October 29, 2008

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

OFFICE OF
THE INSPECTOR GENERAL

MEMORANDUM FOR MICHAEL W. HAGER
Acting 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 top management challenges facing the agency. We have divided the challenges into two key types of issues facing the U.S. Office of Personnel Management (OPM) – environmental challenges, which result mainly from factors external to OPM and which may be long-term or even permanent; and internal challenges, which OPM has more control over and which are likely short-term, temporary challenges.

The four listed environmental challenges facing OPM can be due to such things as increased globalization, rapid technological advances, shifting demographics, changing security threats and various quality of life considerations that are prompting fundamental changes in the way the Federal Government operates. Some of these challenges involve core functions of OPM that are effected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency has to deal with.

The internal challenges arise from issues that have minimal outside influence, and that once resolved will likely no longer be a challenge to OPM. The two listed internal challenges both result from the need to replace aging or inadequate systems.

It should be made clear that inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, none of this year's challenges are currently material weaknesses – they are simply issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. In many cases, OPM has made great progress in doing so. However, there is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management.

We have categorized the items included on our list this year as follows:

Environmental Challenges

- Strategic Human Capital;
- Federal Employees Health Benefits Program;
- Background Investigations; and,
- Information Technology (IT) Security
  - Protection of Personally Identifiable Information; and,
  - Homeland Security Presidential Directive 12-Personal Identification Verification II.

Internal Challenges

- Retirement Systems Modernization, and,
- Financial Management System and Internal Controls for the Revolving Fund and Salaries and Expenses Accounts.

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 an OPM core mission;
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, the Office of Management and Budget (OMB), the Administration, Congress, or the public;
4) The issue is related to the President's Management Agenda 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 recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete and accurate characterization of the challenges is presented.

I believe that the 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 audit-related 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 606-1200, or someone from your staff can contact Michael R. Esser, Assistant Inspector General for Audits, at 606-1200.

Attachment

FISCAL YEAR 2008 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

The following challenges are issues that will in all likelihood permanently be on our list of top challenges for the U.S. Office of Personnel Management (OPM) because of their dynamic, ever-evolving nature, and because they are mission-critical programs.

For example, we believe that OPM has done exceedingly well over the last few years in managing the challenges in the administration of the Federal Employees Health Benefits Program (FEHBP). Health care costs that seem to grow exponentially, the desire for new or better benefits, and the recent Health Information Technology initiatives are examples of issues that OPM has been faced with recently and has either succeeded in addressing or has a plan in place.

1. STRATEGIC HUMAN CAPITAL

The Government Accountability Office (GAO) first designated the strategic management of human capital as a high risk area in fiscal year (FY) 2001 for all of Government and it remains on GAO's high risk list as of March 2008. OPM is the Federal human resource management agency, and is charged with ensuring the Federal workforce is managed effectively and efficiently. Government-wide, about one-third of the Federal workforce will be eligible to retire under the new administration in 2012. As experienced employees retire, they leave behind critical gaps in leadership and institutional knowledge, which could adversely affect the Government's ability to carry out its diverse responsibilities. It is essential that OPM, in its human capital leadership role, ensure that agencies are aware of the personnel flexibilities available so that they have the right people in the right jobs at the right time to meet the challenges they face. It will be essential for OPM to ensure that the Federal Government can effectively recruit and retain talented people. OPM is addressing the human capital challenges as described.

To build agencies' sustainable institutional capacity for effective human capital management, OPM worked throughout FY 2008 to strengthen agency human capital accountability programs. In FY 2008, for the first time, all agencies scored with the President's Management Agenda (PMA) were required to submit Human Capital Management Reports (HCMRs) to fulfill the regulatory requirement of Title 5 part 250, Personnel Management in Agencies. Through this reporting process, OPM analyzed agencies' human capital plans, results and improvement strategies, and provided written feedback to agencies. OPM's HCMR analysis formed the basis for Human Capital Officers' ongoing engagement with agencies to transform the management of their workforce.

In FY 2008, OPM's Division for Human Capital Leadership and Merit System Accountability (HCLMSA) promoted the use of flexibilities through ongoing engagement by

Human Capital Officers and through interagency training and information-sharing sessions. OPM tracked the use of hiring flexibilities by agencies scored through the PMA Human Capital Initiative. In addition, OPM continues to work through the Federal Executive Boards to disseminate important human resources flexibilities information to agency leaders in field offices.

