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FEDERAL RETIREMENT PROCESSING: ENSURING PROPER AND TIMELY PAYMENTS

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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FEDERAL RETIREMENT PROCESSING: ENSURING PROPER AND TIMELY PAYMENTS

WEDNESDAY, FEBRUARY 1, 2012

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:31 p.m., in Room 342, Dirksen Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka, and Johnson.

Also present: Senator Warner.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. This hearing of the Subcommittee on Oversight of Government Management (OGM), the Federal Workforce, and the District of Columbia will come to order.

Aloha and welcome, everyone. Thank you for being here for today's hearing, which will focus on processing Federal retirements. I just want to clarify that it will not address Federal retirement benefits or the status of the Civil Service Disability Fund.

Discussing the administration of Federal retirement benefits is timely and important. Recent news articles have told us stories of people waiting months on end for retirement benefits while millions of dollars are improperly paid to annuitants who have passed away. That is the kind of publicity the Office of Personnel Management (OPM) has had, but it is changing. This is not the type of Federal Government that will regain the faith of the American public and is not a government living up to the potential that I know it has.

As the Federal Government's human resource agency, the Office of Personnel Management (OPM) administers retirement benefits for roughly 2.5 million Federal retirees and processes approximately 100,000 new claims each year. OPM uses a system that is mostly paper-based. Over the past 24 years, the agency has embarked on a number of information technology (IT) projects to automate retirement processing, most of which were contracted out to private companies at that time. Each one failed after millions of dollars and years of development were poured into them. The Government Accountability Office (GAO) found that management weaknesses like poor contracting oversight were the source of

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OPM's troubles. I look forward to hearing more about how the agency will improve its management of IT projects and how it will approach the need to modernize in the future.

Failed IT contracts are at the root of OPM's current challenges. OPM reduced its retirement staff significantly through attrition from 2005 to 2009 in anticipation of an automated system that never materialized. The result is a backlog of over 48,000 claims that the agency is struggling to address.

To recapture some of its lost processing capacity, OPM plans to hire 56 new adjudicators. According to OPM, the average wait for a full annuity is 5 months, and people quickly receive interim payments that are approximately 80 percent of what their final annuity is later determined to be.

Although those statistics are not good, as Members of Congress, we all hear stories from retirees who have even worse experiences. News articles and constituent calls describe a system where people wait up to one year to receive full benefits while living off a small percentage of their final annuity.

Today, I hope to gain a better understanding of how OPM will eliminate the backlog. In the meantime, it must make sure no one waits this long and that interim pay is more accurate, even for those with complex retirement applications. I know there has been improvement made and we will hear some of that today.

Another common concern from recent retirees is poor customer service. I understand that OPM's new strategic plan addresses this. I look forward to hearing more about how the plan creates more efficient retirement processes and increases the effectiveness of its customer service.

In this era of financial constraints, every effort must be made to safeguard our tax dollars. I am troubled by the improper payment recommendations from the Inspector General (IG) that date back to 2005. They highlight inadequate internal controls to detect and prevent waste. This has resulted in some $600 million being paid to deceased annuitants over the past 5 years. While these large improper payments are unacceptable, they are well under one percent of the agency's total annuity payments.

OPM has also made progress on implementing the Inspector General's recommendations; it reduced the number of improper payments made in the last year, and recovered most of the payments. However, OPM must do even more to prevent this sort of waste from happening, and I am sure we will hear some of those improvements.

I appreciate our witnesses' dedication to improving the Federal retirement system, particularly Director Berry, whose willingness to be held accountable and his resolve to reform broken processes are encouraging. I look forward to hearing from him and our other witnesses as we try to find solutions to these important issues.

I am pleased that the Subcommittee's Ranking Member, Senator Ron Johnson, is here today and I am going to call on him for his opening statement. Senator Johnson.

OPENING STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thanks, Mr. Chairman and aloha. That is always fun to say.

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Senator AKAKA. Aloha.

Senator JOHNSON. I would like to thank the witnesses for coming on this beautiful, almost Hawaiian-like weather day here. I am looking forward to your testimony.

Mr. Chairman, I think you have stated the case pretty well so I do not think I need to repeat too much, other than just to basically say what I am going to be interested in hearing is what we can do to improve the system, obviously. I do not quite understand what is so difficult about computerizing the system, so we are going to want to get into that.

And I will certainly want to question why we would want to put on additional individuals. Just as I do the math, if you take a look at the number of people that are basically retiring, divide it by the number of people, my calculations come up with about three applications, or about three per day per individual, which does not seem like a particularly onerous workload, and so I am going to want to find out what is so complex about determining eligibility in these cases.

Mr. Chairman, as you mentioned, $600 million paid to deceased individuals over the last 5 years, we are certainly going to want to explore how that can happen, and probably even more important, how can we prevent it in the future.

I know you said that this is not necessarily going to be about the level of pay and benefits, but there have been a couple of studies released just recently talking about the level of Federal pay in relationship to the private sector and I think that is something we may want to discuss a little bit, as long as we have Mr. Berry here, because I think it is extremely important in a period and time where we are running, last year, $1.3 trillion a year deficits, this year projected over a trillion dollars. I think we are all in agreement, we do not want to underpay individual who work for the Federal Government or any public sector employee, but we simply cannot afford to overpay them. So I think we need to take a look at that and those types of studies that benchmark Federal pay and benefits with the private sector are, I think, just extremely important and, I think, valid, because after all, it is the taxpayers that do pay the taxes to pay the salaries. I think it is just something that is very important.

Again, with that, I want to again thank the witnesses and look forward to your testimony.

Senator AKAKA. Thank you very much, Senator Johnson.

I am pleased to welcome Senator Mark Warner as a guest of the Subcommittee. Although Senator Warner is not a Member of the Subcommittee, he represents a large number of Federal workers and has been engaged on these issues. Senator Warner, will you please begin with your statement.

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. Aloha, Mr. Chairman——

Senator AKAKA. Aloha.

Senator WARNER [continuing]. And let me thank you and Ranking Member Johnson for the courtesy to let me sit up here and, again, be part of this very important hearing. I just want to take a couple minutes because I do want to get to the witnesses.

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But as you mentioned, I have 140,000 retirees in Virginia and we have some pretty upset folks. We have members from my staff here who receive the calls of frustrated retired Federal workers on a daily basis. Mr. Chairman, I wish the returns were just—the delay were only 12 months. Literally, just today, we worked on a case where a Federal retiree had waited 17 months to get their retirement benefits. Now, next month, she is going to get $50,000, but she has had to wait 17 months to get those benefits that were due to her.

It is not just Virginia. We actually had somebody, a Colorado retiree who was getting 50 percent of her benefits. I wish that the retirees who were waiting this extended period of time were getting 80 percent. We are finding many getting zero or 50 percent. This woman was getting 50 percent for 12 months. She finally got so frustrated with the bureaucracy, got in her car and drove here demanding answers. Now, that is just not the level of customer service, government service. It accentuates all of the kind of worst images of Federal Government performance.

I have a series. I am going to skip a couple of my charts because they are going to infringe on the Chair, but Mr. Berry, I have read your plan and I know this is not a new problem. OPM has been grappling with this issue since 1987. And I think the Chairman pointed out some of the earlier efforts to try to upgrade, and I share Senator Johnson's concern of why we cannot seem to get the IT on this right. But, candidly, if your plan is that it is going to take 18 months to get the wait time down to 60 days, I just do not think that is acceptable, not just for my retirees, but it should not be the level of service we expect from our government.

So I hope that we will see a priority for those who have been on the backlog the longest, kind of get their cases resolved first. I do believe—the Chairman mentioned the OPM Web site says it takes 18 weeks to resolve a case. We have seen, and I will get into this in questions, other areas of government where there have been wait times where there have been SWAT teams put in and at least you can get some kind of ability to check on the status of your processing.

And echoing what Senator Johnson said, it seems like OPM's processes are very outdated with paper, and I concur with Senator Johnson that it is three to four applications a day. Well, the Navy does 6 to 7 a day. I hope we will get some explanation of why the Navy—and again, you have bigger numbers.

And also, having met with our friends from the National Active and Retired Federal Employees (NARFE) and others, I know that part of the challenge is going to be how you get the materials from all the other agencies and how we hold a hammer to all those other agencies on reporting the data to you, and we have some ideas on that.

And finally, because I cannot pass up without at least one chart, OPM's Fiscal Year 2011 Retirement Services' budget was over $91 billion and they processed 80,356 claims. So just doing basic math, that shows the average cost to process each claim was $1,134.38. Now, as a former Governor, I thought, well, let me check someplace else. So I called our retirement system. And let me acknowledge, the Virginia Retirement System (VRS), is much smaller than the

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Federal level, but they do have 600,000 beneficiaries. They pay out $3.2 billion a year. VRS says it costs, on an average, $115 to process each retirement claim and VRS processes initial payments in 37 days.

So whether it is the Navy or whether it is some of our State systems, Mr. Chairman, I really appreciate you holding this hearing, because this is not the level of service or the level of cost structure that I think our Federal retirees deserve, and candidly, as Senator Johnson mentioned, the taxpayers deserve. So thank you for including me this morning, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Warner.

Now, I would like to welcome our first panel of witnesses to the Subcommittee. The Honorable John Berry is the Director of the Office of Personnel Management. The Honorable Patrick McFarland is the Inspector General of the Office of Personnel Management. And Ms. Valerie Melvin is the Director of Information Management and Technology Resource Issues at the U.S. Government Accountability Office.

It is the custom of the Subcommittee to swear in all witnesses at this time and I ask you to please stand and raise your right hand. Do you swear that the testimony you are about to give before the Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. BERRY. I do.

Mr. MCFARLAND. I do.

Ms. MELVIN. I do.

Senator AKAKA. Thank you. Let the record note that the witnesses answered in the affirmative.

Mr. Berry, will you please proceed with your statement.

TESTIMONY OF HON. JOHN BERRY,[1] DIRECTOR, U.S. OFFICE OF PERSONNEL MANAGEMENT

Mr. BERRY. Chairman Akaka and Ranking Member Johnson and Senator Warner, thank you for the opportunity to be here with you today.

I share your frustration. The current delays in our retirement processing are unacceptable. Eliminating the current backlog is my highest priority for 2012. It is the agency's goal to eliminate this backlog within 18 months from January, as we issued the new strategic plan, and provide retirees with their full annuity payments within 60 days of their retirement by July 2013 in all but the most complex of cases. We are going to do everything in our power to do this faster and put everything on it we can to move that needle further, but I also do not want to mislead this Subcommittee as to the challenge before us.

To accomplish this, we have developed a strategic plan which relies on four central pillars: People, productivity and process improvement, partnering with agencies, and partial progressive information technology improvements. It may be too early to tell, but I believe that our efforts are starting to bear fruit. Between the staffing changes, process improvements, a greater sense of urgency,

[1] The prepared statement of Mr. Berry appears in the appendix on page 41.

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and some of the other reforms I will discuss, we processed nearly 20 percent more cases this January than we did last January.

Every January, we receive our largest number of incoming retirement cases, and as expected in the plan, with the addition of 21,000 new cases last month, the current backlog now stands at 62,000 cases. To ensure transparency and focus, we will be reporting this number, our total backlog, to both you and the House Committees on a monthly basis on the fifth day of every month, in other words, giving us that so that we can accurately report those numbers to you. We will also be using them as our benchmark to drive reforms with our people.

Let me talk about our people. Our Retirement Processing Division has been understaffed. Historically, what happened was after four failed attempts at IT modernization, just before I arrived, the budget was adjusted and positions were left vacant or reduced under the presumption that a retirement automated system would be online to handle the process. So what OPM did 4 years ago was to draw down their staff, unacceptably, without ensuring that the IT solution was in place. What has happened, obviously, since, is with that lower staff, frozen budgets, we have not been able to rebuild to provide for the staffing of this that I would like.

What we have put in place is through efficiencies and tight management within our budget, we have recognized we have just got to get the people back to where we were. Last year, we put 40 more legal administrative specialists on this case. I have readjusted our budget this year and will be adding another 40 along with another 20 customer service representatives. Taken together, with last year and this year, this will put us back where we were 4 years ago. I should say, of those 56 new hires, all have been selected. Thirty have been hired and are already beginning their training.

To improve the retirement process, the U.S. Navy Lean/Six-Sigma Team from Crane, Indiana, the Naval Surface Warfare Center (NSWC), has been with us, three visits to our retirement operation, and they have given us wonderful advice and recommendations. We are already beginning to implement those recommendations.

And, as I mentioned, the transparency of reporting on a benchmark, not only to our employees and our managers, but to the public and to the Congress on a monthly basis, will make sure our feet are held to the fire.

Along with our internal efforts, the agency is also working in partnership with the Chief Human Capital Officers Council (CHCO), and all of our agency partners, like the Postal Service, who submit records to us for processing. Many of those records come in now in an incomplete status, and one of our longest lag times is assembling the paperwork so that we can accurately adjudicate the case.

As we are going to discuss, we want to avoid improper payments, as well, and so we have to be careful to have a complete file before we can make that final adjudication. But we are working on improving that.

And I am happy to say, I just met this week with the Postmaster General and they have agreed, along with the Department of Defense (DOD), to pilot an initiative with us where they can automate

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and send us complete cases. If they can do that, that is going to be of phenomenal assistance.

Additionally, the plan recognizes that further automation is absolutely vital to our success. We are exploring both short-term, medium-term, and long-term solutions that will learn from the past mistakes that our agency has endured on this issue. But we have a great Chief Information Officer (CIO). Underneath him, we have hired a new Chief Technology Officer (CTO). He comes to us, David Bowen, from the Federal Aviation Administration (FAA). He is going to be leading our coordinating effort on this to ensure that we can deliver small, bite-size automated efforts that will significantly increase our processing ability and capabilities and accuracy—the time and the accuracy—and do it in a smart, fast way. We will be looking to the private sector to join with us. We will be looking to some of our own employees. But obviously, we need to do as much as we can as fast as we can in this area.

We are also going to increase the interim payments, and to the maximum extent possible under the law and come as close to the line, recognizing we have to be very careful not to go over that line where we might have improper payments. But we are going to do everything we can to maximize interim payments for people who are stuck until we can get this backlog behind us.

Finally, there has been some publicity regarding the Inspector General's Office report on dealing with payments made to annuitants who are now deceased. OPM regards any overpayment as unacceptable. But as noted by the Inspector General, I am proud that our improper payment rate is extraordinarily low. It is less than two-tenths of one percent. Now, we have implemented 10 of the 14 recommendations by the Inspector General. I have promised Patrick that we will quickly implement the remaining four.

But also, this is such an important issue, and we do not want to lose sight of this, because it is incredibly critical that we not fall into improper payments because we are dealing with large amounts of money. So even a small percentage is an unacceptable amount. I have agreed to work with Patrick, and over the next 6 weeks we will introduce an amendment to this strategic plan, an additional strategic plan that is going to show how both of us together are going to fix improper payments until we can get it down to zero. So we are not just going to rest on completing the past 14 recommendations. We are going to have a plan going forward that we will develop together that we can give to you within 6 weeks that will, again, hold our feet to the fire on resolving improper payments going forward.

Last, I would like to point out that of the $600 million of the improper payments that was reported in the IG report, over $500 million of it has already been recovered through our efforts working hand-in-glove with the Inspector General. Now, we are not going to rest until the remaining $100 million is in hand, but again, that is—we are going to continue to keep focus, energy, and attention on this until this problem is licked.

With that, I thank you very much for the opportunity to testify and be with you today and look forward to your questions.

Senator AKAKA. Thank you very much, Director Berry.

Mr. McFarland, will you please proceed with your statement.

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TESTIMONY OF PATRICK E. MCFARLAND,[1] INSPECTOR GENERAL, U.S. OFFICE OF PERSONNEL MANAGEMENT

Mr. MCFARLAND. Good afternoon, Chairman Akaka, Ranking Member Johnson, Senator Warner, and Members of the Subcommittee. My name is Patrick McFarland. I am the Inspector General of the Office of Personnel Management. Thank you for inviting me to testify at today's hearing about OPM's processing of retirement payments.

Today, I will touch on two tasks performed by OPM's Retirement Services Office: The processing of retirement claims and the identification and prevention of improper payments to deceased annuitants.

Earlier this month, OPM unveiled a new strategic plan to address the current backlog in processing retirement claims. This plan is a big step in the right direction. Based upon our initial review of the strategic plan, we asked OPM about various details not presented in the plan as of yet. For example, we would like to see interim milestones that would allow OPM to track its progress toward eliminating the backlog in 18 months. Furthermore, we want to be sure there is a commitment to revisit the plan periodically to make modifications as necessary.

We also have concerns regarding the scaling back of the accuracy review process. This will obviously result in a higher risk of error in the processing of retirement claims. We would like to see how OPM plans to address the higher degree of risk for improperly paying annuities.

While I am pleased that OPM is aggressively addressing the retirement claims backlog, I would like to reemphasize my concerns regarding OPM's pattern of making improper payments to deceased annuitants, requiring the expenditure of significant resources to recover these monies. Resources would be better spent identifying and, more importantly, preventing improper payments from being made. The identification and removal of even a handful of deceased annuitants from the annuity roles will more than pay for the time and expense incurred by OPM in any prevention efforts.

We have been working closely with OPM on this issue for over 6 years, and while improvements have certainly been achieved, systemic problems remain. As Director Berry agrees, improper payments to deceased annuitants can be remedied only by a comprehensive reform effort. To this end, he has committed to developing a strategic plan to address this problem, similar to the one OPM has just issued regarding the retirement claims backlog.

I would like to briefly update you using information provided to us by OPM on the agency's progress in implementing some of the recommendations contained in our most recent report, issued in September 2011. First, OPM continues to conduct an annual computer match between the OPM retirement annuity roles and the Social Security Death Master File. Performing this match allows OPM to identify deaths that were not included in the weekly file of deaths reported by the Social Security Administration (SSA). In 2009 and 2010 alone, these annual matches identified over 1,000 deaths that were previously unknown to OPM. The agency is cur-

[1] The prepared statement of Mr. McFarland appears in the appendix on page 45.

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rently conducting its third consecutive annual match and it is approximately 85 percent complete.

Second, OPM is analyzing IRS Forms 1099–R mailed to annuitants that were returned to the agency as undeliverable. These are important documents that annuitants need to file for their annual tax returns. OPM is currently reviewing the undeliverable Forms 1099–R mailed out in January 2010. To our knowledge, OPM has only reviewed a small percentage of the 33,000 returned forms. Moreover, the agency has not begun reviewing the undeliverable forms mailed in January 2011 and will soon begin receiving undeliverable forms mailed in January 2012. This severe backlog requires immediate attention and OPM must develop a coordinated strategy to address it.

Third, OPM should develop a permanent working group of retirement program subject matter experts to focus on improving the retirement program's integrity. Those who wish to defraud the government will continue to develop new ways to do so. Therefore, OPM must also constantly seek to improve and adapt to this increasingly automated world. Having a permanent working group dedicated to the identification and prevention of improper payments is necessary to protecting the integrity of the retirement trust funds.

As OPM moves forward to address these concerns through the development of a comprehensive strategic plan, we believe that the Improper Payments Elimination and Recovery Act of 2010 (IPERA) would provide OPM with useful guidance. Among other things, IPERA requires agencies to conduct risk assessments, publish corrective plans, and publish and meet annual reduction targets. IPERA should act as a guidepost for OPM's new strategic plan.

In closing, as OPM tackles the retirement claims processing backlog, I believe that it must also develop a plan to address the egregious long-term improper payments with which the agency currently struggles. Over the past 6 years, we have watched as the agency has adopted new measures to combat improper payments. However, these measures were not consistently pursued and the efforts eventually stalled.

Despite this, I am confident that Director Berry's enthusiastic commitment to eliminating egregious long-term improper payments will result in an effective and sustainable identification and prevention policy.

Thank you for inviting me.

Senator AKAKA. Thank you very much for your statement, Mr. McFarland.

Ms. Melvin, will you please proceed with your statement.

TESTIMONY OF VALERIE C. MELVIN,[1] DIRECTOR OF INFORMATION MANAGEMENT AND TECHNOLOGY RESOURCES ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. MELVIN. Good afternoon, Mr. Chairman, Ranking Member Johnson, Senator Warner, and Members of the Subcommittee. Thank you for inviting me to testify at today's hearing on OPM's

[1] The prepared statement of Ms. Melvin appears in the appendix on page 54.

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efforts to manage the system that is crucial to the processing of Federal employee retirement benefits.

The use of information technology is integral to carrying out this important responsibility, and for over two decades, the agency attempted to modernize the retirement process by automating paper-based processes and replacing its antiquated information systems. However, as you are aware, its efforts were largely unsuccessful. Reports that we issued in 2005, 2008, and 2009 on the agency's efforts toward planning and implementing a modernized system highlighted a long history of undertaking projects that did not yield the intended outcomes. At your request, my testimony today summarizes our findings on these efforts and the challenges OPM has faced in managing them.

Overall, our studies found that OPM was hindered by weaknesses in a number of important management disciplines that are essential to successful IT modernizations. These includes project management, risk management, and organizational change management. For example, in reporting on the agency's efforts in 2005, we noted that while it had defined major retirement modernization system components, OPM had not identified the deficiencies among them, thus increasing the risks that delays in one project activity could hinder progress in others.

OPM also did not have a process for identifying and tracking project risk and mitigation strategies on a regular basis and it did not have a plan that would help users transition to different job responsibilities after deployment of a new system. These deficiencies existed over numerous years in which OPM planned, analyzed, and redirected the program, but without delivering the modernized capabilities.

In 2008, as the agency was on the verge of deploying a system, we raised other management concerns and offered recommendations for improvement. Specifically, test results one month prior to deploying a major system component showed that it had not performed as intended. Also, defects and a compressed testing schedule increased the risks that the deployed system would not work as planned. Further, the cost estimate that OPM had developed was not supported by documentation needed to establish its reliability. And finally, the baseline against which OPM was measuring program progress did not reflect the full scope of the project, meaning that variances from planned performance would not be identified.

OPM nonetheless deployed a limited version of the modernized system in February 2008. However, the system did not work as expected and the agency suspended the system's operation and began restructuring the modernization program.

In April 2009, we again reported on the initiative, noting that the agency still remained far from achieving the capabilities it had envisioned. Significant weaknesses continued to exist in the previously identified areas and we noted additional weaknesses, as well. Specifically, OPM lacked a plan describing how the program would proceed after terminating the earlier systems contract and it lacked a fully functioning oversight body to monitor its modernization projects.

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OPM agreed with all of our recommendations and took steps toward addressing them. Ultimately, however, it terminated the Retirement Modernization Program in February 2011. The agency subsequently stated that it did not plan to undertake another large-scale modernization effort, as Director Berry has alluded to.

In mid-January, OPM released a new plan describing its intention to improve retirement processing through targeted incremental actions, such as hiring new staff and working with agencies to improve data quality. The plan also identifies intended IT improvements to automate the retirement application process. However, it does not address how the agency intends to modify the many legacy systems that currently support the retirement process.

Moreover, even as it implements this plan, it is essential that OPM fully address the deficiencies and institutionalize the IT management capabilities highlighted in our studies. Without doing so, the agency will not be effectively positioned to ensure the success of any future retirement modernization projects that it pursues.

This concludes a summary of my statement and I look forward to responding to your questions.

Senator AKAKA. Thank you very much, Ms. Melvin, for your statement.

Director Berry, you testified that Retirement Services staff was reduced significantly through attrition and anticipation of an automated system that never materialized. Please explain the impact this had on the agency's ability to keep pace with retirement claims as well as why you believe it is necessary to rebuild Retirement Services' staff.

Mr. BERRY. Mr. Chairman, I think as you have heard, and let me just say, I agree with all of the points that GAO has made as well as our Inspector General, so there is no disagreement in terms of my viewpoint and their testimony.

When we talk about some of the legacy systems that GAO mentioned, some of the pieces that we are dealing with in terms of automation still use COBOL, to give you a sense of what we are trying to manage, improve, and enhance. I have challenged our people saying, look, we have just got to take those systems and calculators that are critical to the functioning of this system and get them brought into the 21st century. And so that is one of the things that Dave Bowen and our CIO and our CTO are going to be dramatically working on, and I can promise you they are going to be applying the lessons the GAO has flagged for us in terms of having the oversight and the central quality control through the CIO's shop and operation to guarantee that we do not repeat the mistakes and the four failed IT attempts of the past.

But, Mr. Chairman, also, right now, I have to be honest with you. Not all of the data that comes to us from all of the agencies across the Federal Government comes to us in an automated form. We are still managing thousands of pieces—millions of pieces of paper on an annual basis. Some information is automated and we are working hard to try to get to a place where all of the incoming information will be automated. But we are still in a paper and pencil world without the IT solution to address what is a real increase in retirements and backlogs.

