

# IS OPM PROCESSING FEDERAL WORKER PENSION CLAIMS ON TIME?

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## HEARING

BEFORE THE  
SUBCOMMITTEE ON FEDERAL WORKFORCE,  
US POSTAL SERVICE AND THE CENSUS  
OF THE  
COMMITTEE ON OVERSIGHT  
AND GOVERNMENT REFORM  
HOUSE OF REPRESENTATIVES  
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## IS OPM PROCESSING FEDERAL WORKER PENSION CLAIMS ON TIME?

Thursday, May 9, 2013

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL  
SERVICE, AND THE CENSUS,  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 9:30 a.m., in Room 2247 Rayburn House Office Building, Hon. Blake Farenthold [chairman of the subcommittee] presiding.

Present: Representatives Farenthold, Lynch, Norton, and Clay.

Staff Present: Molly Boyd, Parliamentarian; Daniel Bucheli, Assistant Clerk; Steve Castor, General Counsel; John Cuaderes, Deputy Staff Director; Adam P. Fromm, Director of Member Services and Committee Operations; Linda Good, Chief Clerk; Jennifer Hemingway, Deputy Policy Director; Jaron Bourke, Minority Director of Administration; Lena Chang, Minority Counsel; Adam Koshkin, Minority Research Assistant; Safiya Simmons, Minority Press Secretary; Mark Stephenson, Minority Director of Legislation.

Mr. FARENTHOLD. The subcommittee will come to order. Good morning.

As is traditional with all the committee and subcommittee meetings of the Oversight and Government Reform Committee, I'd like to begin today by reading the Oversight Committee's mission statement. We exist to secure two fundamental principles. First, Americans have a right know that the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to the taxpayers because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Oversight and Government Reform Committee.

And I now will recognize myself for an opening statement.

Two and a half million retired Federal workers and their survivors rely on their pension checks to make ends meet every month. The Office of Personnel Management, who administers these checks, has done it the same way since 1987. This lack of modernization has resulted in the backlog of 30,000 claims, while the OPM averages \$100 million each year in payments to deceased

annuitants and survivors. Thousands of manila folders, imaged files, and a COBOL system patched together with spreadsheets makes up the benefit processing operation at OPM. It's not an effective or organized operation, just more evidence of the Federal Government's poor IT record. As I often say, I don't think the Federal Government can compute their way out of a paper bag.

I applaud the hard work that's been put in over the past few years to reduce the backlog and speed claim processing. Unfortunately, however, I think the need for meaningful reform exists. It needs to be more than hiring additional staff to support an outdated process. There is no doubt the system needs reform. In a time of cuts, it is important that we, as congressional watchdogs, ensure you're working on a long-term plan to make the process as efficient and effective as possible.

While the President's budget recommends \$2.6 million to fund a case management system, the budget is short on detail and provides little guidance on how the OPM will achieve this modernization program. In the past, we've seen hundreds of millions of dollars wasted in Federal IT spending, yet reform seems to be very lacking. The clock is ticking. OPM has less than 60 days to achieve its short-term goal of reducing the backlog and processing 90 percent of the claims within 60 days.

In the long term, OPM must drive down operational costs and use technologies to make the program more efficient. It must respond to questions by workers awaiting their pension, and it must also eliminate payments to dead people and must reduce waste, fraud, and abuse. OPM needs to work smarter, save money through technology and streamlining, and deliver results. Failure to do so sends the wrong message to those who work for the Federal Government. Federal workers deserve better at the end of their career.

At this point, I'll yield to the ranking member for 5 minutes, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate you calling this hearing. It's an important one and also very timely.

I think it's important to evaluate the progress made by the Office of Personnel Management in addressing the backlog of Federal retirement claims since we last had a hearing on this issue in November of 2011. As I said, this is a timely hearing. This week is Public Service Recognition Week. Federal employees devote their lives to serving the public and this country, and I think that one of the ways that we can honor them is by making sure that when they do retire, they'll be able to collect their pensions, and do so in a timely manner. This is not just a matter of principle. I am keenly aware of the financial hardship that a backlog and long delays in claim processing cause some of our Federal retirees.

I want to thank OPM for making some progress in elimination of retirement claims backlog. They've made it a top priority. And I want to thank them for succeeding in at least bringing down the backlog from a high of 60,000 claims in January of 2012 to 30,000 claims at the beginning of this month. I commend OPM's employees for their hard work and dedication in reducing the backlog. It appears that OPM has met or exceeded the agency's processing goals, from the numbers I see, since it issued its strategic plan in January of last year. And they did accomplish this despite some

unanticipated increases in retirement applications during the first quarter of this year.

However, I believe that this problem will continue to plague OPM and our Federal retirees if we continue to rely upon a paper-based, manual processing of claims. We do need a long-term solution to that problem. Fortunately, I know that OPM recognizes that and is seeking to develop information technology solutions on an incremental basis. Given OPM's past unsuccessful efforts in automating the claims process, this incremental approach makes sense to me.

Solving this problem is not going to be easy, nor is it going to be quick. It will require some resources and support from Congress. But there lies a significant political problem. Congress requires across-the-board budget cuts in the Budget Control Act. Sequestration may have a negative effect on the ability of OPM to meet its goal of eliminating this backlog by this July and to have sufficient funding to implement its other initiatives.

Just when sequestration imposes across-the-board cuts at OPM, early retirement and buyouts as a result of Postal Service restructuring or the wave of retirements from Federal retirees seeking to retire before Congress imposes any additional changes to pay or benefits, will surely add to the backlog problem.

I do want to thank you, Mr. Chairman. I appreciate the opportunity to examine the status of OPM's retirement claims processing, and I look forward to hearing from our members. And I yield back.

Mr. FARENTHOLD. Thank you very much, Mr. Lynch.

Mr. FARENTHOLD. Just a couple of housekeeping matters before we get underway. Votes are scheduled on the House floor at 10:30. In the event we are not finished by then—we may very possibly be finished by then—if we're not, we will take a recess while the members go and vote, and we'll return. So I did want to let everybody know that that was a possibility.

Also, as is normal with the committee, members will have 7 days to submit opening statements for the record.

Mr. FARENTHOLD. At this point we will now recognize our panel. The Honorable Patrick E. McFarland is Inspector General of the Office of Personnel Management.

Welcome, Mr. McFarland.

Mr. Ken Zawodny. He's the Associate Director for Retirement Services at OPM.

Welcome to you as well.

Ms. Valerie C. Melvin is Director of Information Management and Technology Resource Issues for the U.S. Government Accountability Office.

Welcome to the subcommittee.

And then we have Dr. George Kettner. He's founder of Economic Systems, Inc. and Mr. Joseph Beaudoin. He is the national president of the National Archives and Retired Federal Employees Association.

Thank you for your service as a Federal employee, and welcome.

Pursuant to the rules of the committee, all witnesses will be sworn. Would you please rise and raise your right hand?

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Let the record reflect that all witnesses answered in the affirmative.

Thank you, and be seated.

As I was saying, we want to get thoroughly to the heart of this issue where we fully understand it and have fully developed a record that other Members of Congress may and the public may refer to as we work towards a solution in streamlining our government. That being said, our normal procedure is to allow each witness 5 minutes to give their testimony. Your complete written testimony, we have and have reviewed. We ask that you summarize it in 5 minutes.

You will see a little light system in front of you. Works just like the traffic lights you see all around the city. Green means go, yellow means get ready to stop, and red means your 5 minutes are up. Obviously, we'll allow you time to complete your thoughts.

So we'll get underway with Mr. McFarland. You're recognized for 5 minutes, sir.

## **WITNESS STATEMENTS**

### **STATEMENT OF PATRICK MCFARLAND**

Mr. MCFARLAND. Good morning, Chairman Farenthold, Ranking Member Lynch, and members of the subcommittee. My name is Patrick McFarland. I am the Inspector General at the Office of Personnel Management.

Thank you for this opportunity to speak to you. In these 5 minutes, I hope to capture the essence of my written testimony with a brief statement regarding the retirement claims backlog and then a more in-depth discussion about improper retirement payments to deceased annuitants. But most importantly, I will end by asking a favor of this committee.

I believe OPM may be well on its way to eliminating the retirement claims backlog, although the recent news about reductions in retirement program funding due to sequestration may impact this endeavor. Based on the numbers reported, OPM has reduced the backlog 38 percent in the 16 months since the end of 2011, despite receiving many more claims than expected in 2013. However, I have concerns based on our audit work regarding the internal controls related to the tracking of the inventory as well as the reduced accuracy rate for adjudication of retirement claims. Nevertheless, it is clear that OPM has made substantial progress.

OPM has enormous responsibilities to the rest of the Federal Government. OPM has good, dedicated personnel like Ken Zawodny, presently wrestling with the daunting task of reducing the retirement claims backlog. However, there is another task that requires the same level of attention as the backlog, and that is the improper payments made to deceased annuitants.

Retirement Services' everyday workload has subsumed what were already weak management directives. It has become management by happenstance rather than management by design and leadership. GAO's standard for internal controls in the Federal

Government states that management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives. Control activities occur at all levels and include a wide range of activities, such as approvals, authorizations, verifications, reconciliations, and the creation and maintenance of related records which document execution of these activities.

OPM's improper payment strategic plan is replete with background root causes, measurements, and goals to be achieved in an effort to curb improper payments. However, what is not identified is indeed the missing link to success: It is full and unwavering leadership commitment to project management with the goal of finally stopping—finally stopping—egregious, improper payments. Although the OPM employees assigned to this work care and try hard, they do not always have the particular skill sets, tools, resources, and most importantly the management structure to be successful.

If OPM had made an earlier commitment to embrace the concept of a lifecycle approach with careful thought devoted to each step, from beginning to end, OPM would have a prescription for effective and efficient corrective action and we would not be here discussing improper payments. Today, some of our simplest and routine questions cannot be answered by OPM management regarding improper payments.

Illustrative of poor project management is the handling of the 1099-R Project. The Internal Revenue Service requires that OPM annually send each annuitant a form 1099-R, which reports the amount of the annuity received during that year. Several thousand of these forms are returned to OPM each year by the Postal Service marked undeliverable. One of our prior recommendations was that OPM should review these returned forms in an effort to determine if they were undeliverable because the annuitant was deceased.

OPM began to implement this recommendation starting with form 1099-R for the 2009 tax year, which were mailed in January 2010. More than 33,000 forms were returned to OPM deemed undeliverable. OPM began to compare these names to the Social Security Administration's death master file and take appropriate follow-up actions. But here's the problem: Three years later, OPM still has not completed this work. Moreover, although OPM received and collected the returned forms mailed in January 2011, January 2012, and January 2013, it has not taken any further action on these forms. Consequently, OPM now has 3 more years of returned 1099 forms that have not been addressed.

In closing, here's the favor I would ask of the committee. Actually, the favor is for the taxpayer. I ask that Congress work with our office to explore various corrective measures to hold OPM accountable in this area for greatly improving its performance in a very deliberate, structured, and methodical way. Our work together could potentially produce a set of best practices for all improper payments in the Federal Government.

Due to the millions of dollars of taxpayer funds that are at stake, I strongly believe that such a collaboration with your staff is absolutely necessary to ensure that the detection and prevention of im-

proper payments receive the sustained attention and effort that it deserves and does not once again fade into the background.

Thank you.

Mr. FARENTHOLD. Thank you, Mr. McFarland.

[Prepared statement of Mr. McFarland follows:]



**Office of the Inspector General  
United States Office of Personnel Management**

**Statement of the Honorable  
Patrick E. McFarland  
Inspector General**

**before the**

**Subcommittee on Federal Workforce, U.S. Postal Service and the Census  
Committee on Oversight and Government Reform  
United States House of Representatives**

**on**

**“Is OPM Processing Federal Worker Pension Claims on Time?”**

**May 9, 2013**

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

Good morning. My name is Patrick E. McFarland. I am the Inspector General for the U.S. Office of Personnel Management (OPM). Thank you for inviting me to testify at today’s hearing about OPM’s administration of the Federal retirement programs. All of the Federal retirees and survivor annuitants who depend upon Federal annuity payments will agree that this is one of OPM’s most important programs.

Today I will touch on two critical functions performed by OPM’s Retirement Services (RS) office: the elimination of the retirement claims backlog and the identification and prevention of improper payments to deceased annuitants.

### **Elimination of the Backlog**

The timely issuance of full annuity payments has been a long-standing challenge for OPM. The adjudication of retirement claims historically has been a largely paper-based process, many times resulting in lengthy delays before completion. To that end, on January 17, 2012, OPM unveiled a new strategic plan to address the backlog. After a review and discussion with agency officials, we believe that it is a sound plan, although we certainly have concerns with the reduction of quality control measures.

Based upon testing done by RS's Quality Assurance group, the adjudication accuracy rate for retirement annuities dropped from 91.7 percent in 2011 to 90.9 percent in 2012. It dropped again during the first quarter of 2013 to 90.6 percent. This drop in adjudication accuracy is troublesome, and well below OPM's target rate of 95 percent. To put this into context, since RS adjudicated approximately 112,000 claims in Fiscal Year (FY) 2012, a one percent decrease in accuracy translates to an additional 1,120 cases with errors that require re-adjudication. Not only must OPM expend additional man-hours to correct these errors, but it creates a further delay that potentially causes hardships for annuitants and their families. Moreover, by definition, these errors result in improper payments, either overpayments or underpayments to the annuitant.

During a recent Office of the Inspector General (OIG) audit, we reviewed the backlog statistics, as well as OPM's reported retirement claims processing performance measures for FY 2011.<sup>1</sup> Specifically, we examined (1) RS's process for tracking claims data related to the FY 2012 strategic plan goal of eliminating the backlog of pending retirement claims by July 2013; (2) the number of retirement records that OPM received from Federal agencies that were complete and required no further action; (3) the average cost for processing retirement claims; and (4) the retirement claims processing timeliness.

The results of our audit were as follows:

1. RS does not have adequate controls in place to ensure the accuracy of the inventory for retirement claims received and processed. Although we were able to verify the beginning balance of the claims inventory (48,378) as of December 2011, our auditors were unable to substantiate the reported figures for retirement claims received (7,814) and processed (8,864) in June 2012.<sup>2</sup> RS provided management reports that it used to support the June figures. However, we were unable to use those reports to recalculate the reported claims received and processed figures. RS was likewise unable to recalculate those figures.
2. RS accurately reported that 82 percent of retirement records received from Federal agencies were complete and required no further development actions. This exceeded its target of 79 percent.

<sup>1</sup> *Assessing the Relevance and Reliability of OPM's Performance Information*, available at: <http://www.opm.gov/our-inspector-general/reports/2013/audit-of-the-office-of-personnel-managements-performance-information.pdf>

<sup>2</sup> We chose June 2012 for our sample because during our audit field work, it was the most recent month for which RS had data.

3. RS accurately reported that the average unit cost for processing retirement claims was \$107.62. However, it failed to meet its target goal of \$101.23.
4. RS does not have adequate controls in place to ensure that it accurately calculates the time it takes to process non-disability retirement claims. RS reported that it processed these claims in an average of 125 days, which was its target goal. Our auditors found, however, that the average was actually 131 days.

Although we do not question that OPM is making progress with regard to eliminating the retirement claims backlog, our audit found that RS needs to strengthen its controls over the collection, review, and reporting of performance information related to the processing of retirement claims, to ensure it is providing accurate information to the public.

### **Improper Payments to Deceased Annuitants**

While I am pleased that OPM is aggressively addressing the retirement claims backlog, I would like to focus today's testimony on our serious concerns related to the egregious improper payments made by OPM to deceased annuitants, which total over \$100 million each year. Just as OPM should be held accountable for providing an appropriate level of service to Federal retirees, it also has an obligation to the taxpayers to ensure that the agency is taking all reasonable measures to protect public funds. It is true that OPM's improper payment rate is quite low. Indeed, it is significantly lower than most other large Federal programs. However, I am of the opinion that when there are cost-effective steps that could prevent the loss of significant amounts of taxpayer dollars, those steps must be taken.

Since issuing a report in September 2011, *Stopping Improper Payments to Deceased Annuitants*, my office has worked closely with OPM on ways to identify and prevent improper payments to deceased annuitants. During these interactions, we have found, to my dismay, serious systemic flaws within RS that hinder its ability to adequately address this problem.

