U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL

Top Management Challenges: Fiscal Year 2021

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2021

October 16, 2020

EXECUTIVE SUMMARY

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The Purpose of This Report.

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. This year, we separated the challenges into four overarching categories of challenges facing the U.S. Office of Personnel Management (OPM) – the shortfall in OPM's funding, which relates to budgetary issues impacting OPM; the financial integrity of OPM's trust funds, which impacts OPM's Federal Employees Health Benefits, Life Insurance and Retirement Programs; information technology; and OPM challenges which are Government-wide.

What Did We Consider?

We identified the four categories 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, the Administration, Congress, or the public; and (4) the issue is related to key initiatives of the President.

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Norbert E. Vint
Deputy Inspector General Performing the Duties of the Inspector General

What Did We Find?

The Office of the Inspector General identified the following four top management challenges:

- Shortfall in OPM's Funding;
- Financial Integrity of OPM's Trust Funds;
- Information Technology Challenges; and
- Government-wide Challenges.

Some of these challenges are due to external factors including, but not limited to, rapid technological advances, shifting demographics, various quality of life considerations, and national security threats that are prompting fundamental changes to Federal Government operations. In addition, some of these challenges involve core functions of OPM that are affected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency must face.

ABBREVIATIONS

DCSA	Defense Counterintelligence and Security Agency
FEHBP	Federal Employees Health Benefits Program
FEI	Federal Executive Institute
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GSA	General Services Administration
IT	Information Technology
NAPA	National Academy of Public Administration
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
PBM	Pharmacy Benefits Manager
TRB	Theodore Roosevelt Federal Building

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Challenge 1

SHORTFALL IN OPM'S FUNDING

In the wake of the massive breach of background investigation data in 2015, the President, via Executive Orders, and the Congress, via the National Defense Authorization Act, transferred the responsibility for conducting all background investigations from the U.S. Office of Personnel Management's (OPM) National Background Investigations Bureau to the Department of Defense's newly created Defense Counterintelligence and Security Agency (DCSA). The background investigation function was a large component of OPM, contributing over $2.24 billion in revenue to OPM's budget in fiscal year (FY) 2019. The transfer of the background investigation function, which was effective October 1, 2019, presented OPM with a $70 million budget shortfall. However, OPM was able to successfully mitigate that shortfall through the Department of Defense's buyback of certain information technology (IT) and financial services from OPM as well as by the inclusion of an additional $34.5 million approved by Congress and signed by the President in the FY 2020 appropriation bill.

While OPM was able to successfully mitigate the shortfall in FY 2020, the problem remains. It is expected that DCSA will continue to buy back IT services through the end of FY 2021. However, OPM transferred ownership of the NBIB legacy systems to DCSA on October 1, 2020, and while OPM is responsible for operating the supporting infrastructure through a buyback of services arrangement through the end of FY 2021, the plan is for this arrangement to end then. Even with the buyback of services, OPM will still have a significant shortfall in FY 2021. Again, OPM will need to work with Congress and the Administration to request additional funding as well as determining what, if any, internal reductions can be implemented.

As will be discussed throughout this report, OPM's budgetary issues are affecting its ability to fund projects that are needed to improve and modernize OPM's IT platform, the processing of retirement claims, and the management and delivery of Federal employee benefits, such as the Federal Employees Health Benefits Program. The challenge for OPM is to fund projects ensuring OPM's IT platform can meet OPM's basic technology needs, as well as formulate its budget to adequately address the modernization needs of the various program offices.

Budgetary Implications of Activities Related to the Proposed OPM Merger with the General Services Administration (GSA)

In June 2018, the Administration published *Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations*. This document includes a plan that would reorganize OPM, including the transfer of a variety of OPM functions to GSA. This plan was also the basis for a May 2019 formal legislative proposal submitted by the Administration to Congress. The legislative proposal would transfer the majority of OPM's current functions and resources to GSA, including Human Resources Solutions, IT, Retirement, and the Healthcare and Insurance programs.

However, the legislative proposal has not been introduced in either chamber of Congress. In fact, as a result of concerns with the Administration's proposal, Congress, in the National Defense Authorization Act for FY 2020, required that OPM contract with the National Academy of Public Administration (NAPA) to complete a study of OPM and provide recommendations to the agency and Congress regarding possible solutions to address identified weaknesses or impediments to OPM's successful completion of its mission. In March 2020, OPM contracted with NAPA to conduct the study at a cost of over $800,000. As the National Defense Authorization Act for FY 2020 was passed in December of 2019, OPM had not planned for the NAPA contract in its FY 2020 budget. The study is currently on-going, with a final report due in March 2021. Congress also created a statutory impediment[1] to the proposed merger by including language in the National Defense Authorization Act for FY 2020 which prevents those OPM functions assigned in law from being transferred to either GSA, the Office of Management and Budget, or the Executive Office of the President until after this final report is received and reviewed by Congress.