OPM has provided a web-based tool, called the Federal Competency Assessment Tool, for managers and human resources professionals to assess competencies against desired proficiency levels to identify gaps. A valuable part of this tool is the inclusion of validated performance management competencies.

In FY 2008, OPM launched a major initiative that took a comprehensive, integrated look at the "End-to-End (E2E)" Hiring Process. The resulting E2E Roadmap is the product of a strong partnership between the OPM and the CHCO (Chief Human Capital Officers) Council Subcommittee for Hiring and Succession Planning. This new approach to Federal hiring is designed to focus on the applicant: his or her expectations, needs and interests. The working group ensured their efforts reflected the following principles:

- A user-friendly application process that is not unduly burdensome or time consuming.
- Clear, understandable job announcements and instructions for applying.
- Timely and informed responses to questions about the requirements and the process.
- Prompt acknowledgement that their application has been received.
- Regular updates on the status of their applications as significant decisions are reached.
- A timely decision-making process.

Past attempts to address hiring processes have taken a component-by-component approach. Based on these previous experiences and agencies' current hiring needs, OPM decided to take a new, comprehensive and integrated approach to Federal hiring. In FY 2008, OPM launched four initiatives, all designed to honor the Federal Government's "Pledge to Applicants" by transforming the hiring experience for applicants, managers and HR. These initiatives are:

- Streamlined job opportunity announcement. In early April 2008, OPM created a new job announcement template for Government-wide entry-level accounting and secretarial vacancies. Since April, OPM has collaborated with the Federal Acquisition Institute, along with the Chief Information Officer Council, and Patent and Trade Office, and the Chief Financial Officer Council (to name a few) in developing additional streamlined job announcements for the acquisition, information technology, patent and trademark, and law enforcement communities. The new templates reduce the length and complexity of traditional announcements. OPM's model is now approximately four pages in length and written in plain language. It eliminates the additional requirement, beyond the resume, for further explaining the applicants' knowledge, skills and abilities.

- Centralized repository of qualified applicants for the acquisition community. OPM brokered an agreement across major agencies and organizations involved in recruitment for the Government-wide mission critical occupations (for example, Contract Specialist). The agreement creates a centralized repository of qualified applicants for entry-level acquisition positions. Participating agencies will be able to draw from this central repository for immediate placement of individuals who have already been certified as qualified for these positions. Currently, participants include the Department of Defense, the Federal Acquisition Institute, OPM and others.

- End-to-End (E2E) Hiring Initiative. OPM joined with the Chief Human Capital Officers Council Subcommittee for Hiring and Succession Planning to transform Federal hiring by strategically integrating and reengineering its five components: workforce planning, recruitment, hiring process, security and suitability and orientation.

OPM disseminated a draft of the E2E Roadmap to all the CHCO Council agencies on July 2, including additional representatives from the small agency community. Thirteen agencies responded with constructive feedback including specific suggestions for changes to the document. Based on this feedback, the Roadmap was revised and reviewed with the interagency working group. The final version was shared with the CHCO Council's Hiring and Succession Planning Subcommittee for approval prior to its Government-wide dissemination on September 1, 2008. In FY 2009, OPM will collect baselines against the Government-wide metrics established in the E2E Roadmap, and will help Government agencies set and meet aggressive targets for improving their hiring against the Government-wide standard.

OPM also undertook a major hiring initiative at the Senior Executive Service (SES) level. The SES Selection Pilot was launched on June 1 to test new approaches to recruiting and assessing potential senior executives. The objective is to enhance the quality of executive selections through a less burdensome application process and more targeted candidate assessment. Less paperwork for applicants should translate into a larger, more qualified applicant pool. OPM's Qualifications Review Board (QRB) process has also been streamlined under the pilot. For the first time, OPM is conducting "virtual QRBs" that do not require board members to meet in person. Response to the pilot has been overwhelmingly positive, with 10 agencies volunteering to participate. Over 40 SES vacancies have been announced to date using one of the 2 pilot application methods, Accomplishment Record or Resume Only. The project is scheduled for completion in early FY 2009. Based on lessons learned from the formal project evaluation, OPM will prepare and disseminate SES selection guidance, which is expected to be available to agencies during the latter half of the year.

As larger numbers of the older Federal workforce retire in the years ahead, critical gaps in leadership and institutional knowledge may result, thereby limiting the government's ability to carry out its various missions and goals. OPM is challenged to continue to ensure that Federal agencies are equipped to acquire, develop, motivate, and retain talent.

2. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately eight million Federal employees, annuitants, and their families. 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, the overall inflation rate related to general health care and prescription drug services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For calendar year 2009, OPM officials stated that the overall weighted average FEHBP premium increase is 7.0 percent. While this is higher than the previous two years, health care industry consultants project employee sponsored health care premium rate increases of between 8.5 percent and 10.6 percent in 2009 depending on the specific industry and type of health plan. Controlling these costs is an area of great concern to the Government (which is responsible for approximately 70 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.

In an on-going effort to ensure that Federal employees, retirees and their dependents have viable opportunities within the FEHBP to obtain health benefits coverage, OPM recently issued a request for proposals to acquire a health benefits carrier to offer a nationwide Indemnity Benefit Plan under the FEHBP beginning in January 2010. The primary purpose of adding the Indemnity Benefit Plan is to mitigate the risk should any carrier with a sizeable share of the market leave the FEHBP for any reason. In addition, the new plan will offer eligible Federal subscribers with another option for comprehensive health benefit coverage. This increased competition should also serve as a mechanism to control costs.

Increases in drug costs have been a major contributor to the rapid growth in health care costs over the last few years, with drugs now accounting for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for FEHBP health plans. Because the FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits, oversight of the PBMs is limited. This year, per our recommendations, OPM established a working group this year to develop steps to strengthen the controls and oversight of the FEHBP pharmacy benefits. To help formulate a better understanding of this area, the group has completed or planned the following activities:

- Conducted a literature search on best practices in managing drug programs;
- Meeting with officials that run pharmacy programs for other large Government sponsored health care programs (i.e., TRICARE, Centers for Medicare and Medicaid Services (CMS), and U.S. Department of Veterans Affairs) to understand the controls that they have established; and,

- Obtaining a consulting contract with industry experts on drug pricing and PBM contract management/oversight to review FEHB carriers PBM contracts.

The long-term goal is to develop options for future enhancements of FEHBP pharmacy programs based on the results of the literature search, CMS/TRICARE benchmark evaluations, and recommendations from the expert consultant.

Further, OPM will have responsibilities and challenges as insurance carriers begin to implement Health Information Technology (HIT) initiatives. HIT (or e-health) covers a broad range of initiatives including electronic personal health records, e-Prescriptions, 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.

In August 2007, President Bush signed an Executive Order related to HIT that commits proposed Federal healthcare programs to four "cornerstone" goals:

- standards for connecting health information technology;
- quality care reporting;
- transparency of health services costs; and,
- providing incentives for quality care at competitive prices.

FEHBP Carrier Letter 2007-07 states that OPM expects all FEHBP carriers to be committed to these four cornerstones. The Program Carrier Letter reiterates OPM's commitment to the cornerstones and to promoting state-of-the-art health information technology. In 2008, OPM issued a second carrier letter (2008-06) in which it restated the expectation that all FEHBP carriers need to continue their important efforts to make fundamental information about health care quality and costs available to consumers. The competitive market for health care can only function efficiently when enrollees can make informed choices to obtain the highest quality care at the most affordable price.

Furthermore, OPM expects proposals for increased health care cost and quality transparency, as well as those promoting the increased use of state-of-the-art HIT. The proposals should demonstrate how the carriers are:

- promoting the use of personal health records (PHR);
- increasing the number of members accessing PHRs;
- expanding information available to members on provider costs and quality; and,
- educating members about the value of HIT and transparency.

Making the FEHBP e-health initiatives a reality will continue to present challenges in the 2009 contract year. First, there are serious unresolved concerns related to security and privacy of e-health systems. A study by the E-Health Vulnerability Reporting Program showed that it was too easy for hackers to access systems and modify e-health records using low-level hacking skills. These issues are of concern to some members of Congress.

Second, the costs and technical challenges for carriers to implement e-health systems are likely to be considerable. In addition, e-prescribing provides additional challenges that include having to buy and install the systems, learning how to use them, and keeping them updated. OPM will clearly face ongoing challenges associated with implementing e-health and e-prescribing in the FEHBP.

3. BACKGROUND INVESTIGATIONS

OPM's Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FISD conducts approximately 90 percent of all personnel background investigations for the Federal Government. With a staff of over 9,200 Federal and contract employees, FISD processed 2.1 million investigations in FY 2008 and will likely process at least that many in FY 2009.

