



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

October 30, 2009

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Top Management Challenges

A handwritten signature in black ink, reading "Patrick E. McFarland", written over the printed name of the Inspector General.

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. We have divided the challenges into two key types of issues facing the U.S. Office of Personnel Management (OPM) – environmental challenges, which result mainly from factors external to OPM and which may be long-term or even permanent; and internal challenges, which OPM has more control over and which once fully implemented will likely be removed as a management challenge.

The four listed environmental challenges facing OPM are due to such things as increased globalization, rapid technological advances, shifting demographics, changing security threats and various quality of life considerations that are prompting fundamental changes in the way the Federal Government operates. Some of these challenges involve core functions of OPM that are effected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency has to deal with.

The internal challenges arise from issues that have minimal outside influence, and that once resolved will likely no longer be a challenge. The three internal challenges included in this letter represent OPM's need to replace two aging and inadequate information systems and its need to strengthen controls over the quality of background investigations.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, only one of this year's challenges is currently considered a material weakness – Information Security Governance. The remaining challenges are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. However, there is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management.

We have categorized the items included on our list this year as follows:

Environmental Challenges

- Strategic Human Capital;
- Federal Employees Health Benefits Program;
 - Reorient FEHBP Management; and,
 - Prescription Drug Benefits and Costs.
- Wellness and Work-Life Balance; and,
- Information Technology (IT) Security
 - Information Security Governance; and,
 - Homeland Security Presidential Directive 12-Personal Identification Verification II.

Internal Challenges

- Retirement Systems Modernization;
- Background Investigations; and,
- Financial Management System and Internal Controls for the Revolving Fund and Salaries and Expenses Accounts.

We have identified these issues as top challenges because they meet one or more of the following criteria:

- 1) The issue involves an operation that is critical to an OPM core mission;
- 2) There is a significant risk of fraud, waste, or abuse of OPM or other Government assets;
- 3) The issue involves significant strategic alliances with other agencies, the Office of Management and Budget (OMB), the Administration, Congress, or the public;
- 4) The issue is related to the President's Initiatives; or,
- 5) The issue involves a legal or regulatory requirement not being met.

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These summaries recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete and accurate characterization of the challenges is presented.

I believe that the support of the agency's management is critical to meeting these challenges and will result in a better government for the American people. I want to assure you that my staff is committed to providing any audit or investigative support needed and that they continue to have an excellent working relationship with your managers.

If there are any questions, please feel free to call me, at 606-1200, or someone from your staff can contact Michael R. Esser, Assistant Inspector General for Audits, or Michelle B. Schmitz, Assistant Inspector General for Investigations, at 606-1200.

Attachment

**FISCAL YEAR 2009 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT**

ENVIRONMENTAL CHALLENGES

The following challenges are issues that will in all likelihood permanently be on our list of top challenges for the U.S. Office of Personnel Management (OPM) because of their dynamic, ever-evolving nature, and because they are mission-critical programs.

For example, we believe that OPM has not effectively managed the challenge of proactively implementing the necessary information security controls to protect the agency's mission-essential operations. The foundation of effective controls is proper information security governance – identifying key roles and responsibilities and maintaining current information security policy. This year we reported a material weakness in the agency's overall information security governance program because of seriously outdated policies and longstanding vacancies in critical information security roles.

1. STRATEGIC HUMAN CAPITAL

The Government Accountability Office (GAO) first designated the strategic management of human capital as a high risk area in fiscal year (FY) 2001 for all of Government and it remains on GAO's 2009 high risk list. OPM is the Federal human resource management agency, and is charged with ensuring that the Federal workforce is managed effectively and efficiently. Government-wide, about one-third of the Federal workforce will be eligible to retire in 2012. In addition, over the next five years, the Federal Government may lose a significant portion of its valued workforce through attrition. As experienced employees leave the Federal workforce, they leave behind critical gaps in leadership and institutional knowledge, which could adversely affect the Government's ability to carry out its diverse responsibilities. While the so-called "retirement tsunami" that has been predicted has yet to arrive, it is essential that OPM prepare for this potential human capital shortage within the Federal Government by focusing on hiring reform.

There is broad agreement that the current competitive hiring process must be improved. Applicants regularly report confusion about differences between agencies' application processes, complex application requirements, and lack of communications from agencies regarding the hiring process and the applicant's status. Human resource (HR) professionals express frustration at a perceived lack of managerial commitment to participate fully in the key elements of hiring, such as workforce planning, and delays in decision making. Managers complain that HR policies and procedures are unclear, overly bureaucratic and non-responsive to their needs. These combined factors make it more difficult for the Federal Government to attract, hire, **and retain** qualified employees in an effective and timely manner at a time when the **competition** for quality talent is strong.

While OPM needs to ensure that agencies are aware of and use the personnel **flexibilities** available to them, so that they can hire the right people at the right time to **meet their** needs, there is general consensus that broad reform of the hiring process is **still necessary**. Therefore, it will continue to be essential for OPM to ensure that the **Federal** Government can effectively recruit, hire and retain talented employees.

