

July 1999

RESULTS ACT

Observations on the Office of Personnel Management's Fiscal Year 2000 Annual Performance Plan





G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-283035

July 30, 1999

The Honorable Joe Scarborough
Chairman
Subcommittee on Civil Service
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

As requested, this report provides our observations on the Office of Personnel Management's (OPM) fiscal year 2000 annual performance plan. The Government Performance and Results Act of 1993 (the Results Act) requires executive agencies, beginning with fiscal year 1999, to develop annual performance plans covering each program activity set forth in the agencies' budgets.

Successful implementation of a performance-based management system, as envisioned by the Results Act, represents a significant challenge that requires sustained agency attention. Our observations are intended to assist OPM in its continuing efforts to improve its plan. We assessed whether OPM's plan complies with the criteria set forth in the Results Act and related guidance.

Results in Brief

Past work done by others and us has documented poor workforce planning in federal agencies that can hinder their movement toward performance-based management. Major human capital challenges are also emerging, such as the aging of the federal workforce, skills imbalances that arose during downsizing, and a highly competitive market for the kinds of talented employees federal agencies need to meet modern demands for efficient and effective services. Because OPM is the central management agency responsible for assisting the President and agencies in managing the workforce, OPM's leadership will be critical to addressing the government's human capital challenges.

OPM's fiscal year 2000 annual performance plan provides a general picture of intended performance across the agency. We found that the plan's performance goals address OPM's major programs and priorities. For example, the plan identifies designing a workforce planning, analysis, and forecasting model to be used by agencies to prepare them to deal with future potential staffing challenges as a fiscal year 2000 priority for OPM.

However, OPM's plan could have been more useful to decisionmakers in some areas, if it contained cost-based performance measures to show how efficiently OPM performs certain operations and activities, such as processing civil service retirement payments.

OPM's annual performance plan includes a general discussion of strategies and resources the agency will use to achieve its goals. For each of its goals, the plan discusses a strategy for achieving that goal. For example, the plan discusses OPM's strategy to enhance its information security program by conducting internal and external evaluations of its systems.

OPM's fiscal year 2000 annual performance plan provides a fuller discussion of its performance information than its fiscal year 1999 annual performance plan but overall provides limited confidence that agency performance information will be credible. Although the plan discusses OPM's verification and validation of its performance measures, the discussion does not always provide assurance that the methods used will be reliable. For example, the plan proposes using results of several surveys for verification and validation with response rates ranging up to 57 percent. The plan proposes using survey results of a sample of human resources specialists as a key element in its measurement program, but the survey received only a 29 percent response rate. In general, the lower the response rates the larger the uncertainty about the reliability and validity of the survey results.

Overall, OPM's fiscal year 2000 annual performance plan represents a moderate improvement over the fiscal year 1999 plan in that it addresses a number of the weaknesses that we identified in our assessment of the fiscal year 1999 plan.¹

Background

OPM is the central management agency of the federal government charged with administering and enforcing federal civil service laws, regulations, and rules and aiding the President in carrying out his responsibilities for managing the federal workforce. OPM has policy responsibilities related to hiring, managing, compensating, and separating federal employees. Moreover, OPM endeavors to ensure compliance with civil service policies through a program of overseeing the personnel activities of covered federal agencies.

¹ Results Act: Observations on the Office of Personnel Management's Annual Performance Plan (GAO/GGD-98-130, July 28, 1998).

OPM helps federal program managers in their personnel responsibilities through a range of programs. For example, OPM sponsors various seminars on human resources issues, runs executive and leadership programs, provides guidance, and develops special materials such as its self-paced materials for managers dealing with poorly performing employees. OPM also promulgates regulations related to federal employee benefits, including retirement, health, and life insurance benefits. OPM directly administers all or major portions of these benefit programs, which serve millions of current and former federal employees.

Top OPM officials said they envision OPM as providing human resource management (HRM) leadership for the federal government. Through that leadership, OPM officials said they intend to ensure that the merit principles that are the basis for the federal civil service system are followed throughout the government and that HRM is effective.

As the government's central personnel management agency, OPM has a critical role in ensuring that the Results Act's goal of improved performance throughout the government is complemented by supportive and effective human capital management policies and practices. Although Congress has provided statutory frameworks for financial and information technology management and the Results Act for performance-based management practices, it has not addressed human capital management practices in a systematic fashion since the 1978 Civil Service Reform Act. In the interim, additional challenges to effective human capital practices have arisen.