With 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 (EO) 13381 assigns the Office of Management and Budget (OMB) the responsibility for improving the security clearance process. On June 28, 2007, EO 13381 was further amended by EO 13436 and extended through July 1, 2008, reinforcing the Administration's commitment to improving the security clearance process. On June 30, 2008, President Bush signed EO 13467 to ensure the reform efforts currently underway continue beyond his administration.

OPM and the adjudicative agencies have made significant progress in the overall timeliness of the security clearance and investigations program. Data reported for the third quarter of FY 2008 showed 80% of initial security investigations were completed within an average of 54 days and 80% were adjudicated within an average of 20 days. FISD also monitors end-to-end timeliness, which measures the time from the signature date on the security form to the adjudication date for those cases adjudicated. The end-to-end timeliness shows that 80 percent of initial security clearances were completed in 106 days, 14 days ahead of the 120 day target goal.

A number of initiatives and events have contributed to the timeliness improvements.

- Agency use of the electronic Questionnaires for Investigations Processing (e-QIP) for submitting initial security investigations increased from 70 percent at the end of FY 2007 to 89 percent in the third quarter of FY 2008.
- In August 2007, OPM implemented electronic agency delivery, providing total end-to-end electronic processing for agencies with the capability to use these methods. As of September 3, 2008, over 305,000 completed background investigations were sent electronically to five participating agencies, including the Department of the Army, Department of Transportation, and Department of Energy. FISD is working closely with other interested agencies.

- FISD has expanded its use of centralized law enforcement checks through statewide law systems to 15 states, representing approximately 34.5% of FISD's annual law checks. FISD recently approved the transfer of six additional states for centralized processing which will increase the percentage to almost 46%. These centralized law enforcement checks save both time and money, permitting investigative resources to be used more effectively.

More recently, OPM implemented the revised Standard Form (SF) 86 on September 23, 2008 after months of intense work and coordination by dozens of employees from FISD and the Office of the Chief Information Officer. The new form, unveiled in July 2008, is expected to enhance the efficiency and timeliness of the investigations process by including complementary updates to e-QIP. The July 2008 edition of the SF 86 was updated to align with national security guidelines implemented under Executive Order 12968.

Challenges Remain

By the end of 2009, the IRTPA requires 90 percent of initial security clearances to be completed within an average of 60 days (40 days for the investigation phase and 20 days for the adjudication phase). In light of these goals, FISD is continuing to optimize the current process by maintaining adequate staffing; building partnerships with information suppliers; and through greater use of information technology. In addition, FISD's continuing efforts to work closely with national, state, and local record providers should improve the processes for obtaining required information.

FISD is partnering with the Office of the Director of National Intelligence and the Department of Defense for more significant reforms to the overall security clearance processes. This reform effort is challenging traditional processing from application through adjudication. The ultimate outcome of this effort will be a Government-wide system that continues to protect national security for the Federal workforce through more modern processes that are secure, dependable, scalable, and time and cost efficient.

IT SECURITY

In a July 27, 2007 report to Congress (GAO-07-837 Federal Information Security), the GAO stated that "Federal agencies rely extensively on computerized information systems and electronic data to carry out their missions. The security of these systems and data is essential to prevent data tampering, disruptions in critical operations, fraud, and the inappropriate disclosure of sensitive information."

It is the responsibility of all governmental agencies, as well as private industry, to exercise due care and due diligence to protect information and information systems from unauthorized access, use, disclosure, destruction, modification, or disruption. The never-ending process of information security involves ongoing training, assessment, protection, monitoring and detection, incident response and repair, documentation, and review.

As highlighted by the GAO report, we believe that information technology (IT) security represents a continuous environmental challenge that encompasses a wide variety of issues. Some of these issues have been identified through an OMB memorandum to Federal agencies and a Presidential Directive which require all Federal agencies to develop a set of specific IT security controls. The implementation of these controls will strengthen OPM's overall IT security environment. When these are implemented, these specific components of the IT security challenge will be dropped. However, with this ever-growing threat, it is safe to say that IT security will remain an on-going challenge to OPM, as well as all of the Federal Government and private industry.

A. PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Sensitive, personally identifiable information (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, regulations, and OPM policy have also addressed the need to protect sensitive information, 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.

On May 22, 2007, OMB issued memorandum M-07-16 in an effort to ensure that all Federal agencies are taking the appropriate actions to safeguard PII. The memorandum required agencies to:

- develop a "breach notification policy";
- evaluate compliance with Privacy Act requirements; and
- evaluate compliance with various PII security requirements including those outlined in OMB memorandum M-06-16, which requires that agencies enforce security measures that safeguard the integrity and availability of sensitive agency information, specifically information that is accessed remotely and stored off-site.

