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

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# Final Management Advisory

**U.S. Office of Personnel Management's  
Fiscal Year 2018 IT Modernization Expenditure Plan**

**Report Number 4A-CI-00-18-044  
June 20, 2018**

# ABBREVIATIONS

<b>Appropriations Act</b>	<b>Fiscal Year 2018 Consolidated Appropriations Act</b>
<b>CPIC</b>	<b>Capital Planning and Investment Control</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>FY 2018 Plan or Plan</b>	<b>FY 2018 IT Modernization Expenditure Plan</b>
<b>IT</b>	<b>Information Technology</b>
<b>OCIO</b>	<b>Office of the Chief Information Officer</b>
<b>OMB</b>	<b>U.S. Office of Management and Budget</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>PMA</b>	<b>President’s Management Agenda</b>

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# I. SUMMARY

The Consolidated Appropriations Act of 2018 (P.L. 115-141) (Appropriations Act), made available \$21 million to the U.S. Office of Personnel Management (OPM) “for information technology infrastructure modernization and Trust Fund Federal Financial System migration or modernization ... .” The Appropriations Act further requires that “the amount ... may not be obligated until the Director of the Office of Personnel Management submits ... a plan for expenditure of such amount ... that –

- 1) identifies the full scope and cost of the [information technology (IT)] systems remediation and stabilization project;
- 2) meets the capital planning and investment control review requirements established by the [U.S. Office of Management and Budget (OMB)], including Circular A-11, part 7;
- 3) includes a Major IT Business Case under the requirements established by the Office of Management and Budget Exhibit 300;
- 4) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Government;
- 5) complies with all Office of Management and Budget, Department of Homeland Security and National Institute of Standards and Technology requirements related to securing the agency’s information system as described in 44 U.S.C. 3554; and
- 6) is reviewed and commented upon within 60 days of plan development by the Inspector General of the Office of Personnel Management ... .”

This is very similar to language in the fiscal year (FY) 2017 Consolidated Appropriations Act. The conditions that prompted Congress to enact these requirements stem from the OPM data breaches of 2015 and the failed Shell project that followed. Our audits at the time demonstrated that OPM did not follow appropriate project management and capital budgeting processes. Based in part on our work and on OPM’s history of failed IT projects, Congress determined that OPM’s IT modernization program should be funded, but only if it were clearly shown to be following these strict guidelines.

Our report on OPM’s FY 2017 IT Modernization Expenditure Plan (See Report No. 4A-CI-00-18-022 (<https://www.opm.gov/our-inspector-general/management-advisory-reports/management-advisory-report-us-office-of-personnel-management%E2%80%99s-fiscal-year-2017-it-modernization-expenditure-plan.pdf>.) discussed in detail the shortcomings of OPM’s IT modernization program. To summarize, OPM has not followed OMB capital

budgeting guidance, which is an established process for well-developed, thoroughly-researched, and fully funded large scale investments. In FY 2017, OPM officials informed us that the agency lacked the governance and IT enterprise architecture that would set the stage for such processes to occur. Our recommendations were focused on these structural reforms, and we expressed the opinion that, even though OPM had not met the funding requirements, Congress should allow it to obligate appropriations with a view toward moving these fundamental improvements forward.

OPM was authorized to obligate \$11 million in FY 2017 funding, and most of those funds were used to start the process of making the required reforms. On April 23, 2018, the Office of the Chief Information Officer (OCIO) provided its FY 2018 IT Modernization Expenditure Plan (FY 2018 Plan or Plan), and based on our review it appears that OPM is generally continuing in the right direction toward modernizing OPM's IT environment.

While this is an encouraging development, we still have several concerns with the Plan, and OPM's overall approach to IT modernization.

- Like the FY 2017 spending plan, this Plan does not meet the explicit requirements of the Appropriations Act. To be fair, OPM has not had enough time to establish the baseline requirements that OCIO officials told us would be required to develop adequate planning and budgeting processes. Despite OPM's long history of failed commitments, changing priorities, and turnover in critical leadership positions, we are cautiously optimistic that this effort may be successful, but we will very closely monitor and report on the agency's progress.
- The allocation of the \$21 million appropriated in the FY 2018 Consolidated Appropriations Act is not primarily based on an objective analysis of IT modernization needs. It appears that some of the money is targeted toward satisfying deferred business process automation needs based on considerations related to the President's Management Agenda (PMA), and not enough is being spent on true infrastructure improvements as required.