Despite this change in context that has put the proposed merger largely on hold, one proposed merger-related activity continued to progress – the revocation of the delegation for OPM to operate and maintain the Theodore Roosevelt Federal Building (TRB) and the Federal Executive Institute (FEI). GSA revoked OPM's authority to operate and maintain both the TRB and the FEI at the request of OPM's former Acting Director. This decision was based in part on the belief that OPM would soon become a "third service" under GSA. Since GSA is the Federal Government's real property manager, it would not be feasible for OPM, as a GSA component, to continue to manage the TRB or FEI. On July 26, 2019, GSA formally notified OPM of its intent to revoke OPM's delegation to manage the TRB and FEI.[2]

GSA has the authority to manage the Federal Government's real property and to delegate that authority to other Federal agencies. Under the OPM-GSA building delegation agreements for the TRB and FEI, either the GSA Administrator or the OPM Director may terminate the delegation at any time. However, it must be noted that OPM's initial decision to request the revocation of the delegations was based on the Administration's proposal to merge OPM into GSA, and, it was decided without conducting an analysis of the full impact on costs and services to OPM. OPM failed to assess whether the requested revocation of the delegations to operate and maintain the TRB and FEI were in the best interest of the Government. Nonetheless, after the proposed merger was put on hold, pending the outcome of the NAPA study, the revocations

[1] National Defense Authorization Act for Fiscal Year 2020, Pub. L. 116–92, § 1112 (2019).
[2] While the July 26, 2019, letters from GSA to OPM refer to the ***intent*** to revoke the delegation, we learned that these letters in fact actually revoked the delegation.

continued, taking on a life of their own, without a full understanding of the financial impact on OPM.

As OPM worked with GSA on the revocation of the delegation to operate and maintain the FEI, the agency became aware of the potential financial impact. The FEI is a residential facility, providing lodging, meals, and fully equipped on-site classrooms in a campus-like setting that operates 24/7, 340 days a year. GSA does not have experience operating a residential facility. In fact, GSA planned to contract for the FEI under its standard level of services, which is based on a building operating 10 hours each day for 5 days a week. This plan would not meet the needs of the FEI and in order to fund all services beyond 10 hours per day would result in an estimated $400,000 annual increase in operations cost for OPM. After many months of review and discussions, GSA asked OPM if it would like to request the return of the delegation to operate and maintain the FEI in January 2020. OPM then worked with GSA to prepare the necessary documents to officially request the return of the delegation to operate and maintain the FEI. The process to return the delegation to OPM culminated with the approval of OPM's request by GSA, which was signed on July 21, 2020. While this is positive news, nearly a year's worth of time and resources were spent, by both OPM and GSA, to return to the same status that existed on July 26, 2019, all because a proper analysis of the costs and the impact of the changes was not completed in advance of the initial decision.

Similarly, the revocation of the delegation to operate and maintain the TRB has the potential to result in a negative financial impact on the agency. In February 2020, OPM completed an initial analysis that showed that revoking OPM's authority to operate and maintain the TRB could result in increased costs of approximately $4.2 million annually. In addition, OPM could potentially be liable for approximately $10.2 million in contract termination fees. Despite the lack of a thorough analysis of the costs and impact on OPM in May of 2019 when the decision to revoke the delegations was first made, OPM and GSA continue to pursue the return of operation and maintenance of the TRB to GSA.

Given that the merger is largely on hold, the outcome of the NAPA study could significantly change the way OPM operates or is structured. In addition, with the lack of a full analysis of the costs and impacts on OPM, continuing to proceed with the revocation of OPM's delegation to operate and maintain the TRB is fiscally irresponsible and places an additional burden on a financially strapped agency as well as the American taxpayer.

Challenge 2

ENSURING THE FINANCIAL INTEGRITY OF OPM'S TRUST FUNDS

In addition to OPM's role as the chief human resources and personnel policy manager for the Federal Government, OPM is responsible for administering Government-wide benefits for Federal employees and their dependents, annuitants, and survivors. The largest of these benefit programs are the:

- Federal Employees Health Benefits Program (FEHBP);
- Federal Employees' Group Life Insurance Program; and
- Retirement Programs.

Statistics related to the retirement, health benefits, and life insurance programs are:

- they have approximately $1 trillion in combined assets;
- there are over 8 million participants in the FEHBP; and
- the retirement programs make more than $7.6 billion in monthly annuity payments.

Protecting the financial integrity and providing effective stewardship of these three benefit programs is an essential part of OPM's statutorily mandated responsibilities. Managing and protecting these trust funds, providing quality and timely benefits, and providing value for the cost are on-going challenges that OPM must address.

