



**UNITED STATES OFFICE OF PERSONNEL MANAGEMENT**

**STATEMENT OF  
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**before the**

**SUBCOMMITTEE ON GOVERNMENT OPERATIONS  
COMMITTEE ON OVERSIGHT AND REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES**

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**May 21, 2019**

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Chairman Connolly, Ranking Member Meadows, and members of the Subcommittee, thank you for the opportunity to make the case for the Administration's plan to modernize the infrastructure that supports our merit-based civil service system and the entire Federal workforce.

Recently, during Public Service Recognition Week, we honored the contributions of millions of Americans who serve in government. These dedicated men and women keep our country safe, protect our values and provide critical support for all Americans, including retirees, veterans, farmers, small business owners and disaster victims.

The nature of civil service work has changed significantly in recent decades, as mission needs and technology tools have evolved, and our committed civil servants have remained focused on serving the American people. I could not agree more with the father of today's Federal civil service, President Theodore Roosevelt, who said in his 1903 State of the Union Address that, "... the success of the merit system largely depends upon the effectiveness of the rules and the machinery provided for their enforcement."<sup>1</sup> Unfortunately, our Federal human resource capabilities have not kept pace to enable the success of the merit system as envisioned by President Roosevelt. Over the last 40 years, well-intentioned, but overzealous laws and regulations have multiplied, tying the Federal personnel system into bureaucratic knots. At the same time, failure to continuously invest and realign operational, organizational and technology capabilities to meet modern work requirements have resulted in well-known backlogs, service quality issues and government-wide concerns about our ability to hire and retain top talent. The result is a national personnel system that cannot meet the needs of today's modern workforce. The Government Accountability Office (GAO) has repeatedly raised warnings about the need for

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<sup>1</sup> State of the Union – 7 December 1903

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fundamental transformation in the human capital arena, but our archaic policies and organizations have been unable to respond as needed.

The need for a modern human resources (HR) system is indisputable and the case for reform is underscored by the opinions of our Federal employees themselves. In 2018, more than 90 percent of surveyed Federal employees affirmed their belief in the importance of their work and their willingness to put in extra effort<sup>2</sup>. However, these same employees report chronic dissatisfaction with key aspects of their Federal service. More than 60 percent of surveyed Federal employees are dissatisfied with the government's inability to reward performance, deal with poor performers and promote core principles of merit-based employment<sup>3</sup>. Our own employees believe that we are fundamentally failing to deliver on the promise of merit principles. We must do better. Fundamental structural reform is needed to move our human capital capabilities into the 21<sup>st</sup> century.

The needed reform starts with transformation of the Office of Personnel Management (OPM). Created more than 40 years ago, OPM was designed to drive human capital policy and protect merit-based employment principles for 2.1 million Federal workers. OPM also administers a financial balance sheet with over \$1.1 trillion in assets and \$2.4 trillion in liabilities associated with earned health care, insurance and retirement benefits - supporting over 8 million lives in health care coverage and 5 million retiree stakeholders<sup>4</sup>. Private sector entities with similar assets under management are supported by tens of thousands of employees and leading edge technology. For example, Fidelity Investments has approximately 50,000 employees. OPM, with a similar sized balance sheet, has fewer than 6,000 employees, and fewer than 300 full-time employees dedicated to technology, supporting a comparably sized asset base.

When OPM was designed, very few of today's critical government jobs even existed. Perhaps even more importantly, the entire OPM organization was designed to provide transparency about job classifications, compensation equity and job postings, in a world before online tools like Monster.com and Glassdoor offered real-time job data for free. As a result, most of the OPM organization is structured to provide outmoded, bureaucratically intensive solutions to problems that the private sector has solved with technology. The OPM organizational construct and funding model itself makes it difficult to realign resources to use data, analytics and technology tools. Furthermore, the current organization construct, aligned into siloed programs, makes it nearly impossible to take advantage of efficient cloud or software as a service (SaaS) solutions. The end result leaves OPM as a manual transaction processing organization unable to focus on more strategic, modern-day human capital issues, like reskilling, agile workforce deployment and mobility solutions.

Until now, OPM employees faced the impossible task of delivering 21<sup>st</sup> century HR solutions with 20<sup>th</sup> century organizational tools and technology. This mission became even harder once Congress transferred the vast majority of the National Background Investigations Bureau (NBIB)

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<sup>2</sup> Federal Employee Viewpoint Survey, 2018. US Office of Personnel Management.

<sup>3</sup> Ibid.