OPM's success in ensuring that human capital management policies and practices support results-oriented management depends on addressing these emerging challenges. The standard way of managing human resources is under pressure, as Congress and the public expects better performance and agencies compete in an increasingly tight labor market. Agencies like the Internal Revenue Service, the Federal Aviation Administration, and the student financial assistance function in the Department of Education have been granted broad new flexibility in managing HRM with expectations that organizational performance will improve. At the same time, a principal tool for achieving organizational high performance—meaningful recognition of excellent individual performance—is impeded by a performance appraisal system that routinely identifies zero, or virtually zero, employees as performing unacceptably and nearly 80 percent of employees as performing in the highest two performance categories. These and other challenges impose a high expectation for planning, thereby communicating a vision for the

federal workforce, if OPM is to be an effective leader during this period of dynamic change.

The Results Act is intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. Specifically, the Results Act requires executive agencies to prepare multiyear strategic plans, annual performance plans, and annual performance reports. OPM and other agencies submitted their first cycle of agency multiyear strategic plans to OMB and Congress in September 1997. Like other agencies, OPM has now submitted two annual performance plans to OMB and Congress. In these plans, agencies are required to identify annual performance goals that reflect the agency's strategic goals and mission. Agencies initial annual performance plans are submitted to Congress after the release of the President's budget each February.

Scope and Methodology

To develop our observations, we compared the OPM fiscal year 2000 annual performance plan to the Results Act requirements, OPM fiscal year 1999 annual performance plan, and OPM fiscal years 1997 to 2002 strategic plan. We also discussed these plans with OPM staff in Washington, D.C. In addition, our observations were generally based on our knowledge of OPM's operations and programs, our numerous reviews of OPM and federal workforce issues, and other existing information available at the time of our assessment.

Specifically, we used the criteria in the Results Act; the Office of Management and Budget's (OMB) guidance on developing the plan (Circular A-11, part 2); our guidance on assessing agency performance plans;² and our report on agency performance plans,³ which cites examples of practices that can improve usefulness to decisionmakers. We did our work between March and June 1999 in accordance with generally accepted government auditing standards. We obtained written comments on a draft of this report from the Director of OPM. These comments are discussed at the end of this letter and are reprinted in appendix II.

² See Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking (GAO/GGD/AIMD-10.1.18, Feb. 1998) and The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans (GAO/GGD-10.1.20, Apr. 1998).

³ Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers (GAO/GGD/AIMD-99-69, Feb 26, 1999).

OPM's Performance Plan Provides a General Picture of Intended Performance Across the Agency

The plan includes performance goals and measures that address major programs and priorities and provides a general picture of intended performance across the agency. OPM's plan specifies over 100 performance goals, with each OPM unit linking its planned activities and processes to OPM's 5 strategic goals. However, the plan only partially discusses its coordination with other agencies on crosscutting activities and could have been more useful if it had contained cost-based performance goals and measures.

OPM's key responsibilities as a central management agency include providing HRM leadership and services to federal agencies and administering governmentwide compensation, earned employee benefits, and automated information systems. Many of OPM's performance goals address these programs. For example, the Employment Service (ES) has a goal to develop a model for workforce planning, analysis, and forecasting so that agencies can enhance workforce quality for mission-critical occupations, by selecting from a diverse pool of well-qualified applicants and by conducting effective succession planning.

In several cases, OPM's fiscal year 2000 plan also includes projected target levels of performance for multiyear goals. For example, OPM's plan has an objective for fiscal year 2002 to simplify and automate the current General Schedule position classification system, reducing the number of position classification standards from more than 400 to fewer than 100. The plan shows that OPM projects that it will reduce the number of classification standards to 320 by the end of fiscal year 1999 and further reduce the number to 216 by the end of fiscal year 2000.

OPM's plan in several instances makes use of baseline and trend data on past performance to assess and set targeted performance levels. For example, the Retirement and Insurance Service (RIS) reported customer satisfaction rates, claims processing times and accuracy rates for fiscal years 1996 through 1998 and targets for fiscal years 1999 and 2000. Specifically, for customer satisfaction with RIS' claims processing services, OPM reported that in fiscal year 1998, 88 percent of annuitants surveyed indicated an overall satisfaction with the handling of their retirement claims. The proposed customer satisfaction performance goal for fiscal year 2000 is 90 percent. Similar past performance and target data for processing times and accuracy rates were provided.

OPM's plan acknowledges that internal and external reviews and audits have identified internal and management control weaknesses in its financial administrative and trust funds areas. The identification of these

weaknesses and corresponding goals to be met for improvement are a positive step toward improving OPM's operations. The plan states that improving its financial management operations, systems, policies, and procedures is a top priority for fiscal year 2000; and it includes goals to resolve material weaknesses and to improve the Financial Management System, the Employee Benefits System, and internal controls. However, the plan does not detail how these goals will be achieved, and some of the goals appear unachievable. For example, for accounts receivable delinquency, the percentage went from 49 percent in fiscal year 1997 to 37.8 percent in fiscal year 1998. The goal for fiscal year 1999 is 5 percent. Achieving this percentage in fiscal year 1999 seems questionable based on past experience and because OPM does not have total control over payment of accounts receivable. The plan identifies actions the agency plans to take to maintain the integrity of the earned employee benefits trust funds and OPM's appropriated and reimbursable funds, such as expanding overall system capabilities to include functions currently performed by stand-alone systems.