In an effort to meet the requirements of OMB Memorandum M-07-16, OPM developed an "Information Security and Privacy Policy" that contains breach notification procedures. The policy identifies the internal and external entities that must be notified when a security breach occurs. Although the Information Security and Privacy policy received final approval from OPM's senior management in September 2007, it was not distributed to agency users until September 2008.

OPM has taken several additional steps to ensure its compliance with privacy-related requirements. A "PII Questionnaire" was issued to each of the agency's program offices to

evaluate their current holdings of PII. OPM is also working to reduce the use of social security numbers (SSN) in its systems and programs.

OPM has further implemented several technical security controls to ensure the protection of sensitive data in accordance with OMB M-06-16. This includes ensuring that backup tapes sent to an off-site location are encrypted; that data residing on BlackBerry handheld devices is encrypted; that OPM employees manually encrypt sensitive data on mobile workstations using WinZip AES encryption technology; and that two-factor authentication is required to access agency systems containing PII. However, OPM has not implemented a process for automatically encrypting all data on mobile workstations containing PII or a process for logging and tracking extracts of PII to ensure that they are being appropriately erased after 90 days.

Although OPM has made significant progress toward improving its protection of sensitive data, several PII privacy and security requirements remain outstanding. We recommended in our FY 2008 FISMA audit report that OPM continue its efforts to make the "Information Security and Privacy Policy" available to all agency employees; fully eliminate the use of SSNs; implement a solution to automatically encrypt all data on mobile computers/devices carrying agency data; and develop a methodology for logging computer-readable data extracts.

B. HOMELAND SECURITY PRESIDENTIAL DIRECTIVE 12 – PERSONAL IDENTIFICATION VERIFICATION II

On August 27, 2004, the President signed Homeland Security Presidential Directive 12 (HSPD-12), "Policy for a Common Identification Standard for Federal Employees and Contractors." HSPD-12 requires the development and agency implementation of a mandatory, government-wide standard for secure and reliable forms of identification for Federal employees and contractors.

One critical component of HSPD-12 relates to personal identification verification (PIV II). It calls for all Federal employees and contractors to use a standard smart card credential to verify their identity for secure access to Federal buildings and information systems. OPM is participating in USAccess, a GSA shared service solution for PIV II compliant identity credentials.

OMB Memorandum M-08-01 requires that agencies issue credentials to all Federal employees and contractors by October 27, 2008 (or the date mutually agreed upon by the agency and OMB in the agency implementation plan). The current OPM agency implementation plan has no provision for extending the deadline; therefore, OMB expects full compliance with HSPD-12, with all employees and contractors using a compliant card by the milestone date in the memo.

However, OPM officials estimate that, by this date, credentials will have been issued to only about 65 percent of the Federal employees and contractors who require them. We were told,

but could not confirm, that OMB has recently revised this requirement from 100 percent to 75 percent. We also were told that OPM is working on a new agency implementation plan.

As of September 23, 2008, OPM has:

- Reviewed employee and contractor positions and determined those requiring PIV II credentials for Federal facility access as defined under HSPD-12 guidelines;
- Completed all necessary background investigations for current employees and contractors; and
- Activated and issued over 3,500 PIV II cards (about 30 percent of OPM's estimated 12,000 employees and contractors) through GSA/USAccess processing centers.

It appears that OPM will fall short of the October 27, 2008 milestone when full compliance is required by OMB Memorandum M-08-01. Completing the roll-out of PIV II credentials for all OPM employees and contractors who require cards will remain a significant management challenge for two main reasons. First, there are not enough GSA/USAccess processing centers to accommodate remote OPM employees and contractors. As a result, it takes longer to complete the PIV II card enrollment and final registration process. Second, OPM has a dynamic population of FISD contractors located throughout the country. Identifying these contractors and determining whether PIV II cards are required will be a major challenge, as will negotiating the necessary contract modifications.

To address concerns over the limited number of processing centers, OPM representatives recently attended a consortium of agencies tasked with developing a proposal calling for mobile processing centers to better serve Federal employees in remote locations. Funding sources are being examined to determine whether the proposal will proceed. Also, OPM is continuing to work with FISD to address issues relating to the contractor population.