<sup>4</sup> US Office of Personnel Management, Agency Financial Report, Fiscal Year 2018, November 2018. [www.opm.gov](http://www.opm.gov)

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function to the Department of Defense (DoD), transferring thousands of employees and more than a billion dollars in OPM revenue.

Bold reform is needed to avert a broader crisis in workforce management. The urgency of this reform is all the more apparent as we face a constant demand to upgrade the skills and capabilities of the Federal workforce.

Our proposed solution to these structural challenges is a merger between OPM and the U.S. General Services Administration (GSA). The idea for a merged government services agency is not new. Past Democratic and Republican administrations have considered similar proposals, but opted instead for modest, cosmetic fixes that failed to address the underlying problems.

Many state and local governments already combine support services under a single agency, effectively integrating HR with other support services. My own parents both worked for just such an agency, the New York State Office of General Services (OGS); my mom worked on the people side of the agency, and my father worked on the procurement side of the agency. This example, and that of many states<sup>5</sup> with similar organizations showcase the synergies and operational efficiencies possible under an integrated organization. Moreover, these examples highlight the reality that such constructs can enhance merit system principles, enabling organizations to operate more efficiently.

### **Reorganization Context**

OPM leads human capital policy and merit system protections for the 2.1 million civilian Federal workforce, while also overseeing security clearance processes, and administering a financial balance sheet with over \$2.4 trillion in liabilities associated with earned health care, insurance and retirement benefits.

The Federal workforce represents one of the government's largest investments and is at the heart of every mission that serves the American people. Like any large organization, the Federal Government is only as effective as its people. To address serious shortcomings in employee service, hiring, retention, and performance management, the Executive Branch needs a workforce management structure that elevates personnel strategy and policy, allows for a holistic view of human capital and continually optimizes the HR transactional services necessary to administer one of the largest workforces in the United States.

### **The Strategic Case for Change**

The need for reform is incontrovertible: human capital management is one of the highest priority missions in the Federal Government and "Strategic Human Capital Management" is currently on GAO's High Risk List. In a series of reports, GAO and other Federal Government observers have highlighted clear and pressing strategic problems.

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<sup>5</sup> California, Florida, Georgia, Missouri, New York, North Carolina, Ohio, Pennsylvania, and Wisconsin all have integrated some or all of the elements proposed in the OPM/GSA merger into a common organizational construct.

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- Hiring - there are well-known government-wide challenges in attracting, developing and retaining highly-qualified staff; and time to hire is woefully long and exacerbates the hiring challenges.
- Performance management – despite many efforts to enhance the government’s ability to “reward the best,” most Federal workers perceive that their hard work is not linked to financial rewards or promotions, because the system to reward initiative and results is overly complicated. Even more worrisome is a fundamental belief that the system itself prevents managers from dealing appropriately with poor performers who siphon time and attention away from the hard-working employees who want to do their best.
- Flexibility/agility – as the world moves at a faster pace, the needs for government workers and skills are changing and evolving constantly. However, OPM, as structured and staffed cannot scale to meet the needs for nearly constant changes to the employment frameworks of government. In fact, the basis for most OPM activities, such as the job classification system, is inherently inflexible and not well aligned to leading practices for managing and deploying talent in the 21<sup>st</sup> century.

The present structure of OPM does not provide the support needed to address these challenges or sustain OPM’s missions. The agency is focused almost entirely on processing transactions, and has little or no bandwidth for developing strategic human capital approaches across the entire government. This is why the legislative proposal submitted to Congress seeks the formalization of an Office of Federal Workforce Policy under the Deputy Director for Management at the Office of Management and Budget (OMB). This small office, designed to operate similarly to the Office of Federal Procurement Policy, would be tasked with analyzing strategic HR issues, and working with Executive Branch agencies and with Congress to drive a strategic policy transformation agenda to address structural modernization opportunities to enhance our human capital approach across the many Federal personnel systems.

### **Financial Case for Change**

The OPM mission includes critical support for the earned healthcare, insurance and retirement benefits of government employees across all branches of government. In addition to its core mission of human capital for the Federal Government, OPM is responsible for operating a \$2.4 trillion balance sheet and its related trust funds.<sup>6</sup> For example, the retirement trust fund is a critical source of monthly income for more than 2.5 million retirees including former public servants from both Congress and the Executive Branch agencies.

Of OPM’s \$265 million in discretionary budget authority, roughly \$133 million is utilized to directly support trust fund operations and \$9 million is being utilized to modernize the trust fund financial system. Approximately \$60 million in additional mandatory budget authority is also used to support trust fund support operations. This funding structure, while meaningful, is not sufficient to support the full modernization requirements associated with upgrading the underlying technology infrastructure.