Federal Employees Health Benefits Program

As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with health insurance carriers covering the benefits provided and premium rates charged to over eight million Federal employees, retirees, and their families. The ever-increasing cost of health care, including the cost of prescription drugs, is a national challenge, affecting not only OPM. It is an ongoing challenge for OPM to keep these premium rate increases in check while not impacting the level of benefits offered. There are several initiatives that OPM is adopting to meet the challenge of providing quality health care for enrollees, while controlling costs. Examples include deeper analytics of the drivers of health care costs, including pharmacy cost and utilization, and improved prevention of fraud and abuse. However, as previously stated, OPM's budget situation significantly impacts its ability complete research and implement changes and improvements.

<u>Prescription Drug Benefits and Costs</u>

Prescription drugs are a major share of health care costs in the FEHBP, currently representing approximately 27 percent of total health care expenditures. Most FEHBP carriers report an increase in drug costs per member each year. Greater utilization of existing drugs and the high cost of specialty medications contribute significantly to FEHBP premiums. Prescription drug utilization and costs will continue to increase for the foreseeable future, as new pharmaceutical advancements are developed and the rapid growth of the specialty drug market accelerates.

OPM needs to develop an effective, long-term strategy to mitigate and manage FEHBP prescription drug costs, while maintaining overall program value and effectiveness.

Since the inception of the FEHBP in 1960, pharmacy benefits have been provided via participating FEHBP carriers by administering pharmacy benefits internally, or more often, by carriers contracting with a Pharmacy Benefits Manager (PBM) on behalf of their enrolled population. This means that OPM is not involved in negotiating drug discounts, rebates, administrative fees, or other financial terms with PBMs; rather, the FEHBP carriers are responsible for negotiating these contracts on behalf of the Federal Government. Due to this minimal involvement, the negotiated fees (which are ultimately borne by the FEHBP) may not provide the best value to FEHBP members and the American taxpayer.

The need for clear and extensive analysis of the FEHBP drug program cost-saving options is long overdue as the last study was completed approximately 10 years ago. The PBM and prescription drug landscape, as well as delivery and management of prescription drug benefits, has significantly changed since 2010. Our concerns about increasing prescription drug costs warrant the need to evaluate the benefits, delivery, and pricing of FEHBP prescription drugs specifically, including whether carrier PBM contracts provide the best value to the Federal Government and FEHBP enrollees in today's environment. While OPM agrees that an extensive, focused, and independent study of the FEHBP prescription drug benefit should be conducted, the ability, according to OPM, to secure appropriate funding for this study is hampered by the agency's competing budgetary demands.

Federal Employees Health Benefits Program Enrollment and Eligibility

Ineligible family members or other persons improperly enrolled in an FEHBP carrier often go undetected due to the self-certification process used by the FEHBP. Identifying these ineligible dependents is often difficult and largely goes unchecked, resulting in an increased risk of improper payments. While OPM is unable to identify how many ineligible dependents receive benefits from the FEHBP or the total cost to the program, industry-standard estimates published by OPM show approximately 1 to 3 percent of spouses and 4 to 12 percent of children are ineligible for coverage. Applying these estimates to the FEHBP results in potential losses of up to $3 billion annually.

The current process of self-certification by the enrollee, without requirements for the enrollee to submit proof (e.g., birth or marriage certificates), is not effective and exposes the FEHBP to fraud, waste, and abuse. Again, this is an issue that OPM recognizes and is trying to address through the development of a Central Enrollment Portal. However, OPM has not been able to sufficiently fund this project and therefore the timeline to fully develop and implement this needed system is still unknown.

Health Benefit Carriers' Fraud and Abuse Programs

Additional challenges which threaten the financial integrity of OPM's trust fund programs are related to fraud, waste, and abuse that divert taxpayer dollars for inappropriate, unauthorized, or illegal purposes. Aspects of this challenge consistent across OPM programs include:

- ongoing threats from program fraud, waste, and abuse;
- programs that lack adequate controls to support program integrity; and
- high costs of improper payments without accurate accounting of improper payment rates.

In our FY 2020 Top Management Challenges report, we expressed concerns about OPM's delegation of antifraud and program integrity functions to FEHBP health insurance carriers and multilayered environments of contractors (e.g., pharmacy benefit managers). Specifically, we noted this delegation added difficulty for OPM in responding to global fraud, waste, and abuse trends affecting the FEHBP.

The OIG has found weaknesses in FEHBP health insurance carrier (and contractor) efforts to identify and address fraud and abuse by health care providers in a timely and materially relevant manner. OPM requires health insurance carriers to implement plans according to the FEHBP contract to prevent, detect, and correct instances of fraud, waste, and abuse and noncompliance with the contract. However, the implementation of these plans and efforts varies widely among FEHBP health insurance carriers, as does the detection of suspected fraud.