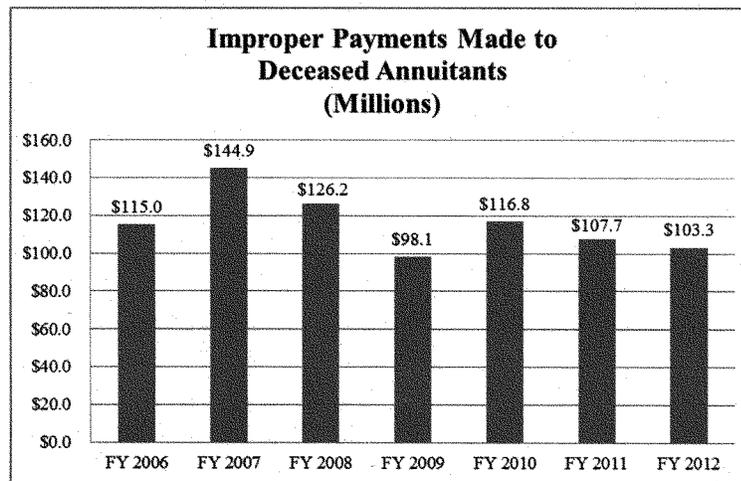
### **Background**

In 2005, 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 detect and prevent improper payments. This study resulted in a report that we provided to OPM containing recommendations for improvements related to preventing improper payments from the Federal Government's Civil Service Retirement and Disability 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 were implemented by OPM, it became clear that they were only temporary measures, which is why we issued a third report in September 2011.

In our 2011 report, we stated that OPM identified an annual average of \$120 million in improper payments to deceased annuitants between FYs 2006 and 2010. In the two years since then, FYs

2011 and 2012, the average dropped to \$105.5 million. We hope that the reason for the decline is that these improper payments are in fact decreasing. However, we do not have evidence to validate that there are indeed fewer improper payments, as opposed to a lack of controls to effectively identify them.

The following chart contains the figures for each of these years.



It is important to note that this entire amount does not represent egregious long-term improper payments. Much of it – although OPM cannot 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 before the retirement payment is made for that month, or because the deceased's family takes a month or two to report the death. These overpayments are usually recovered in full.

While of course we would like to prevent all improper payments, as each one requires time and effort to recover, our paramount concern is when an annuitant's death is not properly reported or detected and annuity payments continue for many years, resulting in high dollar overpayments. These payments are frequently taken by a relative or guardian of the deceased annuitant who failed to report the death. In some cases, these individuals actively deceive OPM, leading OPM to believe that the annuitant is still alive by forging his or her signature on an inquiry form from the agency (called an Address Verification Letter, or AVL). Our experience is that these types of improper payments often cannot be recovered, even if full restitution is ordered by a court and/or the debtor is put on a repayment plan.

Due to the implementation of one of our recommendations, OPM identified multiple instances of egregious overpayments. In 2009, in response to our 2008 report OPM performed a data-match where it compared the annuity roll data to the Social Security Administration's (SSA) Death Master File. One of the fraud cases discovered by this exercise involved a Federal retiree who died in May 1989. Since OPM was never notified of the death, his annuity payments continued, resulting in an overpayment of \$526,000. The OIG opened an investigation and determined that the annuitant's daughter-in-law forged his name on *four* AVLs sent by OPM to the annuitant. Although the daughter-in-law was convicted and ordered to pay restitution, it is unlikely that OPM will ever receive this full amount.

While this is a larger than average improper payment, it is not unusual for overpayments in these cases to exceed \$100,000.

#### Current Problems within Retirement Services

Our greatest frustration comes from RS's organizational culture, which does not prioritize this issue due to a lack of leadership commitment.

OPM should not be neglecting an issue that can save the taxpayers millions of dollars. I would like to remind the Subcommittee Members that the improper payments themselves are not the only Federal funds involved here – significant resources are spent to recover these payments, including the time and effort of both OPM and OIG employees, personnel from the Department of Treasury, the staff of other Federal law enforcement organizations (because fraud is often not limited to a single Federal program), and Department of Justice prosecutors.

We have identified several systemic weaknesses within RS that we believe must be addressed if OPM is truly serious about improving its efforts to identify and prevent improper payments.

#### *Lack of Accountability*

As I mentioned above, senior leadership within OPM, and specifically RS, has not demonstrated a sustained commitment to establishing an active and continuing effort to address improper payments made to deceased annuitants. We see this most clearly in the Retirement Inspections office and the Data Mining Working Group, which I will discuss in a moment.

OPM developed and issued an improper payments strategic plan in November 2012.<sup>3</sup> However, full implementation of this plan requires an effective system of accountability to ensure that all individuals involved are indeed taking the steps required by the plan. Although this plan identifies accountable officials, there are no clear steps or milestones established for the activities of RS's Retirement Inspections, which is the primary office responsible for identification and prevention of improper payments.

Recently, there has been frequent turnover in the Retirement Inspections' supervisor position. This was due in part because, rather than immediately filling the position when the prior supervisor left, RS instituted a planned leadership rotation, with individuals acting as supervisor

<sup>3</sup> This plan was revised and reissued on January 6, 2013.

for approximately four months. Apparently this approach was adopted in order to determine who would be the best candidate for the Retirement Inspections' permanent supervisor position. However, the result was that as soon as one of these temporary supervisors had time to become familiar with the improper payments projects, he or she would be moved, creating a lack of continuity within the office. We understand that a new, permanent supervisor has recently been appointed and we look forward to working with him.

The consequences of this lack of leadership may be most obvious in the execution of the "1099-R Project." The Internal Revenue Service (IRS) requires that OPM annually send each annuitant a Form 1099-R, which reports the amount of the annuity received during that year. Tens of thousands of these forms are returned to OPM each year by the U.S. Postal Service, marked "undeliverable." One of the recommendations contained in our reports is that OPM should review these returned Forms 1099-R in order to determine why they were undeliverable, and whether the annuitant is deceased.

The current 1099-R Project began with the 2009 tax year forms, which were mailed in January 2010. Over 33,000 forms were returned undeliverable, and OPM began to compare the names of recipients to SSA's Death Master File and take other appropriate follow-up actions. *Three years later, OPM still has not completed this work.* Moreover, although OPM has received and collected the returned Forms 1099-R mailed in January 2011, January 2012, and January 2013, it has not taken any further action on these forms.

The lack of a comprehensive, carefully designed plan with milestones and deadlines to complete the project has contributed to the failure to produce results.

OPM's implementation of the OIG's 2008 recommendation to establish a permanent working group of retirement program subject matter experts is a second example demonstrating the lack of leadership commitment. The intended purpose of this group was to focus upon improving the retirement program's integrity by exploring new ways to prevent improper payments and analyzing the wealth of information contained in the annuity roll. In October 2012, OPM established the Data Mining Working Group (Working Group) with the purpose of developing data mining programs to look for anomalies in the annuity roll that could indicate possible improper payments or fraud, and to share best practices and lessons learned with other benefit-paying agencies.

We are concerned that the effort has stalled. According to the Working Group's charter, it is supposed to meet bi-weekly. However, it appears that the Working Group has met only three times: in December 2012, February 2013, and just last week. We hope that this hearing will renew OPM's commitment and reinvigorate the Working Group's efforts.

Merely meeting for an hour or two periodically is not sufficient to accomplish the Working Group's goals. The minutes of these meetings indicate that the Working Group is developing good ideas that are worth pursuing. Unfortunately, we have not seen evidence that any additional action is being taken.

*Lack of Tracking Systems*

OPM's improper payments strategic plan contains certain milestones with regard to generally reducing and recapturing improper payments. However, there is no workload/data tracking system to determine the progress RS is making on each of its different initiatives aimed at identifying and preventing improper payments to deceased annuitants. For example, when Retirement Inspections identifies an improper payments case suitable for reclamation by the Department of the Treasury, it is referred to the Office of the Chief Financial Officer and Retirement Inspections no longer tracks the case's progress.

In addition, we are dismayed that RS is routinely unable to provide us with basic information. There have been instances where RS informed us that it was unable to gather the information that we requested, but later located it once we explained where the data could be found (e.g., the specific codes that would produce the requested data in a search of the annuity rolls). However, many times RS simply does not keep track of what the OIG considers to be essential data. For example, RS apparently does not see the need for an "aging schedule" for improper payments made to deceased annuitants. Thus, it is unable to distinguish between short-term improper payments, which are usually recovered in full, and long-term improper payments, which sometimes total over \$100,000. Not only would this information be useful to my office so that we can immediately pursue these cases, it could also illustrate OPM's effectiveness by showing how quickly it recovers improper payments in full.

Furthermore, we have found instances where RS is unable to provide basic documentation to support the data that it reports on improper payments. For example, we requested the names of the individuals that OPM identified as deceased through matching the annuity roll with SSA's weekly death file. Although OPM was able to tell us how many annuitants it identified, *it was unable to provide us with the names of these individuals*. Failure to track this information prevents validation of RS's reports and causes concern about whether potential fraud cases are appropriately pursued.

*Failure to Fully Execute Projects*

Even when OPM implements one of our recommendations, the OIG has found that RS will take, for example, the first two steps in a five step process, and then let the matter languish. If the purpose of a project is to identify and prevent improper payments, *all* steps must be taken in order to ensure that the death is confirmed and improper payments are recovered.

The best example of this is the 1099-R Project. OPM's current process is to review certain details of *every* returned Form 1099-R. However, due to the volume of returned forms, the effort so far has focused upon attempting to make contact with annuitants and suspending annuity payments. It has not yet progressed to include systematically researching dates of death, which is needed to verify whether the person is indeed deceased and to calculate the improper payment, if applicable. This step must be taken in order to identify and recover improper payments.

In order to make the workload from this project manageable, OPM should carefully analyze a risk-based sample of returned Forms 1099-R. Looking more closely at a smaller number of high

risk returned forms, including establishing the dates of death where applicable, would permit the agency to identify improper payments in a more efficient and effective manner.

#### *Lack of Fraud Referrals*

We are very troubled about a decline in retirement fraud referrals produced by RS, as well as a lack of timeliness in bringing suspected fraud to the OIG's attention. In 2011, the OIG received only 30 retirement fraud referrals from RS, compared to 92 referrals in 2010. Then, on March 19, 2012, we received 30 retirement fraud referrals in a single day. However, in all 30 cases, OPM had identified the death and permanently stopped making annuity payments more than 5 years prior to referral to the OIG. The statute of limitations dictates that criminal proceedings must be initiated within five years of the Government becoming aware of a potential theft or fraud. Because the 30 suspected fraud cases referred in March 2012 were no longer prosecutable, our office had to decline all of them.

We also noted that in 24 of the 30 cases, OPM did not ask the Department of Treasury to reclaim the identified overpayments within the required 120 days after the death was discovered. This is a critical step in recovering improper overpayments.

We formally notified RS of our concerns by memorandum, dated July 31, 2012, but we have not observed sufficient improvement since that time. Another 25 suspected retirement fraud cases were referred to the OIG by RS's Retirement Inspections between July 2012 and March 2013, but approximately 80 percent of these referrals also had statute of limitations problems.

#### OIG's Proactive Efforts

Due to the lack of timely fraud referrals from RS, our office initiated a data-matching project in the fall of 2012 to try to identify deceased annuitants still receiving monthly retirement annuity payments from OPM. From the annuity roll, the OIG identified annuitants over the age of 92 who were enrolled in the BlueCross/BlueShield healthcare plan. We then conducted a data-match between this annuity roll snapshot and the available data in the OIG's Federal Employees Health Benefits Program Claims Data Warehouse in order to identify annuitants who have not filed any health insurance claims within the last two years. We mailed AVLs in an attempt to make contact with this annuitant population and are in the process of verifying the vital status of those individuals we were unable to reach. The OIG has notified OPM of those annuitants whose vital status is in question, so that RS may take action to suspend payment as appropriate.

The work performed in the few months since the OIG began this project has resulted in the referral of 59 cases to RS. In 33 instances, the annuitant did not return an AVL; there were 18 AVLs signed by someone other than the annuitant due to the annuitant's health issues; and 8 AVLs were returned by the U.S. Postal Service as undeliverable. RS is sending a second AVL to those individuals who did not return the AVL sent by the OIG. If the annuitant does not respond within 30 days, RS will suspend their annuity payment. RS mailed information to the 18

annuitants who did not sign their own AVLS explaining how to name another person as their representative payee.<sup>4</sup>

### **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. While OPM works to eliminate the backlog of retirement claims, it must simultaneously address the quality of work and seek to improve the adjudication accuracy rate.

In addition, OPM must not neglect the issue of improper payments. I ask that Congress join me in calling on OPM leadership to rededicate itself to the identification and prevention of improper payments, which includes dedicating sufficient and appropriate resources to address this critical issue. The agency must be held accountable to ensure the integrity of the retirement trust fund.

Further, my office is ready and willing to work with the Subcommittee if it would like to pursue some type of legislative action to address the situation.

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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<sup>4</sup> An annuitant may choose to designate a representative payee if the annuitant is incapable of handling his or her own affairs, often because of health issues.

Mr. FARENTHOLD. And I'm sure you can count on this subcommittee, in particular, and the entire committee. We have a great relationship with the inspector general community throughout the government, and you can count on us to work with our fellow watchdogs. And we appreciate your testimony.

Mr. MCFARLAND. Thank you.

Mr. FARENTHOLD. Mr. Zawodny, you're recognized for 5 minutes.

#### **STATEMENT OF KENNETH ZAWODNY**

Mr. ZAWODNY. Thank you. Chairman Farenthold, Ranking Member Lynch, and members of the subcommittee, today I'd like to discuss OPM's progress in reducing the backlog of Federal retirement claims, as well as the challenges of developing a 21st century customer-focused retirement processing system.

OPM is responsible for processing over 120,000 retirement applications a year for Federal employees from all three branches of the Federal Government and dozens of independent agencies and commissions. OPM also handles post-retirement transactions for the 2.5 million annuitants, survivors, and their families.

In January 2012, OPM released and began implementation of a strategic plan to reduce the unacceptable backlog of retirement claims, and we remain focused on the goal of adjudicating 90 percent of the applications within 60 days, starting in July of 2013.

Our strategic plan consists of four pillars. One, people. Two, productivity and process improvement. Three, partnering with agencies. And four, partial, progressive IT improvements. All four of these pillars are in action, and we were able to reduce the claims inventory by 57 percent and reduce the average processing time for an application from 156 to 136 days last year.

However, over the first 4 months of this year, OPM experienced significant increases in the number of applications received. In January through April of this year, OPM received almost 60,000 new applications, approximately 43 percent more than we received at the same time period last year and 51 percent more than we had projected. Still, the efforts of our employees, improved process changes resulted in a record number of applications being processed during that period.

Last year we added to staff to the claims adjudication process as called for in our strategic plan. The new employees have been fully trained and have increased our capacity to improve timeliness and production in claims processing. We continue to achieve gains in efficiency in the pending work through productivity and process improvements. These improvements have occurred as a result of our work with the Navy's Lean Six Sigma team and an ongoing Lean Six Sigma review in other parts of retirement services.

Reducing the retirement claims backlog also requires OPM to work with agencies that prepare the applications for their employees to improve the accuracy and completeness of those applications. Last year, we developed an agency audit process designed to analyze applications sent to us by agencies so that we can better track and report on errors. We use these results to work with agencies to reduce incomplete, inaccurate applications.

In our strategic plan we identified the need to modernize our IT infrastructure incrementally, employing a cost-effective and effi-

cient transition away from paper. Working with stakeholders, we are establishing the capability of gathering electronic data from the applicant and sending it to the benefit calculator. Our Retirement Services online system empowers retirees to view, add, and update their information online. This system has over 25,000 visits per week, and over 3.2 million transactions were processed last year alone.

We requested funding in our 2014 budget to begin the development of a case management system for the centralized tracking of, and reporting on, retirement applications. This modest investment begins the process of upgrading to an automated system, eventually reducing the amount of time necessary to process retirement claims.

Government-wide fiscal challenges have ramifications for maintaining the progress made on retirement processing as well as future plans for improvements. Due to sequestration, OPM was required to change some of our business operations for Retirement Services. At the end of April, all overtime for employees working in Retirement Services was suspend. Last year, overtime enabled processing of over 34,000 additional claims, roughly 26 percent of the total production. We also reduced the hours of our call center, which receives approximately 40,000 calls and thousands of pieces of correspondence each week.

Our desire is that improvements developed over the past year will offset some of the adverse effects of these actions. But it saddens me to report that retirees may still have to wait.

Finally, we are working to reduce the number of improper annuity payments and increase recovery of overpayments. Last year the rate of improper payments for the federal retirement program was approximately one-third of 1 percent of the total benefits disbursed, and almost 72 percent of the improper payments identified have been recovered.

OPM has made substantial progress in reducing retirement claims inventory. We understand that reducing the claims inventory is about our commitment to dedicated public servants and to their family members, and I know that delays cause personal and financial hardships. In recognition of our goal to honor their service, we are continuously developing a 21st century customer-focused retirement processing system that adjudicates claims in a timely and accurate manner.