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<sup>6</sup> US Office of Personnel Management, Agency Financial Report, Fiscal Year 2018, November 2018. [www.opm.gov](http://www.opm.gov)

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This leaves less than half of OPM's discretionary budget to carry out other OPM missions, including the protection of merit system principles and the strategic human capital capabilities highlighted above.

This problem was exacerbated by the mandate to transfer most of the mission of NBIB and related staff and resources to DoD as required by Section 925 of the National Defense Authorization Act for Fiscal Year 2018 (P.L. 115-91).

This decision, mandated by Congress, created an initial funding gap for OPM of up to \$70 million in Fiscal Year 2020.<sup>7</sup> This reduction in funding, even after accounting for final short-term buyback services which will reduce this gap, only worsens the fundamental structural and funding challenges the agency was set up for since its creation in 1978.

If nothing is done to reform this structural imbalance and systematically upgrade legacy systems, the result is the potential increase in risk to the systems used to run the employee benefit programs under OPM's purview that currently provide benefits to millions of current and former Federal employees and their families.

The financial benefits of the OPM/GSA portion of the merger address part of this structural financial challenge since they are estimated to save an average of \$23 million in spending per year<sup>8</sup> via contracting savings, facilities/building efficiencies and minor reductions in personnel expenses through natural attrition.

More importantly, the merger of OPM and GSA will help dramatically increase the joint entity's ability to self-fund via "fee-for-service" activities of the Human Resources Solutions (HRS), which today is not able to meet all agency demand for services given the structural and technology challenges of the existing OPM structure. In addition, integrating the HR expertise from OPM with the procurement and real property management expertise of GSA through the merged entity will allow us to better support all agencies seeking to better align HR and physical space requirements, resulting in more efficient use of existing Federal buildings and reduced needs for expensive operating leases that conceivably could save hundreds of millions of dollars.

### **Technology Case for Change**

This current OPM structural model poses significant difficulty for OPM to carry out its multi-faceted missions. In addition to the age and inflexibility of the OPM infrastructure, OPM has also struggled to overcome structural and organizational challenges to modernization. Years of maintaining the growing mission with older technology have created challenges in OPM's ability to utilize funding in a way that would support the ability to comprehensively modernize the overall information technology (IT) infrastructure and to transform the business processes that the IT infrastructure would support. OPM's OIG has long advised that OPM adopt a centralized approach to IT management. However, despite efforts over time to make this change, and while making some improvements, a significant portion of the annual direct non-personnel IT spending

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<sup>7</sup> Independent study completed in September, 2018 based on fiscal year 2017 OPM financial data.

<sup>8</sup> See OPM Case for Change document submitted to HOCR.

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is not managed directly by the CIO and there are still instances of IT activities being conducted in a siloed fashion under individual OPM programs. This presents efficiency challenges and stretches existing IT resources across a wide range of fragmented technology capabilities. Moreover, the way these systems evolved over the years structurally limits the ability to re-architect individual systems or move to more shared services capabilities to drive efficiencies. The resulting IT infrastructure, even with the current improvements, is still piecemeal and lacks the flexibility and agility needed to meet modern customer needs, as reflected in OPM's Federal Information Technology Acquisition Reform Act (FITARA) score.

In this archaic environment, where critical components like Retirement Services run on a 1980s-era technology platform, the IT team itself often finds that it is in a position of spending more time and resources on operations, maintenance and urgent system remediation, rather than being able to plan a path forward for operational modernization.

OPM's new CIO (who joined OPM recently after years leading U.S. Digital Service technology modernization projects at the Internal Revenue Service and U.S. Department of Veterans Affairs) believe that the structural change is the most prudent path forward to be able to move away from the existing model to a more modern and sustainable path for the mission. On-going cooperation with experienced technologists and architects at GSA has led them to believe that the merger with GSA represents the best opportunity to modernize OPM's IT capabilities, methods, and skills. GSA has a proven track record of investing in and sustaining investments in technology modernization via their Technology Transformation Services (TTS) organization, Centers of Excellence, and leadership in IT acquisition.

### **Operations Case for Change**

Of all the challenges facing OPM, the challenges that are apparent to other Federal employees and retirees relate to operations and service. In the absence of needed structural and technology change OPM faces an uphill climb addressing slow processing times, backlogs and service quality issues. The current manual transaction processing environment overlaid with out-of-date technology, has made it exceedingly difficult for OPM to offer standard customer service tools, like self-service portals, online statements and case management capabilities. GSA, as a leader in shared service modernization efforts, is well-positioned to help OPM with these challenges.