OPM's plan partially addresses the need to coordinate with other agencies and individuals who have an interest in OPM's mission and services. In many cases, the plan discusses OPM's planned efforts to coordinate crosscutting functions with the federal community. For example, OPM's plan states that the agency will work in collaboration with federal agencies, various federal organizations (e.g., Chief Financial Officers, Information Technology Association, Critical Infrastructure Coordination Group), and educational institutions to conduct occupational studies and to develop strategies for recruitment, selection, training, and retention. However, in some cases, a more explicit discussion of OPM's intended coordination with other agencies would be useful. For example, OPM has a performance goal in which information and strategies are to be available to help agencies increase the levels of underrepresented groups in key federal occupations and at key grade levels. The means, or strategies, that OPM proposes to achieve this goal do not describe either the extent or status of OPM's proposed coordination with the Equal Employment Opportunity Commission, the federal agency with responsibility for eliminating the historic underrepresentation of women and minorities in the workforce. In commenting on our report, OPM agreed that they only partially addressed the need to coordinate with other agencies that have an interest in OPM's mission and plans do a better job of this in its fiscal year 2001 plan.

We previously reported that OPM's fiscal year 1999 plan could have been more useful if the plan contained cost-based performance goals and

measures. OPM's fiscal year 2000 annual performance plan also does not contain cost-based performance goals and measures, where it appears appropriate to do so, to show how efficiently OPM performs certain operations and activities. Such measures might include, for example, the cost of doing business per unit of output, such as the cost to process civil service retirement payments made either by electronic funds transfer or check. The Social Security Administration's Fiscal Year 1998 Accountability Report includes operational efficiency measures such as the unit cost to process earnings information and the unit cost to process claims. Cost-based efficiency measures could be useful to managers as they attempt to improve their operations. If such cost-based measures were developed, however, it would be important for OPM's salaries and expenses fund to have accurate financial and cost data. The reliability of this data is not currently determinable since OPM's Inspector General (IG) has been unable to express an unqualified opinion on this fund's financial statements because of inadequate internal controls and standard accounting policies, procedures, and records.

OPM agrees that its performance plan could be improved by including cost-based measures that are related to program outputs and said it will provide such measures in its fiscal year 2001 plan.

The fiscal year 2000 annual performance plan indicates moderate progress in addressing the weaknesses that we identified in our assessment of the fiscal year 1999 annual performance plan. Among improvements in OPM's fiscal year 2000 plan are the addition of explanatory information on the goals and performance measures that help show the relationship among results-oriented goals, measures, and program outputs and services. For example, unlike OPM's fiscal year 1999 plan, OPM's fiscal year 2000 plan includes a goal that explains not only that OPM intends to identify needed changes in all significant OPM program policies but also that the changes are intended to help equip federal agencies to respond to changing human resources and agency needs in the 21st century.

OPM's Performance Plan Provides a General Discussion of the Strategies and Resources the Agency Will Use to Achieve Its Goals

OPM's plan provides a general discussion of the resources the agency will use to achieve performance goals and identifies strategies for achieving each of its performance goals. The plan generally links the agency's strategies to specific performance goals and describes how the strategies will contribute to achieving those goals. OPM's plan could have been improved by identifying how external factors like the current legal framework for the civil service and a highly competitive labor market might affect OPM in achieving its goals and in how it will mitigate adverse effects.

OPM's plan generally relates funding from its program activities, which are frequently managed by dedicated units within OPM, to sets of performance goals. In addition, for a few individual goals, the plan also shows how budgetary resources are related to achieving these goals. For example, to achieve its goal of governmentwide adherence to the merit system principles, OPM's budget request included 9 additional full-time equivalents (FTE) and \$600,000 to increase the number of review sites from 120 to 134 annually (a 12 percent increase) and to augment the provision of technical assistance and oversight of agencies outside the standard civil service system.

Also, OPM's plan includes a goal that its information security program will provide adequate computer security. OPM's strategies for achieving this goal include conducting internal and external evaluations of its systems, such as engaging the assistance of the National Security Agency to review its security capabilities, and implementing appropriate recommendations to improve its security. In addition to training staff, OPM said it would have in place a tested disaster recovery capability for information systems.

OPM's plan also identifies major management challenges raised by OPM's IG, such as internal and management-control weaknesses in its financial, administrative and trust funds. The plan introduces strategies the agency said it will take to strengthen the financial oversight of the employee benefit trust fund, such as expanding overall system capabilities, establishing adequate cost accounting standards, and building on carrier financial reporting requirements implemented in fiscal years 1998 and 1999.