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Our Postal Service draw-down has increased the demand. The buyouts of agencies, and as agencies tighten their belts, we know we are going to have increases in retirements coming in. This January alone was higher than last January, so we are starting to see some of that.

I do not have the IT solution to address it, and so for at least the time being, and this is one, Mr. Johnson, I would agree with you, the preference would be if we could grab an automated IT solution. But for the short-term, one does not exist. And so I have increasing numbers and less people. I just need to get the bodies back, get them trained to get us through the next few years until we can get more IT solutions up and running that will be accurate and improve the service to handle the volume loads.

I would agree with both your opening statements, that we have to be smarter in how we do IT so that we do not have to look for this forever. But for the foreseeable future, we are dealing with a paper and pencil process and that is why I am hiring more people and doing it within a frozen budget.

Senator AKAKA. Thank you, Mr. Berry.

Mr. McFarland, you testified that you believe OPM is on the right track with hiring additional retirement staff. Please elaborate on why you believe additional staff is necessary to make progress on the claims backlog and improper payments.

Mr. MCFARLAND. Mr. Chairman, I think, without question, that the planned hiring of these specific people for these jobs is absolutely necessary. I think that for OPM at this point, after so many years, to have to acknowledge that there are so many claims in arrears is just—it is just a sad situation when that has to happen. And so I know that, without any hesitation, that when this new plan that the Director has talked about is put into effect, it should make all the difference in the world. But it will only make all the difference in the world if the leadership maintains it at a level that requires everyday discussions. It cannot be something that just ends up hanging on a wall: "This is our vision and this is our mission." And I do not anticipate that this will happen at all. But I think it is very necessary to hire these people to try and catch up with the problem at hand.

Senator AKAKA. Thank you very much.

Mr. BERRY. Mr. Chairman.

Senator AKAKA. Yes, Director Berry.

Mr. BERRY. Could I just add to that, with your indulgence, if I could, and I agree with Patrick. To ensure that we keep focus on this, not only will I be involved, but I have created three key leaders to watch this on a daily basis. I have a Chief Operating Officer who is a career senior executive in our organization that I have created and he is going to be leading this effort with my Deputy Chief of Staff, who is a political appointee but is one of the sharpest young men I have ever worked with, and my Associate Director, who is sitting directly behind me, is Ken Zawodny, and he is my new leader on this.

He is the director in charge of my retirement operation. I brought him from my Investigative Services Unit after we brought in new leadership and then they were stolen away from me. We now have a leader who, I believe, is going to really move the nee-

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dle. And on Investigative Services, you will remember, Mr. Chairman and Mr. Johnson, from the hearing where we were removed from the GAO High-Risk List for processing background investigations and meeting the 40-day standard that was set under the law ahead of schedule and on budget. Ken was part of the team that helped us to meet that success. And so when I looked for who to put in charge of this who could lead this as a career day-to-day leader, I grabbed Ken from the Federal Investigative Services Division (FISD) and brought him over to help us in this effort.

So we do have the Chief Operating Officer, my Deputy Chief of Staff, and Ken on a day-to-day basis, and then I am watching this, like I say, as my highest priority. So I just want to give you that organizational sense of how we are dogging this.

Senator AKAKA. Thank you. Mr. McFarland.

Mr. MCFARLAND. Mr. Chairman, if I might, I would like to mention just a couple of things that might add a little more clarification to the effort at hand.

I have recently become an ardent reader of Ms. Melvin's work regarding OPM. I have read GAO's work over a few times, and I would say, without question, they have done a terrific job of identifying the problems. If their work is not used as a guidepost, that would be a real mistake in my estimation.

But let me just point out something—not to make an excuse for OPM because that is not what my job is about, to make excuses—but I do want it to be a level playing field for all to understand. In fact, Ms. Melvin mentioned this in a previous testimony, talking about the processing of a claim—in order to process a claim, OPM must determine eligibility, calculate the annuity, and provide customer service. Now, there are many other things involved, of course, but on the surface, that sounds like a pretty easy fix.

But in order to do this, the Retirement Services Division has to comply with over 500 different procedures, laws, and regulations. They use over 80 different information systems that interface with approximately 400 other internal and external systems. They work with antiquated equipment that have about three million lines of custom programming. Now, up until a few hours ago, I did not know what custom programming was, but three million lines means three million lines of code. This means that the retirement IT systems are very carefully and specifically customized to the government's needs. It also means that it is very hard to fix something because you have to locate the one line of code out of those three million lines.

And I know Ms. Melvin could speak more to the technical aspects, but what I would like to add to this, if I may, as OPM continues to refine its reforms to the retirement claims processing procedures, OPM must take specific steps to ensure that this processing system will last far into the future. This is very similar to the steps that must be taken when developing any new IT system or project.

The first step is investment management—simply ensuring that adequate funding is available throughout the project.

Next, requirements management—documenting and maintaining all business processes requirements—basically, the rules of the system.

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Third, testing—ensuring that all of the requirements have been properly tested.

Fourth, project oversight—establishing executive sponsorship through an executive steering committee, such as the Office of Inspector General (OIG), GAO or the Office of Management and Budget (OMB).

Fifth, risk management—identifying, tracking, and mitigating risks to the project throughout the life cycle.

And, finally, information security. The system's security has to be planned at the beginning of the process to ensure that it is included at all stages of the development process, all the way to the end of the work.

So I just mention this so that there is a better understanding of what OPM must do. There are an awful lot of people doing Retirement Services work, something like close to 800 people in that division, and about 290 in the actual part that do the processing. But that is a lot of people. This is a complicated situation. But I do think that it can be overcome and it will not be that long before this overage is canceled out.

Senator AKAKA. Thank you both very much for your responses.

Let me call on Senator Johnson for his questions.

Senator JOHNSON. Thank you, Mr. Chairman.

Director Berry, while I have you here, before I hop into the computer system, we may be bringing up the Postal bill here in the next couple weeks. In Section 102 of that bill, there is a provision that would provide service years of credit for Postal employees, phantom average salaries. We did request from OPM some information in terms of what that would cost, and there were actually ranges. It was intended to be capped at $25,000, but your agency provided us information in an e-mail that showed that those awards could be as high as $280,000 per employee.

We also got an e-mail from your agency stating your opposition to granting those types of phantom average salary credits in any kind of a retirement buyout. I just kind of want to get you on the record. That is your position? It would be a very bad precedent being set is, I think, what your agency thought?

Mr. BERRY. Yes, sir. And I have not been fully briefed in great detail on the issue, but my staff tells me that it is our policy and we are in agreement with you on the phantom payments.

Senator JOHNSON. OK. Well, I appreciate that. Let us delve into computer systems. Mr. McFarland, you are quoting in terms of the number of systems involved. I used to actually program FORTRAN. I used the card decks. It is somewhat jaw dropping that the Federal Government is that antiquated. Is the retirement system of the Federal Government that vastly different than private sector retirement plans, that in some way, shape, or form, we cannot modify computer systems used in the private sector to handle the Federal Government, as well? I mean, is it just that different? Or maybe that would be for Ms. Melvin.

Ms. MELVIN. We have not looked at the retirement system relative to what the private sector has done, but what I would say is that the types of concerns that we saw overall relative to managing the Retirement Modernization Initiative are the types of concerns

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that are prevalent at many other agencies, but they can be overcome if the essential management capabilities are in place.

From the standpoint of the technology itself, certainly, there are complications when you are dealing with very old code and you are dealing with many systems and the hundreds of interfaces that are involved with OPM's systems. Across the 20-plus years, I do not believe that it would be impossible for them to overcome that and develop a system.

However, as has been alluded to in my statement as well as in the statements of the others, the deficit in the IT management capability is very extreme at OPM, at least from what we saw through our work. The types of recommendations that we made are recommendations that collectively need to be addressed in an institutionalized way at the agency, I think it is very commendable that Director Berry has taken ownership of the problem and has recognized the severity of it. I think it is also important that he talk to the need to involve others, a Chief Technology Officer, for example. Those types of figures are going to play a critical role from a leadership perspective to try to help get a culture in place at OPM where they can start to, first of all, assess their capabilities and try to move forward in understanding what their needs are, developing a clear vision of what that is, and then working toward that through a defined and concrete plan of action that would take them there.

Senator JOHNSON. Yes, Director Berry. Go ahead.

Mr. BERRY. Senator, if I could, you would think with having basically two core systems, the Civil Service Retirement System (CSRS), which was the old Civil Service retirement, a defined benefit, pretty straightforward calculation, now about 15 percent of our workforce is under that. We walked away from that back in 1984 and reformed it and created the new Federal Employment Retirement System, which sort of has a three-legged stool approach to it—Social Security, a Thrift Savings Plan, and a much smaller defined benefit portion. Those are the two core lanes, if you will, that we have to operate in.

When the private sector—the last automation attempt came in, they had an off-the-shelf system that they thought, well, this was similar to the lanes that they were operating in. But what they encountered when they came in—the Inspector General mentioned 500 rules and modifications in law and regulation over the years that have accumulated, things like a different law enforcement officer pay calculation, a different firefighter calculation, an air traffic controller calculation, part-time service calculations, different doctor/dentist/surgeon calculations. You could go on and on and on with those lists of what those 500 calculations are.

And what they found was they could not modify the off-the-shelf system to accommodate all of these unique variables that exist in the Federal process. And so that is why in looking at the learned experience from that most recent—they took that behind the barn and shot it just before I walked in the door. So lessons learned. I read that file the first month on the job and said, we are not repeating this. We are not going to try to automate the whole thing. It is just too complicated.

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And so that is what motivated my system to look at my approach of this, pieces that make sense that we can control. There will be private sector solutions to a lot of these pieces and we will be able to bring them on a lot faster with a more easy application of GAO's principles than we will if we try to do it all at once.

Senator JOHNSON. Was it ever considered, taking these off-the-shelf systems and putting them down at the agency level so you would have fewer of those variables?

Mr. BERRY. The problem, Senator, is that—and this is one of the reasons we have problems sometimes in getting a complete file to just make the adjudication—once we have a complete file, it is ours to process it and it is not days or weeks. It is getting that file complete.

And so what each agency would then face if you devolved it to each agency is most Federal employees are moving around during the course of their career. They have military service. They have National Guard service. They might have worked for the Postal Service. They might have part-time service. And they will have it with multiple agencies. And there is not—all of the paperwork for that service lies with those original agencies, it does not build a file that follows the employee as they go unless if they are—Federal employees who are savvy do. They maintain their file. And for those, we are able to rebuild a file very quickly or make sure it is complete.

But otherwise, we need to go back and, before we can adjudicate it, make sure we can verify that service. And sometimes people's memories will be foggy the farther back you go and they will think that was full-time service when in reality it was part-time service, and the credit is different and we have to verify that before making that determination.

Senator JOHNSON. I am beginning to understand your quandary. [Laughter.]

Senator AKAKA. Thank you very much, Senator Johnson.

Let me call on Senator Warner for questions.

Senator WARNER. Thank you, Mr. Chairman, and I appreciate your responses.

I guess I want to kind of pick up where Senator Johnson left off, and let me thank you for your willingness that you will report back to this Subcommittee and to all of us on a monthly basis what the wait period is. I would simply question whether at this point that you cannot finalize your calculations until you get the data from all the corresponding agencies. I have a chart[1] here, I believe, that shows 2011, June 10, 2011, that shows that the error rate at the Department of State is 50 percent, EPA is in the 40s, the Judiciary is at 33, the Library of Congress is in the mid-30s. I think the Federal Government average is about 20 percent. Can we get that monthly report of the error rate from all of these various departments who are reporting in to you?

Mr. BERRY. Senator, what I can tell you is what we are trying to do, right now, those error rates are just an annual snapshot, and what we do is we take it when it is at the slowest part of the year in terms of when we are getting the fewest cases in so that I can

[1] The chart referenced by Senator Warner appears in the appendix on page 103.

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take people off. Right now, I have had an "all hands on deck" mentality of if you can handle cases or help in the processing of cases or field calls so that you can free up time for adjudicators to handle cases, I have everybody focused on cases.

And so what I have challenged my people to do, and the Chief Human Capital Officers Council, has volunteered to help us on this. This has not been one where—they know they are part of the problem and so they have promised to help us. We are going to try to figure—one of the Navy Six-Sigma reforms was to build a processing team that will prioritize and sort of triage your cases as they come in and to immediately identify right there if the file is not complete and identify where that is from so that we can then develop a monthly report on it.

Senator WARNER. Well, one of the things—the reason why I asked——

Mr. BERRY. So we want to do that. Our goal is to do that. Well, that is one of the reasons why I asked. I do not have it now, so I do not want to promise you something that I cannot commit until we get this—we are putting that in place now, and as soon as I get it, I am happy to share it.

Senator WARNER. Well, I guess what I would hope would be that with your monthly report, and if we had a report on the error rate from each of the departments, we might ask our friends in the media to publish that on a monthly basis, as well. We do have a lot of Federal employees here. My understanding is there was a similar effort made when there was a backlog in the early 1990s, that this helped generate some internal pressure to get folks just hired.

Because one of the things that you may need to come back to us with is something that says, if you have continual laggards in parts of the government getting you these materials, well, at the end of the day, it is your responsibility but you have to have some ability to have a hammer on these agencies and departments that are not getting you the data in a timely manner.

Mr. BERRY. I appreciate that, Senator, and we agree. It has to be—it is one of the four pillars——

Senator WARNER. All right. So you are going to get us monthly reports in terms of your lag time right now. When do you think, working with your CHCO group, you can get us error rates for each of the agencies? Do you think within 90 days?

Mr. BERRY. If we could get you back for the record on that, because what I have asked is once the Navy Six-Sigma process, once we get that team up and we can see——

Senator WARNER. It would seem to me that within 90 days, we ought to be able——

Mr. BERRY. Yes, I would hope that, sir——

Senator WARNER. Now, can we move again to the next item. The one concern I had in reviewing your plan is that, and if Senator Johnson and my calculations are wrong, please correct me for the record, but if OPM is processing about three to four cases a day, others seem to be doing—we have some data that shows double that, if you are at a cost basis at about $1,100 to process, Virginia is at $137—a simpler system, I would be the first to grant, but there are people that move around State systems, as well—in your

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goal beyond simply running this timeline down so the backlog is taken care of, I would hope you would have goals, as well, to look at what standards for processing would be in equivalent organizations, State Governments, elsewhere, other parts of the Federal Government, and how you can drive that per claim processing cost down.

Mr. BERRY. If I could, Senator, the correct comparison, in other words, an apples-to-apples comparison, Virginia-to-us, our per claims cost is $108. So we are in the ballpark where Virginia is right now.

Now, the whole budget, in other words, does not go toward claims processing. There are pieces of it, the court ordered benefits section, the training components, we do not score that toward that cost. And so when we have asked for legislative help from you when agencies are having a significant buyout, like the Postal Service, and you have been very helpful to us in that regard, that they would reimburse to us the cost of this so that we could make sure we could keep the staffing up, that is the rate we would be charging them, is the $108 rate, which would be comparable. So I think we are in the ballpark there, but we will keep a close eye on it.

Senator WARNER. I do not want to exceed my time. I will not be invited back. Just two quick other points I want to raise, and not being a member of the Subcommittee, this may have already been provided to the Subcommittee, but we all know we have this bulge of Federal workers who are in the realm of retirement age——

Mr. BERRY. Yes.

Senator WARNER [continuing]. Over the next 5 to 8 years. We talked about this when you first came in. Do you have projections—I appreciate the focus, although, again, I would not—18 months down to 60 days, an 18-month period to get to 60 days. I would love to see improvement there. But do you have projections going forward over the next 5 years what your staffing needs will be, and while I understand that the Retire EZ system, $200 million, pretty much flushed down the toilet, prior to your time, but did not work out.

I would hope that you would be able, not just this backlog, but this is going to be an ongoing problem as we get through the bulge in the snake of all these Federal employees retiring—that you would have lined out some kind of 3-to 5-year plan on how you would move an IT system in.

And my last point here on this would be perhaps the analogy to private sector IT systems may not be accurate, but I have to believe there may be certain State IT systems or even other country IT systems that have some of the complexities the Federal Government would have.

Mr. BERRY. Senator, you are right on, and we will be—the Chief Technology Officer and our Chief Information Officer, they will be the ones that I have tasked to provide the addendum to this—this strategic plan is going to be a living document, and I think it is important that it does so that we can do this.

To answer your first question, the strategic plan does estimate what we would project for at least the next 2 years in terms of retirements, and so far [knocks on wood] we are on target. The

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20,000 increase—I heard the gasps in the room—was in the plan. So we projected that in the plan. What I hope is that is the peak and from here down we will be able to, with all of the efforts that we have been able to draw, that 20 percent increase in productivity, I have hired the people but they have just started training. So none of those extra bodies have actually been thrown at this yet to produce.

So the productivity improvements have just been through the Six-Sigma and some of our own creativity from our unions and working in partnership with them and our people on the front line of, hey, this is a smarter way of doing it. And when somebody has a good idea, as long as it increases the standard I have used, if it makes it faster and maintains accuracy, go for it.

Senator WARNER. I am not trying to take extra time, but you have a goal of getting productivity above three to four claims a day?

Mr. BERRY. Absolutely, sir.

Senator WARNER. What is your goal?

Mr. BERRY. Well, I do not want to—we were the first ones to put in place a performance standard, and that performance standard was just put in place last April, which is that one that you talk about of three a day. The three a day, though it sounds like it is not significant, you have to understand, probably 30 percent of their time is now handling customer service calls and another 30 percent in getting cases drawn together.

I want to use our legal administrative specialists for case adjudication. And so we are growing the customer specialists to handle customer service and I am creating teams of other people to make sure the files are complete so that now—that standard was developed when only essentially 30, 40 percent of their time was being used on actual case adjudication. As we are able to peel those off and get those other elements stood up, we are going to revisit those standards. They are within management's rights.

And so as we feel it is fair to adjust and to move those standards up, we will. But I want to make sure we—right now, we have a wonderful partnership. Our employees get this. Our union members are as embarrassed by this backlog and take it to heart personally. They know we want to honor the service of Federal employees and retirees. They are sick that people with disability have to wait as long as they do. So they are driving at this as hard as we are. This is not a case where I have intransigent employees. They are working on this.

But just so you know we are taking this seriously, I have over a dozen people on Performance Improvement Plans right now, and if they do not shape up, we will be removing them. In other words, we are going to dog this with those standards and we are going to be lifting those standards and we are going to be enforcing those standards. So that we can reach these targets.

But this plan lays out a pretty aggressive plan. I am going to try to push it even faster, as you have said, because I would love to get it done faster than 18 months. But I also do not want to mislead the Subcommittee. Within a frozen budget level, and I have probably moved about as much money and tightened as I can in

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other places that I can do right now, so I do not have a lot more to throw right now. So we have to do it smart, as well.

Senator WARNER. Thank you, Mr. Chairman. I appreciate your courtesy.

Senator AKAKA. Thank you, Senator Warner.

Director Berry, OPM has set an ambitious 18-month goal to reduce processing time to an average of 60 days. The current average stands at 156 days. Given the challenges we have heard about today, please explain why you feel this goal is attainable.

Mr. BERRY. Well, I think within constrained budgets, and keeping in mind for Fiscal Year 2012, the current budget right now, just to give you a sense of our constraint, the President's budget request was for $232 million for our agency and we received, and I understand the deficit we are wrestling with and we have to share our pain with everyone else, but we were held at $211 million, which is a hard freeze from the year before.

So you can see moving these resources, I have had a 20 percent increase in the past 2 years of what I have been able to pull from other parts of my agency to put on retirement to try to address this situation. So I take it very seriously, Mr. Chairman, and will continue. Like I said, it is my highest priority.

But I also do not want to mislead the Subcommittee. I do not have a magic wand. This is hard work. This is paper and pencil processing. The first IT task we have to do is just replace those antiquated systems. If those systems fail right now with the code that the IG mentioned it will blow a hole in my strategic plan. I have to be honest. And so we have to get those upgraded. We have to get them brought into the modern era and the private sector is going to help us on that.

So that is going to be—all of these elements of this plan, I believe, will address this, the four pillars, which are getting more people, getting them trained as fast as we can, and getting them on the front line.

The basic training, just to give you a sense of the complexity of this, for someone to begin to process with a mentor looking over their shoulders takes 3 months to get them to that point. It is 6 months before they are doing it without the mentor there and a year before they can really handle the full panoply of cases. One of the things we have looked at is could we just go out and hire a temporary contractor, short-term help that could come in and help us. But many of the contractors we have worked on who are familiar with our situation and the complexity of it know that it is going to take them about the same time to get the people trained and up and running. So they cannot make that investment for an 18-month period or a short-term period.

So people, technology, working with the agencies, and getting IT fixes in place. Those four pillars, I think, Mr. Chairman, are every angle of attack that we need to make on this issue and we are going to go at all four of them equal energy and see if we can move the needle. I think we can.

Senator AKAKA. Thank you.

Ms. Melvin, you testified that OPM's strategic plan does not address its dependence on legacy systems. What methods can OPM

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use to evaluate its legacy systems and determine how they should fit into its reform strategy?

Ms. MELVIN. The approach that we would advocate would be for OPM to step back and take a look overall at what its current operating State is in terms of information technology that supports its retirement processing. So it involves getting an up-front understanding of what all of its systems are and then from that point moving forward to really make a decision on how it can process going from there.

In terms of a plan that we look for, we think that there is a lot more that OPM can do to establish a concrete plan, an approach, if you will, for addressing its information technology. Looking at the IT systems that are there, understanding all of the interfaces, for example, all of the different aspects that go into that is critical to that plan.

We would like to see a plan, however, that is built on them having an understanding of what their current state is and that is driven by that vision that he speaks of in terms of moving forward to having a modernized automated process. But in doing that, what we would look for is for them to have a very solid description of program scope that would look at all of those systems, that would take into consideration all of the processes that would have to be considered as they design a system, the actual implementation strategy that would, again, be built upon what they are trying to move toward, the "to be," if you will. A lot of it is built around understanding their architecture, the IT architecture that they have to have in place to support this modernization effort.

And then from there, it moves into understanding the lines of responsibility and authority and make sure that they have the critical management officials in place to oversee this effort and to move forward.

A big concern that we had was the lack of oversight that has pervaded the efforts that they had undertaken. I think having the critical oversight of all of these processes as they move forward is going to be key to them being able to figure out how to move from those legacy systems into a process that is more modernized.

Senator AKAKA. Thank you.

Director Berry, under my Non-Foreign Area Act, employees in Hawaii, Alaska, and the Territories who retire between 2010 and 2012 may treat part of their Cost of Living Adjustment (COLA) as locality pay——

Mr. BERRY. Yes, sir.

Senator AKAKA [continuing]. For retirement calculations. Some people expect a surge of retirements from these areas in late 2012. What steps is OPM taking to make sure it is ready for this and other retirement surges so these employees will not face additional delays?

Mr. BERRY. Mr. Chairman, thank you, and we are well aware of that COLA calculation and recalculation under the reforms and the law that you and the Congress have put into place and we have been working very hard with outreach to all of the agencies who have the responsibility, for example, to manage the actual buy-back of the deposits that need to be made for some of the annuitants.

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We have done an extensive outreach effort to assist agencies and will continue to provide training.

We have done benefit administration letters to all of the H.R. agencies, to each of the Federal agencies, to help them and assist them in determining these calculations. We have done onsite training in the locations where the majority of these annuitants are located. As we recently completed a training in Hawaii, which I, sadly, could not attend. The training that we have also done for agency benefit officers at the 2010 Benefits Conference and the Fall Festival of Training, which happened in 2011, is another opportunity for us. But we are going to stay on this. And finally, we have done a payroll presentation to the Shared Service Center Advisory Council meeting, which has to manage those calculations for those—the buy-backs under the law that you recently put in place.

So I think, sir, we have it well in hand. I also know that one of the leaders who understands the complexity of this issue, you were very kind to allow me to bring onto our staff, Thomas Richards, he helps dog this issue internally at OPM to make sure that we meet all the deadlines under the law that you have created here.

Senator AKAKA. Thank you very much.

Senator Johnson, do you have questions?

Senator JOHNSON. Thank you, Mr. Chairman.

Director Berry, are there any simple cases?

Mr. BERRY. Yes. Thank goodness, there are.

Senator JOHNSON. You mentioned a word I was going to bring up, triage.

Mr. BERRY. Yes.

Senator JOHNSON. In that triage process—again, I am glad you are looking at some Six-Sigma processes, as well, process improvement—is part of that effort not only just splitting out the complex cases but really taking a look at the simple ones and move those faster? In other words, do some of your cases move through very quickly or are they all stacked up and first in, first out process?

Mr. BERRY. No. We do have a triage for a disability case, for someone who has a terminal illness or is fighting a serious disability illness and has pretty clear issues. We work very closely with Social Security and the Department of Labor to expedite those cases and try to bring those to the forefront. So, absolutely, we do take triage seriously.