Because substantial fraud, waste, and abuse detection functions are delegated to FEHBP health insurance carriers and beyond, the agency must maintain oversight of how those fraud, waste, and abuse detection and prevention functions are carried out. This includes monitoring that health insurance carriers comply with all contract and agency guidance that serves as extensions of the contract, such as Carrier Letters.[3] While our audits have found that carriers are generally compliant with the fraud, waste, and abuse carrier letter, we have previously expressed concerns about carriers not following reporting guidance for notifying the OIG's Office of Investigations regarding the status of fraud investigations. OPM should continue working with health carriers to ensure compliance with all applicable guidance and enforcement when health carriers are noncompliant.

The OPM Healthcare and Insurance program office's efforts to revise fraud, waste, and abuse-related language in the carrier contracts is a positive step towards protecting program integrity. These changes will hopefully address weaknesses across the diffused and multilayered fraud,

[3] Carrier Letters are defined as sub-regulatory guidance within the FEHBP, primarily issued by the OPM Healthcare and Insurance program office to provide more detailed guidance and definitions for FEHBP related laws, regulations, and contractual language

waste, and abuse programs of FEHBP health carriers and contractors. OPM will need to monitor and evaluate the effectiveness of these changes in protecting the program integrity of the FEHBP. At present, however, fraud, waste, and abuse reporting remains a challenge.

OPM should also continue working on its Health Insurance Data Warehouse project to request sufficient data from FEHBP health carriers for its program oversight and for criminal, civil, administrative, and contract remedies against bad actors who target the FEHBP. Working with these health carriers to create consistent reporting requirements and improving information sharing requirements to create data-driven program integrity functions is essential. Because of the decentralized design of the FEHBP, it will be a challenge for OPM to collect data in a standardized format. OPM should work with the carriers to standardize fraud, waste, and abuse reports, and health claims data to the extent possible in developing its data warehouse system in the future.

Stopping the Flow of Improper Payments

Another challenge to OPM's trust fund financial integrity is improper payments. Improper payments are defined by the Improper Payments Information Act of 2002 as payments that should not have been made, or that were made in an incorrect amount, including both overpayments and underpayments. These improper payments are often the result of fraud, waste, or abuse. Vulnerabilities in program integrity and oversight that allow for improper payments harm the financial integrity of OPM programs and cost taxpayer dollars.

<u>The Federal Employees Health Benefits Program</u>

In FY 2019, OPM reported the FEHBP paid $54.94 million in improper payments with an improper payment rate of 0.10 percent. The OIG has reported that this rate does not include all improper payments that it should, and is therefore understated.

Without a centralized source for claims and enrollment data, barriers persist against quickly uncovering fraud across the entire FEHBP. This difficulty in addressing global issues creates delays in implementing program improvements or investigations, enforcements, or corrective actions.

As we stated in our FY 2020 Top Management Challenges report, the Healthcare and Insurance program office's work with the U.S. Office of Management and Budget to recalculate the improper payment rate is a beneficial step to protecting the financial integrity of the FEHBP. Continued work in this area to come to a truer improper payment rate remains essential. The lack of an agency program integrity group dedicated to the assessment of fraud, waste, and abuse is a persistent challenge to the financial integrity of the FEHBP. Previously, OPM acknowledged potential benefits of a program integrity office but cited costs and other constraints as barriers to implementation. A robust program integrity strategy remains essential to address challenges to the FEHBP. A program integrity group dedicated to identify and assess fraud, waste, and abuse root causes and trends, track improper payments, and address programmatic issues is something the OIG believes would help OPM improve its ability to meet its mission and reduce waste and fraud.

The lack of fully developed program integrity functions for the FEHBP is especially a concern when responding to novel threats to the program. The COVID-19 crisis has presented a new threat to the FEHBP, with emerging fraud schemes a risk to the health and safety of Federal employees, retirees, and their dependents. In addition, the opioid and drug abuse epidemic continues to affect FEHBP members, with progress potentially reversing because of the COVID-19 pandemic's societal and health environment ramifications. The Healthcare and Insurance program office has been proactive in working with FEHBP health carriers to address issues related to care in the pandemic, but increased program integrity functions would further protect those reliant on FEHBP insurance from schemes and bad actors.

Retirement Programs: Federal Employees Retirement System and Civil Service Retirement System

In FY 2019, OPM reported $284.42 million in improper payments related to the disbursement of retirement funds out of its approximately $90 billion in defined benefits paid to retirees, survivors, representative payees, and families. The improper payment rate was calculated to be 0.35 percent. Like the FEHBP, this program is considered susceptible to significant improper payments.