We previously reported that OPM's fiscal year 1999 plan did not discuss external factors that could significantly affect performance. Although OPM's fiscal year 2000 annual performance plan's analysis suggested that its ability to carry out its goals is influenced by several external factors, the plan does not specify how external factors might affect OPM and how the agency is planning to mitigate the effects of these external factors. For example, changes in the labor market may affect recruitment, delivery of employment information, and staffing policies and processes. However, the plan does not identify the likely changes in the labor market or which of OPM's goals would be affected or how.

For many of its program activities, OPM discusses the size and composition, in terms of knowledge, skills, and abilities, of the human capital needed to support the achievement of that activity's performance goals. For example, the ES has designed and implemented a capacity

model that reflects core competencies and skills needed to carry out its mission. Based on that model, ES intends to recruit skilled individuals from a variety of sources. According to OPM's plan, the ES also utilizes a contingent workforce of temporary and term employees and experienced staff from other agencies, who can offer operational experience to supplement its existing professional staff in areas where the ES is designing new and innovative policy. As needed, the ES is to contract with leading private sector companies and contractors to provide functional and technical expertise in application development, Y2K (Year 2000) compliance, operational support, and other areas.

The fiscal year 2000 annual performance plan indicated moderate progress in addressing the weaknesses that we identified in our assessment of the fiscal year 1999 annual performance plan, as it relates to providing a complete discussion of strategies and resources that the agency plans to use to achieve performance goals. In reviewing the fiscal year 1999 plan, we observed that OPM's performance plan could have more fully discussed the strategies and resources that the agency is to use to achieve its performance goals. Among improvements in the fiscal year 2000 plan are some fuller discussions of proposed strategies and resources and their relationships to the performance goals. For example, OPM has a goal to modernize its Central Personnel Data File (CPDF). The performance plan specified that to implement the CPDF modernization, its budget request included \$1,200,000 and five FTEs in fiscal year 2000, as the first installment of a multiyear program to be completed by fiscal year 2002. In addition to allocating the resources among specific tasks, the plan documented strategies that were clearly related to CPDF plan modernization, such as contracting for the design of a CPDF information retrieval system that identifies the most appropriate database management systems and telecommunication requirements and also estimates the maintenance costs.

OPM'S Performance Plan Provides Limited Confidence That Agency Performance Information Will Be Credible

OPM's fiscal year 2000 annual performance plan provides limited confidence that its performance information will be credible. The fiscal year 2000 plan has an overall verification and validation section for its performance measures as well as more specific sections on verification and validation. However, these sections do not always indicate the methods that are to be used to ensure reliability nor do they fully address overcoming known problems, such as not being able to routinely produce valid and reliable financial management data in a timely manner and coming into compliance with the Federal Financial Management Improvement Act of 1996.

Although OPM addresses verification and validation in its fiscal year 2000 annual performance plan, several areas raise concerns. For example, in its overall section on verification and validation, OPM discusses several customer satisfaction surveys that are key elements in OPM's measurement program, with varied response rates of up to 57 percent. One of these surveys, a nationwide survey of a sample of human resources specialists at all grade levels and geographic locations, received only a 29 percent response rate. However, this survey was used to provide baseline data for OPM's strategic goal to provide advice and assistance to help federal agencies improve their HRM programs. Customer satisfaction levels with OPM assistance in various program areas are given based on this initial survey--ranging from 54.3 to 83.7 percent--and a modest 2-percent increase in overall levels of satisfaction is established as a fiscal year 2000 performance target. The verification and validation section for this goal states that ongoing customer service assessment efforts through daily contacts and regularly scheduled meetings provide continuous feedback about program delivery and customer service. Also, plans to develop an executive survey are cited.

At this point, it appears too early to tell how well OPM will be able to verify and validate information related to this performance measure due to the low survey-response rate and the prospective nature of other verification methods. Lower response rates generally increase the uncertainty about the reliability and validity of the survey results. OPM acknowledges the low response rates for its surveys but believes enough surveys were returned to provide confidence in using the data to establish baselines for improvement. In addition, OPM plans to take steps to improve the response rates in the next year. For example, OPM said it is (1) making changes to the survey-delivery process to reduce the impact of undeliverable surveys, (2) shortening the questionnaires and revising specific questions to ensure that survey respondents are not confused by them and therefore reluctant to fill out the surveys, and (3) providing more follow-up to survey recipients. In addition, OPM plans to administer the survey at other times than in the summer.

OPM's Office of Contracting and Administrative Services has several quantitative goals and measures. These goals include reducing procurement costs and reducing telecommunications costs. OPM's related performance measures include reduced cost of purchases, as a result of increased purchase-card use and lower monthly charges for telecommunications due to corrections of billing errors. The corresponding verification and validation section is short and states "Compile data from existing tracking systems and refine tracking system

as necessary.” This does not appear to be an adequate verification and validation section. Rather, a discussion on how the data are to be verified, such as through periodic audits of data, would seem more appropriate.