## II. OIG REVIEW AND COMMENTS

In December 2017, as OPM was preparing its FY 2017 spending plan for our review, OCIO officials informed us that the agency's IT environment was so fractured and decentralized, and so lacking in overall governance, that they were not able to even begin the process of designing an overall IT modernization plan. The capital planning and investment control (CPIC) process that is described in OMB Circular A-11, and which forms the basis of the FY 2017 and 2018 Appropriations Act requirements, could not be implemented. We were told that technical analysis, and cost and schedule estimates, were impossible.

To begin the process of developing proper governance and an enterprise architecture, OPM recently awarded a contract to a vendor to establish an enterprise project management office. The objectives of this project are to define an agency-wide IT governance structure to more effectively manage IT infrastructure, systems, and development projects under the centralized authority of the OCIO.

In addition, the contractors are supposed to help OPM design a technical architecture at the enterprise level. One of the many problems at OPM is uncontrolled and decentralized IT development using a variety of different operating systems, database vendors, and other related systems leading to an environment that is very difficult to maintain. A standardized technical environment enforced across the agency would promote analysis, design, and planning at the strategic enterprise level.

As this process and capability matures we would expect to see OPM take a more rigorous approach to its IT modernization program, fully incorporating the correct CPIC and project management processes. However, as it stands now, OPM's FY 2018 spending plan does not meet the requirements of the FY 2018 Consolidated Appropriations Act.

For example, the Plan does not identify the full scope of OPM's modernization effort or contain cost estimates for the individual initiatives or the effort as a whole. In fact, OPM has expressed that with the change in OCIO leadership, the fundamental approach to modernizing the IT environment has changed and they do not view this effort as a single, all-encompassing project, and thus do not intend to manage a single project plan or determine a full-scope cost estimate. As such, they do not have, nor intend to, produce an overarching capital budget, project plan, or defined IT security requirements.

In general, we agree with this approach providing that the individual modernization projects do follow CPIC, including an assessment of technical effort required, analysis of alternative options, estimates of lifecycle costs, and proper business case development and maintenance. OPM does maintain Major IT Business case documentation to support some of the initiatives in the Plan.

However, the majority of these documents do not show evidence of compliance with basic CPIC guidelines.

For example, and as discussed in our previous report (referenced above), OPM's Infrastructure Investment included an updated section for modernizing the agency's mainframe computing environment, which hosts many mission-critical applications. This is one area where the agency has a fairly advanced strategy and enough information to do proper CPIC, but the investment is still inadequate. Our concern is that the agency does not fully understand or value the CPIC process and may not be able to properly manage it in the future.

An important element of CPIC is to derive budget requirements based on an assessment of needs, and that a project team made up of subject matter experts should manage each investment. We addressed this concern at length in our previous report, but it appears that OPM is still struggling in this area.

Even though the OCIO cannot derive enterprise-level cost estimates and budget requests, one would expect that a plan to spend a given amount would be based on an assessment of targeted requirements. However, it is our understanding that the allocation of the \$21 million appropriated in FY 2018 was top down, and driven at least in part by the PMA. Further, the overall modernization effort continues to be managed by a small group of OCIO staff rather than an integrated project team made of up subject matter experts representing the relevant disciplines – although we were told that this will be the focus of the new enterprise project management office currently being stood up.

In addition to evaluating overall compliance with the conditions that must be met prior to obligating funds, we reviewed the funding priorities and proposed investments in the Plan. Congress directed that the funds appropriated in FY 2018 be used for “information technology infrastructure modernization and Trust Fund Federal Financial System migration or modernization ... .”

The FY 2018 spending plan distributes the \$21 million appropriated for this purpose between governance, environment modernization, and business modernization. The governance initiative consists of risk management, enterprise architecture and enterprise project management. Modernizing the IT environment covers upgrading the critical infrastructure, completing a system inventory, researching a cloud-based network solution, and re-hosting mainframe applications to a commercial provider.