I am proud of the Federal employees I work with, and I look forward to addressing your concerns and questions you have today. Thank you.

Mr. FARENTHOLD. Thank you very much.

[Prepared statement of Mr. Zawodny follows:]



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF  
KENNETH ZAWODNY  
ASSOCIATE DIRECTOR, RETIREMENT SERVICES  
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE, AND THE  
CENSUS  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES

on

**"Is OPM Processing Federal Worker Pension Claims on Time?"**

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May 9, 2013

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Chairman Farenthold, Ranking Member Lynch and Members of the Subcommittee:

Thank you for allowing me the opportunity to appear before you today to discuss the progress of the Office of Personnel Management (OPM) in reducing the backlog of Federal retirement claims, as well as the challenges of developing a 21st Century customer-focused retirement processing system that adjudicates claims in a timely and accurate manner.

**OPM's Strategic Plan for Retirement Services**

OPM's mission is to recruit, retain, and honor a world-class workforce to serve the American people. Under the charge to honor the service of dedicated Federal employees who have devoted their careers to serving the citizens of this country, OPM is responsible for processing in excess of 120,000 retirement applications a year for Federal employees from all three Branches of the

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Government and dozens of Independent Agencies and Commissions. Aside from processing new, incoming retirements, OPM also handles post-retirement human resources functions for 2.5 million Federal annuitants, survivors and their families. In January 2012, OPM released and began implementation of a strategic plan to reduce the unacceptable backlog of retirement claims, and we remain on track and focused on the goal of adjudicating 90 percent of retirement cases within 60 days starting in July 2013. In keeping with the principles of open government, our backlog reduction efforts are posted publicly on our website on a monthly basis, allowing the public to track our progress.

The strategic plan consists of four pillars: people, productivity and process improvement, partnering with agencies, and partial, progressive information technology (IT) improvements. All four of these pillars have been put into action, and we were able to reduce the claims inventory by 57 percent and reduce the average time to process a claim from 156 to 136 days in 2012. However, over the first four months of 2013, OPM has experienced significant unprecedented increases in the number of retirement applications received. While actual claims processed continue to outpace our projections under the strategic plan, so do actual claims received. In January through April of this year, OPM received over 60,000 new retirement applications, approximately 43 percent more than were received for the same period in 2012, and 44 percent more than we projected. Still, the efforts of our employees resulted in a record number of claims being processed during that period, maintaining progress toward our goal. For example, in April 2013 there was a 41 percent decrease in the inventory versus April 2012.

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OPM Retirement Services (RS) employees, the first pillar of the strategic plan, are engaged and focused on reducing the backlog. Individuals from all over the organization have contributed to the backlog reduction effort in whatever capacity they can, from adjudication, to review, to assembly of cases. Other organizations within OPM have provided RS with help by prioritizing requirements, working with RS employees to identify potential improvements in processing and, where possible, providing employees on detail to RS. Additional staff was added to the claims adjudication process during 2012 as called for in the strategic plan, including 56 new Legal Administrative Specialists (LAS) and 20 new Customer Service Specialists. Additionally, as employees have retired or moved on to pursue new opportunities, we are backfilling positions in critical workload areas as resources permit. The new employees have been fully trained and have increased our capacity to improve timeliness and production in claims processing. I must also note that our progress would be impossible without our partnership with our labor organizations.

We continue to achieve gains in efficiency in the pending workload through the second pillar, productivity and process improvements. Improvements to our processes have been happening as a result of our work with the Navy's Lean Six Sigma team in 2012 and an additional Lean Six Sigma effort in 2013, and taking what we have learned from that experience and transferring it to other parts of the organization. In order to ensure that LAS receive complete cases, a development team has been established to review incoming cases and make sure they are "healthy" so that employees can focus on claims adjudication and not on development of a complete case file. Until the current inventory is significantly reduced, the use of overtime remains critical. In 2012 our employees worked over 94,000 hours of overtime. Overtime usage

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enabled processing of over 34,000 additional cases in 2012, equating to roughly 26 percent of our total production for the year.

Reducing the retirement claims backlog also requires OPM to work with the employing agencies that prepare the retirement applications for their retiring employees. Through the third pillar, partnering with agencies, we are working with agency Chief Human Capital Officers to improve the accuracy and completeness of incoming claims. Last year we developed an agency audit process designed to identify incomplete and inaccurate retirement cases sent to us by the agencies so that we can better track and report errors. These cases cause delays in processing and place additional development work on OPM. The audits, which are posted on our website each month, have enabled RS to provide consistent feedback and focused training. Additionally we have partnered with organizations such as the National Active and Retired Federal Employees Association (NARFE) who provide information to their members regarding retirement preparation.

The fourth and final key pillar in the strategic plan involves expanding information technology (IT) support for record maintenance and claims processing through incremental progressive IT improvements. Working with agency and service partners, continued modernization of the current, paper-reliant, retirement claims process is vital to OPM's long-term success. As such, we are focused on transitioning the retirement program to a paperless system that will truly honor a Federal employee's service by authorizing accurate retirement benefit payments, answering customers' questions in a timely manner, and promoting self-service account maintenance via PC, tablet or other mobile device.

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**Retirement Services Information Technology Strategy**

In the strategic plan, we outlined our intention to modernize our IT infrastructure incrementally, employing a cost effective and efficient modular approach to transition away from paper and into the modern era. Working with agency and service partners, we are in the process of establishing the capability of gathering electronic data from the applicant and to have that data sent to the repository. In addition, we are in the process of establishing the capability to feed the agency human resources, payroll and applicant sourced data from the repository to the benefit calculator. These represent the critical first steps in a long modernization journey.

In 2012, we launched the Data Viewer, a web-based application which aggregates information from multiple systems and enables authorized users to see retirement related data. The Data Viewer will help our adjudicators access scanned retirement documents and other data through a single interface and will also help agencies assemble more accurate retirement packages for their employees so that they are sent to OPM in a more complete state, all saving time in claim processing. Currently 11 agencies are in a pilot for the Data Viewer, and they have viewed over 40,000 documents to help make the retirement case packet more complete and accurate. The plan is to continue to deploy the Data Viewer to all agencies within the Federal government. We are also engaged in a crowd-sourcing initiative to develop innovative solutions to the current Service Credit system. The improved system will include enhanced capability to adapt to modifications to service credit calculations due to legislative changes, as well as robust accounting and financial management features.

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We have requested \$2.6 million in our FY2014 budget request to begin development of a Case Management System (CMS) for centralized tracking of, and reporting on, retirement documents and retirement cases. This initial, modest investment is to begin the process of upgrading CMS to an automated system, eventually streamlining the intake and review process and in the long-term reduce the amount of time necessary to process claims.

Finally, our web-based Retirement Services Online application empowers retirees to view their individual information, make changes and update their information on demand. The program has over 25,000 visitors per week, and over 3.2 million transactions were processed during FY2012. These online transactions, from email address updates to tax withholding changes to establishing direct deposits, reduces calls and emails to our customer service group freeing them to respond to other customers. Further enhancements to Retirement Services Online will advance our focus on providing better customer service.

**Challenges in Achieving the Goals of the Strategic Plan**

We are at a critical juncture of the strategic plan and continuation of the current success in reducing the pending inventory is by no means assured. The improvements outlined above offer an excellent start, but alone, are not sufficient to overcome some of the challenges facing the retirement program. Without proper resources, the momentum we currently have processing claims and moving toward IT modernization will be in jeopardy.

Government-wide fiscal challenges have obvious ramifications for maintaining the enhancements made in processing capacity as well as future plans for improvements in

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efficiency. As noted above, we are experiencing continued increases in new retirements, representing a growth in the customer base of OPM, while resources to handle the volume and provide appropriate customer service diminish. One example is the recent surge of retirement cases due to U.S. Postal Service early retirements. Our staff is working diligently to finalize these cases as quickly as possible through the use of overtime. However, similar receipts in FY 2014, especially if accompanied by reductions in funding for staffing and overtime, would severely impact our capability to achieve processing goals.

Funding reductions will also affect our customer service group. The Call Center receives between 35,000 and 40,000 calls and upwards of 5,000 emails each week as well as thousands of other pieces of correspondence. Reduced funding will lead to reduced response rates and a decrease in service levels. Over the last year or so, hold times in the call center have improved by 4 or 5 minutes, but these sorts of improvements will quickly be negated. The second impact will be seen in our reduced ability to provide timely responses by e-mail, fax, correspondence, and a system that allows us to see all avenues of customer updates by the enhanced CMS.

As noted above, we are also poised to implement real change in our IT systems with assistance from other Federal agencies and service partners. Lack of funding for these initiatives will impact the good work that has been done thus far and will bring a stop to development in the future.

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**Improper Payments**

Finally, I want to address the work that OPM has done in recognition of the need to reduce the number of improper annuity payments and recovery of overpayments. OPM established an Improper Payments Working Group to design controls to protect the integrity of program data. This group is represented across organizational and functional areas within OPM, led by the Chief Financial Officer, and has worked during the year to develop the OPM Improper Payments Plan. Utilizing these efforts and working with the OPM Inspector General, OPM is making continued progress to reduce the number of improper annuity payments. In FY2012, the rate of improper payments for the Federal Retirement Programs was 0.36 percent of outlays, and almost 72 percent of improper payments identified have been recovered.

**Conclusion**

OPM has made significant progress in reducing the Federal retirement claims inventory in the past year. We expect to make continued progress utilizing process improvements and incremental IT advances; however, we understand that challenges remain and our future is uncertain, and that our efforts must continue. We understand reducing the claims inventory is not just about reducing numbers, but about our commitment to retired dedicated public servants and their families. For our employees and our customers, we are moving forward on a major initiative we call C.A.R.E, which stands for Compassionate, Accurate, Responsive, and Empowered, to make workforce improvements in order to better serve our customers. We understand that any delays that retired Federal employees experience in receiving their final annuities can cause personal and financial hardships. While we continue to reduce the backlog,

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we have tried to mitigate any hardship as much as possible, such as by paying new retirees an estimated interim monthly annuity immediately after they retire until we complete their case.

In recognition of our goal to honor service, both the performance of current employees and the careers of retired employees, we are continuously working to address challenges and have implemented several initiatives to develop a 21st Century customer-focused retirement processing system that adjudicates claims in a timely and accurate manner.

I want to thank you for this opportunity to testify today and I am happy to address any questions you may have.

Mr. FARENTHOLD. Ms. Melvin, you're recognized now for 5 minutes.

**STATEMENT OF VALERIE C. MELVIN**

Ms. MELVIN. Good morning, Chairman Farenthold, Ranking Member Lynch, and members of the subcommittee. Thank you for inviting me to testify at today's hearing on OPM's system for processing Federal employee retirement benefits.

The use of information technology is integral to carrying out this important responsibility, and for over 2 decades OPM attempted to modernize the retirement process by automating paper-based functions and replacing its antiquated information systems. However, as you've alluded to, the agency faced many challenges in managing its modernizations efforts and they were largely unsuccessful. Reports that we previously issued on the agency's efforts to plan and implement a modernized system highlighted a long history of initiatives that did not yield the intended results.

At your request, my testimony today summarizes our findings on these efforts and the challenges OPM has faced in managing them and describes the agency's more recent action to improve the retirement process.

Overall, our studies found that OPM was hindered by weaknesses in several key management disciplines that are essential to successful IT modernizations. These included 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 dependencies among them, thus increasing the risk 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 the agency planned, analyzed, and redirected the program but without delivering the modernized capabilities.

In 2008, as it was on the verge of deploying a system, we noted other management concerns and offered recommendations for improvement. Specifically, test results 1 month before deploying a major system component showed that it had not performed as intended. Also, defects and a compressed testing schedule increased the risk 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 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, but the system did not work as expected and the agency suspended its 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 continue to exist in the pre-

viously 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.

OPM agreed with all of our recommendations and took steps to address them. However, it terminated the retirement modernization program in February 2011 and subsequently stated that it did not plan to undertake another large-scale modernization effort.

In January 2012, the agency released a plan describing intended improvements to retirement processing through targeted incremental steps such as hiring new staff and working with agencies to improve data quality and intended IT improvements to automate retirement application processing. As has been stated, the agency's goal is to be able to process 90 percent of new claims within 60 days by July of 2013.

However, while OPM is taking these steps and has reported progress toward meeting its goal, it has not yet addressed the fundamental question of how it intends to modify the many legacy systems that currently support the retirement process. Moreover, even as it implements this plan, it is essential that the agency fully address the deficiencies and institutionalize the IT management capabilities highlighted in our studies. Until it does so, OPM will not be effectively positioned to ensure the success of any future retirement modernization projects.

Mr. Chairman, this concludes my oral statement, and I would be pleased to respond to your questions.

Mr. FARENTHOLD. Thank you very much, Ms. Melvin.

[Prepared statement of Ms. Melvin follows:]

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United States Government Accountability Office



Testimony before the Subcommittee on  
Federal Workforce, U.S. Postal Service, and  
the Census, Committee on Oversight and  
Government Reform, House of  
Representatives

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For Release on Delivery  
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## FEDERAL RETIREMENT PROCESSING

### OPM Is Pursuing Incremental Information Technology Improvements after Canceling a Modernization Plagued by Management Weaknesses

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



Highlights of GAO-13-580T, a testimony before the Subcommittee on Federal Workforce, U.S. Postal Service, and the Census, Committee on Oversight and Government Reform, House of Representatives

### Why GAO Did This Study

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 IT is critical in carrying out its responsibilities; in fiscal year 2013 the agency plans to invest about \$85 million in IT systems and services. For over two 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 the agency 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 and to describe the agency's recent reported actions to improve its retirement processing. To do this, GAO generally relied on previously published work.

### What GAO Recommends

GAO is not making new recommendations at this time. GAO has previously made numerous recommendations to address IT management challenges that 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-13-580T. For more information, contact Valerie C. Melvin at (202) 512-6304 or melvinv@gao.gov.

May 9, 2013

## FEDERAL RETIREMENT PROCESSING

### OPM Is Pursuing Incremental Information Technology Improvements after Canceling a Modernization Plagued by Management Weaknesses

#### What GAO Found

In a series of reviews, GAO found that the Office of Personnel Management's (OPM) retirement modernization efforts were hindered by weaknesses in key management practices that are essential to successful information technology (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, it 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 and other weaknesses in the planning and oversight of the modernization effort. OPM agreed with these recommendations and began to address them, but, in February 2011, it terminated the modernization effort.

In January 2012, OPM released a plan to improve retirement processing that aimed at targeted, incremental improvements rather than a large-scale modernization. Toward this end, OPM has reported hiring new claims-processing staff, taking steps to identify potential process improvements, and working with other agencies to improve data quality. Further, the agency reported making IT improvements that allow retirees to view the status of their accounts and automating parts of the retirement application process. However, the plan reflects a less ambitious goal for retirement processing timeliness and does not address improving or replacing the legacy systems that support retirement processing.

United States Government Accountability Office

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

Thank you for inviting me to testify at today's hearing on the Office of Personnel Management's (OPM) system for processing federal employee retirement benefits. The use of information technology (IT) is integral to carrying out this important responsibility,<sup>1</sup> and for over two decades, OPM engaged in efforts to modernize the retirement process by automating paper-based functions and replacing antiquated information systems. However, the agency experienced numerous challenges in managing its modernization initiatives. Reports that we issued in 2005, 2008, and 2009 on its efforts toward planning and implementing a modernized retirement system highlighted a long history of undertaking modernization projects that did not yield the intended outcomes.<sup>2</sup> At your request, my testimony today summarizes the history of OPM's retirement modernization efforts along with our findings regarding the challenges that it faced in managing those efforts, and describes more recent actions the agency has reported taking to improve the retirement process.

The information in my testimony is primarily based on our previous work at OPM. We also reviewed the agency's plan and related information discussing its recent actions to improve retirement processing services. We performed our work in support of this testimony during April and May 2013. All work on which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those 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 that

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<sup>1</sup>In fiscal year 2013 the agency plans to invest about \$85 million in IT systems and services.