But we also, through the Six-Sigma process, are identifying those cases where somebody has worked at one agency. They are in one system. We have a complete file. We can get it done in 3 hours. So we are tiering those down and assigning those simpler cases to those more junior employees and our more senior employees who are more familiar with the complexity of those individual complexities of those 500 rules that they need to understand and apply, we can use those more senior adjudicators, the Legal Administrative Specialists (LASs), to handle those.

So the Six-Sigma process has really been helpful in terms of helping us define that and to create that front-end process which we were not doing before. So it has been a great reform and one which, I think when we look at that 20 percent increase in productivity, I cannot give you an exact of what percentage of that is due

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to that, but that is one example of something we have been able to just get running with.

Senator JOHNSON. The two areas of complexity you talked about, certainly the people moving around to different agencies, which I can see could be pretty difficult, having different jobs under different contracts with different calculations, I mean, again, that is just growing geometrically in terms of complexity. Do the retirees themselves—can they take on some of the responsibility for getting information? Are you trying to create some systems there in terms of data entries so that they can actually feel empowered to help themselves speed the process along?

Mr. BERRY. Absolutely, Senator Johnson. The people who know their service best are our retirees and we encourage and are working with the Chief Human Capital Officers Council and our agencies as well as all of the employee associations and our union partners and management associations. As people are thinking about retiring right now, we encourage them, 6 months out—most people know that they are approaching retirement. They are thinking about it. Even if you are just thinking about it, make sure your paperwork is up to date. Go to your H.R. office and look at your file and see what is missing and see if they have that. And if not, you can help that H.R. officer by saying, what? You might not know this, but when I was in college, I worked part-time at the Postal Service and I should get credit for that. Well, they are not going to know that. That annuitant is going to know that and they can help, then, to go to the Postal Service to identify the paperwork so that we can have a complete file.

So we are asking our annuitants to help us in this regard, and anything they can do to make sure—like I say, if we have a complete file, the processing time, we will be able to blow by that 60-day standard. I would love to get to a 30-day standard. But I also know we have to have realism as we try to tackle this backlog. And so to the extent we can get help from our annuitants, I would be very grateful for it.

Senator JOHNSON. Well, is that a standard part of the exit process or the termination process?

Mr. BERRY. In some agencies—it is not standard across the government, no. Some agencies do a better job. Some annuitants or employees do a better job as they are approaching retirement. And some folks wait until the very end. And so we have to be ready to handle all of that. But working with the CHCO Council, I think we are going to be able to really significantly—those audit, the annual audit picture you had—and I want to, in fairness to some of the agencies that were mentioned, because that audit is not a scientific sample. We are drawing cases as best we can.

For example, OPM under that audit, to be full disclosure, we have a 50 percent error rate under that, but it was premised on two cases, one of which was incomplete, therefore the 50 percent error rate. So you can see how that audit has not been done accurately, and so one of the things we are working with the Navy Six-Sigma process on is refining that so we can get a really good monthly snapshot and know who is really holding up the line here by bringing in incomplete files.

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And the CHCO Council has agreed to hold each other's feet to the fire and monthly share the data amongst each other so there will be peer pressure. But I will also, as soon as we get that, be able to make that available to the Subcommittee, as well.

Senator JOHNSON. As part of this process, and really, as just part of the Office of Personnel Management, is there any effort underway at all to take a look at all these labor contracts, take a look at all of these different calculations and try and begin the standardization process?

Mr. BERRY. None of those calculations are as the result of—at least none that I am aware of are the result of any bargaining. They are all set in law. So they have all been adjustments or results that the Congress has enacted. And so Federal employees do not bargain over pay, so that—nor over their retirement benefits. So none of this variability that we are talking about——

Senator JOHNSON. So the question would be, would that be a recommendation you could make to Congress, then, to standardize these things?

Mr. BERRY. It is something we would love to work with the Subcommittee on as a longer-term project, of how we might be able to standardize and reform some of that complexity in the system. Some of it goes back over 100 years and we are still responsible——

Senator JOHNSON. OK. You have a receptive audience right here.

Mr. BERRY. Yes.

Senator JOHNSON. Let us talk about some good news. I heard that of the $600 million payment to dead people, $500 million has been recovered. Can you just tell us how that happened and maybe it can serve as an example for other areas.

Mr. BERRY. Well, it is through a lot of hard work and it is through the good work of our Inspector General's Office. They identified some great reforms that we could do by using Social Security lists and cross-checking and doing mailings using 1099, so our people just implementing those reforms. And then we have been able to recover much of those resources.

But we can still do better, and that is why I think having a strategic plan of looking over the horizon, how can we be smarter and how are we going to do that together with our Inspector General's team. They have an outstanding group of people and I want to give a hats off to Patrick for raising this issue and dogging it, and my commitment is we will stay on it to do it.

Senator JOHNSON. I am just amazed you recovered $500 million. Now, were those checks just sitting there and you had to basically void them out, or did you actually have to go to people and say, you owe us X?

Mr. BERRY. Some of it is people are not aware. They have been receiving a check, and you are the son or you are the surviving spouse and you thought that they had elected for the annuitant survivor plan when, in fact, they did not. And so, therefore, as the spouse, you are not entitled to that check. And so they are not aware that—for example, they presumed that it happened. And it often is not until you approach and you say, I am sorry, but you can no longer receive this payment. Oftentimes, they are not even aware that they were improperly receiving it.

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But many of it, some of it—there is some percentage of it that is fraud and we have to go after those people very hard because that is illegal. But it is a very complicated issue. It is multifaceted. And I think what Patrick has designed and what we want to work on in the strategic plan is we have to attack this from all the angles, not just one, and that is why I think—why developing a good strategic plan on this will do a good job, but I should defer to Patrick.

Mr. MCFARLAND. I thought this might be of interest. It is nice sometimes in a situation like this to put a face on the issue. Most of the retirement fraud is fraud of opportunity. It is convenient for the family member or a friend or someone who is associated with the person that died to keep the checks coming so that they do not put themselves in an awkward position of having to tell the truth. They just keep accepting the checks.

Here is a very interesting story that I think is worth reading. We do encounter cases of elder abuse. For example, we found a retired Federal employee and military veteran who was evicted from a series of nursing homes for non-payment while his son was stealing $47,000 in retirement and VA benefits from their joint bank account. This gentleman was transferred to four different nursing homes in under 2 years with his son simply dropping him off at the next nursing home to avoid making payments. The defendant wrote only two checks for the nursing home care. He stopped payment on one and wrote the other on a closed checking account.

The defendant pled guilty to theft and was sentenced to 19 years, unfortunately, of just probation and restitution of $47,000. OPM received back $36,000 and the remainder was returned to VA. So there is just a panoply of these cases out there that we work with.

Senator JOHNSON. Thank you very much.

Senator WARNER. Mr. Chairman, could I get two quick questions and then I will not take any more time?

One was on the question Senator Johnson raised, the issue of providing future retirees with kind of a checklist. I just wonder if that could be at least standardized, gotten out. If you have a 156-day average wait list and yet you can say, if you get all your data in a timely manner, the wait list is some smaller percentage of that and if members could write out, as well, I mean——

Mr. BERRY. It is a great idea, Senator. I know the Chairman takes financial literacy training very seriously, and so we can make sure. I think our Web site has it now, sort of a checklist for people, if you are thinking of retiring, what to gather. But we need to—if we do not have it as standardized and as simple——

Senator WARNER. And proactively sending it out——

Mr. BERRY. Absolutely.

Senator WARNER [continuing]. And also indicating how long the potential wait is.

Mr. BERRY. Yes.

Senator WARNER. The only other question I would ask, and again, I really thank the Chair and the Ranking Member for having the courtesy to have me come by, I did hear as I was trying to get briefed up on the challenge of how long it is to train new personnel on this issue. I know on the second panel we are going to have some representatives from NARFE. Do you have any capa-

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bility of bringing back recently retired OPM personnel that have this expertise already on some kind of SWAT team?

Mr. BERRY. Yes, sir. In fact, I think, is it No. 8? We have recently brought back as reemployed annuitants people who had retired from our retirement processing who we knew were outstanding producers. They knew how to do cases. They did them accurately. Their accuracy rate was very well. So we went and asked them, would you come back and help us? And so eight took us up on that and they are now at work. And so part of that 20 percent productivity increase is they have been on the front lines here in the past month, and we are going to keep them there as long as we legally can to keep producing. They are part of that people solution.

And so it is a great idea, Senator. What we have said is we will keep looking for people who are accurate and they had a good record with us. If they would like to come back, we would love to welcome them back to help.

Senator WARNER. Thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Warner. I thank you so much for your responses. Without question, it shows that we will be improving the programs further for the future and that there are plans in place. Of course, we wish you well in reworking those retirement systems and to do it as quickly as you can. So I want to say thank you so much to all of you for your responses.

But before I dismiss you, let me ask you a question Mr. McFarland. You noted the absence of annual recovery targets in OPM's reclamation strategy, but also acknowledged the difficulty in setting a target given the complexity of the recovery process. My question to you is, what specific steps would you recommend OPM to take in order to set a feasible annual target?

Mr. MCFARLAND. Well, I think what I would suggest would be pretty much in line with what I said earlier, and it comes right back to leadership from the top. Now, I am not just speaking of John, of course. I am speaking of somebody who is really going to take charge of something and determine through that process—a project manager, so to speak—and determine through that process what would be a viable target.

I cannot say at this point because I do not know, but I think that if we have someone at the top who is dogging this thing to the point where everybody has to answer up in an extremely accountable way, then that will create the tone that is needed in order to make these things work. The strategic plan is, like I said before, a big step forward, but unless we have the people, and the funding to get the people for that project, it is not going to go anywhere. I truly believe that it just takes a lot of support from the top and it cannot waiver. It has to be there indefinitely.

Senator AKAKA. Thank you very much.

I am going to ask each of you, in case you have any additional statements to make, that you make them now before we dismiss the first panel. Director Berry.

Mr. BERRY. Mr. Chairman, you have been very generous with your time today. You have my promise that we will stay on this and we will dog this plan to make sure that it continues to follow the trajectory which we hope is going to be even faster. So thank you, sir, for the opportunity to be with you today.

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Senator AKAKA. Thank you. Anyone else?

Mr. MCFARLAND. Mr. Chairman, I would like to just mention something regarding what was talked about earlier. From the standpoint of the person preparing to retire they need to get their paperwork moving so that it will help the system as far as responsiveness. But my point is that I would like to see—and this might possibly be a recommendation from our office down the road—I would like to see that, let us say today all of the backlog was cleared up. I would like to see a situation where not just the retiree shows initiative, but also have the office at each agency show initiative and look in their files, determine who probably will be retiring, and who may have indicated retirement. They should show some initiative and get started on the paperwork, and not just rely totally on the retiree.

Senator AKAKA. Thank you.

Mr. MCFARLAND. Thank you.

Senator AKAKA. Ms. Melvin.

Ms. MELVIN. Yes. Chairman Akaka, I would encourage continued oversight such as the hearing that is being held today and other mechanisms through requiring OPM to report, similar to some of the things that they have suggested. I would also hold OPM to developing timelines and measures of progress. I think that is critical to anything that they have to do going forward, whether it is the information technology component or the personnel component. Having clearly defined timelines and measures for accomplishing the goals and the activities that they have set about to do is going to be critical to ensuring that there is accountability for them to get there.

Senator AKAKA. Well, I want to thank the panel for your testimonies and your responses. At this time, there are no further questions for this panel.

I would like to now welcome our second panel of witnesses. [Pause.]

Welcome to our second panel. Good to see you again here. Mr. Joseph Beaudoin is President of the National Active and Retired Federal Employees Association, and Mr. George Nesterczuk is President of Nesterczuk and Associates.

It is the custom of the Subcommittee to swear in all witnesses, so will you please stand and raise your right hand. Do you swear that the testimony you are about to give this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. BEAUDOIN. I do.

Mr. NESTERCZUK. I do.

Senator AKAKA. Thank you. Let the record note that affirmative answers were given.

I want to thank you so much for being here and would like to call on Mr. Beaudoin for your statement. Please proceed.

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TESTIMONY OF JOSEPH A. BEAUDOIN,[1] PRESIDENT, NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION

Mr. BEAUDOIN. Mahalo, Chairman Akaka and Members of the Subcommittee. Thank you for inviting me to testify on behalf of the 4.6 million Federal workers and annuitants represented by the National Active and Retired Federal Employees Association where I have the privilege of serving as President. I appreciate the opportunity to discuss Federal retirement annuity processing.

We have received hundreds of calls from our members, most of them from outside the Washington metropolitan area, complaining that interim payments are too low, that they are waiting too long to receive their full annuity payments, and that they are unable to get through to OPM to check the status of their annuity. Our members have sent us e-mails attesting to their long delays.

For example, in the past 2 weeks, Jennifer Ortiz told us, "I retired on December 31, 2010, and received my first full annuity payment on September 1, 2011. Up until then, I was receiving interim payments of $17 per month."

John Tolleris told us, "I retired from the U.S. Treasury Department (DOT) on May 31, 2011, after 32½ years of service. While OPM started paying my interim pension promptly on July 1, it still has not yet adjudicated my pension case and I am currently receiving about 65 percent of the monthly payment my agency had estimated. I am now expecting to receive my eighth 'diet' annuity payment next month with no indication of when I will ever receive my full monthly payment or ever-growing back payment."

Craig Boehne told us, "I retired from the FAA on May 31, 2011. I continue to receive partial interim checks at about 55 to 60 percent gross of what I am entitled."

OPM confirms the problem that our members are experiencing, recognizing that Federal employees face unacceptable delays in receiving retirement benefits after years of honorable service to the Nation. As of December 31, 2011, there was a backlog of 48,375 claims, and the average time to process a claim was 156 days, or a little over 5 months.

We commend OPM for so honestly recognizing the problem and for developing a strategic plan to solve it. This hearing provides an important opportunity to assess whether that plan is sufficient to achieve its goals, and if not, to determine what else OPM, agencies, or Congress can do to ensure that it is.

This task is urgent. The effect of such long delays on new Federal retirees is obviously serious. They must make do while waiting to receive the full amount they have earned. The wait is too long and the uncertainty is too much, particularly in the current economy.

In addition to causing individuals personal pain and inconvenience, the delays also have an impact on local communities. More than 85 percent of Federal retirees live outside of the Washington, DC. area. They live in every American community.

We are hopeful that OPM's plan reduces delays. Of course, even the best laid plans can go awry. Thus, implementation will be es-

[1] The prepared statement of Mr. Beaudoin appears in the appendix on page 69.

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sential to its success. Qualified new employees must be hired and trained quickly. Higher production standards must be enforced. And temporary mandatory overtime must be implemented. Also, there must be an enforceable way to ensure that agencies provide timely information to OPM.

Our members frequently complain not only that they have not yet received their full annuity payments, but they cannot easily check the status of their claims. It is unclear whether OPM's new plan will provide better customer service to retirees that simply want to check the status of their claim. What is the volume of calls into OPM? Are there enough people answering the phones to handle that volume? It may be that there are simply too many calls for too few people. If that is the case, OPM should look for other ways to provide retirees with status updates. For example, OPM may want to consider providing retirees the ability to check their status online.

Federal employees who have worked for years in public service deserve to receive their retirement income they have earned in a timely manner. OPM recognizes that delays in receiving retirement payments are unacceptable. OPM has a new plan to solve the problem and we hope it works, but we must see results and we must see them soon. The task is too urgent and the problem is too big not to.

Thank you for the opportunity to testify and I would be happy to answer any questions you may have.

Senator AKAKA. Thank you very much, Mr. Beaudoin.

Mr. Nesterczuk, please proceed with your testimony.

TESTIMONY OF GEORGE NESTERCZUK,[1] PRESIDENT, NESTERCZUK AND ASSOCIATES

Mr. NESTERCZUK. Thank you, Senator Akaka, and good afternoon. I appreciate the opportunity to testify on the processing of Federal retirement applications by OPM, an issue that unfortunately is getting to be of increasing concern to more and more Federal employees.

I prepared a longer statement for the record. I will speak from an abbreviated version.

Retirement benefits are an integral part of the Federal employee compensation package. The prevalent systems are the Civil Service Retirement System and the Federal Employee Retirement System (FERS). They are funded from the Civil Service Retirement and Disability Fund (CSRDF). It is a trust fund administered by OPM.

In 1983, when the unfunded liabilities in the CSRDF had soared to over $500 billion, Congress closed the CSRS to new entrants with the hope that starting a new system would simplify the process. FERS was established in 1986 and opened to new employees in 1987. FERS employees are enrolled in the Social Security system, a benefit generally not available to CSRS employees.

These steps significantly slowed the growth of the unfunded liability of the trust funds but did nothing to actually reduce it. Today, the unfunded liability has grown to over $800 billion, by some accounting methods, much larger if you use dynamic scoring.

[1] The prepared statement of Mr. Nesterczuk appears in the appendix on page 73.

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FERS is fully funded. However, even though FERS is fully funded, the CSRDF has had to survive on borrowed money to meet its cash-flow requirements since the 1960s.

Employee payroll deductions together with agency contributions provide about $30 billion of cash receipts annually, but this sum is dwarfed by payments to annuitants and survivors totaling nearly $70 billion per year. This perpetual reliance on the general fund rather than the trust fund has kept the spotlight of controversy on the Federal Retirement System.

OPM services nearly 2.5 million annuitants and survivors, with operating costs of over $90 million per year drawn primarily on the trust fund. OPM, as the bridge to continued compensation, has an obligation to provide full and timely annuity payments. OPM maintains annuitant records and administers the exercise of various benefit options. The agency is also responsible for maintaining the integrity of payments by preventing fraud and abuse of the system.

It is impossible to achieve these goals without up-to-date information technology and properly functioning information management systems. Past leadership at OPM has recognized this, and over the years, undertaken succeeding Retirement System Modernization (RSM), efforts, with varying degrees of success and failure.

Mr. Chairman, you asked me to address efforts to reform retirement processing, management of the resources, and any recommendations to improve claims processing. I will take these in turn.

For the sake of brevity, I will skip the early reform efforts and begin with RSM in 1997 that had intended to reduce the amount of paper in the process. Around this time, commercial vendors had developed a number of systems that could potentially be modified for use in the Federal sector and RSM envisioned relying on such commercially available products.

With Internet usage exploding, the notion of online management of employee benefits programs took RSM in a yet new direction. About 10 years ago, OPM expanded RSM, began to consider outsourcing the modernization effort. In 2006, the agency awarded contracts to automate retirement processing, convert paper records to digital files, and give employees the ability to file for retirement online, a concept dubbed Retire EZ. It certainly was not.

By 2008, OPM found it necessary to cancel the effort, and the 10-year, $290 million RSM contract was terminated. By that time, OPM had spent over $30 million in various failed modernization efforts during the previous decade. No doubt, some benefits have accrued to OPM from these expenditures, but considering the growing backlog of claims, it is hard to tell what those might be.

What is disappointing is the current administration's apparent abandonment of full-scale modernization. Despite shortcomings and failures in past efforts, OPM did recognize the need to modernize a process too heavily dependent on paperwork. Today, you and I can file complicated tax returns online, purchase most any kind of product or commodity online, and execute complex financial transactions in our investment portfolios. Is filing a retirement application really more complicated than filing a tax return that meets the

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requirements of thousands of pages of tax rules and regulations? I do not think so.

It was not until January of this year that OPM Director Berry produced a strategic plan for Retirement Services. With a retirement claims backlog at over 48,000 claims—much higher I heard earlier—the Director proposes to throw money and bodies at the problem. The agency is proposing to hire 76 new people to toss at its mountain of claims. These new hires will require extensive training. It will be months, according to Director Berry himself, before they can fully shoulder their burden.

In addition, OPM proposes to expand the use of overtime. Upgrading IT capabilities are thrown into the mix almost as an afterthought. Director Berry missed a clear opportunity to reassure the Federal community that a wholesale restructuring would be forthcoming.

The current lack of leadership on Retirement System Modernization has left agencies to fend for themselves. Given past failures at OPM, this is not necessarily a bad outcome, but it certainly leaves one to wonder how $95 million of operating expenses per year for retirement operations are prioritized and allocated, which brings me to the second issue you asked me to discuss: resource management.

In light of the retirement claims backlog, serious questions arise about management of resources and agency priorities. In the strategic plan for Retirement Services, the Director concludes that, quote, "The retirement claims backlog developed over a number of years and for a number of reasons." If that is the case, then the problem should have been attended to as a priority back in 2009 and not allowed to fester until now.

As an aside, I would point out that in the 1990s, in the Clinton Administration, with the significant downsizings, over 4 years, 400,000 Federal employees were reduced from the payroll. Overwhelmingly, those were retirements. Retirements were running at 80,000 per year in those times, twice the normal routine. And yet we did not have the buildup of these kinds of backlogs under those stresses.

And if the backlog—getting back to my script—if the backlog is of more recent vintage, then the problem reflects directly on leadership. In either instance, OPM resources were not properly allocated to manage a core agency function, and it has been since my involvement at OPM for over 30 years. After all, OPM has been forecasting a retirement tsunami since 2006, so no surprises.

In 2009, Director Berry needed to double-down on technology when RSM needed his attention. He instead allowed the looming problem of retirement claims to deteriorate and now proposes to grow OPM's payroll and spend more on overtime. The Director chose to double-down on labor rather than technology. Whose interests are better served with that management decision?

Now, some suggestions for improvement, some of which I have already heard or are being taken up, which is a good thing.

In the long term, I do believe that full automation of retirement processing should remain the highest priority for OPM. The original intent of RSM, to rely on commercially available technologies, is a sound strategy and it should receive renewed consideration.

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In the short term, I concur with OPM's partnering with agencies and I would enhance the role of the agencies in pre-processing retirement claims. I would upgrade the skills of employee benefit officers in the agencies—they work very closely with OPM today—particularly in the larger agencies that produce the bulk of retirees. It seems like a no-brainer to me.

Further, I would have OPM fund the acquisition of competing commercial technologies at these agencies to serve as a comparison test bed to evaluate which are more accurate and more effective. OPM should accept retirement claim calculations for predefined classes of annuitants from such agencies, accept them as final calculations.

For example, employees retiring with unreduced benefits from an agency with which they spent their entire careers would generally have very simplified applications. OPM could perform statistical samples, detailed reviews of randomly selected agency produced claims, as a means of maintaining the integrity of the process and provide whatever corrective measures the agencies might need on a subsequent basis.

Difficult claims would be identified much sooner in the retirement process and employees themselves would have opportunities to resolve some of those problems while still employed and while still having access to their agency claim processor rather than a telephone answering device.

Further, I would put more emphasis on technology development for FERS because that constituency will be retiring in greater numbers in the next few years, while CSRS employees will decline significantly in number over the next 5 to 10 years. While the CSRS cases may possibly have more complex employment histories, they do tend to have much easier benefit calculations.

Finally, I would urge Congress to maintain close oversight over OPM's claim processing until such time as the backlog has been reduced to an acceptable number of claims. It is only congressional scrutiny that has forced OPM to take action in the current instance. Congress should consider requiring OPM to file monthly progress reports on backlog reduction, applicable performance standards, productivity metrics, use of overtime dollars, and the like. High-level attention and keeping the agency focused on its priority is what it will take to fix this problem.

Thank you for your attention. I would be happy to respond to any questions you may have.

Senator AKAKA. Thank you very much, Mr. Nesterczuk. Your full statement will be included in the record.

Mr. NESTERCZUK. Thank you.

Senator AKAKA. Mr. Beaudoin, when your members leave Federal service, do they feel that they receive sufficient information about what to expect during the retirement process?

Mr. BEAUDOIN. The answer to that is no, sir. We at one time advocated that pre-retirement seminars should be given, the employees should attend them to find out about their benefits and about all of this information. The agencies, of course, have reduced all of that because of the budget constraints and the answer is no.

Senator AKAKA. Mr. Beaudoin, as you know, Mr. McFarland testified about a need for increased communication with annuitants to

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prevent improper payments due to unreported deaths or changes to personnel information. My question for you is, do you have recommendations for education or assistance your members might find useful so that they know how to update OPM and the Social Security Administration (SSA) about life changes?

Mr. BEAUDOIN. Sir, we in NARFE have a retirement benefits section that deals mainly with that issue and with OPM, and every day, we receive hundreds of calls from members and annuitants because they cannot contact OPM. The lines are busy. There is no way for them to go on electronically to get information. It is the backlog and the inability to contact OPM to get information that is causing a lot of the problem. Of course, the whole problem that we are here to talk about is the backlog in even getting their annuities. But once they get them, they cannot get through to OPM because there is nobody there to answer the lines.

Senator AKAKA. Mr. Nesterczuk, you recommended allowing people to begin their retirement applications while they are still active employees. Please elaborate on how you think this should be done and why you think it would speed up the process.