Business modernization includes the mandatory trust fund system migration and upgrades to legacy mainframe applications, but also incorporates several projects that seem unrelated to the intent of Congressional appropriators. For example, the OCIO proposes to spend modernization

funds on an employee digital record system, migration of the non-trust fund financial system to a shared service provider, and the development of a central enrollment database system for the Federal Employees Health Benefits Program (FEHBP). While these are probably worthy initiatives, it is important to remember that the funding provided by Congress is rooted in the 2015 OPM data breaches and predicated on the concept that they will be used to modernize OPM's IT environment to improve security, reduce risk, and prevent future data breaches.

We understand that these investments were added to the FY 2018 spending plan because of a desire by senior OPM officials to fund them outside of the normal budget process. For example, nearly \$1 million is set aside for the FEHBP central enrollment database, even though a separate budget request for the system was denied by OMB in FY 2018. Another \$500,000 is earmarked for the Consolidated Business Information System (OPM's non-trust fund financial management system) migration to a shared service provider even though this project is funded through a separate investment outside of the OCIO.

While we can acknowledge that these are worthwhile initiatives, they do not appear to be an appropriate use of the IT modernization funding. The funding is intended for strengthening OPM's legacy IT environment, not the improvement of business processes through new IT solutions.

Another concern is that the investment in infrastructure is not sufficient to sustain the improvements in progress. OCIO officials informed us that the strategy to modernize OPM's IT infrastructure (i.e., the hardware, software, and network components that support IT services) is focused on commercial solutions, such as Network as a Service and Mainframe as a Service. The concept is to reduce cost and risk through shared service providers.

Again, while this appears to be a commendable strategy, it is probably going to be a very complicated and time-consuming process. In fact, we have heard the same or similar ideas from the OCIO going back to the Shell project, and even before that. Although there has been significant progress made in data center consolidation, OPM is not close to meeting the overall objectives of OMB's Data Center Optimization Initiative, which promotes the transition to a more efficient and secure infrastructure. Also, it will be a highly complex and expensive process to migrate OPM's mission-critical mainframe applications to a commercial service provider.



### III. CONCLUSION

OPM has not met the explicit requirements of the FY 2018 Consolidated Appropriations Act, but it has made progress in its IT modernization program. OPM has engaged a contractor to begin the process of establishing an enterprise program management office to strengthen IT governance and enterprise architecture.

OPM's FY 2018 spending plan mostly supports initiatives that comport with the intent of Congress to modernize IT infrastructure to strengthen security and prevent data breaches. However, some of the targeted projects are not strictly necessary and should not be included in the funding. The funds should be re-allocated to directly support infrastructure modernization.

It is our opinion that OPM should obligate funds pursuant to the FY 2018 Consolidated Appropriations Act that are in direct support of infrastructure modernization and the migration of the trust fund financial system, with the understanding that OPM will implement current and outstanding recommendations related to this issue. We will very closely monitor OPM's progress in this respect.

# IV. RECOMMENDATIONS

## Recommendations

1. We recommend that the OPM Director ensure that the distribution of FY 2018 IT modernization funds is consistent with strengthening OPM's legacy IT environment, as expressed in the FY 2018 Consolidated Appropriations Act.
2. We recommend that funding for the FEHBP Central Enrollment Database, the Employee Digital Record, and the Consolidated Business Information System migration be obtained using the normal budget process (or other potential sources, such as the Modernizing Government Technology fund), and not from the FY 2018 IT modernization funds.

## OPM Response:

1. *"We concur with your recommendation and will ensure the FY 2018 IT modernization funds are used to strengthen OPM's legacy IT environment. With the recent confirmation of the Director and Deputy Director of OPM, we will continue to reassess our IT Modernization plan moving forward, as needed, and maintain an open dialogue with you regarding any changes."*
2. *"We partially concur with your recommendation. We understand the rationale for your recommendation, i.e., that distribution of the FY 2018 IT modernization funds be used to strengthen OPM's legacy IT environment, as expressed in the FY 2018 Consolidated Appropriations Act. However, we would like to use this opportunity [to] provide more information to better explain the ways in which each of the items mentioned in your recommendation as being more appropriately funded through normal budget processes actually operate to directly strengthen OPM's legacy IT environment while mitigating possible risks. We ask you to further consider this additional information. We would also note these projects have been fully briefed to the Appropriations Committees ahead of Congressional passage of FY18 funding."*