<sup>2</sup>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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the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## 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 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.<sup>3</sup>

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.<sup>4</sup>

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## Federal Employee Retirement Application Processing Is Complex

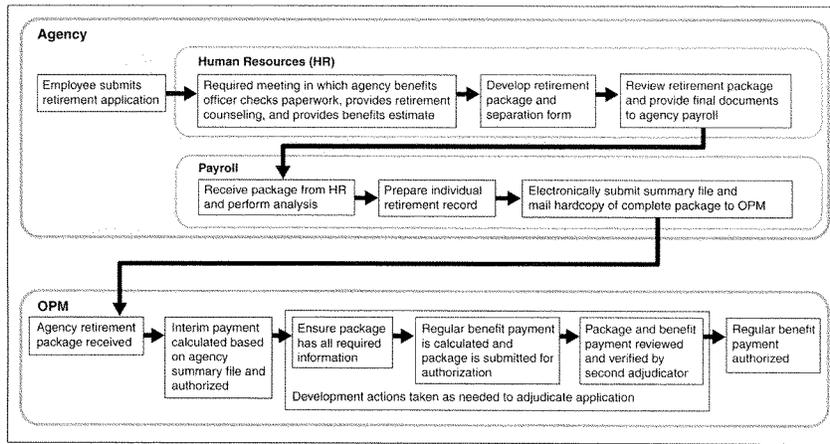
OPM and employing agencies' human resources and payroll offices are responsible for processing federal employees' retirement applications. The process begins when an employee submits a paper retirement application to his or her employer's human resources office and is completed when the individual begins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

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<sup>3</sup>OPM, *Fiscal Year 2012 Annual Performance Report* (February 2013).

<sup>4</sup>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.

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.<sup>5</sup> 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 retirement claims was 156 days in 2012. 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

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<sup>5</sup>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.<sup>5</sup>

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#### 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, which 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.

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<sup>5</sup>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 retirement processing, 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.

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### OPM's Unsuccessful Retirement Modernization Efforts Were Plagued by IT Management Weaknesses

OPM's efforts to modernize its retirement system were 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. These capabilities include project management, risk management, organizational change management, system testing, cost estimating, progress reporting, planning, and oversight, among others. However, we found that OPM's capabilities in these areas were not sufficiently developed. For example, in reporting on RSM in February 2005, we noted weaknesses in project management, risk management, and organizational change management.<sup>7</sup>

- 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 and controlled in comparison to planned objectives. Although OPM had defined major retirement modernization project components, it

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<sup>7</sup>GAO-05-237.

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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 project 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. Lacking 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, effective implementation of new systems could be hindered by confusion about user roles and responsibilities.

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.

We reported again on OPM's retirement modernization in January 2008, as the agency was about to deploy a new automated retirement processing system.<sup>8</sup> We noted weaknesses in additional key

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<sup>8</sup>GAO-08-345.

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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 sequentially. The agency stated that a lack of testing resources, including the availability of subject matter experts, and the need for further system development contributed 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 is the identification of individual project cost elements, using established methods and valid data to estimate future costs. Establishing 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, it was not supported by the documentation that is fundamental to a reliable cost estimate. Without a reliable cost estimate, OPM lacked a sound basis for formulating retirement modernization budgets or for developing the cost baseline that is necessary for measuring and predicting project performance.
- 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 indicated that 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.,

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subject to frequent changes). This EVM approach in effect ensured that material variances from planned performance would not be identified and that the state of the project would not be reliably reported.

We recommended that the Director of OPM conduct effective system tests prior to system deployment and improve program cost estimation and progress reporting. OPM stated that it concurred with our recommendations and 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.<sup>9</sup> Specifically, we noted that significant weaknesses continued to exist in the areas of cost estimating, progress reporting, and testing, while also noting two additional weaknesses related to planning and oversight.

- Although it concurred with our January 2008 recommendation to develop a revised cost estimate for the retirement modernization effort, OPM had not completed initial steps for developing the new estimate by the time we issued our report in April 2009. 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.
- OPM also concurred with our January 2008 recommendation to establish a basis for effective EVM but had not completed key steps as of the time of our report. Specifically, despite planning to use EVM to report the retirement modernization project's progress, the agency had not developed a reliable cost estimate and a validated baseline. Engaging in EVM reporting without first taking these fundamental

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<sup>9</sup>GAO-09-529.

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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 contract. As a result, we concluded that until the agency completed such a plan and used it to guide its efforts, it would not be properly positioned to proceed 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 identifying appropriate actions when investments encounter challenges. Despite meeting regularly and receiving 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

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2008, the board met and was presented with reports that described problems the 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 had not established guidance regarding how the board is to communicate recommendations and needed corrective actions for investments it oversees. Without a fully functioning oversight body, OPM lacked insight into the retirement modernization and the ability to make needed 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 Reported Taking Actions to Improve Retirement Processing

In mid-January 2012, OPM released a plan to undertake targeted, incremental improvements to retirement processing rather than a large-scale modernization, which described planned actions in four areas:

- 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;
- working with other agencies to improve the accuracy and completeness of the data they provide to OPM for use in retirement processing; and
- improving the department's IT by pursuing a long-term data flow strategy, exploring short-term strategies to leverage work performed by other agencies, and reviewing and upgrading systems used by retirement services.<sup>10</sup>

Through implementing these actions, OPM has said that it aims to eliminate the agency's retirement processing backlog and accurately process 90 percent of its cases within 60 days by July 31, 2013. However, as we testified in February 2012, that goal represents a

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<sup>10</sup>OPM, *Strategic Plan for Retirement Services* (Jan. 17, 2012).

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substantial reduction from the agency's fiscal year 2009 retirement modernization goal to accurately process 99 percent of cases within 30 days.<sup>11</sup> Moreover, the plan did not describe whether or how the agency intends to modify or decommission the over 80 legacy systems that it currently relies on to support retirement processing.

Last month, OPM officials described steps the agency has begun taking to implement the January 2012 plan for retirement services. These steps include

- filling the 56 positions needed to adjudicate retirement claims and 20 positions needed to support the claims process;
- implementing retirement processing improvements identified during an external review of its retirement claims process, such as reorganizing benefits claims officers into two tiers to allow the processing of more complex inquiries by higher-level officers;<sup>12</sup> and
- improving the accuracy and completeness of retirement data that other agencies provide to OPM by conducting audits of the agencies' application submissions and providing more frequent feedback and follow-up training.

Additionally, the officials identified existing and planned IT improvements to support the retirement process. These efforts include

- providing retirees with the ability to view the status of their cases through OPM's web-based application, Services Online;
- developing the capability to accept electronic data that are transferred from one of the seven federal payroll processing centers;
- enhancing its internal web-based application, Data Viewer, to allow 11 other agencies to view retirement case packets;
- upgrading its data storage capacity and production printer;
- sponsoring a challenge, in cooperation with the National Aeronautics and Space Administration, for developers to create a system with accounting tools for processing service credits;
- updating reporting guides to include processes for sending electronic retirement data to OPM; and

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<sup>11</sup>GAO, *OPM Retirement Modernization: Progress Has Been Hindered by Longstanding Information Technology Management Weaknesses*, GAO-12-430T (Washington, D.C.: Feb. 1, 2012).

<sup>12</sup>OPM officials stated that the external review of its pending claims process was completed by the United States Navy in November 2012.

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- planning an initiative to develop an automated retirement case management system to replace the agency's existing document and case control system in fiscal year 2014.

Nonetheless, while OPM is planning to replace its legacy document and case control system, agency officials stated that there were no major plans to decommission any of the agency's other legacy systems that support retirement processing. Although the Associate Director for Retirement Services stated that investing in IT is important for improving the efficiency of retirement claims processing, the agency has not yet planned for improving or replacing the remaining legacy systems that support retirement processing.

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In summary, despite OPM's longstanding 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 were 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, cost estimating, system testing, progress reporting, planning, and oversight. The incremental steps the agency recently reported taking include dedicating additional resources to retirement processing; however, they do not address the more fundamental need to modernize its legacy IT systems in order to significantly improve the efficiency of the process. Until OPM tackles that challenge, and develops the management capabilities to carry it out successfully, it may face ongoing difficulties in meeting the needs of future retirees.

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

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**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](mailto:melvinv@gao.gov). Other individuals who made key contributions include Mark T. Bird, Assistant Director; David A. Hong; and Lee A. McCracken.

Mr. FARENTHOLD. Dr. Kettner.

**STATEMENT OF GEORGE KETTNER**

Mr. KETTNER. Thank you for the opportunity to appear before the committee on the subject of OPM processing of retirement claims.

In order to establish our credibility to speak today in front of the subcommittee, I would like to first describe our experience and capabilities relevant to the discussion. My company, Economic Systems, Inc., has been in the Federal retirement calculation and claims processing business for more than 20 years, and has a long-standing association with OPM and many Federal agencies in connection with retirement claims processing and related issues. Today, we operate a cloud service provider retirement system that services approximately 120 agencies, both large and small, throughout the Federal Government. Our retirement system provides automated tools for case tracking, filling forms electronically, and importing data from agency personnel and payroll systems. Economic Systems provides agencies with tools that facilitate the processing of retirement application packages that are sent to OPM for adjudication, using a wizard-like approach similar to how Turbo Tax works for preparing tax returns.

We have a long history of working with OPM, which includes developing the original CSRS-FERS transfer model in 1985-1986 and the Federal Employee Retirement Coverage Correction Act, referred to as FERCCA, decision model. We subsequently processed thousands of FERCCA cases on behalf of OPM using this tool.

We commend OPM for its recent accomplishments of reducing the backlog of unprocessed claims. We agree with OPM's decision to take an incremental approach toward modernizing the retirement system, and we agree with GAO's assessment of the challenges that OPM faces in the pursuit of modernization. What we would like to add to this discussion is that the Federal retirement system is a large and very complex system that requires not only an incremental approach, but a unified design developed in partnership with subject matter experts who truly understand Federal retirement and Federal human resource systems.

The complexities of the Federal retirement system affect all participants in the retirement process: employees, agency HR staff, OPM, and those in the vendor community who serve these groups. These complexities increase agency errors in the submission of retirement packages to OPM, causing delays at OPM.

Another challenge is that the business processes upon which the current retirement system is built are obsolete, paper-based, and labor intensive.

All of this notwithstanding, we believe that there are near-term incremental opportunities that OPM and the agencies could employ that would enable OPM to make a significant improvement in claims processing from a technology standpoint, as well as managing their workforce.

Reviews and audits of the previous failed modernization efforts have focused primarily on the failures of project management and testing. Little or no review has focused on the actual IT design and engineering of the failed effort. The success of systems with enor-

mous business rule complexity is ultimately dependent on the technical design, not just project management.

Economic Systems has developed a proven Federal retirement calculator by combining subject matter expertise and adaptable engineering. Adaptable engineering allows the retirement system to accommodate change requirements such as the FERCCA rules and regulations. During the FERCCA project, OPM vetted the Economic Systems retirement calculator, and this collaboration produced a calculator that was suitable for processing FERCCA claims. This was accomplished with a software development budget that was a fraction of taxpayer money spent on past vendors who failed.

A key reason for past failure at retirement modernization is lack of knowledge of subject matter complexity on the part of the previous IT contractors for OPM. For the most recent RSM effort, the vendors were not subject matter experts in Federal retirement. We believe that a prudent course would be to leverage the subject matter expertise and tools that Economic Systems has and expand our adaptive engineering approach. Economic Systems has developed a next-generation retirement calculator that is the centerpiece of a full-service component across all aspects of the Federal retirement process. This includes not only serving our existing agency customer requirements, but also claims adjudication and ongoing retiree benefits adjustments.

Economic Systems products can replace OPM's legacy retirement calculation systems. We would immediately start to replace the systems required for initial claims adjudication. The Economic Systems calculator is not tied to any specific user interface or database and can be integrated into a properly designed larger modernization road map. Because so many Federal agencies are using our retirement system, we can readily transfer data electronically to OPM. This alone would greatly enhance OPM's efficiency.

With our new calculator in place at OPM, we can incrementally replace other systems for retiree employee processing calculation. This can be accomplished at a much lower cost than the past failed projects and in a shorter period of time.

Economic Systems provides management retirement software to agencies as well as retirement software. We have had a very positive working relationship with the USAJOBS program at OPM. We believe that the retirement program could draw valuable lessons from this program as well. OPM's winning strategy for USAJOBS is to be in partnership with the agencies and the vendor community to develop solutions for the hiring process. In our view, the open communication model in USAJOBS should be followed in OPM's retirement processing system as well. With integration between our retirement calculator and OPM's retirement systems, OPM could eliminate a great amount of duplicate data entry.

That concludes my testimony.

Mr. FARENTHOLD. Thank you very much.

[Prepared statement of Mr. Kettner follows:]



**STATEMENT OF**  
**GEORGE KETTNER, PhD**  
**PRESIDENT, ECONOMIC SYSTEMS INC.**  
 before the  
**SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE, AND THE**  
**CENSUS**  
 of the  
**COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
 on  
**“Is OPM Processing Federal Worker Pension Claims on Time?”**  
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**May 9, 2013**

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Chairman Farenthold, Ranking Member Stephen Lynch and Members of the Subcommittee:

Thank you for allowing me the opportunity to appear before you today to contribute to the discussion regarding the progress of the Office of Personnel Management (OPM) toward reducing the backlog of Federal retirement claims, and the challenges OPM faces to modernize

both their retirement processing systems and the business processes that underlie the current system.

My company, Economic Systems Inc. (EconSys), has been in the Federal retirement calculation and claims processing business for more than twenty years and has a long-standing association, albeit not always well known, with OPM and many Federal agencies in connection with Federal retirement claims processing and related issues.

## Background on Economic Systems Inc.

By way of background, EconSys is a small business based in Falls Church, Virginia. We are a research and human resources consulting and software provider and are probably best known for our Federal retirement calculation software which is used either agency-wide, or very extensively by several Federal Departments including: Agriculture, Homeland Security, Energy, Interior, Justice, Labor, Transportation, and Treasury, as well as numerous independent and small agencies and commissions.

In addition to our retirement calculator, our software supports the full range of Federal human resources functions including tools for recruiting, classification, hiring, on-boarding, training, and performance management. These primary modules are supported by productivity tools such as case tracking, reports, and eOPF integration.

Our retirement calculator addresses all of the Federal retirement plans – both the defined benefit and defined contribution and Social Security. We replicate the calculations that OPM uses in the adjudication of cases. Our past experience in working with OPM includes the following projects:

- We developed the original CSRS-FERS transfer model in 1985-1986. OPM distributed the final version throughout Government for agency use in counseling employees.
- In 1997 in response to the NDAA 1996 (PL 104-106), we developed a software package to model employee's decision to transfer retirement credits between appropriated fund (CSRS or FERS) and non-appropriated fund retirement plans. The project was vetted by OPM, which funded the work.
- In 1998, we developed a model for the short-duration FERS Transfer open season that was used throughout much of Federal government.
- We developed a simplified retirement calculation model for employee use that was posted on the OPM website for three years.
- We developed a Federal Employee Retirement Coverage Correction Act (FERCCA) decision model that was vetted by OPM and approved for use in counseling Federal

retirees. We subsequently processed thousands of FERCCA cases on behalf of OPM, using this tool.

As a contractor supporting Federal retirement processing, I am hoping today that I can provide the subcommittee and audience with some new perspectives.

## The Challenge of Retirement Claims Processing at OPM

We commend OPM for its recent accomplishments toward reducing the inventory of unprocessed claims and the time needed to process claims, their efforts to partner with agencies to improve the quality of retirement submissions, and the steps they are attempting to take to move toward a paperless retirement process.

The recent progress that OPM has made in claims processing is the result of applying brute force at their claims workload. In the short-term, they have no other choice. However, given the current budget situation, OPM is about to lose a significant portion of its claim processing capacity because it will not be able to have its claims processors work overtime. Thus, it cannot apply this short-term, brute force approach to the extent it had planned and needs to do. Without some other relief, we can expect the inventory of unprocessed claims to rise and age unacceptably and performance for processing times and level of service to retiring Federal employees to diminish.

Federal retirement law has become increasingly more complex over time, driving more complex rules for processing claims for both the agencies and OPM. For instance, in addition to the general rules for basic CSRS and FERS cases, a wide variety of special computation rules apply to certain categories of Federal employees. Special rules apply only to certain cases such as employees with part time service and employees who transfer from one system to another. All of these rules are subject to change over time. The net effect of all of the special categories and specific rules means that the number of permutations of possible types of retirement cases is exponential in nature. For example, about six basic variables go into determining the full creditability of a period of Federal service, but there are at least 14,000 unique combinations of those variables.

The complexity of the rules can present a huge challenge for all participants in the retirement process. For employees who do not have a "simple" service history, it is difficult to understand their benefits prior to and after retirement. For agency HR staff, it is a challenge to provide accurate counseling that fully explains the benefits to employees and provide accurate and complete data for retirement processing. For OPM, retirement claim adjudicators must be highly trained, and even then it is a time consuming process to adjudicate complex cases.