Mr. NESTERCZUK. I think just having publicized the delays and the difficulties that employees and retirees are facing with the system as is has alerted the employees, or potential retirees, to the processing problems that could face them. Just knowing 2 to 3 months before you are going to retire that kicking in an application form will start the process of amassing the information necessary to clear you at exit should provide enough incentive for them to get involved.

It is not always the fault of the person you are speaking to. There are—if you have had a history where you left an agency 10 or 15 years prior to your retirement, the files in that agency could most likely be in archives halfway across the country. You need to place a request to get that stuff activated and back out. That is weeks. That is not days. That is weeks before the physical files are actually placed in front of the processor. So it is not OPM's fault necessarily nor your H.R. office. It is the system that we operate in.

And I think employees need to be made aware of that. If you have worked in one agency for 20, 30 years and the record is continuous, that is not an issue. But if you have a broken employment record, then you need to know that it will take weeks to reconstruct that. OPM will not finalize anything until they see hard proof. Your H.R. office could provide the information, but OPM will not clear that until they see the hard proof. So you have to get that information rolling before you are ready to go.

And, of course, the employees have the greatest vested interest to see that happen and they can dog the process. They will have more time to call that archive operation and make sure that their files have been cut loose rather than the H.R. person that may be dealing with 50 or 60 cases at the time. So that is why I think it is a good idea, and as a matter of policy, OPM ought to encourage—the CHCO Council through issuances, through publications, the American Association of Retired Persons (AARP) can get involved. If you identify what are the stumbling blocks in the process and how employees can intervene on their own behalf, you will get

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them activated. It will serve everyone, OPM, the processors. It will serve everyone well to do that.

Senator AKAKA. Thank you very much for your response.

Mr. Beaudoin, I would like to get your thoughts on this recommendation, as well. Do you think your members would benefit from beginning the retirement process while they are still in active service?

Mr. BEAUDOIN. I do believe in that, because if they, as has been testified already, if they would start 3, 4, 5, 6 months before their retirement, we would not end up with the problems that we are presently having, and that is that right now, 23 percent of all the claims are missing one or more records. Eleven percent are not even received within 30 days. And the problems with the agencies is that they do not have complete information, and as has been testified earlier, the individuals do. If the individuals would look at their records and say, as Mr. Berry did, oh, you are missing this portion of it, I think it would help to expedite the claims and we would not end up with 48,000-plus claims in the backlog.

Senator AKAKA. Yes, thank you. Senator Warner do you have questions?

Senator WARNER. Thank you, Mr. Chairman. I know you have been very generous with your time for me today and I really appreciate you willing to have me come over and participate as a member of your Subcommittee. I also really particularly appreciate you holding this hearing to bring this matter to the attention of your Subcommittee and the public.

And I also want to thank my friends from NARFE. I have had a long journey with NARFE back to my times as Governor. Mr. Beaudoin, thank you for your testimony.

I would ask—just two or three quick questions. One is, you made the point, and at least, I want to try to followup with Mr. Berry on this point, that it did not sound like there was really that standardized package and checklist of what you should pre-prepare. I agree with Mr. Nesterczuk that maybe we ought to start that process a little bit earlier. But even if you do not, you ought to at least make that checklist available on a standardized basis.

And would it not seem to me, and you made the point that perhaps those pre-retirement seminars were cutoff because of budget constraints, but it would be interesting to see an analysis. If you do not end up getting the data and those are the claims that are taking much longer, the actual cost of processing that claim—I think I am going to press him on that $107 number. I think it is actually higher than that on some other data I have. But it would seem to me that we would save money in the long run if you went ahead and started this process earlier or if you reinstituted those pre-retirement seminars or at least put together a standardized checklist. Would you concur with that, or——

Mr. BEAUDOIN. I would, Senator. I believe that information is vital. It is needed by the agencies. But part of the problem, also, is that the agencies are sending OPM incomplete data and there are no teeth in there, in that, so I am sending you incomplete data. Just send it back to me and I will try to fill in the blanks. No, we ought to hold those agencies, hold them accountable so that they make sure that when they send the information, they get it from

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the retiree or the employee at the time and then they send factual information to OPM.

And I think we need to do that. Congress needs to make sure that they are held accountable, the agencies, that when they send the data to OPM, it is correct, it is complete, and it is timely, and maybe that will help reduce the backlog.

Senator WARNER. And, Mr. Chairman, one other thing. It would seem that if Mr. Berry is going to report on a regular basis the backlog, which now, I believe, is actually not at 42,000, but one of the comments today, in the mid-60,000, and if we could get those reporting agencies, their error rates, and perhaps there might be some ways that this Subcommittee, and any assistance I could give, that would help give OPM some teeth to make sure that those other agencies that are reporting to OPM actually try to have that as a priority, as well. Perhaps the CHCO Council is one tool. But my understanding is, and you may recall, or others, that when there was this situation in the early 1990s, that simply publicizing the error rate from some of the agencies helped create some, at least, pressure in town on that item and we might want to return to it.

One other question, and then I want to ask Mr. Nesterczuk one question, and then I will, again, not take too much time, but I was happy to hear Mr. Berry say that they have gone back out to some of our recently retired Federal employees that might be able to help fill in since there is this lag time on training. Have you been asked at NARFE to help put the word out to your members that there might be opportunities coming back at OPM if you want to re-up for a period of time to help us get through this backlog?

Mr. BEAUDOIN. No, we have not. We would be happy to put the word out and to do that.

But if I could mention one other thing, Senator, in OPM's plan, they have voluntary overtime. We believe that is the wrong approach. We have too many people waiting for their annuities, too many people that are not getting their full annuities. They are getting, as I mentioned earlier, 17 percent, 23 percent, 50 percent, whereas even the one that you mentioned earlier today, the lady from Colorado, says, I cannot do anything. I cannot buy anything. I do not get any money. We need to do something.

I would hope that Congress would step in and make it mandatory overtime for the OPM people to work an extra 20 hours a week until the backlog is gone. Once it is gone, then they can look into automation. They can look at all the rest of it. But that backlog has to be taken care of, and it has to be taken care of now.

Senator WARNER. In prior backlogs, there has been mandatory overtime—I thought you had said to me—was that the case?

Mr. BEAUDOIN. It was a voluntary backlog—I mean, I am sorry, not the backlog, voluntary overtime——

Senator WARNER. Yes.

Mr. BEAUDOIN [continuing]. But that the backlog has to be reduced, sir.

Senator WARNER. Mr. Nesterczuk, I concur with many of your comments that you made and do believe we need to move through to a more technology-based solution, not just an increased personnel solution. I guess my last question would simply be two-fold.

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One, are there other examples, perhaps not from the private sector because clearly with all the procedures and rules and regulations of the Federal Government, but comparison to other State systems or other national government systems, Canada, that might have a further along technological solution, No. 1.

And No. 2, it seemed it was clear that the effort with Retire EZ did not work out that well. How do we make sure that as we go down this path again we do not make those same mistakes?

Mr. NESTERCZUK. I think in the case of your first question about other available comparative systems, I am not aware of. I cannot answer that question.

I do believe OPM was primarily responsible for the failure of Retire EZ. If the contractor in making a delivery was surprised at what was not functioning properly in there, they clearly did not have the parameters properly stipulated. OPM I think more than probably, for certain—should have done their homework better in putting out the procurement competitively initially so that the contractors knew what they were really up against instead of what it is that they got that clearly did not meet the requirements of OPM, of their customers.

So they need to go down—I would not necessarily have tossed out Retire EZ. I would have pared it down so that it would pick up at least part of the workload that OPM had, get something for your money out of that initial investment. Instead of expanding it, scale it back. The $290 million was spread over 10 years, so it is not like they lost the full amount. I believe it was something like $19, $20 million for the 2-year effort. But I would have gotten something out of that, out of the contractor, and focused them on some part of the effort to subsequently buildupon.

I mean, I had been involved in system programming, FORTRAN programming in my day, including some fairly complicated systems, so I know that once you have done something, you have a beginning and then you can fix it and build on it, et cetera, expand. I suspect there was a lot of political scrutiny—a lot of public scrutiny and political pressure that came to bear on not delivering after 2 years' worth of expectations. Backlogs may have been building up already and so they just pulled the plug on it to try to clean the slate.

I think, also, OPM needs to rethink its approach of managing the retirement system. This business of keeping everything in-house and close hold does not work anymore. Technology advances, evolves very quickly, and you are better off bringing in players from the outside as partners who keep up with that for you and then you just give them what it is that you want and let them worry about how to deliver. And that is probably today a much better business model to utilize. But that would require rethinking what parts of the retirement system they want to keep in-house and what to put out the door on a competitive basis and then just monitor the process, get feedback on errors, fix it, work with the contractors. And you do not have to get stuck with one. You can get several.

Senator WARNER. Well, let me thank both witnesses, and Mr. Chairman, again, thank you for the courtesy, and any way I can

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help you as we pursue this matter, count me in. Thank you, Mr. Chairman.

Senator AKAKA. Thank you very much, Senator Warner, for participating in this hearing.

This is my final question and it is to both of you. What should OPM's No. 1 priority be for its retirement processing reforms? I would like to call on Mr. Nesterczuk to answer first, followed by Mr. Beaudoin. Mr. Nesterczuk.

Mr. NESTERCZUK. Well, I think initially, in the short term, I would rely on the agencies. I would change the rules for processing and delegate some authority to the agencies. OPM in the past has delegated various kinds of staffing authorities in terms of the ability to hire employees. They gave it away, gave up their own authorities to let other agencies in the process participate, become more efficient and speed up the hiring tremendously. I would push for that initially.

Have OPM, instead of bringing all the folks in-house—that is their first step—simultaneously shove some of the work back out. They have very capable people in the agencies, especially the agencies like DOD that turn loose an awful lot of retirees. I would work with those agencies, partner up with them, authorize them to be the claims adjudicators, the finalizers, and just monitor their progress on it. That might offload 20, 30 percent of the workload right off the get-go. So that would be what I would do in the short term as my immediate priority.

And longer term, absolutely, stick with modernization. The future is not going to be with more claims processors. Thank you.

Senator AKAKA. Thank you, Mr. Nesterczuk. Mr. Beaudoin.

Mr. BEAUDOIN. Yes, sir. I believe that the problem, as we all know, is the backlog. We have thousands of people that are inconvenienced, that do not have the pay to live on. Their lives are upset. The communities that they live in, they cannot even benefit from them. So I believe OPM needs to do everything they can to reduce that backlog.

They need to, as has been testified, work with the agencies to demand that the information coming to them is accurate and complete the first time. They need to have people of not the administrative specialists but others answer the phone to free up the administrative specialists. They need to bring in overtime, mandatory overtime. They need to bring back retirees, more retirees.

They need to be more automated so that anyone who wants to check their claim can do it online. This is—we are in the 21st century. They should be able to do things online. They should not have to go, as they said, with paper and pencil and telephone. No. Go on a computer. I can check my status. I can check my claim. But we are still operating in the 20th century. I am not even sure—maybe it is the 19th century. But they need to move ahead and I do not think they are doing it fast enough, sir. Thank you.

Senator AKAKA. Well, I want to thank you both. It was so good to hear things from your experience and the people that you represent. Your responses will certainly be taken under consideration here and we all look forward to improvement in the retirement system. There are many times when people like you who, I would say,

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are in the trenches, know the problem better than officials do, so we value your responses.

I want to thank you very much for your testimonies and your responses. There are no further questions.

In this time of shrinking budgets, many agencies are offering early retirement options. This could mean a wave of retirements will be added to what is already a sizable claims backlog. OPM must prioritize its resources, address shortcomings, and focus its attention on providing the level of service that retirees deserve.

I want to again thank our witnesses for being here today. I believe that this hearing provided good insight into how Federal retirement processing can and must be improved. The hearing record will be open for one week for additional statements or questions from other Members of the Subcommittee.

Again, thank you very much. Mahalo. This hearing is adjourned.

[Whereupon, at 4:50 p.m., the Subcommittee was adjourned.]

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APPENDIX

STATEMENT OF CHAIRMAN DANIEL K. AKAKA

Federal Retirement Processing: Ensuring Proper and Timely Payments

Hearing
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia,
Senate Committee on Homeland Security and Governmental Affairs

Aloha, welcome, and thank you for being here. Today's hearing will focus on processing Federal retirements. Discussing the administration of Federal retirement benefits is timely and important. Recent news articles have told the stories of people waiting months on end for retirement benefits, while millions of dollars are improperly paid to annuitants who passed away.

This is not the type of Federal Government that will regain the faith of the American public, and is not a Government living up to the potential that I know it has. As the Federal Government's human resource agency, the Office of Personnel Management (OPM) administers retirement benefits for roughly 2.5 million Federal retirees and processes approximately 100,000 new claims each year.

OPM uses a system that is mostly paper-based. Over the past 24 years, the agency has embarked on a number of information technology (IT) projects to automate retirement processing – most of which were contracted out to private companies. Each one failed after millions of dollars and years of development were poured into them. The Government Accountability Office found that management weaknesses like poor contracting oversight were the source of OPM's troubles. I look forward to hearing more about how the agency will improve its management of IT projects, and how it will approach the need to modernize in the future.

Failed IT contracts are at the root of OPM's current challenges. OPM reduced its retirement staff significantly through attrition from 2005 to 2009 in anticipation of an automated system that never materialized. The result is a backlog of over 48,000 claims that the agency is struggling to address. To recapture some of its lost processing capacity, OPM plans to hire 56 new adjudicators. According to OPM, the average wait for a full annuity is five months, and people quickly receive interim payments that are approximately 80 percent of what their final annuity is later determined to be.

Although those statistics are not good, as Members of Congress, we all hear stories from retirees who have even worse experiences. News articles and constituent calls describe a system where people wait up to one year to receive full benefits, while living off of a small percentage of their final annuity.

Today, I hope to gain a better understanding of how OPM will eliminate the backlog. In the meantime, it must make sure no one waits this long and that interim pay is more accurate, even for those with complex retirement applications.

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Another common concern from recent retirees is poor customer service. I understand that OPM's new strategic plan addresses this. I look forward to hearing more about how the plan creates more efficient retirement processes and increases the effectiveness of its customer service.

In this era of financial constraints, every effort must be made to safeguard our tax dollars. I am troubled by improper payment recommendations from the Inspector General that date back to 2005. They highlight inadequate internal controls to detect and prevent waste. This has resulted in some $600 million being paid to deceased annuitants over the past five years.

While these large improper payments are unacceptable, they are well under one percent of the agency's total annuity payments. OPM has also made progress on implementing the Inspector General's recommendations, reduced the number of improper payments made in the last year, and recovered most of the payments. However, it must do even more to prevent this sort of waste from happening.

I appreciate our witnesses' dedication to improving the Federal retirement system, particularly Director Berry, whose willingness to be held accountable and his resolve to reform broken processes are encouraging. I look forward to hearing from him and our other witnesses as we try to find solutions to these important issues.

-END-

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF

JOHN BERRY

DIRECTOR

U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA

on

"Federal Retirement Processing: Ensuring Proper and Timely Payments"

Chairman Akaka, Ranking Member Johnson and members of the Subcommittee:

I am pleased to have the opportunity to appear before you this afternoon to discuss the Office of Personnel Management's (OPM) retirement processing system.

OPM's core mission is to recruit, retain, and honor a world-class workforce to serve the American people. One of the ways OPM honors the workforce is by providing timely, accurate annuities to our Federal retirees, who have devoted years of service to the American people. The current delays in retirement processing are unacceptable and eliminating the current backlog is my highest priority for 2012. It is OPM's goal to eliminate the current backlog in 18 months, and provide new retirees with their full annuity payments within 60 days of retirement by July of 2013 in all but the most complex cases.

To accomplish this, we must improve the overall claims adjudication process. There is no simple or easy solution that is capable of instantly remedying the problem, but OPM is doing everything in its power to improve service to our future annuitants as rapidly as possible within the constraint of available resources.

Future annuitants are understandably anxious to receive their full annuity soon after they retire. To accelerate this process, OPM has begun several initiatives to speed up the review of retirement claims and to streamline other retirement procedures. Most important among these

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Statement of Honorable John Berry
Director
U.S. Office of Personnel Management

February 1, 2012
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initiatives is our Strategic Plan for Retirement Services which is presently being implemented. Among the central pillars of this plan are: people; productivity and process improvement; partnering with agencies; and partial, progressive information technology (IT) improvements.

People

Adding more people to our manual claims adjudication process is of vital importance to meet near-term demand. OPM has been taking preliminary steps to reduce the current backlog, within our budget restraints, to allow for the hiring of additional Legal Administrative Specialists (LAS) to process pending claims. It should be noted that some of the staffing level increase is needed to replace staff positions that were vacated through attrition and retirements and were not filled in anticipation of the implementation of the automated Retirement Modernization System that failed in 2008. While OPM presently employs 130 LAS, this is not enough to handle the workload OPM receives each month. Consequently, OPM is in the process of hiring 56 additional LAS, including backfilling 16 positions and creating 40 new positions. OPM has also identified individuals who have previous experience in the LAS position who have recently retired and who may be interested in returning to work. OPM has begun the onboarding of new LAS in both our Washington, DC and Boyers, PA locations. The Boyers LAS training class is scheduled to begin on February 13, 2012, and the class will contain 20 new LAS. The remaining LAS in Boyers will participate in a separate class. The onboarding of new LAS in DC continues, with a hopeful start date in February. We believe new LAS will become productive by July of this year. Additionally, OPM is working with current employees with adjudication experience who presently work in other parts of Retirement Services, or at the agency, to increase their contribution of hours towards processing the backlog of retirement claims, either during their regular time or during overtime. Finally, OPM is working to develop a strong support network for LAS, through the Customer Service Support staff, managers, and the administrative staff. To these ends, we will be implementing a two-tiered system of the call center staff, with a first tier of individuals who answer initial calls in our call center, as they currently do, and with a second tier comprised of specialists with a deeper technical knowledge base to look into actual cases to resolve issues over the phone. This approach will provide our LAS with more time to adjudicate claims rather than answering inquiries that can be handled by others.

Productivity and Process Improvement

It is also important that OPM has an increased production capacity in order to improve the way OPM measures productivity and manages workflow. This includes fostering accountability through better metrics to capture production efforts and removing failing LAS who cannot or will not improve. OPM is immediately building capacity through more effective use of overtime and expanding work hours to accommodate a wider range of availability of workers. OPM has also been working with a U.S. Navy Lean/Six-Sigma Team to assess where OPM is operating at its best and where improvements can be made.

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Statement of Honorable John Berry
Director
U.S. Office of Personnel Management

February 1, 2012

Partnering with Agencies

Core to the success of the plan is our partnership with other agencies. OPM has developed and maintained ongoing partnerships with individual employing agencies that prepare files for their retiring employees. Most important to OPM's progress in retirement processing is improving the accuracy and responsiveness of the agencies and the records submitted to OPM for processing. OPM has conducted audits of agency applications. The results are troubling.
Although we currently provide follow-up training to identify and address barriers to timely processing, agency leadership must be held accountable for sending OPM complete and quality retirement applications. I have asked the Associate Director for Retirement Services to begin tracking the completeness of all incoming requests and provide me regular updates. We will share monthly results with the Chief Human Capital Officers once that feedback process is in place rather than rely on annual audits. OPM is also planning to publish performance standards for the service delivery model and will identify and document agencies that provide exceptional customer service.

Partial, Progressive Information Technology (IT) Improvements

Finally, the plan recognizes that additional automation is vital to OPM's success. Given the failure of past efforts to automate the entire retirement services process at once, automation of the process in a methodical, step-by-step manner is the plan's recommended path to success. OPM has a forward-looking long-term IT project in place to automatically collect necessary data for retirement from payroll providers. It is about to enter testing with the National Business Center, which is responsible for servicing 15 percent of the non-postal Federal workforce. However, because a LAS needs an employee's entire record, the true value in this effort will not be realized for a decade or more when employees hired after implementation begin to retire (i.e., the system will have captured everything about their service). In the interim, OPM is exploring mid-term solutions that harness the work agencies are already doing. Currently, agencies provide comprehensive annuity estimates to prospective retirees. To construct these estimates, agencies are using private sector estimators that have been deemed to be generally accurate. All of the effort to construct an estimate mirrors what it takes to actually and officially determine an annuity amount. The challenge lies in transmitting the raw data from agency estimators as well as the application and supporting documents electronically. In order to pursue such a solution, OPM would have to build or acquire IT systems to receive and manage the data and documents electronically, and the systems agencies procure from private sector vendors would have to be modified.

OPM will seek to leverage existing technology as much as possible. For example, e-QIP, the system used to assemble files for security clearance background investigations, may be used to securely receive the data and documents from agencies. A few agencies are interested in pursuing a pilot project to this end. Obvious challenges include data security, policy considerations, contracting/funding issues, and technical capabilities.

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Statement of Honorable John Berry
Director
U.S. Office of Personnel Management

February 1, 2012

Interim Payments to Annuitants

OPM realizes that delayed processing times can place future annuitants into a difficult predicament. In recognition of this, OPM has long provided interim pay to annuitants. Interim pay is not meant to be a solution to the delays in retirement processing and is merely a means of assisting annuitants while OPM adjudicates their claims. While interim pay is definitely helpful to annuitants, it is still inexcusable for annuitants to wait as long as they presently do for their final claims to be adjudicated. We are committed to improving our timeliness.
Currently, OPM works with agencies to authorize new annuitants to receive interim pay on the first regular payment cycle after their materials are received. In Fiscal Year 2011, new annuitants received an average of 80 percent of their final annuity while on interim pay. Because of our recent process review, we will manually adjust the vast majority of claims to at least 80 percent of their final annuity, which will greatly increase the average paid out in Fiscal Year 2012.

Payments to Deceased Annuitants

Finally, there has been some publicity regarding the report of OPM's Inspector General's office dealing with payments made after annuitants are deceased. The Inspector General's report reflects overpayments to deceased annuitants that are equal to less than one-fifth of one percent of annuity payments. I want to make it perfectly clear that OPM regards any overpayments as unacceptable, but, as noted by the Inspector General, this improper payment rate is extraordinarily low.

The Inspector General has noted that most improper payments to deceased annuitants are short-term in nature and typically recovered. For the amounts reported by the Inspector General as overpaid to deceased annuitants during the 5 year period from 2006 to 2010, OPM resolved $487 million of the $600 million. That left $113 million from that 5 year period still undergoing collection efforts by OPM. As of the end of the most recent fiscal year, September 30, 2011, the amount undergoing collection is down to $102.7 million. The collection process is an ongoing effort, and our experience has shown that we ultimately collect 90 percent of the amounts resolved with the remaining 10 percent either determined to be uncollectible or adjusted because it was later determined that the payment was not improper. Therefore, OPM estimates it has collected over $438 million of the $487 million resolved over the past 5 years. OPM will continue collection efforts on the current $102.7 million until it is completely resolved.
I believe, however, more can be done to eliminate improper payments to deceased annuitants. My team at OPM and I have worked hard with our Inspector General on this issue. As the Inspector General's report notes, we have already implemented 10 of their 14 recommendations. In addition, I have named four senior members of my staff who are working directly with our Inspector General and me to resolve the final four.

Though we have implemented many positive reforms, I remain deeply committed to keeping this a top priority and to working with our Inspector General to ensure the proper internal controls are in place to protect the taxpayers and our employees and retirees.
I want to thank you for this opportunity to testify today and I am happy to address any questions you may have.

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Office of the Inspector General
United States Office of Personnel Management

Statement of the Honorable
Patrick E. McFarland
Inspector General

before the

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Committee on Homeland Security and Governmental Affairs

United States Senate

on

"Federal Retirement Processing: Ensuring Proper and Timely Payments"

February 1, 2012

Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee:

Good afternoon. My name is Patrick E. McFarland. I am the Inspector General of the U.S. Office of Personnel Management (OPM). Thank you for inviting me to testify at today's hearing about OPM's processing of retirement payments. All of the Federal retirees and survivor annuitants who depend upon these payments will agree that this is one of OPM's most important functions. Today I will touch on two tasks performed by OPM's Retirement Services office: the processing of

retirement claims and the identification and prevention of improper payments to deceased annuitants.

Processing of Retirement Claims

The timely issuance of full annuity payments has been a long-standing challenge for OPM. The adjudication of retirement claims has historically been a largely paper-based process, sometimes resulting in lengthy delays before completion. OPM's last comprehensive effort to automate this process was known as the Retirement Systems Modernization (RSM) project. During OPM's struggles with the RSM project, the Government Accountability Office (GAO) became actively involved in overseeing the agency's work.

For the past several years, we have listed OPM's overhaul of retirement claims processing in our Top Management Challenges memorandum. Although GAO provided the primary oversight of the RSM project, my office made a point to stay informed regarding developments in that area. We felt that it would be duplicative for us to conduct additional audits of the RSM project development process.