In some cases, the plan’s verification and validation sections cite the financial audits performed under the Chief Financial Officers Act as the source of data verification. For example, OPM’s Retirement and Insurance Service states that the identical performance information is reported in the Program Performance Overviews of OPM’s Annual Financial Statements and, therefore, is included in the independent audits of these statements. However, a measure that is reported in the overview of an audited report actually may not have been audited. For example, the report on OPM’s fiscal year 1998 retirement program financial statements stated that the information in the overview of the retirement program was not audited. For fiscal year 1998, as in past years, OPM’s salaries and expenses and revolving funds continued to receive disclaimers of opinion on their financial statements. To have reliable financial data, OPM would need to receive unqualified opinions on all its financial statements. In addition, specific cost data would also need to be audited to ensure the accuracy of performance measures. On a positive note, the fiscal year 1998 financial statements of OPM’s Retirement, Health, and Life Insurance Programs received unqualified opinions.⁴

For fiscal year 1998, all five of OPM’s programs were reported by its auditors as not complying with the Federal Financial Management Improvement Act of 1996. The three benefit programs (retirement, health, and life insurance) were reported as being in noncompliance because of their (1) core financial management system, (2) recording of transactions, and (3) financial management system not supporting all program decisionmaking. OPM’s fiscal year 2000 annual performance plan does not specifically address its noncompliance with the Federal Financial Management Improvement Act of 1996. However, it does have several goals to make improvements in this area, such as its goal to improve financial systems and receive unqualified opinions on its financial statements.

Overall, OPM’s fiscal year 2000 plan provides limited confidence that the data used to measure performance would reflect actual performance. The plan’s recognition that data reliability is important is a good step. But, data integrity is critical to the success of any performance measurement

⁴ An unqualified opinion means that in the opinion of the auditor, the financial statements are presented fairly, in all material respects, in conformity with the applicable basis of accounting.

initiative, and as such, decisionmakers must have assurance that the program and financial data being used are complete, accurate, and reliable. The fiscal year 2000 annual performance plan would be improved if OPM were to describe the major controls it plans to use to verify and validate performance information on an ongoing basis. Such controls could include periodic data reliability tests, computer edit controls, and supervisory or independent review of data used to develop performance measures. The fiscal year 2000 plan relies on many different types of data for its measures and indicators. Although OPM may not be able to verify all data in a given year, it should be able to do so over a period of time. Thus, a schedule showing when data are to be verified, by whom, and how would provide useful information. OPM said it would be improving future plans by strengthening discussion of the verification and validation of its performance information.

OPM's fiscal year 2000 annual performance plan indicated moderate progress in addressing the verification and validation of data weaknesses that we identified in our assessment of its fiscal year 1999 annual performance plan. For example, it included specific goals for improving the reliability of some data, such as those provided by the salaries and expenses fund. However, in other areas, the fiscal year 2000 plan does not provide assurance that reliable data will be used because of low survey-response rates or because of reliance on financial audits that generally do not provide assurance that performance measures are reliable. The fiscal year 2000 plan also fails to identify or discuss any significant data limitations and their implications for assessing the achievement of performance goals.

OPM's Fiscal Year 2000 Annual Performance Plan Presents a Moderate Improvement Over the 1999 Plan

In reviewing the fiscal year 1999 annual performance plan, we observed that the plan's goals typically were activity or output oriented rather than results oriented, and that the plan could also be improved by including more information on how resources would be used to achieve goals. We also noted that the fiscal year 1999 annual performance plan did not discuss known data limitations that could affect the validity of various performance measures that OPM had planned to use. Among improvements in the fiscal year 2000 plan are the increased number of results-oriented performance goals and quantifiable measures and the use of baseline and trend data for past performance. For example, the plan includes a goal to further simplify the General Schedule classification system to fewer than 225 classification standards and another goal to maintain or increase the fiscal year 1999 level of customer satisfaction, processing times, and accuracy rates for processing new claims for annuity and survivor benefits.

Agency Comments and Our Evaluation

We provided OPM a copy of our draft report on its fiscal year 2000 annual performance plan and on July 19, 1999, the Director of OPM provided us written comments. The Director said OPM officials were pleased to receive our overall favorable review of its fiscal year 2000 annual performance plan and were particularly pleased that we noted many improvements—often made at our suggestion—compared with its fiscal year 1999 plan. The Director also agreed that some areas in OPM’s future plans would need more attention. Finally, she suggested some corrections and offered a few comments that we have addressed and incorporated into this report as appropriate.