The massive complexity of the Federal retirement rules also presents unique challenges when trying to automate the process through IT and software. Past attempts at developing a software based calculator for use in claims processing have produced a variety of fragmented systems or partial solutions. Many attempts have failed and have been abandoned. Development of a complete unified retirement calculator is not something that can be designed and implemented by a typical software development shop. It requires a high level, multi-disciplined skill set that is a combination of technical and analytical ability and subject matter expertise.

For the agencies, these complexities increases the occurrence of agency errors in the submission of retirement packages to OPM, cause processing delays at OPM, and also increase the opportunity for errors occurring at OPM. Federal retirement today has so many subtle and confusing aspects that there is a huge burden on Federal benefits specialists and claims processors to keep up with all of them, and to keep the tools current the tools that are used. In addition, there is a great burden on OPM to keep benefits staff across the agencies informed and educated about changes that occur in retirement law and processing procedures. For instance, the CSRS/FERS Handbook, which is a prime source of guidance to the agencies for retirement processing, has not been updated in 20 years.

OPM has developed a web-based retirement calculator, the Federal Annuity Claims Expert System (FACES), which based on our analysis, performs the computation of most Federal retirement annuities but requires significant operator input to do so. In addition, FACES is designed specifically to support claims processing at OPM; it does not support retirement counseling and processing at the agency. For instance, it does not address Social Security and TSP benefits and it does not project into the future factors such as average salary, inflation, and accumulation of leave. While FACES is useful to claims processors for computing most Federal annuities, it has little utility to agencies for retirement counseling purposes where an employee's social security benefits, TSP savings, and being able to project into the future are critical components of their retirement planning and counseling. Evidence of this lies in the fact that OPM offers FACES to agencies at no cost. However, nearly all agencies prefer to purchase a subscription to a Federal retirement calculator developed by a private sector vendor such as EconSys.

We note that OPM's Strategic Plan for Retirement Services and recent budget documents describe efforts to "feed" retirement data electronically into FACES. However, much of this is focused on retrieving this data from agencies' HR and payroll systems. These efforts are very complex, time-consuming, and attempts that might never come to fruition. For the foreseeable

future, OPM will continue to load data into FACES as it has for all of its retirement calculators over the years -- manual input.

Although we have heard some discussion coming out of OPM to re-engineer some of the business processes underlying retirement processing (such as using electronic signatures and electronic submission of retirement applications), for the most part, OPM and the agencies continue to accomplish this work using the same labor intensive paper processes that have been in place for many decades.

The Achilles Heel in Federal retirement is getting employees' service history accurately documented before they retire. This is a big challenge because:

- Data exists electronically in agency HR and payroll systems but is converted to hard copy format, submitted to OPM, then re-keyed into electronic format for OPM's systems
  - The specific nature of an individual's Federal service often drives the computation of his/her annuity
  - Capturing data needed for retirement processing in an electronic format using technology is an expensive and long-term initiative for OPM
- Accuracy of agency retirement submissions is problematical
  - Agency HR Benefits Specialists are of varying levels of competence
  - Consolidation of HR processing does not always deliver expected efficiencies and frequently results in a decline in service levels to Federal employees
- OPM does not have the outreach resources it needs to fully address agency issues
  - Our review of OPM's 2014 Congressional Budget Justification shows that only 3% of its total Trust Fund budget will go to improving its services to agency benefits officers and other outreach initiatives
  - OPM's focuses the much larger 97% on actual claims processing.

We believe that there are near-term and low budget opportunities that OPM and the agencies could employ that could improve the situation I have just described.

## Lessons Learned with the EconSys Retirement Calculator

EconSys began developing software to perform Federal retirement calculations in 1985 when we developed a FERS Transfer model to help employees with the decision to transfer to FERS or stay in CSRS. Based on that experience, we developed a calculator for use by agency HR specialists in the early 1990s.

In 1995 we began developing what I'll call our unified retirement calculator. One of the first fundamental design decisions we made was that the logic would be based on the service history of an employee. The calculator itself would be responsible for interpreting the service history and determining what specific combination of rules should be applied for the particular case entered. The HR specialist would not have to know every specific and obscure eligibility rule before they could create an estimate. They could simply enter the data and all of the rules would be embedded in the calculator. A successful calculator must be a "smart" system that can take historical data "as is" and automatically determine the correct and unique rules to apply for special categories of service including type of employee and part time service.

While developing and improving our calculator for HR specialists, we also received requests for many other application configurations. One of the early design realizations was that each application configuration would require different front end user interfaces or different database back ends. Thus, it became critical that the retirement calculator itself was modular, independent and portable enough such that the same code could be reused in every configuration. Because of this design approach, over the next 18 years, we were able to integrate our retirement calculator into a wide variety of systems including a stand-alone windows version, a floppy disk based version, a client server version, an Interactive Voice Response system, an embedded web-based version, a FERCCA version, and an enterprise web/cloud based version. Any change to the calculator itself could immediately be pushed to each of the active versions with little effort. Another of our beliefs is that a successful retirement calculator must be able to be integrated into a variety of systems and platforms.

The first versions of the unified retirement calculator were used mainly for retirement estimation and projection. Over time the calculator evolved to support certain specific retirement processing functions. In 2003, we modified the calculator to support handling of FERCCA cases. This required a greater level of precision in the calculator and more detail in the data inputs required. The calculator began a transition such that it could better support the more detailed requirements for retirement processing while maintaining the ability to support retirement counseling and financial literacy through projection and estimation. This is especially true for employees who must make a decision prior to retirement such as the option to transfer to FERS or if they are required to make a FERCCA election.

As previously noted, an important design decision was to make the retirement calculator smart enough such that it could be used in cases where the operator lacks great knowledge of the Federal retirement rules. In software terms, this means that the calculator is what is called a "black box" where you simply put the inputs in and get out the answer. The user does not need

to know exactly how that answer was arrived at. In most cases this is generally a good thing. However, it turns out that for purposes of support, training and auditing, the purely black box approach may not be the best approach. In cases when a question about a particular result is asked, it is not always obvious what rules the calculator applied to achieve the result. The support staff must manually interpret the case and compare with the results from the calculator.

The latest generation EconSys calculator provides a more open view for the specific rules that are being applied. While our FERCCA calculator was certified as accurate by OPM, it operated as a "black box." Our latest version is more transparent, containing not only the quantitative values, but also every unique business rule that is applied. These business rules are linked to documents that provide a detailed explanation of the rules and can also link to background references such as the OPM CSRS/FERS Handbook, Benefits Administration Letters, and the Electronic Code of Federal Regulations. This enables someone who is generally trained in the retirement regulations to quickly and easily audit the software and results. The latest calculator provides output of both the quantitative results along with documentation of how it arrived at the results.

EconSys developed these tools and systems over a period of time through self-financed R&D funding with EconSys bearing the entire risk of the investment. Through this process we have acquired unique knowledge and expertise of Federal requirements, and have developed tools that can help OPM quickly improve its retirement processing efficiency and continue to make reductions in its retirement backlog without increasing staff levels or overtime.

## How EconSys Can Help OPM Modernize

*OPM needs a "smart" and highly adaptable retirement calculator.*

EconSys agrees with OPM that an incremental approach to modernizing and replacing legacy IT systems can be more successful than previous failed all-encompassing approaches. The incremental efforts must be part of a well thought out design that will in the end provide a full and complete solution. Reviews and audits of the previous failed modernization efforts have focused primarily on the failures of project management and testing. There has been little review focused on the actual IT design and engineering of the failed effort. The success of systems with enormous business rule complexity is ultimately dependent on the technical design, not just project management.

In the most recent OPM Retirement Systems Modernization effort, one of the big failures of the software was the inability to accurately perform the Federal retirement calculations required. This problem cannot be solved efficiently by throwing money and programmers at it. EconSys has developed a proven Federal retirement calculator by focusing on adaptable engineering. Adaptable engineering allows EconSys to accommodate change requirements, as demonstrated by our ability to quickly develop capability to effectively process FERCCA cases when other much larger contractors could not. During the FERCCA project, OPM vetted the EconSys calculator, and this collaboration (which is rare for OPM) produced a calculator that was suitable for processing FERCCA cases. This was accomplished with a software development budget that was a tiny fraction of taxpayer money spent by past vendors who failed. For the most recent RSM effort, EconSys offered to provide their calculator to multiple large-business vendors, including the winning contractor, Hewitt, for a fraction of the cost of what it would take to develop from the ground up. These vendors, however, were not subject matter experts in Federal retirement. They vastly underestimated the complexity of the task, and the length of time to acquire the knowledge, thinking they could throw programmers at it. Consequently, their efforts failed, and the EconSys calculator is still being used in numerous agencies throughout the government.

EconSys' experience in developing support for FERCCA, along with watching the multiple large-business failed efforts to modernize the adjudication process convinced us that traditional approaches are not viable. They are not viable because understanding of the subject matter complexity does not reside in large software developers and integrators, and the time and cost to acquire the knowledge will cost more than the failed efforts. We believe the most prudent course would be to leverage the expertise that EconSys has and expand our adaptive engineering approach.

EconSys has developed a next generation retirement calculator that is the centerpiece of a full service component across all aspects of the Federal retirement process. This includes not only serving our existing agency customer's requirements, but also claims adjudication, ongoing retiree benefits adjustments, and employee self-service.

EconSys' products can replace OPM's legacy retirement calculation systems. We could immediately replace the systems required for initial claims adjudication. The EconSys calculator is not tied to any specific user interface or database and can be integrated into a properly designed larger modernization roadmap. It would also be able to adapt to and integrate with legacy systems in the shorter term. Because so many Federal agencies are using EconSys' Federal Human Resource (FHR) Navigator product, we can easily begin transferring data

electronically to OPM such that it can be fed directly into the calculator without the need to rekey the data. That alone would greatly improve the current system.

With our new calculator in place, at OPM we can incrementally replace other systems for retiree and employee processing calculations. This can be accomplished at a much lower cost than the past failed projects, and in a shorter period of time.

Since there is very little existing integration between the fragmented legacy systems currently being used at OPM, it would not be difficult to replace these systems with a single unified calculator. The EconSys calculator is not tied to any specific user interface or database and can thus be integrated into any properly designed larger modernization roadmap. It would also be able to adapt to and integrate with legacy systems in the shorter term. Lastly, because so many Federal agencies are using EconSys' FHR Navigator product, we can easily begin transferring data electronically to OPM such that it can be fed directly into the calculator without the need to rekey the data.

## Electronic Submission of Retirement Data

In addition to applying the EconSys retirement calculator to the OPM modernization effort, other approaches could be readily adopted to improve overall operations of retirement processing and significantly enhance retirement services for employees and annuitants. One of these approaches is electronic submission of retirement data and application packages.

*OPM should work toward electronic submission of retirement data and packages.*

As discussed previously, one of the biggest challenges is extracting accurate and complete service history data from extant agency HR and payroll systems. Agency retirement specialists prepare service history data for newly transferred employees from one agency to another, for employees about to retire, and at other times for counseling and keeping records up to date. This service history data could be transmitted to OPM electronically and used for calculation of annuities. This would obviate the need for OPM staff to "re-key" service history data that has already been developed and certified by the agency.

In addition, OPM should accept retirement application packages electronically that were prepared by agencies instead of by snail mail. EconSys provides productivity tools to agencies that facilitate the processing of retirement application packages including case tracking and a wizard-like system for filling out the retirement application similar to how Turbo Tax works for taxpayers preparing their tax returns. Our review of OPM audits of agency retirement submissions indicates that our retirement application wizard prevents many of the common

errors found on retirement submissions. OPM and the agencies can work with EconSys to build additional edits to fully address errors and omissions and greatly improve the accuracy and reliability of retirement data going to OPM.

In addition to case tracking and its eRetirement wizard tools, EconSys' cloud-based FHR Navigator system has a data import service whereby service-related and salary history data needed for computing retirement benefits are electronically imported bi-weekly from the agency's payroll service provider such as the National Finance Center. This productivity tool greatly increases the efficiency and accuracy of managing data as well as the other tools we have in place at agencies.

## Lessons from OPM Partnerships with Hiring Software Vendors

EconSys has had a very positive experience working with the USAJOBS Program Office at OPM. USAJOBS is an online job posting and search system that vendors of Talent Acquisition Systems (TAS) must integrate with. Each individual TAS must integrate with USAJOBS according to the Software Integration Framework for USAJOBS. The USAJOBS system is a very complex project to manage. USAJOBS and the TASs are subject to many changing laws, regulations, and policies from different parts of OPM as well as different agencies. In the face of this, OPM has found a winning strategy: to work closely with agencies and TAS vendors. The USAJOBS Program Office has developed a partnership with the vendor community to develop solutions for the hiring process. The USAJOBS Program Office hosts an annual vendor's conference where TAS vendors can ask questions about changes in USAJOBS and give feedback. When the Program Office considers making a change in USAJOBS, the Program Office staff contact all the vendors to determine what impact it might have. In addition, the Program Office hosts regular conference calls with vendors. In our view, the open communication model in USAJOBS should be followed in reforming OPM's retirement processing system. With integration between the EconSys Retirement Calculator and OPM's retirement systems, OPM, for example, could eliminate duplicate data entry. The EconSys Retirement Calculator contains service history, salary history, and other inputs required for computing annuity calculations, in an electronic format. EconSys recommends collaboration between EconSys and OPM to develop a specification for providing data required by OPM for claims adjudication.

Even if OPM is not ready to accept electronic data into an integrated system, OPM could still begin to accept electronic data in other forms such as electronic retirement applications in PDF format. The data in the EconSys Calculator automatically flows to retirement application forms,

which can be saved as PDF documents. Today, agencies are required to print and mail those documents, even though they exist in an electronic format. If OPM accepted the application data electronically, it would cut costs significantly for the Federal government.

## Retirement Planning

*OPM has an opportunity to harness the energy that already exists in the agencies to capture complete service history before Federal employees are about to retire as part of the effort to enhance financial planning for employees.*

There is a significant amount of interest among vendors, like EconSys, and financial planners to work with Federal agencies in support of the Federal Financial Literacy and other initiatives that motivate Federal employees to begin retirement planning and ask for retirement estimates early in their careers. We believe OPM should consider developing ways of leveraging this interest so that these vendors and financial planners can provide agencies with low cost approaches that promote the capture of employees' service history early in their careers, leverage tools agencies are already using to provide estimates and counseling, and support employees getting retirement estimates and reviewing their service history. Despite the angst that exists regarding so called financial advisors working with Federal employees, credentials can be developed and ordained by OPM which could identify those with expertise in Federal benefits and whose mission is to educate employees about their benefits and assist them in obtaining a reliable estimate of those benefits.

Good retirement planning should begin early in a worker's career. For Federal employees retirement planning requires highly reliable estimates of the annuity, Social Security, and TSP benefits. The reliability of annuity estimates most often is contingent upon having an employee's service history fully documented so that the correct calculations pertinent to it can be made in the computation of the overall annuity.

## George A. Kettner Biographical Information

Dr. George Kettner founded Economic Systems Inc. in 1990 to help businesses and government agencies approach problems and decision-making more quantitatively. Today the company has two major divisions: Management Consulting devoted to research, analysis, and evaluation and Human Resources (HR) Software Development and Services. Our Management Consulting team conducts surveys, performs Congressionally-mandated program evaluations, conducts cost-benefit analysis, and determines key drivers of business outcomes. Our web-based HR software is deployed in well over 120 federal agencies and covers a full range of HR processes.

Dr. Kettner provides overall direction for the company's Federal Human Resource (FHR) Navigator. FHR Navigator provides e-business solutions to support position management and classification, workforce planning, hiring management, on-boarding, benefits and retirement calculations and processing, and forms processing. Dr. Kettner directs overall corporate efforts to develop HR systems to automate human resources functions and combine the latest computer technology with subject matter expertise in Federal HR management. In the retirement area Dr. Kettner directs the company's overall effort to develop and provide the Federal Retirement Benefit calculator and retirement delivery support services for HR specialists and employees in federal agencies.

Examples of projects that Dr. Kettner has worked on throughout his career include:

- Examined the business case for the employment of people with disabilities from the perspective of businesses. Identified strategies to increase participation of people with disabilities (PWD) in the Federal work force. Provided guidance to employers on effectively promoting the inclusion of people with disabilities.
- Served as Project Director on several evaluation projects for the Department of Veterans Affairs (VA), including Disability Compensation Program evaluation, Home Loan Guaranty Program evaluation, Survivor Benefit study, Pension Benefit study, and VA capital investment methodology. Dr. Kettner provided testimony to Senate Committee on Veterans Affairs.
- Directed project to process approximately 3,000 FERCCA retirement cases for the Office of Personnel Management.
- Served as project director in developing the Federal Employees Retirement System (FERS) transfer decision model that was adopted by the Office of Personnel Management for the entire federal government.
- Directed on-site human resource management support, particularly in the retirement area, to federal agencies such as the General Accounting Office, FDIC, National Archives, Comptroller of the Currency, and Department of Education.
- Conducted a study to review and assess productivity models used by Federal Agencies, in the areas of workforce planning and payroll cost control.
- Provided litigation support to the Equal Employment Opportunity Commission in age, race, and sex discrimination cases as labor economist or database management consultant in several cases.
- Developed dynamic workforce simulation models of personnel attrition, retirement, transfers, accessions, and promotions, based on econometric analysis of federal agency personnel events.