While it is widely accepted that the RSM project was not a successful endeavor, it did produce some positive results. These include:

- Establishing a secure retirement data warehouse;
- Imaging 10 million retirement documents for over 1 million Federal employees, putting the data in electronic form;
- Developing a retirement data standard for Federal agencies to share a single set of retirement information across the Government;
- Implementing a standard electronic data feed from agency payroll offices for 35 percent of Federal Government employees; and
- Extending the current OPM retirement calculator to Federal agencies.

These steps are necessary for OPM to move towards fully automating the retirement claims processing system. They are not enough, however, to address the immediate need to reduce the current backlog of retirement claims.

To that end, on January 17, 2012, OPM unveiled a new strategic plan to address that backlog. We have reviewed it and made initial inquiries to the agency

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regarding parts of the plan. Although our evaluation is not complete, I can share with you now a few observations and comments.

We believe that the agency is on the right track by hiring and training additional staff, as well as leveraging existing resources. OPM is also dedicating personnel to focus primarily on case development work, such as gathering missing documentation essential to the processing of retirement claims. This should increase the productivity of the adjudicators.

Based upon our initial review of the strategic plan, we asked OPM about various details not presented in the plan. For example, we would like to see interim milestones that allow OPM to track its progress towards eliminating the backlog in 18 months. Furthermore, we want to be sure that there is a commitment to revisit the plan periodically to make modifications as necessary. We also have concerns regarding the scaling back of the accuracy review process. This will obviously result in a higher risk of error in the processing of retirement claims. We would like to see how OPM plans to address the higher degree of risk for improperly paying annuities.

Improper Payments to Deceased Annuitants

While I am pleased that OPM is aggressively addressing the retirement claims backlog, I would like to reemphasize my concerns regarding OPM's pattern of making improper payments to deceased annuitants, requiring the expenditure of significant resources to attempt to recover these monies. Resources would be better spent identifying and, more importantly, preventing improper payments from being made. We have been working closely with OPM on this issue for over six years, and while improvements have certainly been achieved, systemic problems remain. As Director Berry has stated, he recognizes that this situation must be addressed, and has assigned senior staff members to work with my office on the outstanding recommendations detailed in our recent report. He agrees that improper payments can be remedied only by a comprehensive reform effort. In my recent conversations with Director Berry, he has committed to developing a strategic plan to combat improper payments to deceased annuitants, similar to the one OPM has just issued regarding the retirement claims backlog.

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Background

My office's efforts began in 2005 when we initiated a study of best practices for preventing improper payments to deceased annuitants. Along with OPM representatives, we met with several benefit-paying Federal agencies and a major corporation to discuss procedures and internal controls that were used to prevent and detect improper payments. This study resulted in a report that we provided containing recommendations for improvements related to preventing improper payments from the Federal Government's Civil Service Retirement and Disability (CSRD) Fund. We updated and reissued this report in January 2008, reflecting the progress that the agency had made in addressing our original recommendations and providing additional recommendations. While a number of improvements have been implemented since then, it became clear that they were only partial remedies. Consequently, my office issued a third report in September 2011 to again highlight the need for aggressive action in this area.

This report, "Stopping Improper Payments to Deceased Annuitants," demonstrated the need to stop the flow of improper payments once and for all from the CSRD Fund to deceased annuitants, which have averaged approximately $120 million annually over the last six years.[1] It is important to note that this entire amount does not represent egregious long-term improper payments. Much of it – although OPM could not provide the exact amount – comes from improper payments that are identified and recovered in a matter of a few months. These are often the result of a retiree passing away just before or after the retirement payment is made for that month, or because the deceased's family takes a month or two to report the death. These payments are usually recovered in full.

While of course we would like to prevent all post-death improper payments, as each one requires time and effort to recover, our paramount concern is with those payments resulting when an annuitant's death is not properly reported or detected and which continue for many years. These payments are frequently taken by a relative or guardian of the deceased annuitant who failed to report the death. In many cases, these individuals then actively lead OPM to believe that the annuitant

[1] Please note that the figure in our September 2011 report – $120 million – reflected the average annual amount of improper payments made between 2006 and 2010. When including the figures for 2011, the average annual amount of improper payments is $119 million.

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was still alive by forging his or her signature on an inquiry form from the agency. Our experience is that these types of improper payments often cannot be recovered.

As an example, our report noted the case of an annuitant's son who continued to receive benefits until 2008, 37 years after his father's death in 1971. The improper payment in this case exceeded $515,000 and was reported to OPM only when the son died. None of these funds could be recovered. While this is a larger than average improper payment, it is not unusual for these amounts to exceed $100,000. Despite improvements that have been implemented, there remains a high probability that this egregious loss of monies from the CSRD Fund will continue.

OPM's Actions

Based upon our recommendations, OPM has taken positive steps to address this issue. Regular meetings over the last three years between OPM subject matter experts and my office have led to enhanced identification and prevention measures. These measures need to be further refined, incorporated into routine business processes, and monitored on a continuous basis by senior management. As I have already mentioned, the Director has committed to do just this by developing a long-term strategic plan that will address the systemic causes of improper payments to deceased annuitants. However, because the plan has not yet been drafted, today I can only speak to our recommended actions.

Those actions include comparing the OPM retirement annuity roll and the Social Security Death Master File; increasing contact with annuitants who are over 90 years old; analyzing undeliverable correspondence; recovering improper payments from financial institutions; and establishing a permanent working group to continue to develop new and innovative approaches to identifying and preventing improper payments. I will discuss each of these initiatives in turn, including the progress that OPM has made regarding each.

1. Computer Matching

One of our recommendations was that OPM conduct an annual computer match between the OPM retirement annuity roll and the Social Security Death Master File to identify deceased annuitants who continue to receive annuity payments. OPM conducts a weekly match against a file from the Social Security

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Administration (SSA) of deaths reported immediately (*i.e.*, during the week they occurred). In contrast, the annual match against SSA's Death Master File captures those deaths that were not previously reported in SSA's weekly file or that were missed by OPM during the weekly match.

While we have closed this recommendation, we continue to monitor the results of the matching. The annual matches conducted in 2009 and 2010 identified over 1,000 deaths that were previously unknown to OPM. The agency is now conducting its third consecutive annual match, begun in 2011, which is approximately 85 percent complete.

2. Increasing Contact

At our request, OPM began sampling the over age 90 population of the annuity roll in September 2009 (the "Over 90 Project"). OPM requested that these individuals send the agency a signed response confirming their vital status and validating their correspondence address. This was a productive exercise. Out of a sample of 4,400 individuals, OPM told us that 144 cases were suspended and approximately 100 individuals were ultimately dropped from the annuity rolls. OPM plans to repeat this exercise this summer.

3. Analysis of Undeliverable Correspondence

Under Treasury regulations, OPM must annually send each annuitant IRS Form 1099-R reporting the amount of the annuity that the retiree received during the prior tax year. OPM agreed to analyze those Forms 1099-R that were returned to the agency as undeliverable, and to contact those annuitants to determine why the mail was returned.

OPM is currently reviewing the undeliverable Forms 1099-R mailed out in January 2010. To our knowledge, OPM has only reviewed a small percentage of the 33,000 returned forms. Moreover, the agency has not begun reviewing the undeliverable forms mailed in January 2011, and will soon begin receiving undeliverable forms mailed in January 2012.

Given this workload, OPM must develop a plan to address how it will process the undeliverable mail, determine why it was returned, and take appropriate action.

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4. Recovering Improper Payments from Financial Institutions

We recommended that OPM improve and streamline the process whereby it works with the U.S. Department of the Treasury to reclaim improper payments to deceased annuitants directly from the bank accounts where they were electronically deposited. We have been informed that OPM is continuing its attempts to meet with Treasury officials to resolve the matter.

5. Establishment of a Permanent Working Group

We strongly recommended that OPM establish a permanent working group of retirement program subject matter experts to focus on improving the retirement program's integrity. This group would identify and explore risk areas and take advantage of the wealth of information contained in the annuity roll by, for example, developing data mining programs that would search for anomalies indicating possible improper payments or fraud.

Those who wish to defraud the Government will continue to develop new ways to do so. In order for OPM to protect the retirement trust fund against such individuals, it must also constantly seek to improve and adapt to an increasingly automated world. Having a permanent working group should be an essential part of OPM's proactive efforts.

Improper Payments Reporting Requirements

In 2010, Congress enacted the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204), which amended the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note). Under IPERA, agencies must identify programs that may be susceptible to significant improper payments. OPM's retirement program is considered significant under IPERA because the improper payments are over the $100 million per fiscal year threshold. Because these improper payments are classified as significant, OPM has certain reporting responsibilities under IPERA. This includes reporting not only an estimate of the improper payments, but also the causes of those improper payments, and actions planned or taken to correct those causes.

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In October 2011, we initiated the audit required by IPERA to determine OPM's compliance with the act. While the audit is ongoing, our preliminary work indicates potential deficiencies in both OPM's compliance with the act and its internal reporting controls.

As I previously stated, during recent discussions with the Director, he committed to producing a strategic plan to address improper payments to deceased annuitants, similar to the one for the retirement claims backlog. We believe that this plan should be based upon the IPERA standards. This would help the agency to ensure that it complies with the act, as well as establish a clear identification and prevention program.

Conclusion

The Federal retirement system is a complex operation. OPM has been largely successful in administering the program and meeting the needs of the 2.5 million Federal retirees.

However, the backlog in retirement claims processing constitutes a significant challenge that must be addressed as quickly as possible. To that end, OPM is making progress in automating some parts of the process. More importantly, the agency is dedicating additional personnel to eliminate this backlog of retirement claims. OPM appears to be moving in the right direction, but there are potential risks that it must address, and OPM must remain vigilant for this strategic plan to be successful.

While OPM works to improve its retirement claims processing procedures, it must not neglect the identification and prevention of improper payments to deceased annuitants. Over the past six years, we have watched as the agency has adopted new measures to combat these improper payments. However, these measures were not consistently pursued and the efforts eventually stalled.

Although OPM's improper payment rate for the retirement program is very low, it is still, on average, over $100 million a year. I cannot emphasize enough the importance of having an established, meaningful identification and prevention program in place. Failure to do so not only results in the initial overpayment, but often also the inability to recover the funds once the improper payment is finally

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discovered. Consequently, prevention of these payments must remain a top priority, and not simply when my office raises the issue.

Director Berry has recognized this and has enthusiastically committed to developing and implementing a strategic plan that would improve OPM's ability to identify and prevent improper payments. I applaud his efforts and my office is ready and willing to work with the agency as it develops this plan.

Thank you again for inviting me here today, I would be happy to respond to any questions that you may have.

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United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
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OPM RETIREMENT MODERNIZATION

Progress Has Been Hindered by Longstanding Information Technology Management Weaknesses

Statement of Valerie C. Melvin, Director
Information Management and Technology
Resources Issues

GAO
Accountability * Integrity * Reliability

GAO-12-430T

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Highlights of GAO-12-430T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Office of Personnel Management (OPM) is the central human resources agency for the federal government and, as such, is responsible for ensuring that the government has an effective civilian workforce. As part of its mission, OPM defines recruiting and hiring processes and procedures; provides federal employees with various benefits, such as health benefits; and administers the retirement program for federal employees. OPM's use of information technology (IT) is critical in carrying out its responsibilities; in fiscal year 2011 the agency invested $79 million in IT systems and services. For over 2 decades, OPM has been attempting to modernize its federal employee retirement process by automating paper-based processes and replacing antiquated information systems. However, these efforts have been unsuccessful, and OPM canceled its most recent large-scale retirement modernization effort in February 2011.

GAO was asked to summarize its work on challenges OPM has faced in attempting to modernize the federal employee retirement process. To do this, GAO relied on previously published work in addition to reviewing OPM's recent plan for retirement services.

What GAO Recommends

GAO is not making new recommendations at this time. GAO has previously made numerous recommendations to address IT management challenges OPM has faced in carrying out its retirement modernization efforts. Fully addressing these challenges remains key to the success of OPM's efforts.

View GAO-12-430T. For more information, contact Valerie C. Melvin at (202) 512-6304 or melvinv@gao.gov.

February 2012

OPM RETIREMENT MODERNIZATION

Progress Has Been Hindered by Longstanding Information Technology Management Weaknesses

What GAO Found

In a series of reviews, GAO found that OPM's retirement modernization efforts were hindered by weaknesses in key management practices that are essential to successful IT modernization projects. For example, in 2005, GAO made recommendations to address weaknesses in the following areas:

- **Project management:** While OPM had defined major components of its retirement modernization effort, it had not identified the dependencies among them, increasing the risk that delays in one activity could have unforeseen impacts on the progress of others.
- **Risk management:** OPM did not have a process for identifying and tracking project risks and mitigation strategies on a regular basis. Thus, OPM lacked a mechanism to address potential problems that could adversely impact the cost, schedule, and quality of the modernization effort.
- **Organizational change management:** OPM had not adequately prepared its staff for changes to job responsibilities resulting from the modernization by developing a detailed transition plan. This could lead to confusion about roles and responsibilities and hinder effective system implementation.

In 2008, as OPM was on the verge of deploying an automated retirement processing system, GAO reported deficiencies in and made recommendations to address additional management capabilities:

- **Testing:** The results of tests 1 month prior to the deployment of a major system component revealed that it had not performed as intended. These defects, along with a compressed testing schedule, increased the risk that the system would not work as intended upon deployment.
- **Cost estimating:** The cost estimate OPM developed was not fully reliable. This meant that the agency did not have a sound basis for formulating budgets or developing a program baseline.
- **Progress reporting:** The baseline against which OPM was measuring the progress of the program did not reflect the full scope of the project; this increased the risk that variances from planned performance would not be detected.

In 2009, GAO reported that OPM continued to have deficiencies in its cost estimating, progress reporting, and testing practices and made recommendations to address these deficiencies, as well as additional weaknesses in the planning and oversight of the modernization effort. OPM agreed with these recommendations and began to address them, but the agency terminated the modernization effort in February 2011.

More recently, in January 2012, OPM released a new plan to improve retirement processing that aims at targeted, incremental improvements rather than a large-scale modernization. Specifically, OPM plans to hire new claims-processing staff, take steps to identify potential process improvements, and work with other agencies to improve data quality. Further, OPM intends to make IT improvements that allow retirees to access and update their accounts and automate the retirement application process. However, the plan reflects a less ambitious retirement processing timeliness goal and does not address improving or eliminating the legacy systems that support retirement processing.

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Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee:

Thank you for inviting me to participate in today's hearing on the Office of Personnel Management's (OPM) efforts to manage the system that is crucial to the processing of federal employee retirement benefits. The use of information technology is integral to carrying out this important responsibility; for over two decades, OPM has been attempting to modernize the retirement process by automating paper-based processes and replacing antiquated information systems. However, the agency has experienced challenges in managing its modernization initiatives. Reports that we issued in 2005, 2008, and 2009 on the agency's efforts toward planning and implementing a modernized retirement system highlighted a long history of undertaking retirement modernization projects that have not yielded the intended outcomes. At your request, my testimony today summarizes the history of OPM's retirement modernization efforts and the findings from our reports on challenges the agency has faced in managing these efforts.[1]

The information in my testimony is based on our previous work at OPM. We also obtained and reviewed the agency's recent plan for improving retirement services. We performed our work in support of this testimony during January 2012. All work on which this testimony is based was conducted in accordance with generally accepted government auditing standards.

Background

As the central human resources agency for the federal government, OPM is tasked with ensuring that the government has an effective civilian workforce. To carry out this mission, OPM delivers human resources products and services including policies and procedures for recruiting and hiring, provides health and training benefit programs, and administers the

[1]GAO, *Office of Personnel Management: Retirement Modernization Planning and Management Shortcomings Need to Be Addressed*, GAO-09-529 (Washington, D.C.: Apr. 21, 2009); *Office of Personnel Management: Improvements Needed to Ensure Successful Retirement Systems Modernization*, GAO-08-345 (Washington, D.C.: Jan. 31, 2008); *Comments on the Office of Personnel Management's February 20, 2008 Report to Congress Regarding the Retirement Systems Modernization*, GAO-08-576R (Washington, D.C.: Mar. 28, 2008); and *Office of Personnel Management: Retirement Systems Modernization Program Faces Numerous Challenges*, GAO-05-237 (Washington, D.C.: Feb. 28, 2005).

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retirement program for federal employees. According to the agency, approximately 2.7 million active federal employees and nearly 2.5 million retired federal employees rely on its services.[2] The agency's March 2008 analysis of federal employment retirement data estimates that nearly 1 million active federal employees will be eligible to retire and almost 600,000 will most likely retire by 2016.[3]

According to OPM, the retirement program serves current and former federal employees by providing (1) tools and options for retirement planning and (2) retirement compensation. Two defined-benefit retirement plans that provide retirement, disability, and survivor benefits to federal employees are administered by the agency. The first plan, the Civil Service Retirement System (CSRS), provides retirement benefits for most federal employees hired before 1984. The second plan, the Federal Employees Retirement System (FERS), covers most employees hired in or after 1984 and provides benefits that include Social Security and a defined contribution system.[4]

Federal Employee Retirement Application Processing Is Complex

OPM and employing agencies' human resources and payroll offices are responsible for processing federal employees' retirement applications. The process begins when an employee submits a paper retirement application to his or her employer's human resources office and is completed when the individual begins receiving regular monthly benefit payments (as illustrated in fig. 1).

[2]OPM, Fiscal Year 2010 Annual Performance Report (January 2011).

[3]OPM, *An Analysis of Federal Employee Retirement Data: Predicting Future Retirements and Examining Factors Relevant to Retiring from the Federal Service* (March 2008).

[4]The Social Security Administration is responsible for administering Social Security, and the Federal Retirement Thrift Investment Board administers the defined-contribution system known as the Thrift Savings Plan. Defined-benefit plans calculate benefit amounts in advance of retirement based on factors such as salary level and years of service, and defined-contribution plans calculate benefit amounts based on how the amount is invested by the employee and employer.

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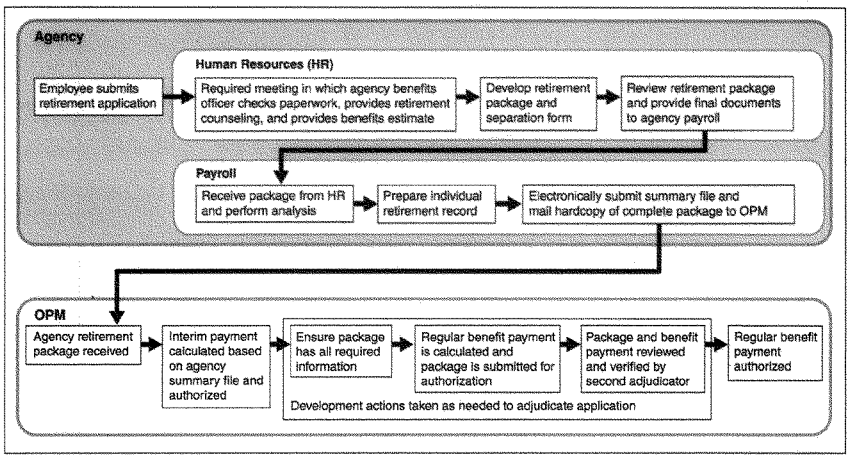
Figure 1: Simplified View of Retirement Application Process



Source: GAO analysis of OPM data.

Once an employee submits an application, the human resources office provides retirement counseling services to the employee and augments the retirement application with additional paperwork, such as a separation form that finalizes the date the employee will retire. Then the agency provides the retirement package to the employee's payroll office. After the employee separates for retirement, the payroll office is responsible for reviewing the documents for correct signatures and information, making sure that all required forms have been submitted, and adding any additional paperwork that will be necessary for processing the retirement package. Once the payroll office has finalized the paperwork, the retirement package is mailed to OPM to continue the retirement process. Payroll offices are required to submit the package to OPM within 30 days of the retiree's separation date.

Upon receipt of the retirement package, OPM calculates an interim payment based on information provided by the employing agency. The interim payments are partial payments that typically provide retirees with

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80 percent of the total monthly benefit they will eventually receive.[5] OPM then starts the process of analyzing the retirement application and associated paperwork to determine the total monthly benefit amount to which the retiree is entitled. This process includes collecting additional information from the employing agency's human resources and payroll offices or from the retiree to ensure that all necessary data are available before calculating benefits. After OPM completes its review and authorizes payment, the retiree begins receiving 100 percent of the monthly retirement benefit payments. OPM then stores the paper retirement folder at the Retirement Operations Center in Boyers, Pennsylvania.

The agency recently reported that the average time to process a new retirement claim is 156 days. According to the Deputy Associate Director for the Center of Retirement and Insurance Services, about 200 employees are directly involved in processing the approximately 100,000 retirement applications OPM receives annually. Retirement processing includes functions such as determining retirement eligibility, inputting data into benefit calculators, and providing customer service. The agency uses over 500 different procedures, laws, and regulations, which are documented on the agency's internal website, to process retirement applications. For example, the site contains memorandums that outline new procedures for handling special retirement applications, such as those for disability or court orders. Further, OPM's retirement processing involves the use of over 80 information systems that have approximately 400 interfaces with other internal and external systems. For instance, 26 internal systems interface with the Department of the Treasury to provide, among other things, information regarding the total amount of benefit payments to which an employee is entitled.

OPM has reported that a greater retirement processing workload is expected due to an anticipated increase in the number of retirement applications over the next decade, although current retirement processing operations are at full capacity. Further, the agency has identified several factors that limit its ability to process retirement benefits in an efficient and timely manner. Specifically, OPM noted that:

[5]OPM reported in November 2008 that it has made improvements to this process and is currently providing retirees with interim payments that are about 90 percent of the monthly payment which they are entitled.

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- current processes are paper-based and manually intensive, resulting in a higher number of errors and delays in providing benefit payments;
- the high costs, limited capabilities, and other problems with the existing information systems and processes pose increasing risks to the accuracy of benefit payments;
- current manual capabilities restrict customer service;
- federal employees have limited access to retirement records, making planning for retirement difficult; and
- attracting qualified personnel to operate and maintain the antiquated retirement systems, which have about 3 million lines of custom programming, is challenging.[6]

OPM Has a Long History of Unsuccessful Retirement Modernization Initiatives

Recognizing the need to modernize its retirement processing, in the late 1980s OPM began initiatives that were aimed at automating its antiquated paper-based processes. Initial modernization visions called for developing an integrated system and automated processes to provide prompt and complete benefit payments. However, following attempts over more than two decades, the agency has not yet been successful in achieving the modernized retirement system that it envisioned.

In early 1987, OPM began a program called the FERS Automated Processing System. However, after 8 years of planning, the agency decided to reevaluate the program, and the Office of Management and Budget requested an independent review of the program that identified various management weaknesses. The independent review suggested areas for improvement and recommended terminating the program if immediate action was not taken. In mid-1996, OPM terminated the program.

In 1997, OPM began planning a second modernization initiative, called the Retirement Systems Modernization (RSM) program. The agency originally intended to structure the program as an acquisition of commercially available hardware and software that would be modified in-house to meet its needs. From 1997 to 2001, OPM developed plans and analyses and began developing business and security requirements for the program. However, in June 2001, it decided to change the direction of the retirement modernization initiative.

[6]GAO-09-529.

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In late 2001, retaining the name RSM, the agency embarked upon its third initiative to modernize the retirement process and examined the possibility of privately sourced technologies and tools. Toward this end, the agency determined that contracting was a viable alternative and, in 2006, awarded three contracts for the automation of the retirement process, to include the conversion of paper records to electronic files and consulting services to redesign its retirement operations.

In February 2008, OPM renamed the program RetireEZ and deployed an automated retirement processing system. However, by May 2008 the agency determined that the system was not working as expected and suspended system operation. In October 2008, after 5 months of attempting to address quality issues, the agency terminated the contract for the system. In November 2008, OPM began restructuring the program and reported that its efforts to modernize retirement processing would continue. However, after several years of trying to revitalize the program, the agency terminated the retirement system modernization in February 2011.

IT Management Weaknesses Have Contributed to OPM's Unsuccessful Retirement Modernization Efforts

OPM's efforts to modernize its retirement system have been hindered by weaknesses in several key IT management disciplines. Our experience with major modernization initiatives has shown that having sound management capabilities is essential to achieving successful outcomes. Among others, these capabilities include project management, risk management, organizational change management, system testing, cost estimating, progress reporting, planning, and oversight. However, we found that many of the capabilities in these areas were not sufficiently developed. For example, in reporting on RSM in February 2005, we noted weaknesses in key management capabilities, such as project management, risk management, and organizational change management.[7]

- Project management is the process for planning and managing all project-related activities, including defining how project components are interrelated. Effective project management allows the performance, cost, and schedule of the overall project to be measured

[7]GAO-05-237.