### **Proposed Solution – Reorganization of OPM to Maintain Mission and Enhance Effectiveness**

The significant challenges that OPM faces, combined with the criticality for improving strategic human capital capabilities across the Executive Branch, led to the creation of a strategic reform proposal to elevate human capital as an Administration priority and restructure OPM to better support strategic needs. As such, in June 2018, a bold call to action was announced with the release of the government-wide reorganization plan, "Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations."<sup>9</sup> This reorganization

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<sup>9</sup> See: <https://www.performance.gov/GovReform/Reform-and-Reorg-Plan-Final.pdf>. (Last accessed March 15, 2019).

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proposal will help align resources with mission and create a structurally sound path forward for stability, sustainability and service.

The Administration believes that merging OPM with GSA can deliver true end-to-end services for the Federal workforce and create a path forward for stability and sustainability of the critical IT infrastructure supporting the OPM mission. As you know, the Administration looks forward to working with Congress on this proposal and has transmitted a legislative proposal to Congress to support the merger of the functions and responsibilities of OPM within GSA.

Some claim that this proposal is an affront to our nonpartisan civil service. Contrary to this claim, this proposal serves as an opportunity to better support human capital delivery across the Federal Government by centralizing the services that both agencies currently provide, reducing duplication and empowering our workforce to shift to higher-value work. Our goal is to support our Federal employees and better serve the American people. We believe these synergies can lead to savings of around \$23 million annually, not accounting for the avoidance of tens of millions of dollars that would otherwise need to be appropriated to support OPM in its current form.

In addition to synergies gained, and associated cost savings, combining strengths and transitioning OPM functions and workforce to GSA gives OPM a more structurally sound foundation to support OPM's critical strategic human capital management mission, including a vastly improved IT infrastructure. GSA has a long history of deploying systems and services that are secure, transformative, cost-efficient and innovative.

GSA was one of the first Federal agencies to adopt Technology Business Management (TBM) and its success in improving financial and IT outcomes through embracing TBM has led OMB to designate GSA as a leader in its TBM initiative through the President's Management Agenda. GSA's position as a trusted leader and valued partner in helping improve agencies' use of information technology is further bolstered by its B+ grade on the latest FITARA scorecard, the highest in the Federal Government.

Lastly, in order to truly achieve a workforce capable of adapting to the 21<sup>st</sup> century, the Administration seeks to strengthen the Office of Management and Budget's personnel policy office to more closely coordinate with other management functions, such as finance, procurement, and technology. The core focus of this office would be expanded to include strategy and innovation, identification of future skills and needs and talent management across all of the varying government personnel systems.

The execution and compliance of merit system principles will continue just as it is now, untouched by political influences, as civil service policy functions will be transferred to a new service within GSA.

Ultimately, Congress and the Executive Branch need to work together to address the critical question of how to address this long standing structural problem. The American people, and the

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civil servants who serve them, deserve better than just brushing the dust under the rug and we need to finally address the structural imbalance of OPM that has been neglected for so many years at the expense of our workforce and our country.

By addressing structural vulnerabilities, identifying synergies, building on collective strengths and addressing diagnosed weaknesses, this merger will support the realignment of the OPM to better serve the American people with sound adherence to mission, service, and stewardship and to prevent what is otherwise a near inevitable operational failure impacting Federal retirement and healthcare.

This Administration seeks to address these vulnerabilities as its own legal authorities allow because we can no longer avoid this inescapable risk. The reorganization plan aims to begin transitioning OPM offices to GSA out of necessity.

However, the Administration recognizes Congress as a pivotal partner. The Administration implores Congress to recognize the urgency of reform and enact legislation quickly to assist in creating sustainable reform via a sustainable merged entity. This will provide a more seamless transition for our workforce while providing clarity on a path forward.

The Executive Branch and Congress have a duty to serve the American people by giving them a nimble and efficient Federal workforce. Reform has been neglected for too long. This Administration is committed to reforming the Federal Government, and making it more efficient, effective, and accountable for hardworking American taxpayers. This shared interest deserves a partnership with Congress to achieve lasting reform.

GSA, a trusted leader in government IT and procurement, has the expertise to upgrade OPM's IT infrastructure, while OPM provides practical HR knowledge. Together OPM and GSA will be able to create better, more integrated solutions as agencies modernize buildings, contracts and workspaces to meet today's workforce needs.

Thank you for inviting me here today. I look forward to partnering with you in this undertaking and answering your questions.