OPM concurred that it has a critical role in ensuring that the Results Act goal of improved performance throughout government is achieved and said it has taken steps to provide agencies a performance management framework to achieve that result. OPM said that until timely, reliable, and objective measures of output and outcome efficiency and effectiveness are readily available, managers will remain reliant on less meaningful measures that are more vulnerable to inexorable inflationary pressures and that fail to support making robust distinctions among levels of performance. OPM also said it looks to leaders of the program and financial communities, including GAO, to improve the availability of better measures. We are encouraged that OPM has expressed concern that current measures for assessing employees’ performance have been subject to inflationary pressures and fail to support robust distinctions among levels of performance. We look forward to progress in achieving a performance management framework that more realistically differentiates among employees’ performance and supports an effective pay-for-performance approach.

In relation to our observation that a 5-percent accounts receivable delinquency rate seems unachievable in fiscal year 2000, OPM said it established the 5-percent delinquency rate for this fund as a “stretch goal.” OPM said that it has collected over \$7 million and resolved over \$2 million in accounts receivable that have been delinquent for many years. In addition, OPM said that a comprehensive analysis of the collectibility of all these accounts and the appropriate level of the “bad debt” allowance is in progress for all the revolving fund programs/subfunds. OPM also said that it is working aggressively with its programs and customers to achieve its “stretch goal.” We believe this more complete description of OPM’s efforts to reduce accounts receivable delinquencies provides a better perspective on the commendable, but challenging, goal OPM has set for itself.

Concerning our observation that OPM's plan had only partially addressed the need to coordinate with other agencies that have an interest in its mission, OPM said future plans would describe more fully how it regularly coordinates with other agencies. In response to our specific example regarding OPM's coordination with EEOC, OPM said that both agencies jointly identify, using OPM's Federal Equal Opportunity Recruitment Plan report, where underrepresentation exists and where "best practices" are in place that have a positive impact on the historical underrepresentation of women and minorities in the workforce. OPM said that its fiscal year 2001 plan will clearly describe that OPM and EEOC share the common objective of seeking a diverse federal workforce and that both agencies continue to work together toward that goal.

OPM agreed that its performance plan could be improved by including cost-based measures that are related to program outputs. OPM said that it has tracked such measures for internal management purposes for many years and will include them in the Transfers From the Trust Funds Section of its fiscal year 2001 plan. Specifically, regarding its salaries and expense fund, OPM said it maintains a disciplined work-reporting system that tracks the cost of salaries; and in fiscal year 2000, it plans to develop and begin testing data validation reviews to ensure the accuracy of its cost-based measures. We believe that OPM's plans could be more useful if they contained cost-based performance goals and measures, and we look forward to OPM's plan including this data in fiscal year 2001.

OPM shares our concerns about the response rates to several of the surveys used in its measurement process. On the basis of OPM's comments, we included additional information in this report on OPM's plans to improve the response rates in future years.

In relation to our observations on the results of audits of OPM's financial systems, OPM stated that the most recent fiscal year 1998 audit of the three benefit programs administered by OPM resulted in an unqualified opinion. OPM also stated that, effective October 1, 1998; a new financial system was implemented for these programs, which is fully compliant with OMB Circular A-127. Although we have not reviewed these systems, we commend any progress toward achieving unqualified opinions.

Finally, OPM said it would strengthen its discussion in future plans on steps it has taken to assess the validity of its performance plans.

We are sending copies of this report to the Honorable Elijah E. Cummings, Ranking Minority Member of your Subcommittee; the Honorable Janice R.

Lachance, Director of OPM; appropriate congressional committees; and other interested parties. We will also make copies available to others on request.

This report was prepared under the direction of Steven J. Wozny, Assistant Director. Clifton G. Douglas was also a major contributor to this report. Please contact Steven J. Wozny or me at (202) 512-8676 if you or your staff have any questions regarding this report.

Sincerely yours,



Michael Brostek
Associate Director, Federal Management
and Workforce Issues

Contents

Letter	1
Appendix I Management Challenges	18
Appendix II Comments From the Office of Personnel Management	20
Tables	Table I.1: Management Challenges at OPM 18

Abbreviations

CPDF	Central Personnel Data File
EEOC	Equal Employment Opportunity Commission
ES	Employment Service
FTE	full-time equivalent
HRM	Human resource management
IG	Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RIS	Retirement and Insurance Service

Management Challenges

In January 1999, we reported on governmentwide major management challenges and program risks that must be addressed to improve the performance, management, and accountability of federal agencies. The Office of Personnel Management (OPM), as the federal government's central personnel agency, has a leading role in many of these areas. In December 1998, OPM's Office of Inspector General (OIG) reported on the 10 most serious management challenges in OPM. The following table lists the issues covered in those two reports and the applicable goals and measures in OPM's fiscal year 2000 annual performance plan.