- Developed statistical models for staffing standards for both private sector and public sector organizations.

Dr. Kettner earned his doctorate degree in economics at UCLA, where he also obtained his baccalaureate degree in economics. He has over 35 years of experience in management consulting and human resource related work and has led his own consulting firm over the past 23 years.

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Accrual Basis

Economic Systems Inc.

**Income by Customer Summary**

October 1, 2010 through May 6, 2013  
Oct 1, 10: May 6, 13

CON - BSD (Education)	194,274.54
CON - DWB & Associates	57,470.00
CON - GDC Integration, Inc.	847,083.42
CON - Hay Group	83,227.00
CON - LeadFirst Learning Systems, LLC	36,496.08
CON - National Academy of Public Admin.	192,217.80
CON - ODEP	3,952,230.47
CON - Rutgers, The State University	76,421.04
CON - TSA-Fed Marshall	114,196.34
CON - US Marshals Services	75,363.57
CON - VA(VR&E)	75,135.55
CON - WPCioffi Engineering Mgmt., Inc.	40,344.00
DC - DC Court of Appeals	2,317.50
DC - DC Superior Court	22,462.95
DC - Water and Sewer Authority	126,816.52
DHS-OIG - Inspector General	8,024.00
DHS - CIS	119,305.91
DHS - Coast Guard	83,879.70
DHS - Customs & Border Protection	553,900.00
DHS - Federal Law Enforcement Trng Ctr	9,442.76
DHS - FEMA	153,845.03
DHS - Hqs (CHCO)	41,977.80
DHS - ICE (software)	342,827.89
DHS - NPPD	33,483.46
DHS - TSA-HR Access-LMCO	550,200.00
DHS - TSA Hqs	9,574.88
DoD - Army ABC	23,892.00
DoD - Civ Pers Mgmt Svc (CPMS)	3,833.00
DoD - DLA Columbus (FERCCA)	20,497.25
DoD - NGB Arizona (Services)	47,411.00
DoD - NGB Arizona (Software)	5,580.00
DoD - NGB Delaware (FRB)	1,800.00
DoD - NGB Georgia - (FRB) FRB Tng	5,998.00
DoD - NGB Iowa (FRB)	5,580.00
DoD - NGB Kentucky (Seminar)	7,502.92
DoD - NGB New Hampshire (FRB)	19,080.00
DoD - NGB Ohio (FRB)	3,088.00
DoD - NGB Wash DC (FRB)	3,712.50
DoD - NGB Washington State (Software)	5,580.00
DoD - NGB West Virginia (FRB)	3,780.00
DoD - Rhode Island National Guard	3,825.00
DoD (USAF) - AFPC-Randolph	7,357.50
DoD (USN) - CIPO	0.00
DoEn - EMCBC	1,800.00
DoEn - Golden Field Office	3,780.00

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Economic Systems Inc.

**Income by Customer Summary**

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DoEn - Headquarters	27,306.00
DoEn - National Nuclear Security Admin	14,375.00
DoEn - Southwestern Power Admin	6,797.50
DoEn - Washington Navy Yard	2,000.00
DOI - Bureau of Indian Affairs	119,599.60
DOI - Bureau of Reclamation MT	13,061.25
DOI -Office of Inspector General	5,580.00
DoI (BLM) - Idaho	4,262.11
DoI (BLM) - Nevada	2,600.00
DoI (BLM) - New Mexico	1,620.00
DoI (BLM) - Oregon-Pat Hicks	38,095.45
DoI (BLM) Nat'l Ops Ctr Denver, CO	4,318.63
DOI (FWS) - Headquarters-Arlington	6,958.50
DOI (FWS) - Lakewood, CO	7,707.00
DOI (FWS) -Region 4-Atlanta	10,268.00
DOI (NPS) - Anchorage, AK	0.00
DOI (NPS) - Gulf Islands Nat'l Seashore	1,800.00
DOI (NPS) - Mammoth Cave National Park	1,600.00
DOI (NPS) - Yosemite National Park	2,190.00
DOJ - Alcohol, Tobacco & Firearms	23,326.03
DoJ - BoP Federal Correction Complex	500.00
DoJ - BoP Ret Center, Grand Prairie, TX	99,792.81
DOJ - Criminal Div, Wash, DC	5,670.00
DoJ - Drug Enforcement Admin (DEA)	58,742.04
DOJ - Office of Justice Programs (OJP)	1,150.00
DoJ - OIG (FRB WEb)	5,580.00
DoJ - U S Marshals Service (USMS)	12,600.00
DoL - Hqs Wash DC	7,468.00
DoL - Atlanta, GA	8,076.94
DoL - BLS -Bureau of Labor Statistics	6,000.00
DoL - Boston/New York	2,694.00
DoL - Chicago/Kansas City	8,472.57
DoL - Dallas/Denver	3,382.00
DoL - Philadelphia, PA	8,804.00
DoL - San Francisco, CA	5,510.00
DOT - FAA-Hqs-Benefits	300,150.41
DOT - Federal Highway Administration	18,101.74
DOT - Federal Railroad Adm	5,580.00
DOT - Federal Transit Administration	3,401.60
DoT - FMCSA	4,483.33
DOT - Maritime Administration	4,378.50
DOT - Office of the Inspector General	5,850.00
DOT - Office of the Secretary	8,080.00
DOT - Pipeline&Hazardous Materials Safety	2,722.50
DOT - RITA Volpe Center	3,240.00

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October 1, 2010 through May 6, 2013  
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HHS - Bethesda Operations Center	37,237.50
HHS - DFO Congressional	79,051.26
HHS - Indian Health Service	1,800.00
HHS - NIH Benefits Office- 0303	41,581.58
HUD - Retirement Software	35,029.06
IA/GC - Alaska Railroad Corporation	5,220.00
IA/GC - CFTC	6,412.50
IA/GC - Corp for Nat'l & Comm Svc	3,825.00
IA/GC - Delta Regional Authority	19,094.25
IA/GC - Environmental Protection Agency	293,617.27
IA/GC - Farm Credit Administration ( FRB)	12,481.25
IA/GC - FDIC - FRB Software & Services	148,287.52
IA/GC - Federal Communications Commission	7,036.04
IA/GC - Federal Election Commission	29,912.51
IA/GC - Federal Maritime Commission	5,260.63
IA/GC - Federal Trade Commission	245,782.67
IA/GC - FHFA (formerly OFHEO)	22,972.20
IA/GC - GAO - FRB Software	30,496.00
IA/GC - Govt. Account. Office GAO (53022)	294,812.64
IA/GC - Holocaust Memorial Museum	6,615.00
IA/GC - International Trade Commission	3,780.00
IA/GC - Metropolitan Washington Airports	9,675.00
IA/GC - Millennium Challenge Corporation	5,777.50
IA/GC - Nat'l Archives and Records Adm	9,911.69
IA/GC - Nat'l Labor Relations Board	16,664.89
IA/GC - National Mediation Board	0.00
IA/GC - NTSB	12,635.00
IA/GC - Occ'tional Safety&Health Rev Comm	4,772.50
IA/GC - Office of Government Ethics	1,800.00
IA/GC - PBGC (FRB)	5,821.00
IA/GC - Peace Corps	5,892.00
IA/GC - SBA Hqs	5,328.00
IA/GC - SBA Office of Disaster Assistanc	4,650.00
IA/GC - SSA - Atlanta	17,750.00
IA/GC - The Presidio Trust	3,780.00
IA/GC - US AID	34,865.50
IA/GC - US Forest Service - FERCCA	52,227.95
IA/GC - US Postal Service - FERCCA	360,537.82
Nancy Brooks Lane	-110.05
North Pacific Fishery Management Council	460.00
Office of the Special Counsel	3,991.44
P-James Colby	700.00
P - Moira Roberts	700.00
Quasi - Smithsonian Institution	15,552.60
Quasi - Tuskegee University	5,000.00

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Accrual Basis

Economic Systems Inc.

**Income by Customer Summary**

October 1, 2010 through May 6, 2013  
Oct 1, 10: May 6, 13

R - Congress - Library of Congress	30,662.42
R - Congress Senate-U.S.Capitol Police	13,711.20
R - Congressional Budget Office	7,186.67
R - House Committee on Natural Resources	460.00
R - LMCO Air Force-FERCCA	46,326.36
Robert Seldon & Associates, P.C.	1,510.00
Treasury - Bureau of Engraving & Printing	12,465.75
Treasury - OCC	38,525.00
Treasury - OCC (FRB Software)	46,126.61
Treasury - Office of Thrift Supervision	103,485.45
VA Cemetery Indianapolis	2,484.00
VA HQS Wash DC (OHR)	12,375.00
VAMC - Cheyenne, WY	5,580.00
VAMC - Dallas, TX	29,925.00
VAMC - Indianapolis, IN	3,616.00
VAMC - Sheridan WY	9,464.00
VAMC - Temple, TX	28,875.00
Vendor-Atlantic Management Center	13,504.62
Vendor-LTC Partners	1,400.00
Vendor - Personnel Managment Services Inc	300.00
Vendor - Redhawk Financial Systems, Inc.	1,200.00
Vendor - Ronald Anderson	3,600.00
<b>TOTAL</b>	<b><u>11,181,981.69</u></b>

Mr. FARENTHOLD. Mr. Beaudoin.

**STATEMENT OF JOSEPH A. BEAUDOIN**

Mr. BEAUDOIN. Good morning, and thank you for inviting me to testify on behalf of the 5 million Federal workers and retirees represented by NARFE, where I have the privilege of serving as president. I appreciate this opportunity to discuss Federal retirement annuity processing.

Last Congress, both this subcommittee and its Senate counterpart recognized there were issues with the processing of Federal retirement annuity claims and held hearings drawing attention to the problem. As the association representing those directly affected by these problems, I would like to extend our thanks to the subcommittee for addressing this issue. We further appreciate this follow-up to ensure progress is being made.

Last February, I testified before the Senate that NARFE was receiving hundreds of calls from our members complaining that their interim annuity payments were too low, they were waiting too long to receive their full annuity payments, and they were unable to communicate with OPM to check the status of their claims. Some had understandably complicated claims that took longer than the average. They worked for several Federal agencies, they had a break in service, they had both military and civilian service. However, even in instances of fully complete claims, with little to no errors, wait times were far too long. There was a major problem, to say the least.

To their credit, OPM acknowledged what our members were experiencing, recognizing that, "Federal employees face unacceptable delays in receiving retirement benefits after years of honorable service to the Nation."

In January 2012, there was a backlog of over 61,000 claims and the average time to process a claim was over 5 months. Many claims, however, took far longer to process. It was in this context that OPM developed a strategic plan to improve the processing of retirement benefit claims, which they released in January 2012, promising to do better.

Let's give credit where credit is due. OPM laid out a strategic plan that predicted improvements in claims processing through additional staff, longer call center hours, and better communication with agencies. OPM implemented the plan as intended, and it has worked. The inventory of claims has dropped to roughly 30,000. OPM has outpaced its projections for claims processing every month, with the exception of December 2012.

Yet, as a result of much higher than expected retirements in February and March, the claims inventory is higher than the projected. In fact, in 3 of this year's first 4 months the number of Federal employees filing retirement claims outpaced OPM's projections. Given the ongoing retirement wave, this trend is likely to continue. With overtime reductions planned as a result of budget cuts, it now seems doubtful that OPM will be able to reach the goals of its strategic plan, despite the substantial progress that has been made. This is a huge setback in an otherwise successful story.

As flight delays made frustratingly clear to many Members of Congress, you need a strong, capable, and fully staffed Federal

workforce for the government to operate and serve its customers. Unfortunately, while Congress passed a Band-Aid fix to end the continuation of air traffic controller furloughs, it did not fix the remainder of the less publicly visible problem being caused by sequestration.

OPM recently announced that it was forced to reduce its call centers hours and halt overtime for employees processing annuity claims. This is very disappointing news. Previously, one of our most significant complaints with OPM was that retirees were unable to reach someone on the phone. Reducing call center hours threatens to bring a return to this problem.

Furthermore, the use of overtime may have been one of OPM's most effective tools in reducing the backlog.

By taking that away, we find it hard to see how OPM will be able to handle the large wave of retirements expected to occur in the very near future. Postal Service buyouts, combined with a general sentiment among retirement-eligible workers to retire before Congress asks for more financial sacrifices from them, there are likely to be more retirement claims before there are less.

There is still an inventory of more than 30,000 claims and waits continue to be too long. The expected wave of Federal retirements threatens to reverse the progress that has been made. The force reduction in overtime and call center hours could not come at a worse time. We implore the Congress to take notice of the very real effects that austerity budgeting is having on government services, including the ones on which our career civil servants rely.

As we sit here during Public Service Recognition Week, today is a perfect time to ensure that we treat our retiring public servants with the recognition they deserve for their careers of service.

Thank you again for providing me the opportunity to share NARFE's views.

Mr. FARENTHOLD. Thank you very much, Mr. Beaudoin.  
[prepared statement of Mr. Beaudoin follows:]



**WRITTEN TESTIMONY BY  
JOSEPH A. BEAUDOIN  
PRESIDENT  
NATIONAL ACTIVE AND RETIRED FEDERAL  
EMPLOYEES ASSOCIATION**

**BEFORE  
THE SUBCOMMITTEE ON THE FEDERAL  
WORKFORCE, THE POSTAL SERVICE & THE  
CENSUS, COMMITTEE ON OVERSIGHT AND  
GOVERNMENT REFORM, UNITED STATES HOUSE OF  
REPRESENTATIVES**

**HEARING TITLED,  
“IS OPM PROCESSING FEDERAL WORKER PENSION  
CLAIMS ON TIME?”**

**MAY 9, 2013**

Chairman Farenthold, Ranking Member Lynch, and Members of the House Oversight and Government Reform Subcommittee on the Federal Workforce, the Postal Service and the Census, on behalf of the nearly five million federal workers and annuitants represented by the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to express our views regarding the processing of federal retirement annuity claims.

At the end of 2011 and the beginning of 2012, both this subcommittee and its Senate counterpart recognized there were problems with the processing of federal retirement annuity claims by agencies and the Office of Personnel Management (OPM), and held hearings drawing attention to the issue. As the association representing those directly affected by these problems, I would like to extend our thanks to the subcommittee for addressing the issue. We at NARFE further appreciate this follow up to ensure progress is being made.

Last February, before the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, I testified that NARFE was receiving hundreds of calls from our members complaining that their interim annuity payments were too low, they were waiting too long to receive their full annuity payments, and they were unable to communicate with OPM to check the status of their claims. Some had understandably complicated claims that took longer than the average – they worked for several federal agencies, they had a break in service or they had both military and civilian service. However, even in instances of fully complete claims with little to no errors, wait times were far too long. There was a major problem, to say the least.

It was not uncommon for NARFE staff to hear tales of interim payments being as low as 40 percent of the full annuity and claims taking over a year to be processed. Contrary to some commonly-held beliefs by members of Congress, federal employees do not make exorbitant amounts of money and therefore it would not be of little consequence if annuity payments were delayed. These delays have real, substantial impacts on federal retirees, many of whom rely on their already modest government pension as their sole source of income. NARFE members reported extreme worry over being able to pay their bills, including their mortgages.

To their credit, OPM acknowledged what our members were experiencing, recognizing, “[f]ederal employees face unacceptable delays in receiving retirement benefits after years of honorable service to the nation.”<sup>1</sup> In January 2012, there was a backlog of 61,108 claims and the average time to process a claim was over five months. Many claims, however, took far longer to process.

It was in this context, coupled with pressure from Congress and employee groups, that OPM developed a strategic plan to improve the processing of retirement benefit claims, which they released in January 2012, promising to do better.

#### **Success of OPM’s Strategic Plan**

Let’s give credit where credit is due. OPM laid out a strategic plan that predicted improvements in claims processing through additional staff, longer call center hours and better communication

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<sup>1</sup> *Strategic Plan for Retirement Services*, Office of Personnel Management, January 17, 2012.

with agency human resource offices. OPM implemented the plan as intended, and it worked to reduce the inventory of claims according to plan.