INTERNAL CHALLENGES

e following challenges relate to current program activities that are critical to OPM's core ssion, and that while impacted to some extent by outside stakeholders, guidance, or uirements, they for the most part are OPM challenges that have minimal external influence. ey are areas that once fully implemented and functioning will in all likelihood be removed as nagement challenges. While OPM's management has already expended a great deal of ources to meet these challenges, they will need to continue their current efforts until full cess is achieved.

RETIREMENT SYSTEMS MODERNIZATION

Processing retirements of Federal employees is a mission critical OPM program. 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 10 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. Once implemented, RSM is expected to:

- Pay accurate retirement benefit payments on time with more efficient and flexible processes;
- Automate retirement processing with active employee data available through recurring electronic feeds from EHRI and agencies;
- Enhance customer service including single-call issue resolution made possible by changing from paper to electronic data;
- Provide modeling tools for Federal employees; and,
- Allow real-time automated and self-service processing.

The functions outlined above were all expected to be part of the Hewitt vendor Defined Benefit Technology Solution (DBTS). With the recent termination of Hewitt as the DBTS contractor, OPM must determine how best to proceed. While numerous accomplishments have been achieved over the past year by the RSM program staff, many more challenges lie ahead, particularly with respect to the automated solution that will calculate and process retirements and provide modeling capability to active Federal employees.

The RSM team must now focus on the new challenge of how to proceed in determining the best solution to obtain a calculation engine that will provide the desired functionality while continuing to remain focused on the following:

- ensuring that agency data received is accurate, complete, useable, and compatible with the technology solution;
- ensuring that the business rules are documented and validated to enable any future solution to correctly calculate annuities of retiring Federal employees;
- ensuring that the technology solution and other systems involved in RSM are secure and compliant with the FISMA;
- ensuring that the users are properly and adequately trained to use the technology solution in order to provide effective and efficient customer service; and,
- incorporating the post-adjudication processes into the new technology.

FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: RELVOLING FUND AND SALARIES AND EXPENSES ACCOUNTS

During the audit of OPM's FY 2007 financial statements, KPMG noted that deficiencies in the operation of the Office of Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E), continue to exist at OPM. A majority of these deficiencies are attributable to OPM's current accounting system, which cannot be effectively configured to capture essential financial information and generate useful and accurate financial reports related to intragovernmental activities and balances.

OPM recently acquired the services of a commercial vendor with demonstrated experience in implementing and maintaining a certified commercial off-the-shelf financial system. Accenture National Security Services will provide software, integration, hosting and operational support services for the Financial Systems Modernization Project (FSMP) under a 10-year Blanket Purchasing Agreement. The FSMP will be implemented in two phases and will integrate and standardize administrative funds, trust funds, and procurement business processes to address regulatory and compliance deficiencies. Phase one will address OPM's RF and S&E accounts. As the implementation process progresses, OPM must ensure adequate oversight of the implementation to include: requirements management, testing, data conversion, systems interfaces, change management, and effective earned value management.

To further improve and modernize its accounting processes, the OCFO, in FY 2006, implemented OPM's first Financial Management Manual providing policy and procedural guidance for the entire Agency, including the RF and S&E accounts. In FY 2007, the OCFO significantly expanded the scope and number of work instructions, providing more detailed procedural guidance to the OCFO staff responsible for accounting operations and reporting, particularly those governing the RF and S&E accounts.

Work instructions for reconciling the Government Financial Information System (GFIS) cash balance to the Fund Balance with Treasury for the RF were completed and implemented in FY 2007. They were revised in FY 2008 to include strict deadlines for the completion of monthly reconciliations. These work instructions have been instrumental and are being used to reconcile cash balances during FY 2008, and all reconciliations have been completed by the designated deadline. Additionally, the RF and S&E staff has taken action to resolve these differences, making correcting entries where necessary.

OPM mitigates the limited capabilities of the existing financial management system (GFIS) by taking additional control measures. These additional controls include the continuation of the engagement of an external service provider (initiated in FY 2007 and continued through FY 2008) to further improve business processes, facilitate data clean up, review access controls, and conduct a business process analysis to facilitate transition to the new financial management system. Another key control has been the establishment of new "issue and reconciliation" meetings between the Center for Financial Services' Revolving Fund Branch and its principal RF customers (FISD, HRLoB, and HRPS). In addition, under the oversight of the Center for Budget and Performance, OPM established a new five-year RF business planning model requiring the review and verification of existing RF accounting and data, and the projection of demand and market conditions into the future.