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and controlled in comparison to planned objectives. Although OPM had defined major retirement modernization project components, it had not defined the dependencies among them. Specifically, the agency had not identified critical tasks and their impact on the completion of other tasks. By not identifying critical dependencies among retirement modernization components, OPM increased the risk that unforeseen delays in one activity could hinder progress in other activities.

- Risk management entails identifying potential problems before they occur. Risks should be identified as early as possible, analyzed, mitigated, and tracked to closure. OPM officials acknowledged that they did not have a process for identifying and tracking retirement modernization project risks and mitigation strategies on a regular basis but stated that the agency's project management consultant would assist it in implementing a risk management process. Without such a process, OPM did not have a mechanism to address potential problems that could adversely impact the cost, schedule, and quality of the retirement modernization project.

- Organizational change management includes preparing users for the changes to how their work will be performed as a result of a new system implementation. Effective organizational change management includes plans to prepare users for impacts the new system might have on their roles and responsibilities, and a process to manage those changes. Although OPM officials stated that change management posed a substantial challenge to the success of retirement modernization, they had not developed a detailed plan to help users transition to different job responsibilities. Without having and implementing such a plan, confusion about user roles and responsibilities could have hindered effective implementation of new retirement systems.

We recommended that the Director of OPM ensure that the retirement modernization program office expeditiously establish processes for effective project management, risk management, and organizational change management. In response, the agency initiated steps toward establishing management processes for retirement modernization and demonstrated activities to address our recommendations.

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We subsequently reported on OPM's retirement modernization again in January 2008, as the agency was on the verge of deploying a new automated retirement processing system.[8] We noted weaknesses in additional key management capabilities, including system testing, cost estimating, and progress reporting.

- Effective testing is an essential activity of any project that includes system development. Generally, the purpose of testing is to identify defects or problems in meeting defined system requirements or satisfying system user needs. At the time of our review, 1 month before OPM planned to deploy a major system component, test results showed that the component had not performed as intended. We warned that until actual test results indicated improvement in the system, OPM risked deploying technology that would not accurately calculate retirement benefits. Although the agency planned to perform additional tests to verify that the system would work as intended, the schedule for conducting these tests became compressed from 5 months to 2-1/2 months, with several tests to be performed concurrently rather than in sequence. The agency identified a lack of testing resources, including the availability of subject matter experts, and the need for further system development, as contributing to the delay of planned tests and the need for concurrent testing. The high degree of concurrent testing that OPM planned to meet its February 2008 deployment schedule increased the risk that the agency would not have the resources or time to verify that the planned system worked as expected.

- Cost estimating represents the identification of individual project cost elements, using established methods and valid data to estimate future costs. The establishment of a reliable cost estimate is important for developing a project budget and having a sound basis for measuring performance, including comparing the actual and planned costs of project activities. Although OPM developed a retirement modernization cost estimate, the estimate was not supported by the documentation that is fundamental to a reliable cost estimate. Without a reliable cost estimate, OPM did not have a sound basis for formulating retirement modernization budgets or for developing the cost baseline that is necessary for measuring and predicting project performance.

[8]GAO-08-345.

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- Earned value management (EVM) is a tool for measuring program progress by comparing the value of work accomplished with the amount of work expected to be accomplished. Fundamental to reliable EVM is the development of a baseline against which variances are calculated. OPM used EVM to measure and report monthly performance of the retirement modernization system. The reported results provided a favorable view of project performance over time because the variances indicated the project was progressing almost exactly as planned. However, this view of project performance was not reliable because the baseline on which it was based did not reflect the full scope of the project, had not been validated, and was unstable (i.e., subject to frequent changes). This EVM approach in effect ensured that material variances from planned project performance would not be identified and that the state of the project would not be reliably reported.

We recommended that the Director of OPM address these deficiencies by, among other things, conducting effective system tests prior to system deployment, in addition to improving program cost estimation and progress reporting. In response to our report, OPM stated that it concurred with our recommendations and stated that it would take steps to address the weakness we identified. Nevertheless, OPM deployed a limited initial version of the modernized retirement system in February 2008. After unsuccessful efforts to address system quality issues, the agency suspended system operation, terminated the system contract, and began restructuring the modernization effort.

In April 2009, we again reported on OPM's retirement modernization, noting that the agency still remained far from achieving the modernized retirement processing capabilities that it had planned.[9] Specifically, we noted that significant weaknesses continued to exist in three key management areas that we had previously identified—cost estimating, progress reporting, and testing—while also noting two additional weaknesses related to planning and oversight.

- Despite agreeing with our January 2008 recommendation that OPM develop a revised retirement modernization cost estimate, the agency had not completed initial steps for developing a new cost estimate by

[9]GAO-09-529.

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the time we reported again in April 2009. At that time, we reported that the agency had not yet fully defined the estimate's purpose, developed an estimating plan, or defined the project's characteristics. By not completing these steps, OPM increased the risk that it would produce an unreliable estimate and not have a sound basis for measuring project performance and formulating retirement modernization budgets.

- Although it agreed with our January 2008 recommendation to establish a basis for effective EVM, OPM had not completed key steps as of the time of our April 2009 report. Specifically, despite planning to begin reporting on the retirement project's progress using EVM, the agency was not prepared to do so because initial steps, including the development of a reliable cost estimate and the validation of a baseline, had not been completed. Engaging in EVM reporting without first performing these fundamental steps could have again rendered the agency's assessments unreliable.

- As previously discussed, effective testing is an essential component of any project that includes developing systems. To be effectively managed, testing should be planned and conducted in a structured and disciplined fashion. Beginning the test planning process in the early stages of a project life cycle can reduce rework later. Early test planning in coordination with requirements development can provide major benefits. For example, planning for test activities during the development of requirements may reduce the number of defects identified later and the costs related to requirements rework or change requests. OPM's need to compress its testing schedule and conduct tests concurrently, as we reported in January 2008, illustrates the importance of planning test activities early in a project's life cycle. However, at the time of our April 2009 report, the agency had not begun to plan test activities in coordination with developing its requirements for the system it was planning at that time. Consequently, OPM increased the risk that it would again deploy a system that did not satisfy user expectations and meet requirements.

- Project management principles and effective practices emphasize the importance of having a plan that, among other things, incorporates all the critical areas of system development and is to be used as a means of determining what needs to be done, by whom, and when. Although OPM had developed a variety of informal documents and briefing slides that described retirement modernization activities, the agency did not have a complete plan that described how the program would proceed in the wake of its decision to terminate the system

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contract. As a result, we concluded that until the agency completed and used a plan that could guide its efforts, it would not be properly positioned to move forward with its restructured retirement modernization initiative.

- Office of Management and Budget and GAO guidance call for agencies to ensure effective oversight of IT projects throughout all life-cycle phases. Critical to effective oversight are investment management boards made up of key executives who regularly track the progress of IT projects such as system acquisitions or modernizations. OPM's Investment Review Board was established to ensure that major investments are on track by reviewing their progress and determining appropriate actions when investments encounter challenges. Despite meeting regularly and being provided with information that indicated problems with the retirement modernization, the board did not ensure that retirement modernization investments were on track, nor did it determine appropriate actions for course correction when needed. For example, from January 2007 to August 2008, the board met and was presented with reports that described problems the retirement modernization program was facing, such as the lack of an integrated master schedule and earned value data that did not reflect the "reality or current status" of the program. However, meeting minutes indicated that no discussion or action was taken to address these problems. According to a member of the board, OPM guidance regarding how the board is to communicate recommendations and needed corrective actions for investments it is responsible for overseeing had not been established. Without a fully functioning oversight body, OPM could not monitor the retirement modernization and make the course corrections that effective boards are intended to provide.

Our April 2009 report made new recommendations that OPM address the weaknesses in the retirement modernization project that we identified. Although the agency began taking steps to address them, the recommendations were overtaken by the agency's decision in February 2011 to terminate the retirement modernization project.

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OPM Has a New Plan to Improve Retirement Processing

In mid-January 2012, OPM released a new plan that describes the agency's intention to improve retirement processing through actions that include

- hiring and training 56 new staff to adjudicate retirement claims and 20 additional staff to support the claims process;
- establishing higher production standards and identifying potential retirement process improvements; and
- working with other agencies to improve the accuracy and completeness of the data they provide to OPM for use in retirement processing.

Additionally, OPM's new plan identifies existing and planned IT improvements to support the retirement process. Recognizing that its previous, large-scale efforts to automate the retirement process have failed, the agency characterizes its new plan as representing partial, progressive IT improvements. These efforts include

- providing retirees with the capability to access and update their accounts to change addresses, banking information, and tax exemptions and
- planning to automate retirement applications and to automatically collect retirement data from agencies' payroll processing centers.

Under this approach, OPM expects to eliminate the agency's retirement processing backlog within 18 months and to accurately process 90 percent of its cases within 60 days. However, this goal represents a substantial reduction from the agency's fiscal year 2009 retirement modernization goal to accurately process 99 percent of cases within 30 days. Moreover, the plan does not describe whether or how the agency intends to modify or decommission the over 80 legacy systems that support retirement processing.

In summary, despite OPM's recognition of the need to improve the timeliness and accuracy of retirement processing, the agency has thus far been unsuccessful in several attempts to develop the capabilities it has long sought. For over two decades, the agency's retirement modernization efforts have been plagued by weaknesses in management capabilities that are critical to the success of such endeavors. Among the management disciplines the agency has struggled with are project management, risk management, organizational change management,

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cost estimating, system testing, progress reporting, planning, and oversight. Although the agency is now considering modest, incremental efforts to improve retirement processing, the development and institutionalization of the aforementioned management capabilities remain important to OPM's success in improving the delivery of retirement services.

Mr. Chairman, this concludes my statement today. I would be pleased to answer any questions that you or other members of the Subcommittee may have.

Contact and Acknowledgments

If you have any questions concerning this statement, please contact Valerie C. Melvin, Director, Information Management and Technology Resources Issues, at (202) 512-6304 or melvinv@gao.gov. Other individuals who made key contributions include Mark T. Bird, Assistant Director; Barbarol J. James; Lee A. McCracken; Teresa A. Neven; and Robert L. Williams, Jr.

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STATEMENT BY
JOSEPH A. BEAUDOIN
NATIONAL PRESIDENT
NATIONAL ACTIVE AND RETIRED
FEDERAL EMPLOYEES ASSOCIATION
(NARFE)

BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE
AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS,
UNITED STATES SENATE

HEARING ON
FEDERAL RETIREMENT PROCESSING:
ENSURING PROPER AND TIMELY PAYMENTS

FEBRUARY 1, 2012

Chairman Akaka and members of the subcommittee, thank you for inviting me to testify on behalf of the 4.6 million federal workers and annuitants represented by the National Active and Retired Federal Employees Association (NARFE), where I have the privilege of serving as president. I appreciate the opportunity to discuss federal retirement annuity processing.

We have received hundreds of calls from our members, most of them from outside the Washington metropolitan area, complaining that interim payments are too low, that they are waiting too long to receive their full annuity payments and that they are unable to get through to the Office of Personnel Management (OPM) to check the status of their annuity.

Our members have sent us emails attesting to the long delays. For example, in the past two weeks:

- Jennifer Ortiz told us: "I retired on December 31, 2010, and received my first full annuity payment on September 1, 2011. Up until then, I was receiving interim payments of $17 per month."
- John Tolleris told us: "I retired from the U.S. Treasury Department on May 31, 2011, after 32 ½ years of service. While OPM started paying my interim pension promptly on July 1, it still has not yet 'adjudicated' my pension case, and I'm currently receiving about 65 percent of the monthly payment my agency had estimated. I'm now expecting to receive my *eighth* 'diet' annuity payment next month with no indication of when I will ever receive my full monthly payment or ever-growing back payment." (emphasis in original)
- Craig Boehne told us: "I retired from the FAA on May 31, 2011. I continue to receive partial interim checks at about 55-60 percent gross of what I am entitled."

OPM confirms the problem that our members are experiencing, recognizing that "[f]ederal employees face unacceptable delays in receiving retirement benefits after years of honorable service to the nation."[1] As of December 31, 2011, there was a backlog of 48,375 claims, and the average time to process a claim was 156 days – over five months.

We commend OPM for so honestly recognizing the problem and for developing a strategic plan to solve it. This hearing provides an important opportunity to assess whether that plan is sufficient to achieve its goals and, if not, to determine what else OPM, agencies or Congress can do to ensure that it is.

This task is urgent. The effect of such long delays on new federal retirees is obvious and serious – they must "make do" while waiting to receive the full amount they have earned. The wait is too long, and the uncertainty is too much, particularly in the current economy.

[1] *Strategic Plan for Retirement Services*, Office of Personnel Management, January 17, 2012.

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In addition to causing individuals personal pain and inconvenience, the delays also have an impact on local communities. More than 85 percent of federal retirees live outside of the Washington, DC, area. They live in every American community.

OPM's Strategic Plan for Improving Timeliness

Let me address OPM's strategic plan to reduce delays in processing retirement annuities. First, OPM plans to increase staff devoted to retirement processing and customer service. Specifically, OPM expects to hire 56 new legal administrative specialists (LAS) and 20 new customer service specialists (CSS), and will fill another 16 open positions. We are pleased that OPM is devoting more personnel to retirement processing, but we are concerned that these plans may not be fully implemented when agency budgets are being squeezed.

Second, OPM plans to improve productivity through processing improvements. We support the establishment of higher production standards and more effective use of overtime. We also support lessening the administrative burdens faced by LAS staff to free up their time to adjudicate claims.

Third, the plan calls for improving the accuracy and responsiveness of agencies. Specifically, OPM's Claims Development Team will use an agency package checklist to provide constant feedback, will publish performance standards and will begin to recognize exceptional customer service by agencies. We certainly believe improving the accuracy of agency records and agency responsiveness is important. But we are concerned that this portion of the plan lacks teeth. The checklist and performance standards are steps in the right direction. But how will poor performance be corrected?

Finally, OPM plans to make partial, progressive improvements to its technology. After OPM's previous attempts to automate the entire system failed, we hope this incremental approach proves more successful.

Implementation

Of course, even the best-laid plans can go awry. Thus, implementation will be essential to its success. Qualified, new employees must be hired and trained quickly. Higher production standards must be enforced, and voluntary overtime must be implemented. And, as I have already mentioned, there must be an enforceable way to ensure that agencies provide timely information to OPM.

Additionally, we hope that devoting additional resources to the processing of retirement annuities does not diminish OPM's ability to provide other retirement services, such as the termination of the survivor annuity deduction when an annuitant's spouse passes away. OPM should be given the resources it needs to meet *all* of its obligations to federal employees and retirees.

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Communication

Our members frequently complain not only that they have not yet received their full annuity payments, but that they cannot easily check the status of their claims.

OPM's plan creates a two-tiered approach to its Retirement Information Office, dividing the staff into two groups. The first group answers initial calls. The second group consists of specialists with more technical knowledge to answer questions that previously had been forwarded to LAS. The initial results cited by OPM show that fewer calls are transferred to the LAS using this system, freeing up time to process claims.

This is a positive development for claims processing, but it is unclear whether the new system is providing better customer service to retirees who simply want to check the status of their claims. What is the volume of calls to OPM? Are there enough people answering the phones to handle that volume? It may be that there are simply too many calls for too few people. If that is the case, OPM should look for other ways to provide retirees with status updates. For example, OPM may want to consider providing retirees the ability to check their status online.

Conclusion

Federal employees who have worked for years in public service deserve to receive, in a timely manner, the retirement income they have earned. As OPM recognizes, the delays in receiving retirement payments are unacceptable. OPM has a new plan to solve the problem, and we hope it works. But we must see results soon.

Thank you again for the opportunity to testify, and I would be happy to answer any questions you may have.

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Testimony of George Nesterczuk
President, Nesterczuk and Associates

before the

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Committee on Homeland Security and Governmental Affairs

United States Senate

Hearing: " *Federal Retirement Processing: Ensuring Proper and Timely Payments*"

February 1, 2012

Good afternoon Chairman Akaka and Ranking Member Johnson. Thank you for inviting me to testify on the processing of federal retirement applications by the Office of Personnel Management, a matter that is unfortunately of increasing concern to a growing segment of federal employees.

The retirement system is an integral part of the federal employee compensation package. The dominant components of federal retirement are the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS). Others include the Foreign Service Retirement System, the military retirement system and several others serving specialized communities of federal employees. CSRS and FERS benefits are funded from the Civil Service Retirement and Disability Fund (CSRDF), a Trust Fund administered by the U.S. Office of Personnel Management (OPM.) In addition to CSRS and FERS benefits the CSRDF also provides funding for disability payments to qualified federal employees. In 1983, when the unfunded liabilities of the CSRDF had soared to over $500 billion Congress closed the CSRS to new entrants pending the creation of a new retirement system. FERS was established in 1986 and opened to new employees in 1987, with retroactive enrollment available to those hired between the closure of CSRS and creation of FERS. FERS employees were also enrolled into the Social Security system, a benefit generally not available to CSRS employees.

While these steps significantly slowed the growth in the unfunded liability of the CSRDF they did nothing to actually reduce it and today the unfunded liability has grown to over $800 billion. FERS was intended to be fully funded in its original design and it has met those expectations as it does not contribute to the under funding of the CSRDF. I hasten to point out however, that although FERS is "fully funded" the CSRDF has survived on borrowed money to meet its cash flow requirements since the 1960s. Employee payroll deductions together with employing agency contributions today provide about $30 billion of cash receipts into the CSRDF, a sum dwarfed by payments to annuitants and survivors totaling nearly $70 billion per year. It is this perpetual and growing reliance on the

General Fund rather than the Trust Fund that has kept the spotlight of controversy on what employee organizations and defenders refer to as an "earned benefit paid for by employee contributions."

In administering the CSRDF OPM provides benefits and services to nearly 2.5 million annuitants and survivors at an operating cost of about $95 million per year drawn primarily on the Trust Fund. The quality of service OPM provides is vital to employees as OPM is the bridge to continued compensation when an employee chooses to retire after decades of public service. OPM has an obligation to provide full and timely annuity payments and not to inflict financial hardship on people who have served faithfully for many years. OPM also serves as the surrogate employer for purposes of maintaining the accuracy and currency of annuitant records and to allow the exercise of various benefit options. The agency is also responsible for maintaining the integrity of payments by preventing fraud and abuse of the system. It is impossible to achieve these goals in a modern operating environment without heavy reliance on up to date information technology and properly designed and maintained information management systems. Past leadership of OPM has recognized this and embarked on succeeding retirement system modernization (RSM) efforts with varying degrees of success and failure. The most recent ambitious effort to provide employees with interactive capability to file for retirement online (RetireEZ) was stymied when OPM found that the products delivered by their RSM contractor were not fully reliable.

Chairman Akaka and Ranking Member Johnson, in your letter inviting me to testify at this hearing, you asked me to address efforts to reform retirement processing including modernization, the management of OPM's resources and their priorities, and any recommendations I might have to improve retirement claims processing. I will discuss each of these in turn.

Efforts to Reform Retirement Processing

My familiarity with retirement system modernization goes back about 30 years. At that time OPM concentrated on acquiring computer systems to improve storage capacity, operating reliability and processing speed for monthly calculation and storage of annuity payments. Annuitant employment records consisted primarily of paper files. Automated computation modules were used to improve productivity and enhance accuracy in processing and calculating annuitant claims. This was all done in the context of CSRS until 1987 when FERS was first established. Obviously there was no need to process many FERS retirement applications until a sufficient number of employees had spent a few years in the new system. By the early 1990s with both CSRS and FERS claimants filing in increasing numbers a retirement modernization effort (FERS Automated Processing System) was undertaken at a cost of several million dollars. There were a number of weaknesses with this effort and by 1996 it was abandoned. A new initiative called the Retirement System Modernization (RSM) was begun the next year. Meanwhile, commercial entities providing retirement services to private sector employers had developed a number of systems that could potentially be modified for use in the

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federal sector. RSM envisioned relying on such commercially available hardware and software but with appropriate modifications. With Internet usage exploding the notion of online management of employee benefit programs took the RSM in a new direction. Further, a number of agencies began to incorporate online access and benefit management for their employees.

In 2001 OPM expanded RSM and began to consider outsourcing the modernization effort. In 2006 the agency awarded contracts to automate retirement processing and convert paper records to digital files. By this stage RSM envisioned what was to become "RetireEZ," an approach that would give employees the ability to file for retirement benefits online.

As I noted earlier this particular version of retirement system modernization was put on hold in May 2008 just as the first modules of RetireEZ were becoming available. The deliverables from the contractor were deemed insufficiently reliable and the ten year $290 million RSM contract was later cancelled in October 2008 for non-performance. The overall modernization program remained active though OPM was planning to undertake system upgrades using their own personnel. OPM had already spent over $30 million in various failed modernization efforts in the previous decade. I have no doubt that some benefits have accrued to OPM from these expenditures but considering the growing backlog of retirement claims it is hard to tell what those might be.

What is disappointing is the current administration's apparent abandonment of full-scale modernization. Despite shortcomings and failures of past efforts, at least OPM recognized the need to modernize a process still fatally dependent on paperwork submissions. In the 21st century, when IT is a leading technology of America's economic engine, it is hard to understand how the leaders of a government agency can accept the manual entry of data into modules that perform limited specialized computations as their vision of the future. This is how we processed retirement applications 20 years ago. Why are we not passing through the technological gates that the Internet has opened for us? We can file complicated tax returns online and purchase most any kind of product or commodity online. We can execute complex financial transactions involving investment portfolios online or even apply for a mortgage online. Is filing a retirement application more complicated than filing a tax return based on thousands of pages of tax rules and regulations?

OPM announced the termination of RSM in February 2011 but it wasn't until last month that OPM Director Berry produced a "Strategic Plan for Retirement Services." With retirement claims backlogged at over 48,000 claims the Director proposes to throw money and bodies at the problem. The primary "pillar" advanced in the plan is "people." The agency is proposing to hire 76 new people to toss at its mountain of claims. These new hires will require extensive training and it will take months, according to Director Berry's own estimate, before they can fully shoulder their burden. In addition, OPM proposes to expand the use of overtime, establish higher production standards among current claims processors and more effectively track their productivity. A third "pillar" looks to improve the pre-processing work performed by the federal agencies. And finally,

almost as an afterthought, upgrading IT capabilities are thrown into the mix. Director Berry missed a clear opportunity to reassure the federal community that a wholesale restructuring would be forthcoming. He instead advances a plan that relies on automation that other agencies have grown to depend on in the absence of OPM leadership. If commercially available application modules are adequate for use by federal agencies one can ask why such modules are inadequate for use by OPM.

The recent lack of leadership from OPM on retirement system modernization has left agencies with retiring employees to fend for themselves. Given the past history of failures at OPM this is not necessarily a bad outcome, but it certainly leaves one to wonder how $95 million of operating expenses for retirement operations are prioritized and allocated. Which brings me to the second issue you asked me to address.

Resource Management and Prioritization

In light of the significant backlog of retirement claims on hand serious questions arise about the management of resources and the agency's priorities. Although the RSM contract had been cancelled in October 2008 retirement system modernization was a continuing effort. By early 2009 new OPM leadership was well aware of the cancellation and the history and need for retirement modernization. OPM had been broascasting a forthcoming retirement "tsunami" since 2006. The economic downturn in 2008 has slowed the rush of federal employees for the exits but only temporarily. The resource needs of the retirement program in 2009 were also well known to OPM leadership since management of the retirement system is a very visible core function of the agency. Further, funds to operate the retirement system come from the dedicated CSRDF Trust Fund. The need to upgrade the capacity for processing retirement claims has been the justification for RSM for years. Director Berry cannot have been surprised at the current crisis.

In the Strategic Plan for Retirement Services he issued last month, the Director concludes that the "retirement claims backlog developed over a number of years and for a number of reasons." If that is so then the problem should have been attended to in 2009 and not delayed until now. And if the backlog is of more recent vintage then the problem reflects a failure of his leadership. In either instance OPM resources were not properly allocated to manage a core priority.

In 2009 Director Berry needed to double down on technology when RSM needed his attention. It is worth noting that instead he allowed the looming problem of retirement claims to fester and now proposes to add additional jobs to OPM's payroll and fund more overtime pay. The Director chose to double down on labor. Whose interests have been better served with his management of this crisis?

Suggestions for Improvements to Retirement Claims Processing

In the long term I believe that moving retirement claims processing to full automation should remain the highest priority for OPM. This will not only improve the efficiency and effectiveness of the process but save on costs as well. The original concept inherent to the RSM was to rely on commercially available technologies. This was a sound strategy and it should receive renewed consideration. In November of last year, well after OPM had abandoned modernization, GAO testified on OPM retirement modernization (GAO-12-226T). Nothing in GAO's testimony suggested that termination of RSM was called for. Though critical of a number of OPM shortcomings in the modernization effort, GAO was generally supportive of the concept and need for modernization.