It is a significant challenge for the agency to document and analyze the Civil Service Retirement System and Federal Employees Retirement System program integrity. The lack of a modernized IT environment and the lack of a comprehensive approach to uncovering improper payments have resulted in a low number of fraud referrals to the OIG. For example, in FY 2019, the OIG's Office of Investigations opened more complaints and investigations (72) based on a limited number of proactive OIG projects than were opened based on referrals from OPM's Retirement Services program office (30). The consistently low number of fraud referrals to the OIG seems to indicate that the program office faces challenges in analyzing data to find instances of fraud.

In addition, in its OPM FY 2019 Agency Financial Report, the agency stated, "OPM is unable to provide the level of specificity for the root cause categories to determine which portion of the monetary loss was inside or outside of the agency's control."

According to the Retirement Services program office, root cause analysis is limited because of the reliance on existing legacy systems and outdated IT infrastructure. However, without a sufficient understanding of the root causes of improper payments and program vulnerabilities, a more precise rate of improper payments remains elusive. Better understanding of improper payment root causes will help OPM develop and implement strategies to prevent future fraud, waste, and abuse with more targeted and data-driven solutions.

As in the case of the FEHBP, the lack of an OPM program integrity office (that would be able to conduct the aforementioned root cause analysis of improper payments) remains a challenge for the agency. There is no comprehensive, centralized tracking system to analyze the retirement programs for improper payments. This allows, as many OIG investigations show, improper retirement payments that continue for years and harm the financial integrity of the Federal Employees Retirement System and Civil Service Retirement System.

Risks to the FEHBP from the Opioid Crisis

President Donald J. Trump declared the opioid and drug abuse epidemic a public health emergency in November 2016, a declaration that has been renewed by the U. S. Department of Health and Human Services through the present. The opioid crisis has presented an ongoing and persistent risk to the FEHBP because it inspires fraudulent, wasteful, and abusive activity by bad actors and exploitative providers, as well as through the increases in ancillary costs related to treatment and comorbid conditions related to opioid use disorders.

The OIG recognizes that the OPM Healthcare and Insurance program office has been part of the overall nationwide efforts to reduce opioid-related death. Promoting medication assisted therapy and other initiatives were positive steps. However, the Centers for Disease Control and Prevention's provisional 2019 data has found concerning increases in opioid deaths, and the recent reports from news media and medical sources have raised concerns of severe upticks in opioid-related overdoses because of the health and social environment caused by the COVID-19 pandemic.

It is essential the agency continue its efforts to remove barriers to care for the treatment of opioid abuse. In addition, program integrity improvements related to the collection of claims data and receipt of information from the FEHBP health insurance carriers will benefit the financial integrity of the program. This includes information regarding providers potentially engaging in health care fraud related to the opioid crisis or FEHBP enrollees engaging in doctor-shopping behavior (going to multiple health care providers in order to procure multiple prescriptions for opioids or other drugs of abuse).

Working with existing FEHBP health insurance carrier efforts to overcome the opioid epidemic is also important. The OIG has engaged in discussions with health carriers who proactively identify providers who are potentially overprescribing or prescribing outside the course of best medical practices. OPM should continue to work with health carriers or mandate through its guidance that such or similar information of potential problem providers is transmitted to OPM if those providers treat FEHBP enrollees. By doing so, OPM can better use its existing program integrity controls to protect the FEHBP from fraud, waste, and abuse.

Retirement Claims Processing

Retirement claims processing is yet another challenge to OPM's trust fund financial integrity. In FY 2019, OPM paid approximately $90 billion in defined benefits to retirees, survivors, Representative Payees, and families.

OPM's Retirement Services program office is responsible for determining Federal employees' eligibility for retirement benefits; processing retirement applications for Federal employees, survivors, and family members; issuing annuity payments to eligible retirees and surviving spouses; collecting premiums for health and life insurance; and providing customer service to annuitants.

The timely issuance of annuitants' payments remains a challenge for OPM, especially coordinating retirement benefits between OPM and other agencies for disability benefits and workers' compensation. OPM's Strategic Plan (FY 2018 - 2022), Goal 4's objective is to "[i]mprove retirement services by reducing the average time to answer calls to five minutes or less and achieve an average case processing time of 60 days or less." OPM appears to remain focused on its internal process improvements and external outreach towards other Federal agencies to meet their goal. However, Retirement Services' average case processing time from October 2019 through May 2020 increased to 64 days, which is eight days above the September 2019 case processing average of 56 days and does not meet OPM's Strategic Plan Goal 4 of achieving average processing of "60 days or less."