Table I.1: Management Challenges at OPM

Management challenges	Applicable goals and measures in the fiscal year 2000 annual performance plan
Y2K readiness (GAO governmentwide high-risk)	OPM's information technology systems will operate properly on and after 01/01/00, and an effective contingency plan will be in place.
Information security (GAO governmentwide high-risk)	OPM's information security program will provide adequate computer security commensurate with risk and magnitude of potential harm. Performance indicators include few security problems are identified, and those identified are not material and are rectified promptly; a tested disaster recovery capability that is in place for OPM's general support and major financial, benefits, and workforce information systems.
OPM lacks specific, measurable, and results-oriented long-term goals in its strategic plan and annual goals that met these criteria in their performance plan (OIG)	OPM's fiscal year 2000 annual performance plan contains more results-oriented performance goals and measures than its fiscal year 1999 annual performance plan. No changes had been made to the OPM strategic plan.
OPM must implement the retirement system modernization initiative (OIG)	Accelerated information technology solutions for a modernized retirement system are designed, developed, and implemented.
Financial management policies and procedures are not documented correctly (OIG)	Financial policies and procedures are documented as planned. By mid-fiscal year, complete and distribute an internal Financial Management Manual that will document the policies and procedures used in processing and recording financial transactions.

**Appendix I
Management Challenges**

Management challenges	Applicable goals and measures in the fiscal year 2000 annual performance plan
There are inadequate controls over the accuracy of annuity payments (OIG)	Increase accuracy rates for processing new annuity and survivor benefit claims over fiscal year 1999 levels as follows: 96 percent for Civil Service Retirement System annuity claims; 95 percent for Federal Employees Retirement System annuity claims; and 99.9 percent overall accuracy from annuity roll audit.
Debt collection and the accounts receivable processing systems are weak (OIG)	Accounts receivable delinquency of 2 percent (compared with the fiscal year 1999 goal of 5 percent). Achieved timeliness of at least 99 percent of collections (compared with the fiscal year 1999 goal of 95 percent).
Inadequate internal controls related to the accuracy and completeness of payroll withholdings and information provided by other agencies (OIG)	Fiscal year 2000 annual financial statements for all three-benefit programs, published in fiscal year 2001, receive "unqualified" opinions. The audit report on the benefit programs' fiscal year 2000 financial statements, published in fiscal year 2001, describe no new material weaknesses in internal controls.
Enhanced oversight is needed for financial management of the Federal Employees Health Benefits Program (FEHBP) (OIG)	None specific to FEHBP, but the above goals and indicators apply to FEHBP financial statements.
Unreconciled discrepancies between OPM's general ledger accounts and Treasury records (OIG)	Reconcile cash account differences with Treasury within 30 days (same as fiscal year 1999 goal). Improved responsiveness and on-time compliance for financial reporting to OMB and Treasury. (No measure for "improved.")
Material weaknesses in accounts payable processing and reporting (OIG)	All material weaknesses are resolved and the Financial Management System, the Employee Benefits System, and internal controls are improved. Achieve timeliness of at least 98 percent for payments.
Inadequate controls over investments (OIG)	All material weaknesses are eliminated. Improved audit results from independent public accountant, IG, and GAO. Fiscal year 2000 trust fund annual financial statements receive unqualified audit opinions from an independent auditor.

Comments From the Office of Personnel Management



OFFICE OF THE DIRECTOR

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-0001

JUL 19 1999

Michael Brostek
Associate Director, Federal Management
and Workforce Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Brostek:

We were pleased to receive your overall favorable review of Office of Personnel Management's FY 2000 Annual Performance Plan, and particularly pleased that you noted so many of the specific improvements we made over the previous year's Plan. All of us at OPM believe in the usefulness of the Results Act process and take our actions in this area very seriously. I believe this commitment led to the significant improvements you identified in your review. Many of our changes were made in response to your suggestions, and we appreciate your assistance in making the Plan better.

We also agree that there are some areas which need more attention in our future Plans. For example, we will expand our discussion of data limitations, and will continue to implement better approaches to data verification and validation. In the latter regard, I was pleased that GAO, in a soon-to-be-issued separate report, has cited ten of our current actions as reasonable practices for other agencies to consider in their own approaches to this difficult area.

There are some specific corrections I would appreciate being made in the final report, as well as a few comments that will be useful to other readers. These corrections and comments are enclosed.

Sincerely,

Janice R. Lachance
Director

Enclosure

CON 131-64-4
September 1993

Corrections and Comments:

1. Leadership in improved performance, page 7

We concur with the report's statement that OPM has a critical role in ensuring that the Results Act goal of improved performance throughout Government is reached, and in that regard, we have taken significant leadership steps to provide agencies with the performance management framework to achieve that result.

The performance appraisal systems Federal agencies currently use reflect the transition that is occurring throughout Government as the shift continues from measuring process to results. Under the deregulated, decentralized policy framework OPM achieved in 1995, agencies are free to adopt measurement approaches such as 360-degree assessment and balanced scorecards that can help them refocus attention on group performance and real outcomes. We also provide technical assistance and models — increasingly via the Internet — for aligning employee performance plans with organizational goals, for using results-oriented appraisal and awards programs, for appraising and rewarding team performance, for evaluating appraisal and awards programs, and for laying the important measurement groundwork that must be in place for any effective pay-for-performance approach to succeed. GAO's report mentions the Internal Revenue Service personnel system changes; OPM helped IRS to craft these system changes so that their performance management would balance (1) using retention standards to maintain individual accountability with (2) establishing goals and objectives for improvements in individual, team, and organization performance.