*Although we recognize that the items in our modernization plan support the [PMA], they are also important to strengthening OPM's legacy IT environment.*

*The FEHBP Central Enrollment Database planning team, including [Healthcare] and Insurance and CIO leadership, has agreed to a plan that will enhance the legacy OPM FEHB Data Hub so that it will be capable of receiving and transmitting daily enrollment transactions (currently weekly) from agencies government-wide to carriers and enhance data validations to improve the quality of enrollment data. This will be accomplished in six months, by the end of CY 2018. The results of utilizing the legacy FEHB platform will include reducing risks related to operations and finances, reducing government and enrollee costs through identification of dual enrollments, and enhancing service and accountability for the entire FEHB program. Mitigation of these risks directly impacts OPM's ability to implement additional IT Modernization efforts.*

*OPM has also facilitated development of a conceptual plan that will deliver the initial EDR operational capability in September 2019 and position EDR to fully replace eOPF and EHRI. The legacy eOPF and EHRI are both older and poorly architecture systems that contain vast amounts of employee information. Replacing both of these legacy systems with the EDR will result in reduced cyber and operational risks, as well as improved data availability and analytics. In addition, EDR was initially funded in the FY 2017 IT modernization appropriation, was identified in the FYs 2017, 2018, and 2019 budget requests, and the funding carries forward the work started in FY 2017.*

*The Consolidated Business Information System is currently operating on a legacy platform that [is] almost ten (10) years old. In May 2017, OPM transitioned the operations and maintenance of CBIS environments to a Federal Shared Service Provider (FSSP). While it is fully supported under an FSSP agreement, it has significant operational risks. The plan to migrate CBIS from its current legacy environment to a fully modernized, supported shared service platform will significantly reduce operational risks.*

*We are currently in the process of finalizing the detailed project schedule of all activities supporting the FY 2017 and 2018 IT modernization funding, and we are happy to share the schedule with you and your team.*

*In summary, using IT modernization funding for these projects directly upgrades our IT infrastructure, mitigating possible risks, and has an impact of allowing existing efforts and resources to be utilized on additional IT modernization efforts. However, your concerns are understood, and OPM will work with OMB to include funding for these and other projects in future budget requests. Neither our intent, nor our current plan, is meant to use IT Modernization funding for activities or projects that will not further our Agency's goal of updating critical IT infrastructure to enhance the security of our systems and data."*

**OIG Comment:**

The OIG does not dispute the benefit that OPM would derive from the development of the Central Enrollment Database and the EDR or from migrating CBIS to a new FSSP implementation of the software. We do however feel that these worthwhile projects should be funded through the normal budgetary request process, as they do not appear to meet the intent of the FY 2018 IT modernization appropriations. Furthermore, as we noted in the report above, OPM has still not complied with any of the capital budgeting and project management requirements in the Appropriations Act, which would make investment in these initiatives using IT modernization funding a high-risk proposition. In addition, these systems are not considered high risk, high value assets that would merit prioritization for modernization. There are other systems, such as the antiquated applications supporting Retirement Services, which pose a much higher risk of compromise.

The largest distinction between the intended use of the modernization funding in FY 2017 and FY 2018 comes directly from the Appropriations Committee. From FY 2017 to FY 2018, very little guidance changed regarding their requirements for OPM to receive the IT modernization

funding, with the exception of the language specifically used to explain how the funds should be allocated.

In FY 2017, the Appropriations Act provided a wide range of intended allocation for the \$11 million, citing specifically “the operation and strengthening of the security of OPM legacy and Shell . . . IT systems and the modernization, migration and testing of such systems . . . .” However, in FY 2018 this broad guidance was very distinctly narrowed to two specific uses for the \$21 million: “information technology infrastructure modernization and Trust Fund Federal Financial System migration or modernization . . . .” With the development of its FY 2018 spending plan, OPM appears to be continuing its FY 2017 efforts rather than following the guidance provided in the FY 2018 Act. We believe it is clear that instead of general IT modernization initiatives, “the Committee expects OPM to continue with IT upgrades to secure its networks against future attacks.”