While the overarching reason for the increase in processing time for retirement cases is not clear, it appears that, based on our recent audit work on retirement disability case processing, disability applications are often incomplete when they are received by OPM, which requires further development of the case before moving to the next phase of processing. In addition, the case management system is a legacy system requiring employees to manually input case information and does not allow Retirement Services to distinguish when cases change from one status to another. For example, if a case that was initially coded as disability retirement should have been coded as a regular retirement case, and the code is changed, the system would still show the initial code. This coding error can lead to processing delays and inaccuracies. Regarding customer service calls, as of September 26, 2020, the average time to answer of 6 minutes and 18 seconds for FY 20 is slightly above the 5 minutes or less identified in Goal 4; therefore, Retirement Services should continue to work on reaching their goal.

Retirement Services is taking steps to strengthen its operations, including:

- Ensuring the accuracy of the age of the cases in the inventory and time to process actions through testing and data validation.
- Developing a reporting system to track timeliness of medical determinations and actions for screening and development.
- Continuing to work with OPM's Office of the Chief Information Officer (OCIO) to investigate technological capabilities to improve processing, reduce wait times, and modernize systems and data.
- Continuing to make progress on its Online Retirement Application.
- Continuing to integrate improvements for correspondence and claims processing.
- Providing monthly feedback to agencies and payroll offices and alerting them of trends and improvement opportunities.

OPM should continue to work on obtaining the necessary resources and technology to ensure that the needs of its customers and stakeholders are met.

Retirement Services Customer Service

Many annuitants and survivors, frustrated that they cannot contact OPM's Retirement Services customer service office, call the OIG fraud hotline for answers. Many of these calls are related to concerns about interim annuity payments made until the final adjudication of retirement claims. In most cases, these interim annuity payments are approximately 80 percent of the projected final gross annuity amount. However, the interim annuity payment can be affected by the FERS supplement (which is not included in interim payments), court ordered benefits, unverified service, and other factors. These complexities make it difficult for new retirees to accurately estimate their interim annuity payments and often lead to questions or concerns.

The underlying causes are legacy systems and manual, paper-based processes that lead to the backlog of cases and long processing times that make interim payments necessary. If OPM had a modern, digital retirement system that could process retirement claims in near real time, there would be no need for interim annuity payments. Exacerbating the situation, OPM's retirement services call center is not equipped to handle the large volume of inquiries from annuitants and survivors (see the next section). Retirement Services believes that the most effective way to improve customer service is to focus on improving operational processes and significantly increasing staffing in the Retirement Information Office. These are problems with long-term solutions.

However, in the short-term, a customer service advocate or Ombudsman could help focus attention and solutions, especially for customers in challenging circumstances. In January 2010, OPM established an ombudsman program; however, the ombudsman function ended in October 2013 and the office that housed it (the Office of the Executive Secretariat and Ombudsman) was reorganized so its functions became part of the Office of the Director in 2017. The OIG is supportive of OPM restoring an ombudsman/customer advocate function at the agency to mediate concerns raised by Federal retirees, their families, and representative payees.

<u>Retirement Services Call Center Issue and Status</u>

Addressing concerns with OPM's retirement program office was a top priority for former OPM Director Dale Cabaniss. She was particularly concerned about the Retirement Services call center amid widespread reports from annuitants of inadequate service and that Retirement Services routinely limited the number of calls to be placed in the answer queue.

Director Cabaniss conducted a site visit to the Retirement Services call center in January 2020. We were told by the former Director that she was so troubled by what she found that she directed the Chief Information Officer to contact U.S. Digital Service, an organization under the Office of Management and Budget. A U.S. Digital Service team was available to begin an immediate review, and Director Cabaniss assigned OPM's Deputy Chief Information Officer to lead the project.

The U.S. Digital Service team produced a report, which although not a complete study, contained several initial findings. OPM established a team in the OCIO to address these findings, which focused on business process and technology improvements. Some of the issues identified include the following:

- There is insufficient capacity to handle call volume.
- Technical support for the IT systems that support call center operations is lacking.
- The call center facility does not have adequate telecommunications capacity.
- The system was configured to inappropriately "throttle" calls during peak volume, leading to excessive wait times and busy signals with no explanation to callers.
- The call center is staffed by Federal employees, which limits the ability to surge staffing during peak times.
- The automated call distribution software is glitchy and requires frequent daily resets, which terminates all calls in the queue, leading to frustrated and unhappy customers.

In April and May 2020, the OPM team partnered with McKinsey and Company on a five-week sprint to address some of these issues. The team worked from the premise that there are solvable problems, and that significant improvement could be realized with simple solutions. There are also longer-term problems that will require time and resources to address.

For example, the team quickly determined that many customers are calling to ask simple questions, or to reset their password on the Services Online system, which is the OPM website that supports Federal annuitants. Call volume peaks when OPM sends annual Internal Revenue Forms 1099-R, Distributions from Pensions, Annuities, Retirement or Profit – Sharing Plans, IRAs, Insurance Contracts, etc. to annuitants. To address these issues, the team recommended simple and low cost solutions like improving outreach, using plain language content on the website, enhancing website search functions, and introducing self-service password resets.