In the short term I would embrace OPM's "partnering with agencies" but I would enhance the role agencies currently play in pre-processing retirement claims. Agencies have a cadre of employee benefit officers that already work closely with OPM. I would upgrade their skills and bring on additional personnel at those agencies, particularly the larger ones that produce the bulk of retirees. Further, I would fund the acquisition of competing commercial technologies at these agencies to serve as a comparison test bed to see which are more accurate and effective. I would accept retirement claim calculations for pre-defined classes of annuitants from designated agencies so that employees could help to complete their claims while still employed. For example employees retiring with unreduced benefits from an agency with which they spent their entire careers would generally have simplified applications. OPM could perform detailed reviews of randomly selected claims as a means of maintaining the integrity of the process and provide whatever corrective measures agencies might need. Difficult claims would be identified much sooner in the retirement process and employees would have opportunities to resolve some of their problems while still employed and while still having access to their agency claim processor rather than a telephone answering device.

Further, I would put more emphasis on technology development for FERS because that constituency will be retiring in greater numbers in the next few years while CSRS retirees will decline significantly in number over the next five to ten years. The CSRS cases while more complex in their employment history tend to be easier to resolve in the benefit calculation.

Finally, I would urge Congress to maintain close oversight over OPM's claim processing until such time as the backlog has been reduced to an acceptable number of claims on hand. It is only congressional scrutiny that has forced OPM to take action in the current instance. Congress should consider requiring OPM to file monthly progress reports on backlog reduction, applicable performance standards, productivity metrics, use of overtime dollars, and the like. High level attention and keeping the agency focused on its priorities are what it will take to fix this problem.

Conclusion

There is no question that retirement system modernization is essential to the proper delivery of the federal retirement benefit. OPM has had a nearly two-decade history of

pursuing this goal with only limited success. Most of the major goals have not been attained. There is a current crisis in the processing of retirement claims that has resulted in a huge and growing backlog of claims. This reflects insufficient attention and inadequate resource allocation to the retirement program on the part of the current leadership of OPM. The long-term solution to timely claims processing and effective administration of the retirement system lies in full modernization. In the short term OPM should enhance the capabilities of agencies to process retirement applications in conjunction with their retiring employees. OPM should define the circumstances under which agency calculations would be accepted as the basis for annuity payments. More difficult or contentious cases would be identified sooner and forwarded to OPM for final determination. Finally, Congress must exercize its oversight responsibility to keep the agency focused on fixing this problem.

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Post-Hearing Questions for the Record
Submitted to the Honorable John Berry
From Senator Daniel K. Akaka

"Federal Retirement Processing: Ensuring Proper and Timely Payments"
February 1, 2012

1. According to a 2011 Inspector General report, personnel devoted to matching Social Security Administration death notices and undelivered 1099 tax forms was recently reduced. A number of reports have highlighted the importance of these matches for preventing improper payments. Please explain why OPM made this staffing decision and how you will make sure this work continues.

   The September 14, 2011, report from the Office of the Inspector General, *Stopping Improper Payments to Deceased Annuitants* states, "...we have recently learned that the staff performing both the weekly match and the annual Death Master File match, among other duties, has been reduced from 12 to 6, including the loss of two subject matter experts and a supervisor. We are very concerned about the negative impact this will have on the effectiveness and efficiency of this valuable work, as well as the integrity of the results gained. These matches are critical in reducing the amount of improper payments and such a reduction in staff responsible for them is extremely alarming."

   It is true that this staff was reduced by six employees who worked on both the annual "Death Master File" match and the weekly match. The reduction occurred because of retirements and promotions to other organizations within OPM. OPM does not intend a permanent reduction in this staff; the close timing of these departures hindered our ability to quickly fill all of the positions at once. We expect to refill the six vacancies in the next few months.

   OPM has initiated the outreach and recruitment process to fill the six vacancies that now exist. These new Inspectors will be partnered with experienced Inspectors in Retirement and Eligibility Services (RES). Through on-the-job training, we will work to ensure that the new Inspectors implement these and other critical matches and projects while all of our staff continues to perform the high level of support needed in other workloads necessary to maintain current program integrity.

2. Although OPM is no longer focusing on a system-wide I-T modernization project, what steps has the agency taken to correct the IT and contracting management deficiencies identified by GAO?

   OPM has developed an IT portfolio investment management process that oversees and evaluates all IT programs. This includes detailed monthly assessments of all major rated IT programs, both from the program area self-assessment and from the CIO office. Additionally, we evaluate the program for conformance to OMB Earned Value Management process and Baseline operating management. All major IT programs will

have completed a Technical Status (TechStat) Review by June 2012 -- five programs have completed the TechStat Review and the remaining programs are scheduled for review. The TechStat Review was created internally by OPM and is chaired by senior ranking members (the CIO, CFO and Chief Procurement Officer). OMB has also been invited and has attended some of these reviews. Lastly, all major program evaluations are posted monthly to the OMB IT Dashboard (http://www.itdashboard.gov/).

3. GAO testified that OPM's strategic plan for retirement processing did not address its dependence on legacy systems. Is OPM evaluating its legacy retirement processing IT systems and determining how the systems should fit into its reform strategy?

   OPM has adopted a "back to basics" approach for retirement modernization. Specifically, it is an incremental implementation strategy that leverages the best of OPM's existing systems, while promoting upgrades and automation to deliver increasingly enhanced business services that will greatly improve the quality of adjudication both regarding timeliness and accuracy. OPM has several interrelated initiatives underway that promote this iterative approach to automating retirement records. The approach integrates new systems and technology with existing retirement systems that will become more robust as a result of the integration.

4. How do you plan to incorporate feedback from oversight entities like Congress, the OPM IG, and GAO, into future projects and strategic planning?

   We continually strive to improve the delivery of our services, and are receptive to feedback from oversight entities. Any findings are given serious consideration, measured and analyzed. For example, GAO issued an extensive report on retirement modernization planning in April 2009 that played a key role in the decision to move away from one comprehensive IT solution to a module by module continuous improvement method. Further, responses are provided to any audit, GAO or IG, and corrective action plans are created as necessary. These plans are tracked and reported until fully resolved. OPM holds officials accountable for operating effectively and efficiently in accordance with applicable policy and regulation, and we strive to address recommendations in a timely manner. Our goal is to incorporate feedback to remediate any weaknesses, either in current processing or when undertaking any new strategic planning. We are also appreciative of any feedback and suggestions for improvement from Congress to help serve our mutual constituents.

5. What actions should Congress consider to aid OPM in its retirement processing reforms?

   At this juncture, OPM does not think legislative action will improve processing times. As discussed at the February 1, 2012 hearing, OPM has developed a Strategic Plan designed to produce real results through People, Process Improvements, Agency Partnership and IT Improvements. Regarding "People," adding the proper resources to complete the adjudication process is the initial step. Regarding "Process Improvements and Agency Partnership." the agency CHCO's have committed to supporting our process improvement efforts by monitoring OPM feedback and

reporting agency results publicly. However, IT improvement is an area where Congress can provide the most support in the form of both resources (to ensure we can procure the appropriate technological solutions) and enforcement for agencies to participate in our automated initiatives such as the EHRI Retirement Feed Project. OPM needs to capitalize on the momentum towards automation being created by the Retirement Feed project and commit more resources towards other initiatives in our Strategic Plan that will greatly assist in propelling both our retirement claims processing and post adjudicative actions into a more efficient automated environment.

Post-Hearing Questions for the Record
Submitted to The Honorable John Berry
From Senator Mark R. Warner

"Federal Retirement Processing: Ensuring Proper and Timely Payments"
February 1, 2012

1. It is very important for OPM to provide Congress with a list of federal agencies that are delinquent in reporting retirement data to OPM as soon as possible. As I indicated in the hearing, I believe this report should be available within 90 days.
   a. Will you commit to meeting this deadline?

   We appreciate your support in holding agencies accountable for sending complete and accurate packages. Yes, we are committed to meeting this deadline.

   b. Will you ensure that the report includes information regarding the number of times OPM staff have contacted each agency, the error rates for each agency, and other relevant information?

   The summary reports will contain the error rates for each agency broken down by five key areas – for instance, health insurance, life insurance, and service. We will provide reports to each agency indicating the category and number of errors. We do not record the number of times contact is made with an agency, and believe that focusing on the error rate of agency submissions should reduce the number of contacts.

   c. What, in your view, would be an adequate incentive or penalty to compel agencies to submit accurate, timely data to OPM to process retirement claims?

   We believe public reporting of agency completeness rates would be a significant incentive for agencies. As Director Berry committed in his letter of February 13, if agencies have not begun to make significant progress within 210 days, OPM will begin such public reporting. OPM remains confident, however, that enhanced communication with agencies on this topic will be sufficient. The Chief Human Capital Officers Council has established a working group to identify ways they can improve the accuracy and completeness of retirement applications. This group visited the Retirement Operations Center in mid-March to gain insight into the retirement process and is identifying opportunities to make improvement in their agencies.

2. Many in the private sector have indicated that one concrete way of reducing processing times is for all retirees to use a standardized checklist and another is for agencies to prepare paperwork for retirements six months in advance. Such a checklist appears on the OPM website, but it is not clear that any of the federal agencies are using this information.

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a. Will you commit to sending your checklist to all federal agencies?

Yes. We have a model for employees and HR Specialists to use five years before retirement, one year before retirement, six months before retirement and two months before the retirement date. Our approach to providing this information is two-pronged: 1) providing resources and training focused on preparing agency HR specialists and benefits officers to assist employees with retirement planning and 2) encouraging application preparation and resource-focused direction to help employees understand the process and plan for retirement.

Both the CSRS and FERS retirement applications contain detailed checklists of all the documents required for a complete retirement application. These checklists have been in use for years and agency representatives are trained to complete them when preparing retirement applications at the HR and payroll offices.

We will send a Benefits Administration Letter to agencies reminding them of the resources identified in this response and urging their use by both employees and HR staff in the preparation of retirement applications. We also will publish a BAL containing the checklist being used in the revised audit process and details on the criteria used in the audit.

Current documents and checklists available online include:

Application for Immediate Retirement (Federal Employees Retirement System), SF 3107, http://www.opm.gov/Forms/pdf_fill/sf3107.pdf

Application for Immediate Retirement (CSRS), SF 2801, http://www.opm.gov/Forms/pdf_fill/SF2801.pdf

The OPM web site provides a comprehensive planning guide. (http://www.opm.gov/retire/pre/planning/index.asp. **It has subsections on activities employees should be doing 5 years, 1 year, 6 months, and 2 months prior to retirement.**

FAQs on the website also detail the 5 year, 1 year, 6 months and 2 months model of planning for retirement (http://www.opm.gov/retire/faq/faqs.asp)**.**

In addition the following publications are available on the OPM web site:

CSRS and FERS Handbook, Chapter 40, Planning and Applying for Retirement http://www.opm.gov/retire/pubs/handbook/C040.pdf **details activities the employee and HR should undertake to plan, prepare and apply for retirement. Activities are broken down to 5 years ahead, 1 year, 6 months and 2 months. The Handbook chapter includes detailed checklists for agencies to use in preparing the application and for employees to use in planning for retirement.**

The following 2 publications give basic information on continuing health benefits and life insurance into retirement, eligibility requirements for an immediate annuity, and information on benefits for survivors:

Applying for Immediate Retirement Under FERS, SF-3113,
http://www.opm.gov/retire/pubs/pamphlets/forms/sf3113.pdf

Applying for Immediate Retirement Under the Civil Service Retirement System, SF 2801A, http://www.opm.gov/retire/pubs/pamphlets/forms/sf2801A_6_2007.pdf

Retirement Fact 1, Civil Service Retirement System, RI-83-1,
http://www.opm.gov/retire/pubs/pamphlets/forms/RI83-2.pdf **; and, FERS - Federal Employees Retirement System (An Overview of Your Benefits), RI 90-1,**
http://www.opm.gov/retire/pubs/pamphlets/forms/RI90-1.pdf. **give information about Federal retirement benefits and decisions to make when planning for retirement.**

Thinking About Retirement?, RI 83-11,
http://www.opm.gov/retire/pubs/pamphlets/forms/RI83-11.pdf **describes the planning steps an employees should follow 5 years before retirement, 1 year before retirement, 6 months before retirement and during the last 2 months of Federal employment.**

b. Will you also commit to asking federal agencies to begin assembling paperwork and documentation for employees six months before expected retirement?

The model for retirement planning on our web site includes activities employees should undertake one year from retiring and two months before retiring. This can only occur when employees notify the employing HR office of their intentions to retire.

The recommended steps to take within one year of retiring include:

- **Confirm when you will be eligible to get a retirement benefit;**
- **Decide when you want to retire;**
- **Get information about other benefits to which you may also be eligible, such as Thrift Savings Plan payment options and any other entitlements based on employment, for example: Foreign Service, Social Security, pensions from private industry, and Individual Retirement Accounts (IRA). You should have a fairly comprehensive picture of all sources of your retirement income and when each is payable.**
- **Tell your supervisor about your proposed retirement date. You should give sufficient notice to allow for planning for someone to take your place.**
- **Attend a pre-retirement counseling seminar.**

- **Make an appointment with your personnel officer to review your Official Personnel Folder (OPF) or its equivalent to make sure all your records are complete and accurate, all service is verified, and your insurance coverage is documented.**

An employee's review of his/her OPF is an important step in assuring the retirement application will be complete and accurate. Starting the review a year away from retirement gives ample time to make corrections, obtain missing documentation, and have the updated information available for counseling and preparation of an accurate retirement estimate.

Our model for retirement planning recommends the employee complete the employee potion of the retirement application. Two months is sufficient time for the agency to complete its portion and discuss any issues with the employee.

In OPM's current paper-based system, completing the application six months before retirement will not produce a benefit because the system is not designed to use or accept the information that far in advance. As we develop enhancements to our automated retirement systems, pushing the preparation of the retirement application earlier, e.g. six months from retirement, will allow OPM to receive electronic data prior to retirement, so that benefits can be paid on the day they are due.

3. Another concern is that OPM appears to be processing just 3-4 cases per day, while other agencies seem to be doing double that, at a lower per claim cost basis. Whether it is Virginia at $137 per claim, compared to OPM's $1,100, or another agency's cost per claim, it appears that there are other institutions who do this better.
   a. Beyond your goal to run this backlog down, is OPM going to look at what the standards for processing are in other institutions?

OPM is interested in reviewing standards for any other retirement systems with similarly situated benefits. OPM is currently working under the Lean Six Sigma process improvement initiatives to collect data and perform time observations in our pending operations that will decrease "turn around time" for the retiree and increase throughput. Lean Six Sigma is a disciplined, data-driven approach and methodology for eliminating defects and minimizing variability in any process. It is widely used in many sectors of industry. The data obtained from this Lean Six Sigma study will be used to implement new employee standards aimed towards increasing output for future-state operations.

   b. During the hearing you indicated that in a direct comparison with Virginia, OPM's per claim processing cost was "in the same ballpark." I would like to see your methodology for arriving at that conclusion.

OPM's per claim processing cost was $107.62 as of the end of FY2011. This includes all claims including pending CSRS and FERS retirements, refunds and deposits, and survivor benefits.

To calculate per claim processing cost, we count labor categories dealing with claims processing and calculate the cost associated with it. Then, we total the volume of cases processed for each of the labor categories. Indirect Labor is difficult to measure since there are no specific labor categories that can be used. Therefore, we count 10% of the Leave Total for Indirect Labor.

Unit cost = Total Cost/Volume Processed

The chart below shows the data used for calculating this cost:

As of September 24, 2011				
	Total Hours	**Total Cost**	**Volume Processed**	**Unit Cost**
Claims Processing Total	427,374	$17,509,648	162,692	$107.62

c. What are the barriers to implementing a mandatory overtime policy until the backlog is resolved?

We are encouraging our high-performing, hard-working employees to work overtime, and are authorizing overtime for those who are proven strong producers. We have increased our staffing levels and expect to show benefits once new employees are trained. Basic claims training will be completed by July. We have taken an "all hands on deck" approach to redirect resources as needed. We have communicated expectations and are managing to those expectations to reinforce the importance of providing improved service to retirees.

d. The National NARFE has expressed a willingness to publicize opportunities for recently retired employees to return for a period of time to assist with the backlog. Will OPM contact NARFE to invite assistance from retirees who are already trained in claims processing?

OPM has already reached out to recent retired Legal Administrative Specialists (LAS) to assist with the backlog. Due to the scope of the skill sets needed to make a sizable difference in case reduction, we have reemployed nine former OPM employees who had been outstanding specialists throughout their career in retirement. Recruiting, on a time limited basis, a larger group of retired Federal employees from outside organizations would require training and mentoring initiatives by current staff (separate from the training currently underway with our new hires) and would not immediately support our effort, which is to maximize the production ability of our work force as quickly as possible.

OPM has a strong working relationship with NARFE, as demonstrated by the numerous initiatives we have worked with them on in the past. OPM appreciates the offer of support from NARFE and we look forward to partnering with them on future initiatives.

4. We all know that there is an influx of federal workers in the realm of retirement age in the next 3-5 years. Therefore, the 18-month goal you proposed seems inadequate.
   a. Can you explain the specific barriers to reducing the 18 month goal to 6 months?

      The main barriers are: the timeline involved in hiring and training new employees; the need to use current LAS staff for training and mentoring new employees; and the use of subject matter experts (LAS SME's) on process improvements with the Lean Six Sigma team. In addition, proposed legislative changes and the number of Voluntary Early Retirement Authorities/Voluntary Separation Incentive Pay (VERA/VSIP's) that will be accepted across the Federal Government may have a significant impact on receipts.

      By comparing the number of retirement cases in the current balance and the number of cases expected with the number of fully trained employees, the FY 2012 timeline resulted in an 18-month period to bring the pending claims balance to a 60-day processing time. Our actual processing numbers have surpassed the estimates for January and February. Some of the success can be attributed to changes such as the addition of retired staff and the all-hands-on-deck approach to this workload. Much of the success can be attributed to process improvements within the intake of new cases. However it is premature to adjust the 18-month target. Due to the number of retirement-eligible federal employees, federal budget uncertainties, and the potential for large restructurings, we do not feel it is appropriate to adjust this target.

   b. Have you investigated the efficacy of improving OPM technology versus simply adding additional personnel and adjudicators to the manual claims process?

      Yes. OPM has adopted a mid-term approach for retirement modernization. Specifically, it is an incremental implementation strategy that leverages the best of OPM's existing systems, people and processes while promoting system upgrades and new automation to deliver increasingly enhanced business services that will greatly improve the quality of adjudication regarding both timeliness and accuracy. OPM has several interrelated initiatives underway that promote this iterative approach to automating retirement records. While some of these automation improvements, such as the automatic upload of certain retirement data directly into the calculator, may be realized within this calendar year, the expected deployment of these technology / system enhancements will be spread throughout FY 12 to FY 16.

c. Using your strategic plan, as it currently stands, how much do expect claims processing productivity to improve without any additional process changes or adoption of new technologies?

The Strategic Plan identifies productivity improvement through the addition of staff and process improvements. Much of the staff has been hired. Many process improvements have been implemented. Productivity improvement will be demonstrated in the monthly reports to Congress.

5. I know that RetirEZ was an expensive failure, and that the project was implemented and discontinued before your time.
   a. Will you commit to reviewing state or foreign IT systems that have some of the complexities that OPM faces?

      Yes, we are willing to commit to reviewing IT systems of state or foreign offices that serve similar functions to OPM, as well as retirement systems for the military. We have been in dialogue with DoD to learn more about the systems they are using and what could be made available for the civilian systems. However, we believe process improvements being identified by the Navy six sigma team, and our new hires are key to solving the backlog of cases we have on hand.

   b. If other IT systems with similar levels of complexity exist, would it be possible to model a new IT system after one?

      If we are able to find a similar system that takes into account the complexities of our existing requirements, we can use it as a model. However, we note that OPM faces over 500 business rules today based on regulations, with a specific sequence of processing that needs to be followed. These business rules are tied to the unique requirements to support the civilian retirement regulations.

   c. During the second panel Mr. Nesterczuk indicated that it might be possible to migrate some parts of the claims process to what is left of the RetirEZ system. Has OPM looked into whether or not portions of the RetirEZ system can be salvaged? If not, why not?

      Yes, we have leveraged a portion of RetireEZ system which is the scanning process which we are using today at our Boyers facility. Other portions of RetireEZ were reviewed but were not deemed functional.

Post-Hearing Questions for the Record
Submitted to the Honorable Patrick McFarland
From Senator Daniel K. Akaka

"Federal Retirement Processing: Ensuring Proper and Timely Payments"
February 1, 2012

1. The OPM OIG's 2011 report on improper payments recommended that OPM capitalize on retirement systems modernization technology. It also recommended that OPM build its institutional knowledge of System Development Life Cycles by hiring an expert on the issue.

   Given the management challenges outlined in GAO's testimony, and those you have observed through your oversight work, what types of IT modernization projects do you think are feasible for OPM to undertake and why?

RESPONSE:

We believe that the U.S. Office of Personnel Management (OPM) should focus on small-scale information technology (IT) modernization projects that would be suitable for incremental development using the Agile development methodology.[1] OPM has had more success on projects where discrete capabilities can be developed or acquired to demonstrate success, and used as a basis for further expansion.

In our opinion, large, complex, and comprehensive system development projects are far riskier and much more likely to fail. This is especially true in an organization that lacks fundamental system development expertise. We have recommended in several of our annual Top Management Challenges memoranda issued to the agency that it focus on building that expertise, including:

- Investment management: The agency must ensure that there will be adequate funding available throughout the project lifecycle and that the project adheres to its budget. This requires fundamental understanding of cost estimating and earned value management.

- Requirements management: All of the business process requirements (that is, the rules of the system) must be properly documented and maintained. This is especially important since documenting requirements, preventing "scope creep", and testing system functionality based on the requirements are the keys to successful system

[1] The Agile development methodology is a type of Systems Development Life Cycle process based upon incremental processes. Using this methodology, development tasks are broken into small increments and cover all of the segments of traditional development (requirements, design, development, and testing) in a short time frame (one to four weeks).

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development. This has been a weakness in several OPM system development projects we have reviewed.

- Testing: It is essential that the agency conduct sufficient testing of all the components of any new IT system before it is launched. Furthermore, it must ensure that it provides adequate time for this testing. If a test reveals a problem, the agency must have time – or make time – to fix it before the planned launch date.

    - This has been a particular problem with OPM. The agency failed to conduct adequate tests of both the Retirement Systems Modernization (RSM) project and the Consolidated Business Information System implementation. However, it has also had success in this area, demonstrating that with the right leadership, OPM can produce quality programs. When OPM encountered a problem with the calculation of annuities related to service credit matters, the agency thoroughly tested the program and even delayed launch in order to ensure that all problems were addressed.

- Project oversight: There must be strong leadership by senior agency officials in order to ensure that the project succeeds. There must be a senior official who has ownership of the project and who will ensure that the Systems Development Life Cycle (SDLC) procedures are carefully adhered to.

- Risk management: There must be constant assessment of risk, including identifying, tracking, and developing ways to mitigate risks.

- Information security: From the first stages of planning, system security must be incorporated into the design. It should not be something that is considered only at the end of the project.

These steps are essential because it is much easier to take the time to properly develop and design an IT project from the beginning than to go back after its completion to address problems.

I cannot emphasize enough the importance of developing institutional knowledge within OPM. Without it, OPM will continue to have problems implementing IT projects. Right now, many of the IT systems are developed by OPM's program offices rather than by the Office of the Chief Information Officer (OCIO). Some program offices have experienced project managers with the necessary knowledge and understanding of the SDLC procedures for successful system development projects. However, most do not.

In addition, although the OCIO in most cases oversees system development projects using the new "Tech Stat" process,[2] it also lacks the institutional knowledge of project management to

[2] A "Tech Stat" is a face-to-face, evidence-based review of an IT investment. A Tech Stat is triggered when an agency determines that a project is underperforming, using data from the IT dashboard and other sources. In the session, an agency CIO and other members of an agency's leadership team meet for one focused hour. They review a briefing that highlights the management of the investment, examines program performance data, and explores opportunities for corrective action.

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ensure that the program offices are properly developing systems that will result in successful implementations. Furthermore, some program offices develop systems that "fly under the radar," so to speak, and may not require "Tech Stat" oversight. In these cases, the OCIO may not even be aware that a new system is under development. While these small scale development projects may lack the financial risk of larger projects, the risk of embarrassment to the agency by a failed implementation can be high, depending on the nature of the system.

We believe that the responsibility of developing and maintaining IT systems should lie with OPM's program offices, but the OCIO should have an oversight role over all IT system development projects. Currently, OCIO maintains some degree of control because it manages the agency's IT infrastructure. However, OPM program offices have the autonomy to contract with outside providers to develop, maintain, and host their systems. Therefore, it is important to implement and enforce policies that require program offices to involve OCIO in the early phases of all system development projects, including those that will be operated by a contractor.