For further discussion of the initiatives highlighted in our recommendation, please see below:

### **1) Central Enrollment Portal and Database**

The FY 2018 Plan sets aside \$0.9 million for the creation of a Central Enrollment Portal and Database. This initiative has been an OPM goal for many years, and would automate an inefficient business process. While the FEHBP data hub is a legacy system, the overall project is largely a business process modernization effort rather than an effort intended to address the cybersecurity risks faced by the agency. While we acknowledge that this is a worthy initiative that could reduce operational risk and represent cost savings, it still does not appear to be an appropriate use of the FY 2018 IT modernization funding specifically intended for the strengthening of OPM’s “information technology infrastructure,” not the improvement of business processes through IT solutions.

### **2) Employee Digital Record**

Similarly, OPM has set aside \$2.1 million for the creation of the Employee Digital Record. This effort also has been an OPM goal for many years, supports the PMA, and could represent a reduction in operational risk while improving data availability and analytics. We do not dispute these potential benefits, and do believe generally this is a key initiative for OPM.

Additionally, OPM has indicated that once created, the EDR may be able to replace two legacy systems: eOPF and EHRI. We acknowledge these legacy systems do represent a cybersecurity risk to the Agency as they both are old, poorly architected, and contain substantial PII. If the EDR successfully replaced these legacy systems, this would be a notable improvement in OPM’s legacy IT security posture. However, OPM’s history of

project development gives us great concern that even if EDR were eventually implemented, incorporating these systems may not in fact be possible.

OPM's most recent failed enterprise-wide case management system, e-Case, is a perfect example. Intended to replace a substantial number of legacy systems, the e-Case system was procured and configured but ultimately fell short of expectations as a result of inadequate requirements gathering and project management. Ultimately, e-Case has not replaced any of the legacy systems that were originally intended, and is the latest expensive IT project failure at OPM.

Regarding EDR, OPM has not completed the necessary project planning to ensure a successful implementation, which could eventually include eOPF and EHRI. The conceptual plan is still in its infancy. As such, funding decisions to implement EDR should be made cautiously with regard to the potential benefits of EDR also replacing eOPF and EHRI.

Despite EDR's inclusion in the FY 2017 spending plan, our ultimate concern parallels what we expressed above for the Central Enrollment Portal and Database. The inclusion of these initiatives in the FY 2018 spending plan does not appear to meet the revised guidance the Appropriation Committee provided for the distribution of the \$21 million.

### **3) Consolidated Business Information System**

\$0.5 million of the FY 2018 spending plan is devoted to migration of the Consolidated Business Information System. As OPM pointed out, CBIS is approaching ten years old; however, it is currently supported, more secure and functionally stable, and represents a substantially lower security risk to the agency than many other OPM legacy systems. Devoting funding to this initiative does not align with an agency-wide risk-based approach to modernizing legacy systems. This type of agency-wide risk-based assessment is something we would like to see incorporated into the overall IT modernization strategy.

Additionally, the spending plan highlights that the CBIS migration is purported to produce "cost savings needed to sustain operations while also improving financial performance and reporting." While the CBIS migration is beneficial for OPM and further supports the Federal initiative to use shared service providers, allocating a portion of the IT modernization funding, which is intended to address security weaknesses in the legacy environment, towards system enhancements does not comport with the intent of this separate Appropriation.

Furthermore, the migration of CBIS from its current state to the shared service provider's Delphi instance is a significant initiative with projected costs of tens of millions of dollars

over a two-year period. OPM should seek support for a capital investment like this through separate submissions to OMB for evaluation and funding isolated from OPM's larger IT modernization efforts. It is not prudent for OPM to devote \$.5 million to initiating a much larger effort without first receiving the necessary support to follow through with implementation.

In conclusion, we continue to believe that OPM would be better served by revising its Plan to focus the \$21 million distribution more substantially on the improvement of OPM's legacy infrastructure as highlighted in the FY 2018 Appropriations Act. With OPM's agreement to address the recommendations outlined in both the FY 2017 and FY 2018 Management Advisories, we are still supportive of OPM obligating funds pursuant to the FY 2018 Consolidated Appropriations Act.

