay the debt. OPM has drafted legislation to address this issue. The issue was not resolved in FY 2006 but remains a component of OPM's legislative agenda for 2007.

Health Benefits

A pharmaceutical benefits manager (PBM) is a specialty managed care entity that administers or manages prescription drug benefits. Pharmaceutical benefits represent approximately 31 percent of the total benefits paid by participating carriers. OPM's OIG has begun an initiative to audit PBMs. In some cases, however, OIG has only limited audit rights based on the carriers' contracts with their PBMs. To remedy this situation, OPM is in the process of revising the Federal Employees Health Benefits Acquisition Regulations to require carriers to provide the OIG complete audit rights in all contracts entered into with PBMs.