To improve capacity, OPM upgraded telephony and telecommunications circuits, call center infrastructure, and the automated call distribution software to the latest supported version. Call center agents were migrated to the new automated call distribution, with the expectation that there will be improved call handling and volume, with limited downtime or system resets. OPM also implemented interactive voice response in the automated call distribution software, which more effectively routes calls and allows callers to request a callback without losing their place in the queue.

While OPM has enhanced Retirement Services call center operations, fundamental change will require an investment of time and resources and improved business processes. The technology and infrastructure is not optimized for true call center operations. OPM is considering a cloud-based call center solution as a potential future support platform.

From a business perspective, as discussed in some detail in the next section, OPM program office leaders will need to avoid the silo mindset, take an enterprise view, and focus on customers. To some extent, an optimized call center operation is also tied to the overall retirement systems modernization effort. It will be a challenge for OPM to secure the necessary resources to invest in a long-term solution and work together toward a solution that is in the best interest of Federal annuitants and their families.

INFORMATION TECHNOLOGY

Modernization and Transformation

Since the data breaches in 2015, where the personal information of more than 20 million people was compromised, OPM's IT security and operations have been a focus of attention for the agency. While OPM has made significant progress with respect to its technical security environment, consolidation of data centers, data encryption, and multifactor authentication, the agency is still burdened by legacy, mission-critical applications, outdated infrastructure and processes, and an ineffective technology business model. OPM's IT program has also been hampered by inadequate funding and resources for many years.

Frequent turnover at both the OCIO and agency leadership levels have made it more difficult to develop and execute a strategic vision for a modernized IT environment. However, OPM's current Chief Information Officer has articulated a compelling vision for IT modernization that could be successful if it is fully supported by OPM leadership and properly funded over time. OPM commissioned a top consulting firm to conduct an independent, in-depth study to identify a path forward and estimate the costs of fulfilling the Chief Information Officer's vision.

This study resulted in recommendations for a phased approach that starts with modernizing and stabilizing core IT systems and processes, and building an effective organizational structure within the agency's OCIO to implement the modernization initiatives. OPM's Chief Information Officer has often described an IT deficit at OPM that has resulted from years of deferred IT maintenance and inadequate technology funding. The focus of phase one will be to build the foundation for a mature, stable, and consistently implemented IT program that is on par with industry standards.

There are several critical areas that OPM will need to address to achieve its phase one baseline:

- Complete the transition of the legacy National Background Investigations Bureau systems to DCSA.
- Recruit the staff needed to implement a successful IT modernization program.
- Promote an enterprise-oriented mindset to reduce the complexity of OPM's IT environment.
- Secure the funding necessary to achieve the phase one modernization goals.

On October 1, 2020, OPM transferred ownership of the legacy National Background Investigations Bureau systems to DCSA. This move means that the systems are no longer part of the OPM system inventory, and that DCSA is responsible for their maintenance, operation, and modification, and for maintaining the systems' authorities to operate and related security documentation. However, OPM is still responsible for operating the supporting infrastructure under a buyback arrangement with DCSA, which assumed responsibility for the background investigations program on October 1, 2019.

OPM successfully decoupled the legacy systems from other systems in the OPM mainframe environment and is in position to transfer full responsibility to DCSA. However, DCSA is still developing the necessary technical capability and business processes. In the meantime, OPM will need to provide user, infrastructure, network, and security support services. The current plan is to transfer full operational responsibility to DCSA and end the buyback arrangement by the end of fiscal year 2021. This full migration of systems will be a critical move to reduce distraction and risk, and allow management to focus on the modernization effort.

Another challenge for OPM will be to recruit and retain the talent needed to successfully modernize its IT environment. OPM's OCIO is severely understaffed, especially at crucial leadership positions. The OCIO also needs staff with skills well suited for modernization programs such as agile development, cloud architecture, and data/application integration.

As OPM's OCIO builds the right size staff with the necessary talents, it will be critical to replace program office-oriented IT solutions with an enterprise approach. In the past, the OCIO has sometimes been unable to deliver desired IT services, which resulted in some program offices developing their own solutions. This 'shadow IT' causes significant problems, including an overly complex and difficult to secure IT environment. It also creates a culture where the OCIO is not considered a strategic partner in achieving organizational goals. We discussed this problem extensively in our FY 2018 Federal Information Security Management Act audit report (Report No. 4A-CI-00-18-039). Creating an OCIO that can deliver solutions and changing the stovepipe mindset will be a major challenge for the agency going forward.