OPM hired more staff and utilized overtime effectively to handle retirement processing, including rehiring some recent retirees with the experience to process claims quickly. The agency also implemented process improvements to increase the efficiency of the staff already in house.

Additionally, the modest steps taken to improve how each agency handles the initial phase of the retirement claims process has seemed to yield positive results. By disseminating a checklist for agency human resource personnel to use and publicly publishing agencies' accuracy rates, it appears that the files being sent over by agencies have less errors and are more complete. Notably, the issue has drawn greater attention from the Chief Human Capital Officers (CHCO) Council, placing retirement processing results at a higher priority within agencies. We are encouraged by the results, but continue to see room for improvement within agencies with regard to errors in the initial retirement annuity claim.

In no small part due to these efforts, we have noticed a considerable decline in complaints from our members. Particularly, the decline suggests OPM is doing a much better job of answering customer calls regarding the status of their claims, and utilizing an online system to provide individual status updates regarding claims processing.

The inventory of claims has dropped from 61,108 in January 2012 to 30,080 in April 2013. OPM has outpaced their projections for claims processing every month, with the exception of December 2012. Yet, as a result of much higher than expected retirements in February and March, the 30,080 claims inventory is about 7,000 higher than the inventory projected pursuant to the strategic plan. In the three of this year's first four months, the number of federal employees filing retirement claims outpaced OPM's projections. Given the ongoing retirement wave, this trend is likely to continue. With overtime reductions planned as a result of budget cuts, it now seems doubtful that OPM will be able to reach the goals of their strategic plan, despite the substantial progress that has been made. This is a huge setback in an otherwise successful story.

### **Sequestration**

While some members of Congress have suggested that budget cuts made pursuant to sequestration will not significantly impact government operations, it is clear that is not the case. As flight delays made frustratingly clear to many members of Congress, you need a strong, capable and fully staffed federal workforce for the government to operate and serve its customers. Unfortunately, while Congress passed a Band-Aid fix to prevent the continuation of air traffic controller furloughs, it did not fix the remainder of the less-publicly-visible problems being caused by sequestration, and it's starting to show.

The following blog post appeared on OPM's website on last week:

Due to budget cuts caused by sequestration, OPM has been required to initiate changes to some of the business operations in Retirement Services. Beginning on Sunday, April 28, 2013, all overtime for employees working in Retirement Services at OPM is suspended and call center hours are reduced to 7:40 a.m. - 5:00 p.m. EDT Monday through Friday. While it is our hope that process improvements developed over the past year will ameliorate some of the adverse effects of these necessary actions, retirees should expect an increase in the time required to process their claims or respond to inquiries. OPM remains committed to assuring that retirees receive the benefits that they have earned, and we will provide an update on the impact of these actions on retirement processing on a monthly basis with our retirement claims processing report.

As you can see, while OPM is fortunate it will not have to furlough employees, it will be forced to reduce its call-center hours and halt overtime for employees processing federal retirement annuity claims. That is very disappointing news. Previously, one of our most significant complaints with OPM was that federal retirees were unable to reach someone on the phone. Reducing call center hours threatens to bring a return of this problem. Furthermore, the use of overtime may have been one of OPM's most effective tools in reducing the backlog of retirement claims. By taking that capacity away, we find it hard to see how OPM will be able to handle the large wave of retirements expected to occur in the very near future. With U.S. Postal Service buyouts combined with a general sentiment among retirement-eligible workers to retire before Congress asks for more financial sacrifices from them, there are likely to be more retirement claims before there are less.

So the question must be asked, with sequestration a reality, what can OPM, agencies, and Congress do to lessen the impact on retirees? For one, while progress has been made, there needs to be more communication with agencies to ensure retirement packages reaching OPM are as complete as possible. The checklist was a good step, as was publicly publishing results, but we believe agencies should be held accountable for incomplete packages. Where possible, agencies should be providing their human resources staff with additional training, particularly those agencies which are failing to meet expectations. In a similar vein, agency HR staff are often unaware of an employee's intention to retire until they have started the process. It would behoove agencies to keep a list of when employees will reach retirement-eligibility, so they can guide them through the process before it even starts.

OPM recently provided NARFE with a copy of its checklist, and it ran as the cover story in the *narfe* magazine, which has wide distribution among the federal community. This has yielded accolades from recipients and we at NARFE are more than willing to do what we can to help OPM and the people it serves. We encourage OPM to continue to utilize NARFE and the other federal employee groups to help distribute checklists widely and often.

As suggested by the Government Managers Coalition and supported by NARFE, the retirement information process should start when an employee first joins the civil service. As part of the onboarding process, employees should be made aware that they should keep records of standard forms, transfers between agencies etc... Additionally, as employees near retirement eligibility, fact sheets with a list of common errors and more complex issues should be developed and made

available. Once an employee declares his/her intention to retire, agencies should ensure that s/he receives the standardized checklist, a list of common problems that can delay processing, an FAQ (contact numbers, info on what to expect, etc...), and a list of forms that may need to be updated (beneficiaries, life insurance). It should also be made clear to employees that the process takes time, especially if they worked for more than one agency, since most employee records are in paper form. The employee should also follow up with his/her agency to ensure the request to receive those records has been made.

### **The Future of Retirement Processing at OPM**

It is our understanding that OPM is taking an incremental approach to automating its retirement processing. Given the setbacks OPM has had in the past with electronic processing, we at NARFE support this methodical approach.

However, OPM must work to enter the electronic age, and eventually cease with paper records being physically driven up and down the east coast. We realize this is no easy feat, and requires a collaborative effort with agencies, not to mention the daunting task of obtaining funding from Congress. However, the process to start moving into retirement varies too much among agencies. A standardized process, to the best that one can be developed across the government, would go far in ensuring a backlog of this magnitude never happens again.

The Administration's FY14 budget requests \$2.6 million in Trust Fund No-Year Authority, presumably intended to be directed towards modernizing the retirement processing system.<sup>2</sup> Specifically, the Congressional Budget Justification states that Retirement Services "plans to implement a case management system for centralized storage processing of all retirement and related benefits claims."

First, OPM should provide additional details to members of Congress as well as federal employee and retiree representatives regarding this plan. As currently described, it is difficult to ascertain what this proposal entails. Second, as has occurred in the past, financing for information technology modernization should come from the general fund rather than the retirement trust fund. We strongly support efforts by OPM to modernize its retirement services to improve efficiency and better serve federal retirees. However, we are skeptical of using the retirement trust fund as an alternative source of funding simply because Congress is unwilling to provide adequate financing.

### **Conclusion**

Make no mistake; by January 2012, there was a major problem with federal retirement annuity claims processing. But remarkable improvements have been made since then. We commend both former OPM Director John Berry and Ken Zawodny, the Associate Director of Retirement Services, for their leadership in recognizing and tackling the problem head on, as well as the hard work of the employees at OPM in reducing the backlog of claims.

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<sup>2</sup> *Congressional Budget Justification, Performance Budget, Fiscal Year 2014*, Office of Personnel Management (CBJ Submission April 2013).

However, we have not crossed the finish line yet. There is still an inventory of more than 30,000 retirement annuity claims, and waits continue to be too long. The wave of federal retirements that is expected threatens to reverse the progress that has been made. The forced reduction in overtime and call center hours resulting from sequestration could not come at a worse time. We implore members of Congress to take notice of the very real effects that austerity budgeting will have on government services, including the ones on which our career civil servants rely.

Thank you again for inviting me to testify and for providing me the opportunity to share NARFE's views.

Mr. FARENTHOLD. We'll now go to questioning. I'll recognize myself first for 5 minutes. I'll start with Mr. Zawodny.

For more than 2 decades, OPM has failed to meet its goal to improve retirement system claim processing. Will you all be able to meet your commitment to reduce the backlog by July of 2013? Are you going to be able to get to the 90 percent within 60 days?

Mr. ZAWODNY. Our goal, sir, is at the end of July of 2013 we'll be able to process 90 percent of our cases within 60 days. The recent setbacks, the unexpected amount of Postal Service retirements in February and March have slowed us down a bit. The unexpected reduction in overtime also has put us back a bit, perhaps. It's still too early for me to really understand what that impact is going to be, since it just occurred about 10 days ago. Within the next 30 days, after we have a full understanding of what our capabilities are without the use of overtime in processing our workload, I'll be better able to judge and project out what our capabilities are going to forecast up until the end of July.

Mr. FARENTHOLD. So let's talk just a little bit about what the process is for doing this. So I'm a Federal employee. I'm ready to retire. I go talk to my H.R. Person and they start the paperwork.

Mr. ZAWODNY. Yes, sir.

Mr. FARENTHOLD. Now, depending on what agency, they may or may not use Dr. Kettner's system. But they fill out all this paperwork and they just put it in an envelope and mail it to you? What percentage comes by mail, what percentage comes electronically?

Mr. ZAWODNY. Each time an individual retires from any one of the three branches, in most instances, and independent agencies, when they elect to retire and the day that they walk out the door, those agencies' H.R. Offices and the payroll providers send us electronic transmission that the individual has left the building. At that time we start them in interim pay immediately. It provides data elements on the individual—name, Social Security number, and some basic information—so we can start that person in the interim pay immediately, even before we receive the retirement application.

Mr. FARENTHOLD. Okay.

Mr. ZAWODNY. Then the agencies follow up with us to provide the retirement application and all of the other documents required, such as election forms for survivor benefits, health insurance election forms, changes that they may make with regards to—

Mr. FARENTHOLD. All right. So there are all these questions. I understand it's complicated, whether you're in the military, whether there were breaks in services, different agencies. You calculate everything differently.

How much time is spent re-keying that data? Is there a lot of data entry? Where is the big time? Is it looking at it, doing the math, is it getting the information? I mean, what takes so long? To me, it just seems like it's something—and I guess I grew up in the Turbo Tax era; you just check the boxes and it spits out the form with the amount. Do you have not have a system that does that? I mean, what else do you do that makes it take so long?

Mr. ZAWODNY. Well, sir, the length of time it takes to actually adjudicate a case is not that long. Getting it into the hands of the adjudicator to ensure that the case has gone through our refined

process of ensuring that the case is full and complete, we have all the information there to adjudicate the place and put them into final pay, as well as ensuring that the information is there that is going to maybe require post-adjudicative work, because remember, the individual comes to us, we have them for the rest of their life and the rest of their survivor's life.

Mr. FARENTHOLD. All right. So what's post-adjudicative work? They think they're not getting enough and there's a hearing process? Is that—

Mr. ZAWODNY. No, sir. The adjudication process consists of the legal administrative specialist reviewing the entire document, the retirement application; ensuring all the information is there; ensuring that the service history is continuous and complete, that there's no missing periods of time. Once that information is full and complete, then they adjudicate the case, meaning they can put it into our annuity system, do the calculations, and render a final payment.

Mr. FARENTHOLD. I guess it's just me having grown up in the computer age. To me, this just sounds like something you key in the data and, with very few exceptions, it ought to spit it out. And when there's an exception, it turns it red on the screen.

Mr. ZAWODNY. And it does, sir. All of the information gets keyed in or gets placed into the system and those calculations are done by our calculator, down to the penny.

Mr. FARENTHOLD. And can't that be done by the agency or the retiree just plugging it in on a Web site?

Mr. ZAWODNY. The agencies use various estimator tools, such as Dr. Kettner had mentioned, but quite often the agency may not have the full, complete service record of the individual. If the individual has moved from different agencies—

Mr. FARENTHOLD. So who gets you that information? The individual then says—or the retiree says, okay, so, I'm with OPM now, I'm retiring from OPM. Before that I was a congressional staffer. Before that I was in the military. So who gathers all that?

Mr. ZAWODNY. The agency is ultimately responsible for compiling all that data and information and getting us a complete record of the individual service history. But every time an employee moves from agency to agency, that losing agency transmits to us information about the service and the time that they spent at that agency and we have it on file.

Mr. FARENTHOLD. And you all keep that in the database—

Mr. ZAWODNY. Yes, sir, we do.

Mr. FARENTHOLD. In the database or on paper?

Mr. ZAWODNY. Both, sir. It depends. Many of these systems are very old—

Mr. FARENTHOLD. Sure, some of them have been around for a long time.

Mr. ZAWODNY. —before the systems were created. So we have those records to refer to. Most of the information is electronic, and we look through our systems to determine if we have the complete service record on file.

Mr. FARENTHOLD. I'm already out of time. I'm going to go to my colleagues here. I probably do have another round of questioning after we finish.

I'll recognize Mr. Lynch now.

Mr. LYNCH. Thank you. I want to thank all the witnesses for coming before the committee to help us with this work.

I'm a little bit concerned. I know we've got a bunch of big problems here, systemic problems. But I did want to talk to Mr. McFarland and Mr. Zawodny about the number of these—the number of these claims—excuse me—checks that are going that are misdelivered, 33,000 returns. How many checks actually go out? This 33,000, what is that a percentage of? I know we've got 5 million retirees.

Mr. ZAWODNY. They are not the checks, sir. They are the 1099-R's. It's the—

Mr. LYNCH. No, no, I know. You're doing that as a check, as a check against whether people are receiving—whether they are undeliverable or not. I understand that part. But you've got 30,000 1099s that came back undeliverable.

Mr. ZAWODNY. Correct, sir.

Mr. LYNCH. How many did you send out?

Mr. ZAWODNY. Two-point-five million, roughly.

Mr. LYNCH. Okay, 2.5 million. That was my question. Okay. Out of 2.5 million, 33,000. So it's a very small number.

Mr. ZAWODNY. Yes, sir.

Mr. LYNCH. But still, it's troubling, if we've got 33,000 forms going out and we're not addressing this. What are we doing about this? I know you had a cross-check with Social Security.

Mr. ZAWODNY. Yes, sir. That's the master file. Once a month and down to the week now we cross reference our annuity roll with the death master file from Social Security to see if there's been reported deaths that might match up to our annuity roll.

Regarding the 1099-R's are that are returned, when they are returned to us the first thing we do is check our system to see if there's been an updated address, that the individual may have moved and it did not get forwarded, then we'll re-send that out, which occurs quite often. In the case of these 33,000, we have spent roughly 5,500 hours and have gone through all but about 4,000 so far, verifying that the individual has either moved or it was a bad address or some misinformation and have cleared all of those as not involved in any sort of fraud, waste, or any other sort of discrepancy. The other 4,000 we are still working to verify where the individual lives and what is going on with those.

So far, of those 33,000 that were mentioned earlier, none of them have matched up against the Social Security death match file indicating that the individual has reported a death, at least to the Social Security Administration, nor have we been informed that the individual should no longer be subject to annuity payments.

Mr. LYNCH. Okay. Is there a death benefit for a Federal employee. There are, right?

Mr. ZAWODNY. Life insurance, yes, sir. Or if the individual is survived by a surviving member of the family and they have survivor benefits, they could elect to get those as well.

Mr. LYNCH. Yeah. Okay. Now we've got sequestration coming up. I know you've made some significant headway in reducing the backlog of claims. We've gone from 60,000 to 30,000, which is a good deal. Now we're going to have the recent postal retirements

coming in. So that's going to kick up your business again. And we've got sequestration is going to drive down the number of hours that you're working on overtime, and that's going to be problematic as well. Maybe furloughs. Are you looking at that as well?

Mr. ZAWODNY. We are not at this time, sir. That's the reason we took the overtime off and cut some of the call center and other areas, so we can forego furloughs.

Mr. LYNCH. Okay. Well, I guess what I want to know, is there any flexibility for OPM to transfer or reprogram funds to make sure that this top priority activity remains adequately funded, you know, to keep your effort going here in the right direction.

Mr. ZAWODNY. We are working. The Acting Director of OPM right now is working with our Chief Financial Officer and all the program offices within OPM to see how we can reprogram moneys to meet some of the high priority goals within OPM.

Mr. LYNCH. Can I ask you, I know that OPM picked up some responsibility with respect to the Affordable Care Act.

Mr. ZAWODNY. Yes, sir.

Mr. LYNCH. You're helping with establishing the exchanges, is that what you're doing?

Mr. ZAWODNY. Yes, sir.

Mr. LYNCH. How is that going?

Mr. ZAWODNY. To be honest with you, sir, that's not in my program area of responsibility. So I'll get back to you on that.

Mr. LYNCH. Anybody on the panel here?

I just note that's a tremendous amount of responsibility as well.

Mr. ZAWODNY. Yes, sir.

Mr. LYNCH. And it may not be your area of expertise, but it's sure something that we want to be concerned about.

Mr. ZAWODNY. Absolutely, sir.