OPM looks to the leaders of the program and financial management communities, including GAO, to emphasize and improve the availability of timely, reliable, objective measures of output and outcome efficiency and effectiveness. Until managers have such measures readily available for assessing and managing employee performance at the organizational, team, and individual levels, they will remain reliant on less meaningful measures that are more vulnerable to inexorable inflationary pressures and that fail to support making robust distinctions among levels of performance.

2. Accounts Receivable Performance Goal, page 11

The GAO report notes that our goal to achieve a 5% accounts receivable delinquency rate seems unachievable, given the FY 1998 rate of 37.8%. We established the 5% delinquency rate as a "stretch goal" for FY 1999. While it is too early to project an end-of-year percentage, over the past few months we have made strong progress toward this goal, collecting over \$7 million and resolving over \$2 million in accounts receivable that have been delinquent for many years. In addition, a comprehensive analysis of the collectibility of all these accounts and the appropriate level of the "bad debt" allowance is in progress for all the Revolving Fund programs/subfunds, which account for almost all of the accounts receivable. We will continue to work aggressively with our programs and customers to achieve our "stretch goal."

Appendix II
Comments From the Office of Personnel Management

3. Coordination with the EEOC, page 12

The GAO report comments that we have only partially addressed the need to coordinate with other agencies with an interest in OPM's mission. In future Plans we will be sure to describe more fully the coordination which we, of course, carry out regularly. In regard to the specific example included in the report, coordination with the Equal Employment Opportunity Commission (EEOC), our FY 2001 Plan will clearly describe that OPM and EEOC share the common objective of seeking a diverse Federal workforce and continue to work together toward that goal. For instance, EEOC and OPM jointly identify, using OPM's Federal Equal Opportunity Recruitment Plan (FEORP) report, where underrepresentation exists and where "best practices" are in place that have a positive impact on the hiring and advancement of women and minorities in the Federal workforce.

4. Cost-based Measures, page 13

The GAO report makes several comments about the need for cost-based performance goals and measures, and offers several specific suggestions, particularly in the area of OPM Trust Fund activities. We agree that OPM's performance plan could be improved by including cost-based measures that are related to program outputs. We have tracked such measures for internal management purposes for many years and will include them in the Transfers from the Trust Funds Section of our FY 2001 Performance Plan. These indicators will focus on the cost of processing retirement and survivor benefit claims and providing on-going customer service and account maintenance activities. This information will be used to track the potential savings that the new benefits calculator, the implementation of telecommunications technology, and other efficiencies resulting from our Retirement Systems Modernization Project are having on our Retirement Program operations.

We understand GAO's concerns regarding our salaries and expense fund and the effect this may have on our ability to rely on cost-based measures for retirement and survivor benefit claims processing. Despite the identified weaknesses in the internal controls and accounting procedures, the record should be clear that we maintain an established and disciplined work reporting system through which we are able to track the cost of salaries and benefits dedicated to all OPM financial programs/accounts, including the Retirement Program. Further, we have already made plans, to be implemented in FY 2000, to develop and begin testing data validation reviews to ensure the accuracy of these cost based measures.

5. Survey Response Rates, page 20

The GAO report raises concerns about the response rates to several of the surveys used in our measurement process. We share these concerns, and, as the report notes, have taken steps to improve the response rates in future years. For example, we are making changes to the survey delivery process to reduce the impact of undeliverable surveys; we are shortening the questionnaires and revising specific questions to ensure the survey respondents are not

Appendix II
Comments From the Office of Personnel Management

unnecessarily confused and therefore reluctant to fill out the survey; and we are administering the surveys at times other than the summer, which has been hypothesized to have a negative impact on response rates.

6. Audited Financial Statements, page 22

In reference to the specific comments made about the results of audits of our financial systems, we would like for the record to reflect that the most recent FY 1998 audit of the three benefit programs administered by OPM resulted in an unqualified opinion. Effective October 1, 1998, a new financial system was implemented for these programs that is fully compliant with OMB Circular A-127 and the JFMIP financial systems requirements. In addition, we are working hard to obtain an unqualified audit opinion on the two remaining OPM accounts.

7. Validation and Verification of Performance Measures, page 23

In addition to the new steps we noted earlier to assess the validity and usefulness of our performance measures, we will also strengthen our discussion of many of our long-standing practices in this area. An example is several existing quality control procedures that are used in the Retirement and Insurance Service to check work processing statistics and accuracy of death claims processing.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Order by mail:

**U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touch-tone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