In preparing responses to these Questions for the Record, my staff spoke with experts at the Government Accountability Office (GAO). GAO pointed out that outsourcing the development of an IT system does not mean that the agency does not need to maintain a staff with IT expertise. Instead of building institutional knowledge with regard to the *development* of an IT system, the agency must build the institutional knowledge related to how to properly oversee such a project and maintain the new system. Outsourcing does not relieve the agency of the need to employ any internal IT experts.

As stated above, we agree with GAO's past statements that OPM should take an incremental approach towards modernizing current or creating new IT systems. Director Berry has already adopted this approach with regard to the retirement claims processing IT systems.

As the agency moves forward, we will continue to monitor its progress in developing and maintaining its IT systems, including the retirement claims processing IT systems.

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2. Most of the OPM OIG's recent oversight work has focused on improper payments, however given the magnitude of the retirement issue, how will your office monitor implementation of OPM's strategic plan for processing new claims?

RESPONSE:

We have already submitted questions to the agency to obtain specific details and clarification about certain parts of the Retirement Strategic Plan. In general, we believe that it is a reasonable plan and a positive step forward in addressing the problem regarding the processing of retirement claims. We will continue to meet with the agency and receive status reports regarding the implementation of the Plan.

We are pleased that the agency is posting its progress regarding the backlog on its website. We will be monitoring the OPM's progress on this closely. If we see that the actual progress on the backlog differs significantly from the timeline set in the Plan, then we will meet with the agency to determine the cause of this disparity. We may take additional steps if the situation warrants.

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United States Government Accountability Office
Washington, DC 20548

March 23, 2012

The Honorable Daniel K. Akaka
Chairman
Subcommittee on Oversight of
Government Management, the Federal
Workforce, and the District of Columbia
Committee on Homeland Security and
Governmental Affairs
United States Senate

Subject: *Federal Retirement Processing: Ensuring Proper and Timely Payments*

This letter responds to your recent questions related to our February 1, 2012 testimony on the Office of Personnel Management's (OPM) ongoing information technology (IT) management challenges related to retirement modernization.[1] At that hearing, we discussed OPM's weaknesses in managing its retirement modernization efforts and described the agency's recent plan to improve retirement processing. Your questions, along with our responses, follow.

What are some of the advantages and disadvantages of OPM's current focus on improving retirement processing and step-by-step automation, versus another attempt at system-wide modernization?

An advantage of OPM's current approach is that it allows the agency to make incremental retirement processing improvements while simultaneously developing and institutionalizing the information technology (IT) management capabilities the agency has long lacked. For over two decades, OPM's large-scale modernization efforts have promised dramatic improvements to retirement processing that were not realized, in part, because the agency did not possess the requisite capabilities in critical disciplines such as project management, risk management, organizational change management, cost estimating, system testing, progress reporting, planning, and oversight. We have long advocated incremental development of IT solutions. Further, the Office of Management and Budget promotes incremental (i.e., modular) development as leading to increased project success and reduced risk. A disadvantage of OPM's current approach is that the agency's plan only partially describes planned IT improvements and does not discuss whether or how the agency intends to modify or decommission the over 80 legacy systems that make up the retirement processing environment. Having a modernization blueprint or enterprise architecture that, among other things, describes the target (i.e., to be)

[1] GAO, *OPM Retirement Modernization: Progress Has Been Hindered by Longstanding Information Technology Management Weaknesses*, GAO-12-430T (Washington, D.C.: February 1, 2012).

environment has been identified in our prior work as a key aspect of planning a modernization program.

What impact do you believe OPM's outsourcing and failed modernization efforts had on its institutional knowledge of the systems development process?

OPM's decision to outsource modernization of retirement processing did not relieve the agency of responsibility for having institutional knowledge of the system development process. Even though OPM placed responsibility for developing a new retirement processing system on a contractor, the agency still needed the capabilities to effectively manage the retirement modernization program and oversee the contractor's work. Specifically, institutional knowledge of project management, risk management, organizational change management, cost estimating, requirements management, and system testing are important capabilities that we identified as contributing to OPM's failed modernization effort. Even though the agency is now considering only modest, incremental efforts to improve retirement processing, the development and institutionalization of the aforementioned management capabilities remain important to OPM's success in improving the delivery of retirement services.

As OPM moves forward, how can it avoid some of its past mistakes, specifically in the areas of resource allocation and staffing?

We have previously made numerous recommendations in the areas of project management, risk management, organizational change management, cost estimating, system testing, progress reporting, planning, and oversight that are intended to help OPM avoid its past mistakes. Although the agency's January 2012 plan to improve retirement processing identifies existing and planned IT improvements, the plan also describes staffing actions the agency plans to speed retirement processing. These actions include hiring and training new staff to adjudicate retirement claims and additional staff to support the claims process. While the agency has taken initial steps to address our recommendations, fully addressing the IT management challenges we have identified is critical to OPM avoiding past mistakes as it moves forward.

To respond to these questions, we relied on previously reported information, as well as information collected through follow-up with the department. The work supporting these reports was conducted in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Should you or your office have any questions on matters discussed in this letter, please contact me at (202) 512-6304 or melvinv@gao.gov.

Sincerely yours,

Valerie C. Melvin

Valerie C. Melvin
Director, Information Management
and Technology Resources Issues

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BACKGROUND
FEDERAL RETIREMENT PROCESSING: ENSURING PROPER AND TIMELY PAYMENTS
FEBRUARY 1, 2012

BACKGROUND

OPM manages and administers two defined benefit plans for roughly 2.5 million employees who retire under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).[1]

The retirement process begins when a Federal employee submits a retirement application to his or her employing agency. The agency's human resources (HR) office then double-checks the application, provides retirement counseling, and gives the employee an estimate of retirement benefits based on that employee's Federal employment history. Once HR puts together a retirement package for an employee, it is sent to the employing agency's payroll office where the information is again checked for accuracy. Upon verifying the information in the retirement package, the payroll office creates an individual retirement record, electronically submits a summary file to OPM, and mails a hardcopy to OPM.[2]

The process then shifts to OPM. In order to minimize the hardship created by delayed retirement payments, OPM issues partial interim payments to most retirees until OPM fully processes his or her claim and determines a final annuity. OPM uses data from a retiree's electronic summary file to calculate an interim payment amount. Interim payments are a percentage of the total monthly annuity a retiree will eventually receive. On average, interim payments are authorized within five to seven business days from the time OPM receives the electronic summary file.[3] Once OPM receives the hardcopy of an employee's record, it obtains any missing information from employing agencies to complete the file before applying potentially hundreds of laws, regulations, and procedures to determine a final annuity amount. A "make-up" payment for the difference between the interim payment and final annuity amounts is sent to the employee who will then begin receiving a month annuity.[4]

KEY ISSUES

The Federal retirement process is fraught with complications and delays.[5] Failed information technology (IT) modernization efforts, delayed interim and final annuity payments, and

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[1] U.S. Government Accountability Office (GAO), *Retirement Modernization Planning and Management Shortcomings Need to be Addressed*, GAO-09-529 (Apr. 2009), at 2-3, *available at* http://www.gao.gov/new.items/d09529.pdf.
[2] *Id.* at 4-5.
[3] OPM *supra* note 1, at 9.
[4] Briefing and Power Point by OPM, Washington, D.C. (Jan. 5, 2012) (Power Point on file with Subcommittee). *See also* GAO *supra* note 4, at 5-6.
[5] Stephen Losey, *OPM details fixes for pension check delays*, Fed. Times, Jan. 23, 2012, *available at* http://www.federaltimes.com/article/20120123/BENEFITS02/201230301/1047

inadequate customer service have plagued OPM for years.[6] OPM also has been criticized for continuing to make retirement payments to deceased annuitants.[7] In this challenging climate of shrinking budgets and agency buy-outs, OPM must prioritize its resources in a way that ensures its retirement issues are addressed.

Retirement Processing

OPM has a long history of retirement system processing reform attempts, most of which were abandoned due to management weaknesses and inconsistent visions for Retirement Services. As a result, OPM continues to use an antiquated, primarily paper-based retirement system that is unable to keep pace with Federal retirement claims. As discussed in more detail below, OPM recently released a strategic plan to eliminate its retirement processing backlog.

Retirement System Modernization

Since 1987, attempts have been made to automate the antiquated Federal retirement system, beginning with a $54 million initiative called the FERS Automated Processing System (FAPS).[8] After eight years of planning, an Office of Management and Budget review uncovered pervasive management flaws and the project was terminated in 1996.[9]

OPM then decided to begin its second automation effort called Retirement Systems Modernization (RSM), an in-house project with the goal of adapting off-the-shelf software to fit Federal processing.[10]

The third automation effort came in 2001, when OPM changed its vision for RSM and sought to contract the project out. In 2006, OPM awarded three contracts for RSM, with the largest being a $290 million contract awarded to Hewitt Associates for a defined benefits technology solution (DBTS) to automate retirement processing. The DBTS was intended to be a comprehensive IT solution that would substantially automate retirement processing, allow OPM, agency personnel, and federal employees to access retirement accounts online, and integrate with OPM and federal agency electronic records and processes.[11]

In 2008, OPM changed RSM's name to "RetireEZ" and set a timeline for DBTS deployment later in the year. The Government Accountability Office (GAO) expressed concerns about OPM's oversight capabilities and management of RetireEZ, warning that initial test results did not provide adequate assurance that DBTS would achieve the capabilities OPM expected.

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[6] OPM *supra* note 1, at 2-6.

[7] *Back to the Basics: Is OPM Meeting its Mission? Before the Subcomm. on Fed. Workforce, U.S. Postal Service and Labor Policy of the House Comm. on Oversight and Government Reform*, 112th Cong. 4-6 (2011) (statement of the Honorable Patrick E. McFarland, Inspector General, U.S. Office of Personnel Management), *available at* http://oversight.house.gov/images/stories/Testimony/11-15-11_McFarland_FedWkfc_Testimony.pdf.

[8] GAO, *Retirement System: Concerns About OPM's FERS Automated Processing System Procurement* GAO/IMTEC-90-45, (Apr. 4, 1990), at 1-3, *available at* http://www.gao.gov/assets/220/212327.pdf.

[9] GAO *supra* note 4, at 7-8.

[10] *Id.* at 8.

[11] *Id.* at 8-9.

Despite GAO's concerns, OPM partnered with the General Services Administration to launch a test of the new system. In May 2008, OPM determined DBTS was not performing as expected, and terminated its contract with Hewitt Associates in October of that year.[12]

Despite three failed attempts to modernize its retirement system, in November 2008, OPM embarked on yet another effort by restructuring RetireEZ. OPM finally abandoned its large-scale modernization efforts in February 2011, choosing instead to focus on improving the mechanics of retirement processing.[13] Additionally, OPM plans to focus on small-scale IT projects to improve aspects of retirement processing, for example an ongoing project to automatically collect data for retirement from payroll providers.[14]

GAO found that IT management weaknesses were at the root of OPM's multiple retirement system modernization failures. The following areas were of particular concern for GAO, which recommended these management capabilities be strengthened before OPM embarks on another system-wide modernization effort:

- *Project Management*: planning, managing, and measuring project-related activities to allow the performance, cost, and schedule of an overall project to be controlled;
- *Risk Management*: identifying potential problems before they occur and mitigating the risk;
- *Organizational Change Management*: preparing people for how the new initiative will change how their work is done;
- *Effective Testing*: testing to identify problems and defects that threaten system requirements or inhibit functionality;
- *Cost Estimating*: using established methods and valid data to estimate future costs based on individual project cost elements; and
- *Earned Value Management*: measuring progress by using a stable baseline to compare the value of the work accomplished with the amount of work expected.[15]

Interim Payment and Annuity Delays

Recently, increased media and Congressional attention has focused on the length of time it takes for recently retired Federal employees to receive full annuity benefits. Retirement advice columns urge those near retirement to have extra money on hand because of the potential for a lengthy period spent on interim payments.[16] Articles and anecdotes describe people waiting up to a year to receive full annuity payments, during which time they were forced to live off of interim payments far below the reported average.[17]

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[12] *Id.* at 9-10.

[13] GAO, *OPM Retirement Modernization: Longstanding Information Technology Management Weaknesses Need to Be Addressed*, GAO-12-226T (Nov. 15, 2011), at Highlights, *available at* http://gao.gov/products/GAO-12-226T.

[14] OPM *supra* note 1, at 7-8.

[15] GAO *supra* note 16, at 5-7.

[16] Tammy Flanagan, *Smooth Sailing*, Gov. Exec. (August 12, 2011) *available at* http://www.govexec.com/dailyfed/0811/081211rp.htm.

[17] *See, e.g.*, Stephen Losey, *New retirees shortchanged: 6- to 12-month waits for full pension checks*, Fed. Times (Oct. 18, 2010) *available at* http://www.federaltimes.com/article/20101018/BENEFITS02/10180301; Kellie Lunney,

Typically, OPM receives retirement records from agencies about 30 days after an employee's separation for retirement.[18] As of December 31, 2011, it took OPM on average 156 days (about five months) to process new retirement claims, which has led to a backlog of 48,378 claims.[19] In anticipation of more automated retirement process, OPM's retirement processing staff was significantly reduced through attrition, and the failure of these modernization efforts, outlined above, left OPM with insufficient staff to handle retirement claims.[20] Influxes of retirement claims in late 2009 and 2011 have compounded the challenge of reducing this backlog.[21]

On January 17, 2012, OPM released a strategic plan for Retirement Services. This plan set forth a detailed outline for reducing the retirement claims backlog, with an 18 month goal of processing 90 percent of its claims within 60 days of receiving an employee's retirement package. This plan is based on four pillars: people, productivity and process improvement, partnering with agencies, and partial, progressive IT improvements.[22]

Low interim payments magnify the hardship caused by delays in processing final annuities. In Fiscal Year 2011, OPM reported that the average interim annuity received by retirees was 80.3 percent of their final annuity.[23] However, as noted above, recent news articles have reported instances of individual retirees receiving far less. Factors that may cause a lower than anticipated interim pay amount are special computations for certain occupations (such as law enforcement officers who receive a higher calculation), part-time service, court orders, and unverified or missing service. Currently, 51 percent of retirees are placed into interim pay via automated processes based on information in the electronic summary file sent to OPM by their employing agency. For the other 49 percent, OPM must first obtain then manually enter the required data into its Automated Front End Process system, at which time computation and authorization of an interim payment occurs.[24]

Customer Service

A common complaint from recently retired Federal employees is OPM's insufficient customer service.[25] OPM's 2012 strategic plan acknowledged a need to improve its customer service.

OPM's Customer Service Operations responds to telephone, written, and electronic communications, and received more than two million activities such as changes of address in the

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Losing Pay-tience, Gov. Exec. (Apr. 28, 2011) *available at* http://www.govexec.com/story_page.cfm?filepath=/dailyfed/0411/042811pb.htm.

[18] OPM *supra* note 1, at 8.

[19] *Id.* at 3.

[20] *Id.* at 3-4.

[21] Briefing and Power Point, *supra* note 7. The U.S. Postal Service offered retirement incentives in late 2009. *See also* Stephen Losey, *Retirements surge 24 percent over last year*, Fed. Times (Dec. 12, 2011) *available at* http://www.federaltimes.com/article/20111212/PERSONNEL02/112120301.

[22] OPM *supra* note 1, at 1.

[23] *Id.* at 2.

[24] *Id.* at 8-11.

[25] Letter from the Government Managers Coalition to John Berry, Director, Office of Personnel Management (Jan. 17, 2012) (on file with Senior Exec. Ass'n).

past year. OPM plans to not only add 30 people to its current staff of 121, but also to implement a two-tier system in which one tier of Customer Service Specialists (CSS) will answer routine calls, as they do now. A second tier of CSS will be created with the expertise to answer technical questions about retirement. Under the current system, CSS transfer calls ranging from simple technical questions to complex benefits questions to legal administrative specialists (LAS) who would otherwise be adjudicating claims and working on the backlog. OPM believes that the new system will be a more effective use of its personnel by decreasing the amount of time LAS must spend fielding questions instead of reviewing retirement claims.[26]

Improper Payments

The OPM OIG has been tracking issues with retirement payments being made to deceased annuitants, issuing recommendations to OPM in 2005,[27] 2008,[28] 2011,[29] and a "Best Practices" study in 2006.[30] Media attention has been drawn to the issue in recent months as well.[31] While OPM has made important progress, the OPM OIG continues to raise concerns about improper payments. The OPM OIG's most recent recommendations focus on payment recapture audits and increasing efforts to reclaim improperly paid annuities, discussed below.[32]

Payment Recapture Audits

Since 2005, the OPM OIG has recommended OPM institute certain data matching processes to detect instances where improper payments may be paid to deceased annuitants. Key OPM OIG recommendations are discussed below.

1099R Tax Forms

The Internal Revenue Service (IRS) annually mails every retiree a 1099R tax form reflecting retirement benefits received the preceding year. Each year, a number of forms are returned to the IRS because of an incorrect address, including 33,000 in 2010.[33] Annuitants who do not receive

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[26] OPM *supra* note 1, at 5, 16.

[27] Memorandum from Harvey D. Thorp, Assistant Inspector General for Audits and Norbert E. Vint, Assistant Inspector General for Investigations, OPM, to Kathleen M. McGettigan, Deputy Associate Director, Center for Retirement and Insurance Services Program, *Suggested Improvements to Minimize Erroneous Payments in the Retirement Program* (July 1, 2005) (on file with author).

[28] Memorandum from Patrick M. McFarland, Inspector General, OPM, to Linda Springer, Director, OPM, *Recommendations to Minimize Erroneous Payments to Deceased Annuitants and Survivors* (Jan. 25, 2008) (on file with author).

[29] OPM OIG *supra* note 3.

[30] Memorandum from Patrick E. McFarland, Inspector General, OPM, to Martin J. Dickman, Inspector General, U.S. Railroad Retirement Board, *Study on Integrity of Pension/Benefit Payment Systems* (May 24, 2006)(on file with author) at 2.

[31] Mackenzie Weinger, *Report: $600M paid to dead federal workers*, Politico (Sept. 23, 2011), *available at* http://www.politico.com/news/stories/0911/64263.html; Ed O'Keefe, *Dead federal retirees are paid $120 million annually, report says*, Wash. Post (Sept. 22, 2011), *available at* http://www.washingtonpost.com/politics/dead-federal-retirees-are-paid-120-million-annually-report-says/2011/09/22/gIQAMjT0oK_story.html.

[32] OPM OIG *supra* note 3, at 4-10.

[33] OPM OIG *supra* note 3, at 7-8.

a 1099R due to administrative or other errors may request a duplicate copy. Based on previous OPM OIG recommendations, OPM tracks returned 1099Rs for which a duplicate was not requested because that frequently indicates that an improper payment was made to a deceased individual.[34]

Although OPM currently is tracking and analyzing undeliverable 1099R forms, it still does not have a well defined target completion date for this project. According to the OPM OIG, tracking 1099R forms should be done annually, and it remains an Open Recommendation for OPM.[35]

Social Security Death Master File Matches

The Social Security Administration (SSA) maintains a file of over 87 million reported deaths known as the Death Master File (DMF).[36] OPM receives weekly notifications from SSA of deaths that have been identified; OPM compares those deaths against its active annuity file to make sure annuity payments are not erroneously continued.

The OPM OIG recommended, and OPM implemented, annual DMF matches to address deaths that may not have been caught during weekly runs.[37] An example of a death that could go undetected if Social Security Number (SSN) matches were only done weekly would be if OPM had an incorrect SSN in its files and SSA provided the correct SSN in the weekly update; the death would not be noted because there would be no SSN match. If the SSN was later corrected in OPM's files, the death still would not be noted unless OPM later ran its active annuity file against the DMF. The OPM OIG believes these efforts should be ongoing because they could catch instances like the one described above, and are a critical part of reducing improper payments.[38]

Annuitants Over 90

In 2009, OPM began its "Over 90 Project," which sampled data for individuals over the age of 90 who were still on the active annuity roll. It began this initiative pursuant to prior recommendations made by the OPM OIG, which found high incidents of improper payments made to annuitants over the age of 90, particularly those over age 100.[39] As part of the project, OPM sent 4,400 of the roughly 125,000 annuitants over the age of 90 address verification letters stipulating that a response was necessary or benefits would be suspended. Approximately 3 percent of those annuitants (144) did not respond, resulting in a suspension of their annuities.

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[34] OPM OIG *supra* note 31, at 2-3.

[35] OPM OIG *supra* note 3, at 8.

[36] *Id.* at 5. *See also* Social Security Administration, *Online availability of SSA's Death Master File*, (2012), *at* http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/149/~/online-availability-of-ssa's-death-master-file

[37] OPM OIG *supra* note 30, at 2.

[38] OPM OIG *supra* note 3, at 6.

[39] OPM OIG *supra* note 31, at 6. *See also* Memorandum from Norbert E. Vint, Assistant Inspector General for Investigations, to Stephen C. Benowitz, Associate Director for the Division for Human Resources, Products, and Services, *Erroneous Payments to Deceased Annuitants* (June 3, 2005) (on file with author), at 1-2.

Six unreported deaths were discovered, three of which were turned over to the OPM OIG because there was fraud suspected.[40]

Although this is listed as a Closed Recommendation, the OPM OIG thought the project exemplified the type of increased contact OPM should have with annuitants to verify contact information is still current. It recommended OPM find ways to efficiently increase contact with the annuitant population.[41]

Reclaiming Improper Payments

OPM has not always timely initiated its reclamation process for improper payments, resulting in lengthy recovery periods due to non-compliance with Federal standards and money escheating to state governments.

As part of its work for a 2008 report, the OPM OIG discovered that Wells Fargo Bank maintained accounts that received monthly electronic fund transfers (EFT) from OPM, but were otherwise inactive. In instances where Wells Fargo could not verify whether account holders were alive, it sent the State of California the funds from inactive bank accounts. The OPM OIG led efforts to successfully recover and return over $800,000 to the CSRDF and to stop future transfers to those accounts.[42] OPM has implemented the OPM OIG's recommendation to expand working relationships with financial institutions to uncover inactive annuitant accounts, but the OPM OIG continues to emphasize the need for OPM to take aggressive steps to expand its efforts with the banking community.[43]

CONCLUSION

OPM is responsible for overseeing and administering retirement benefits for approximately 2.5 million Federal civilian annuitants. The agency, however, continues to be challenged by retirement processing issues like a high claims backlog, an outdated processing system, and insufficient internal controls to detect and prevent improper payments. While OPM has a strategic plan to address retirement processing deficiencies, it is essential that it continues working with oversight entities like the Congress, OPM OIG, and GAO to ensure that consistent attention and resources are devoted to resolving these issues.

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[40] OPM OIG *supra* note 3, 6-7.
[41] *Id.*
[42] *Id.* at 10.
[43] *Id.*

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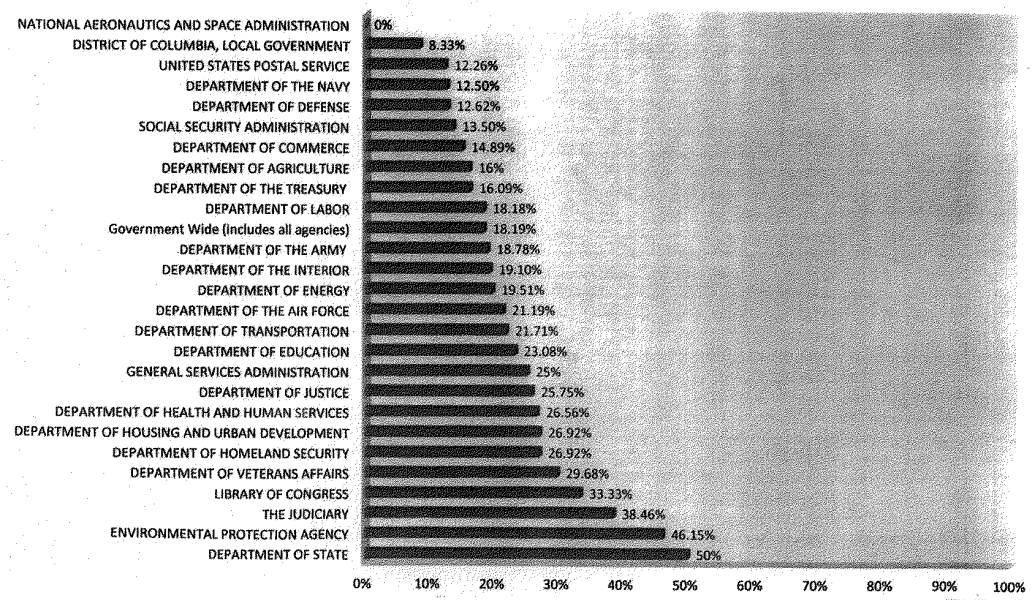
Error Rate(for agencies with 10 or more apps submitted) Error = mistake or incomplete entry within retirement application: June 2011