# APPENDIX

JUN 13, 2018

MEMORANDUM FOR LEWIS F. PARKER JR.

DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITS  
OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL

FROM: DAVID A. GARCIA  
CHIEF INFORMATION OFFICER  
OFFICE OF PERSONNEL MANAGEMENT

Subject: Response to the Draft Management Advisory Letter –  
Comments on IT ... Modernization Expenditure Plan

Thank you for providing the Office of Personnel Management (OPM) the opportunity to respond to the Office of the Inspector General (OIG) Draft Management Advisory Letter – Comments on IT Modernization Expenditure Plan.

We appreciate your guidance, and conclusion that based on your review of our Fiscal Year 2018 Expenditure Plan the Appropriations Committees should approve OPM to obligate funds pursuant to the FY 2018 Consolidated Appropriations Act. We also recognize that your draft report highlighted areas for improvement and we are committed to ongoing improvements to the IT modernization program and continued collaborative engagement with your office. OPM continues to similarly engage our Appropriations Committee's to create a fully transparent process with the Committees as we implement the IT Modernization plan. We look forward to continuing to closely work with both you, and the Committees, on our progress.

Responses to your recommendations are provided below.

**Recommendation #1:** We recommend that the OPM Director ensure that the distribution of FY 2018 IT modernization funds are used to strengthen OPM's legacy IT environment as expressed in the FY 2018 Consolidated Appropriations Act.

**Management Response:** We concur with your recommendation and will ensure the FY 2018 IT modernization funds are used to strengthen OPM's legacy IT environment. With the recent confirmation of the Director and Deputy Director of OPM, we will continue to reassess our IT Modernization plan moving forward, as needed, and maintain an open dialogue with you regarding any changes.

**Recommendation #2:** We recommend that funding for the FEHBP Central Enrollment Database, the Employee Digital Record, and the Consolidated Business Information System migration be obtained using the normal budget process (or other potential sources, such as the Modernizing Government Technology fund), and not from the FY 2018 IT modernization funds.

**Management Response:** We partially concur with your recommendation. We understand the rationale for your recommendation, i.e., that distribution of the FY 2018 IT modernization funds be used to strengthen OPM's legacy IT environment, as expressed in the FY 2018 Consolidated Appropriations Act. However, we would like to use this opportunity [to] provide more information to better explain the ways in which each of the items mentioned in your recommendation as being more appropriately funded through normal budget processes actually operate to directly strengthen OPM's legacy IT environment while mitigating possible risks. We ask you to further consider this additional information. We would also note these projects have been fully briefed to the Appropriations Committees ahead of Congressional passage of FY18 funding.

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The Consolidated Business Information System is currently operating on a legacy platform that [is] almost ten (10) years old. In May 2017, OPM transitioned the operations and maintenance of CBIS environments to a Federal Shared Service Provider (FSSP). While it is fully supported under an FSSP agreement, it has significant operational risks. The plan to migrate CBIS from its current legacy environment to a fully modernized, supported shared service platform will significantly reduce operational risks.

We are currently in the process of finalizing the detailed project schedule of all activities supporting the FY 2017 and 2018 IT modernization funding, and we are happy to share the schedule with you and your team.



In summary, using IT modernization funding for these projects directly upgrades our IT infrastructure, mitigating possible risks, and has an impact of allowing existing efforts and resources to be utilized on additional IT modernization efforts. However, your concerns are understood, and OPM will work with OMB to include funding for these and other projects in future budget requests. Neither our intent, nor our current plan, is meant to use IT Modernization funding for activities or projects that will not further our Agency's goal of updating critical IT infrastructure to enhance the security of our systems and data.

We appreciate the opportunity to respond to this draft report and hope that this additional information and explanation will allow you to continue your support [of] our entire request. As stated, we look forward to continuing an open engagement on our IT Modernization and if following a reassessment of any planned [projects] OPM determines a need for change we would engage with you on that decision. If you have any questions regarding our response, please contact me or Robert Leahy, Deputy CIO.



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