Mr. LYNCH. Okay. That's another mess waiting to happen.

All right. I'll yield back. I have about 2 seconds left. Thank you. Appreciate it.

Mr. FARENTHOLD. Thank you very much.

We'll go to Mr. Clay now. You're recognized for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman. And let me thank the witnesses for their testimony today.

OPM's retirement services strategic plan sets forth a goal to eliminate a backlog of over 60,000 claims by July of 2013 and to process 90 percent of new claims within 60 days of receipt from the agency. Since rolling out the strategic plan, and with the exception of 2 months, OPM has met or exceeded its claims processing goal. Despite a 40 percent increase in claims since January, compared to the first 4 months of last year, OPM was able to reduce its backlog from 61,108 claims in January of 2012 to 30,080 claims as of the beginning of this month. The average time to process a new CSRS or FERS retirement claim was reduced from 156 days as of January 2012 to 86 days as of the end of April 2013.

Mr. Zawodny, I appreciate the progress made by OPM in decreasing the claims backlog, but I am concerned that the backlog of claims for more complicated cases, such as court-ordered and disability benefits, have increased significantly, from 3,483 to 7,618 claims, and from 5,611 claims to 6,536 claims, respectively. Can

you tell me how OPM plans to address the growing backlog for these complicated cases?

Mr. ZAWODNY. Yes, sir. Thank you, sir, for allowing me to address your concerns. Both court-order and disability cases are cases where there are multiple parties involved in the review and completion of those cases. In both areas we've added additional resources to those areas. In the disability, we have a class of—we're training some LAS's, legal administrative specialists, right now to handle the disability cases. They are far more complex. They require a lot of interaction either between the agency, the individual, their medical doctors and medical teams to assure that we have enough information to render the suitable disability retirement determination.

Regarding court-ordered benefits, we've hired paralegals to help review the record amount of court orders, which consists of not only divorce decrees that are submitted to us, but also bankruptcies, garnishments, other court orders that impact a Federal retiree and/or their survivor.

The court order workload that you mentioned is comprised of a number of different areas. It includes not only the court orders that pertain to current retirees or those who are getting ready to retire, but also Federal employees are responsible for submitting the court orders if they are still an active Federal employee. For instance, if an individual retires at their tenth year of service and gets divorced, they're required to submit a court order of their divorce decree to us so that we can have it on file in furtherance of the retirement application if and when that may occur. That's part of the review process as well.

What we have done to speed up that process is we have removed from the overall picture in court orders just those cases that pertain to current active Federal employees and split those out from those who are currently ready to retire. So we can have two different streams of work to try to drive down that workload.

Mr. CLAY. Based on monthly progress reports the committee receives from OPM, claims less than 90 days old have grown. Mr. Zawodny, why is OPM having difficulty meeting the second part of its goal of processing 90 percent of new claims within 60 days of receipt?

Mr. ZAWODNY. Our most recent receipts from January through March included not only our annual January surge, but also the U.S. Postal surge. That created quite an unprecedented backlog in our ability to process the claims quickly.

We believe—we did believe before the overtime was taken away that we were going to be able to meet our goal in July of 2013. I still strongly believe that we are going to come very close to meeting that and driving that back down to meeting our goal of processing 90 percent of the cases within 60 days.

Mr. CLAY. Thank you so much.

And, Mr. McFarland, would you care to comment on the backlog status?

Mr. MCFARLAND. I think the backlog status is something that obviously has been going on for years. And my concern is not necessarily with specifics as much as it is with the overarching operation of the Retirement Service. There are so many, from our per-

spective, from the IG's perspective, there are just a carload of frustrations that we have with dealing with these issues. The backlog as such is—it is what it is. It's going to take a while to clear it up, and they are certainly marching in the right direction. I don't have much concern that they are not doing the right thing. I think they are doing the right thing.

But the backlog—obviously inherent in the backlog is the problem in the beginning, and it's been going on for years. And now Mr. Zawodny's job is to clear it up. It's a big task. It's almost an overwhelming task. But what we're concerned about is the many frustrations and the lack of accountability, the lack of leadership that we see in the retirement system for the many issues that we deal with. And I'd be happy to go over some of them with you if you'd like.

Mr. CLAY. My time is up, Mr. Chairman.

Mr. FARENTHOLD. I'll be happy to give you another minute or so if you'd like to get that question answered.

Mr. CLAY. Sure. Is it the sheer numbers or is it not enough staff?

Mr. MCFARLAND. No, I think what's happened here, this is my personal feeling, what I think has happened is that this backlog has caused a real problem for the other aspects of Retirement Services. As an example, the lack of fraud referrals to us. We are troubled about a decline in the retirement fraud referrals produced by Retirement Services, as well as a lack of timeliness in bringing suspected fraud to our attention.

In 2011, the OIG received only 30 retirement fraud referrals from Retirement Services. But in 2010, we had received 92 referrals. Then, on March 19, 2012, we received 30 retirement fraud referrals in a single day. However, in all 30 cases OPM had identified the death and permanently stopped making annuity payments more than 5 years prior to the referral to our office. The statute of limitations dictates that criminal proceedings must be initiated within 5 years of the government becoming aware of a potential theft or fraud. Because of this delay by Retirement Services, the cases were no longer prosecutable.

Finally, another 25 suspected retirement fraud cases were referred to us by Retirement Inspections between July 2012 and March 2013, but approximately 80 percent of these referrals also had statutes of limitation problems. That's a prime example from our enforcement side.

Mr. CLAY. Well, that's a mouthful.

Mr. FARENTHOLD. Thank you very much.

We will now go to the gentlelady from the District of Columbia, Ms. Norton. You're recognized for 5 minutes.

Ms. NORTON. Thank you, Mr. Chairman.

I'm impressed with how you've kept your payments, Mr. McFarland, to deceased annuitants at low levels and going down.

Before I ask Mr. McFarland a question, let me ask you, given that this particular issue is often a problem for public and private entities alike, how are you able to keep the numbers going down? Apparently, you had a 5-year number of \$103 million over 5 years, and now it's down to \$86 million, which is 0.12 percent of your total payouts. I think that is impressive.

First, I want to know how you are able to keep payments to deceased annuitants from occurring in the first place. What's your system for doing that?

Mr. ZAWODNY. Thank you, ma'am, for allowing me to address your question. Automation matches that we perform in recent years yielded extremely extraordinary results due to the match not being performed in over 20 years. Now we have four main contributing factors to driving down the reduction of the number of these types of overpayments and referrals to the IG. One, we conduct a weekly consolidated death match of the Social Security Administration. We also do a yearly death match file of the Social Security Administration to ensure that there was nothing slipped in after the weekly one had done. The surveys and matches—

Ms. NORTON. So you do this match. How does anybody know that someone has died? How do you keep the payments from just coming, period, whether you are Social Security or whether you are the Federal Government—or whether you are annuitants?

Mr. ZAWODNY. We rely on family members and others to notify either Social Security or us directly that one of the annuitants—

Ms. NORTON. And people do that?

Mr. ZAWODNY. Yes, ma'am. Yes, ma'am. Quite often they do that.

Ms. NORTON. There must be a severe penalty for not telling the government or telling the Social Security Administration this person is no longer alive.

Mr. ZAWODNY. I am not aware of any penalty, ma'am, but any annuity payments that have been made are then recouped from the individual. We receive about 300 death notifications a day, either from annuitants or current Federal employees, that we process based upon notifications of family members or through the Social Security Administration.

Ms. NORTON. So how have you been able to keep the numbers going down given what looked like a very tight system in the first place? And then I want to ask, Mr. Zawodny, why you think the effort has stalled in light of what seemed to be pretty good figures.

Mr. ZAWODNY. We have been able to reduce the amount of improper payments and our efforts to stop those payments because of our concerted effort on that program. We have added additional resources and retrained folks and made them more aware of handling these cases in an expeditious manner. Using the information from the Social Security on a daily basis, relying on our surveys of older annuitants also helps us cut down those death payments.

The current stall right now is we have continued to see an increase in the number of deaths that we've had. But the payment rate, the improper payment rate and the collection rate has actually gone up, in my perspective, regarding the recovery of those payments that were made to individuals.

Ms. NORTON. Mr. Zawodny, what did you mean by stalling, that you think this progress has stalled?

Mr. ZAWODNY. For me?

Ms. NORTON. I'm sorry, Mr. McFarland.

Mr. ZAWODNY. Oh, sorry.

Mr. MCFARLAND. What do I mean?

Ms. NORTON. Yeah.

Mr. MCFARLAND. What do I mean that it's stalled?

Ms. NORTON. Yeah, that you are concerned about these efforts now being stalled and therefore delaying the efforts that have been underway.

Mr. MCFARLAND. Well, I think the work that's being done by so many people right now to reduce the backlog, I think the effort and concentration by Retirement Services is in that area. And I think other areas that we deal with specifically, are concerned about, have been affected by that.

Ms. NORTON. So how would you prioritize these matters then? Of course they are payouts that you wouldn't want to have happen. That is real money going out to people on the one hand. Do you think that the priorities are skewed in any way?

Mr. MCFARLAND. Yes, I do. I think that the priority that Retirement Systems, I believe, has had for years is that they do not, in my estimation, prioritize the problem of improper payments.

Ms. NORTON. Over—you think it should be the top priority?

Mr. MCFARLAND. I'm not saying it should be the top priority. But certainly the person on the street who is out of a job and paying taxes, and other people paying taxes, they certainly would believe that it should be a priority to take care of the improper payments and not waste the taxpayer dollars. Now, granted a lot of it's recovered. But what does that mean? That means more people are working to recover it, and those people are using taxpayer dollars.

Ms. NORTON. Well, Mr. Zawodny, of course \$86 million is not chump change. So that's money going out. I don't know how much of that money does get recovered. Have you any idea?

Mr. ZAWODNY. Right now, ma'am, we are at about 72 percent recovery right now. The moneys that we haven't been able to recoup are moneys that may have been paid to individuals who have been incarcerated, through the help of the IG's office. The individuals may have died themselves after stealing the money from individuals. Or moneys that we just haven't been able to recoup from whatever reason.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. FARENTHOLD. Thank you very much.

I think we have got another few minutes before they call votes on the House floor, so we'll start a second round of questioning, and then we do have to leave. I will consult with the ranking member to see if we are going to adjourn or come back.

All right. So, Mr. Zawodny, you made some references to the fact you're concerned about not being able to get caught up as a result of not being able to continue overtime. Since the beginning of the year, our numbers indicate 156 of your employees have processed roughly 56,000 claims. That works out to about three per day, or if you take out the weekends a little over four. So you have got your employees processing four, only on the average four claims a day. Again, I don't understand the process of why it's taking 2 hours to do a claim. Are they that voluminous? Are they that incomplete?

Mr. ZAWODNY. Sir, in some instances it's a matter of going through and validating and verifying the information of that current retiree, their 40 years of service, ensuring that we have completed their service history calculations.

Mr. FARENTHOLD. So you all are making a strategic decision to be a little more aggressive in the beginning rather than having to go back after them later for having—I assume they sign something saying this is true and correct before they get their check, do they not, the employee?

Mr. ZAWODNY. They sign their retirement application.

Mr. FARENTHOLD. Right. And does it include their packet saying the information in here to the best of my knowledge is true and correct?

Mr. ZAWODNY. It does.

Mr. FARENTHOLD. All right. Actually, as a watchdog, I appreciate you all doing that. The amount of time it's taking on an individual basis is a little bit troubling.

Let me go to Ms. Melvin and the IT. You looked at the OPM's IT situation. They had a big failed project. Do you see some things they can do immediately to kick the technology up, save some time, and get this out the door faster?

Ms. MELVIN. Well, I think that the approach that they are taking, which is from what we see right now very modest, incremental steps to implementing or upgrading some of the technology that they do have, is probably a prudent and risk-based approach for them to take, especially given the history of their inability to be successful with such initiative in the past.

What I think needs to happen going forward, though, because this is still largely a manual process, and because it does rely significantly on overtime to help maintain and bring down the workload that they currently have, there has to be a longer-term strategy and approach to making sure that the department—the agency can in fact move to an overall electronic capability.

So while we do agree that, you know, we see progress on the part of what they've identified in the strategic plan that they have, I don't view it as enough to make sure that they can move ahead and have a long-term sustainable capability unless they do a more in-depth assessment.

Mr. FARENTHOLD. Dr. Kettner, I realize you've got a commercial product that does a lot of what we are talking about now. I assume you all work some with OPM to interface your data, so you're a little—and you are familiar with the process and the systems. Do you think there are some quick and easy things that can be done relatively inexpensively—I'll save you the trouble of doing a pitch for your company—but within the OPM? Are there some quick and easy things? If you were the boss of the OPM, where would you start?

Mr. KETTNER. Okay. Well, I think there are certain steps that could be taken immediately. And I think you are entirely correct in thinking that more could be done at the agency level. That's where the data comes from, and much more can be done. And that's where our work is focused, on the agency side. We do have tools that we provide to help the agencies.

The Achilles' heel in the whole retirement system is getting the service history extracted out of the systems. It currently is not maintained electronically in personnel and payroll systems. But there is no reason in the world why the data should not go over to OPM electronically. You know, it's all put—all the data is keyed

into our software, the data fills out the forms automatically, and then the retirement specialist at the agency prints it out, and then it gets mailed over to OPM. And then they re-key all that data back in.

Mr. FARENTHOLD. As the committee overseeing the Postal Service, we appreciate your continuing to use the mail. It may not be the most effective use of government resources there. So you think it would be possible then, a good cost-effective would be for OPM to focus on an API for your company or other, your competitors would be able to send that data in a standardized form.

Mr. KETTNER. Absolutely. Absolutely. You know, and a good example where this kind of cooperative partnership is working is on the OPM USAJOBS hiring site. There is very cooperative arrangements going on between my company and USAJOBS and other vendors for there to be data interchanges between the vendors tool and USAJOBS. There is no reason why this couldn't happened in the case of the retirement—OPM's retirement system as well.

Mr. FARENTHOLD. All right. And, Mr. Lynch, you have somebody on your side you want to continue with additional questions?

Mr. LYNCH. Yeah, just a couple.

Mr. McFarland, help me with this. Have you looked at the issue of the Affordable Care Act and OPM's responsibility there? I know I had raised the issue earlier in the last round of questions, but I really didn't focus on you.

Mr. MCFARLAND. Yes, we have looked at it. We are involved in assisting the agency, but on a rather limited basis.

Mr. LYNCH. Okay. Well, I remember back when the Affordable Care Act was being voted upon and decided upon and how this was going to actually work. I raised some concerns that OPM wasn't really resourced enough to handle the tremendous responsibility they were being given. Are you comfortable that OPM can handle their responsibilities with respect to these exchanges? They are going to have to go in and set up exchanges in States where States don't choose to do that.

Mr. MCFARLAND. Yes, I believe they're working rather diligently on being able to do that. I have no particular reason to think that they cannot do it.

Mr. LYNCH. Okay. Okay.

Mr. MCFARLAND. And we have, as I said, we've been involved to a limited basis.

Mr. LYNCH. All right. I'm going to hold you to that. All right.

Mr. Beaudoin, we're looking at some broad across-the-board cuts here. I know that you've got a pretty good agency-to-agency viewpoint. What do you think about the impending cuts, furloughs, things like that across these different agencies for Federal employees? What do you think the impact of this is going to be if sequestration keeps going as it's currently intended?

Mr. BEAUDOIN. I think, sir, that you are going to see a lot more people taking early retirement versus those people that would have stayed on for a number of more years. And then it's going to be harder to replace them with the same caliber, the same education, the same expertise that the outgoing people have because really no one will want to work for the government because of the furloughs, frozen salaries, the way that the government employees are being

treated now, and the way that the public looks at them, that they're overpaid, and all the bad press. So I think we're going to see, as I say, a lot more retirements, and we're going to have trouble refilling those positions.

Mr. LYNCH. Very good. Thank you.

I'll yield back.

Mr. FARENTHOLD. Thank you very much.

Ms. Norton, did you have—or I guess Mr. Clay would be next.

Mr. CLAY. I really don't.

Ms. NORTON. No questions.

Mr. FARENTHOLD. We timed that perfectly. The buzzer, as you just heard, was the House calling for votes. I would like to thank the witnesses, both for their testimony today and in many cases their service to our government. This committee is the watchdog for the Federal taxpayers, and we want to work with you to be better stewards of the taxpayers' money, and combat waste, fraud, and abuse at every opportunity. We'll continue to follow this. And I encourage everybody to keep up the hard work. Thank you very much. And we are adjourned.

[Whereupon, at 10:48 a.m., the subcommittee was adjourned.]