Perhaps the most important challenge associated with achieving the phase one goal is securing the necessary funding. Complicating this is the funding shortfall caused by the transfer of the National Background Investigations Bureau to DCSA on October 1, 2019. In FY 2019, the National Background Investigations Bureau contributed approximately $18 million more in shared IT services than it consumed, which essentially subsidized IT services for other OPM program offices. The independent study conducted by McKinsey and Company determined that OPM will need between $205 million and $234 million, including funding to account for the shortfall, over three years to achieve this phase one modernization goal, and an additional $55 million per year to maintain this enhanced IT environment.

We have also reported extensively over the last several years about OPM's failure to follow the Office of Management and Budget's capital planning and budgeting processes, and adhere to disciplined project management practices, with respect to previous IT modernization and system development projects. In particular, OPM has not in the past fully developed the business case for change, which should include a well-defined future state and detailed cost estimates to achieve it.

For the first time in many years, OPM is in a position where its Chief Information Officer has combined a persuasive vision with a detailed plan to successfully see it through. If the agency can achieve the phase one modernization goal, it will stabilize its critical IT functions and reduce the risk of compromising sensitive data. It will also position the agency for its phase two transformational goal of achieving seamless, end-to-end business processes based on modern data and infrastructure. For example, the long held vision of automating the federal employee experience from hiring to retirement could be realized.

The agency's challenge is to take advantage of this opportunity, seek appropriate funding, and start on its modernization journey. It will also have to minimize the voices of the self-interested naysayers, and start to change the agency culture to an enterprise-wide mindset that values the role of the federal Chief Information Officer as a strategic business partner who is critical in reaching organizational goals.

<u>Open Audit Recommendations</u>

An important and related challenge for the agency is to take corrective action regarding open, unresolved audit recommendations. In our latest Semi-Annual Report to Congress, we included, as required, a compendium of open recommendations. In this document, we identified a total of 92 unique open recommendations from our annual Federal Information Security Management Act and related information systems audits. Several of these recommendations refer to internal control weaknesses identified as far back as 2008.

Some of these 92 recommendations may have become obsolete, some of them could be addressed through corrective action that would require little effort to implement, but most of the open recommendations are for corrective actions that will require a moderate to significant level of effort and resources to put into place. We have worked with OPM to sort the open recommendations into these groups.

OPM's OCIO has taken steps to address the open recommendations through some recent personnel moves, and by assigning a senior level OCIO staff member to oversee and manage the process of addressing open IT audit recommendations. This should begin to make some progress with obsolete or straightforward recommendations.

However, many of the recommendations relating to more challenging corrective action will depend on progress of the modernization program described in the previous section. For example, there is a longstanding recommendation that OPM implement multifactor authentication at the application level, but this cannot be done until legacy systems are modernized.

OPM has recently begun a new initiative at both the OCIO and agency level to plan, prioritize, and begin to implement corrective action and resolve open recommendations. While this is a welcome development, the challenge for the agency will be to implement the mature governance and enterprise solutions to properly manage corrective action for internal control weaknesses.

Challenge 4

GOVERNMENT-WIDE CHALLENGE

Strategic Human Capital Management

The U.S. Government Accountability Office (GAO) reported in their March 2019 report, *HIGH RISK SERIES, Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, that since 2001, strategic human capital management has been on their high-risk list of Government-wide challenges requiring focused attention. In that report, GAO suggested that in order to mitigate the challenge, OPM needed to fully address the 29 open recommendations in its January 2015 report, which called on the Director of OPM to make more strategic use of Government workforce data by building a predictive capacity for identifying and mitigating emerging skills gaps across Government. The report also recommended that OPM work with agency Chief Human Capital Officers' Councils to bolster the ability of agencies to assess workforce competencies by sharing competency surveys, lessons learned, and other tools and resources. This report is issued every two years and the high-risk list will be updated in 2021.

<u>Skills Gaps Closure Progress</u>

Based on progress reported by OPM in 2018 and 2019, we reported in our FY 2020 Top Management Challenges report that "strategic human capital management remains high-risk because more work is needed to address Government-wide mission critical skills gaps. According to GAO's 2019 analysis of Federal high-risk areas, skills gaps played a role in approximately 49 percent of the Government-wide high-risk areas. Skills gaps within individual Federal agencies can lead to costly, less-efficient government."

Since GAO will issue its report and update its list in 2021, OPM should continue to fully implement GAO's recommendations related to this high-risk area. In addition, they need to continue to develop resources and tools, facilitate best practices discussions, update and maintain its main domain (opm.gov), monitor the Government-wide Federal Action Skills Team action plans, pursue funding to ensure continuous development of Human Resources courses, and launch the competency assessment tool known as CEDAR to support agencies in identifying competency and skills gaps.

Report Fraud, Waste, and Mismanagement

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Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100