Past attempts to address the Federal hiring processes have taken a stove-piped approach, with only minimal success in streamlining the process. Based on these previous experiences and agencies' current hiring needs, OPM's current attempt takes a comprehensive and integrated approach to Federal hiring. The key to OPM meeting this challenge is by achieving the following goals established in the hiring reform initiative:

- Promote innovative, integrated and well coordinated approaches to recruiting and hiring students, mid-career professionals, and retirees to meet agency talent needs;
- Streamline the hiring process to create a positive experience for applicants, managers, and HR specialists;
- Improve USAJOBS and integrate other components of the on-line hiring system to create a world-class experience for job seekers and agency recruiters;
- Provide tools, training and technical assistance to HR officials and agency hiring managers so that they better understand the current approaches, principles and concepts associated with Federal hiring;
- Conduct outreach and training through human capital officers and Federal executive boards to enable agencies to implement the hiring requirements; and,
- Promote efficiency and effectiveness in hiring practices and processes compliant with merit principles and other mandates as required.

Thus, OPM must continue to ensure that Federal agencies are equipped to acquire, develop, motivate, and preserve high performing employees.

2. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to approximately eight million Federal employees, retirees, and their families.

This year will present unique challenges for program officials. As the President and Congress work toward reform of the United States health care system, OPM must align the administration of the FEHBP with transformations in the industry. The

FEHBP must utilize industry best practices and ensure quality healthcare for enrollees while controlling costs. This includes adopting best practices and other changes **resulting** from national health care reform initiatives, which entail conforming benefit **requirements**, expanded access for employees and their families and benefit pricing methods. OPM must also explore creative ways to control costs and utilization of **benefits**, such as increased use of wellness initiatives and global purchasing of pharmacy benefits. These challenges may require legislative, regulatory, procurement & contracting, and administrative changes.

The following are two initiatives OPM believes will help ensure that the FEHBP continues to offer enrollee's quality health care services at fair and reasonable premium rates.

A. Reorient FEHBP Management

The ever-increasing cost of health care is a national challenge. For the upcoming year, the average FEHBP premium increase is 7.4 percent. While significant, this is still consistent with or less than projected premium increases for other employee-sponsored health care programs, which industry experts estimate will run between 8.0 and 11.8 percent.

The challenge for OPM is that, while the FEHBP directly bears the cost of health services, it is in a difficult position to analyze those costs and actively manage the program to ensure the best value for both Federal employees and taxpayers. OPM has not routinely collected or analyzed program-wide claims data. The capacity to collect, manage and analyze health services data on an ongoing basis will allow OPM to:

- Understand the drivers of cost increases for Federal employees – As an example, drug costs as a share of overall monthly premium per member have increased sharply in recent years – see discussion below. A number of alternatives have been suggested to address this growth – see discussion below. Since pharmacy costs account for over \$10 billion in FEHBP spending, alternative approaches need to be carefully modeled, and subsequent experience monitored.
- Approach the design and management of Federal benefits in a more holistic way. Approximately 2 percent of Federal employees each year retire due to disability. Examination of health usage prior to disability may yield strategies that might appear costly in the short term (e.g., more intensive service for at risk populations), but could yield long-term savings in reduced disability benefits.
- Model the potential effects of health system reform or environmental changes on Federal employees. One element of medical effectiveness research is to evaluate whether treatment modalities are being used when they are most effective. Imaging technology in particular is an area where overuse with little clinical benefit is common. With a program-wide

database, OPM could analyze the rates of imaging use and take action against insurers/providers whose rates are excessive.

This initiative seeks to reorient the management of the FEHBP by capitalizing on the collection and analysis of program-wide data. Implementation will include:

- Data collection and maintenance – establish regular data feeds from the 10 largest FEHBP carriers (and major pharmacy benefit managers); develop/test front end edits to assure data integrity and consistency across plans; add insurers as expanding the database; manage data flows; assure and maintain data quality and integrity; and, manage data storage and back-up.
- Analysis support – design database and linking routines to link claims to individual demographics, provider files, and other OPM maintained data sets. Create databases that analysts can use to run specific analyses.
- Development of a data warehouse application that will allow flexible queries of the data set – not only general demographic queries, but also risk-adjusted profiles, comparison of chronically ill patients and other useful analytics.
- OPM analysis capacity – in order for OPM to take a forward-looking approach to analyzing and utilizing data, it will need to add new skill sets not currently present in the organization. These will need to be developed and/or acquired. Skills include econometric modeling of health trends, risk adjustment methodologies, pharmacy pricing, and negotiation among others. Some capacity will need to be purchased through outside contracts as internal capacity is developed; the need for outside expertise will decrease over time.

Developing such a database and analytical capability will better position OPM to negotiate effectively with FEHBP carriers to keep Federal premium increases below industry-wide levels.

B. Prescription Drug Benefits and Costs

As mentioned above, increases in drug costs have been a major contributor to the rapid growth in health care costs over the last few years, with drugs now accounting for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for the FEHBP carriers. The FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits. Currently these contracts lack transparency, which limits our ability to audit and provide adequate oversight of this high cost benefit. This lack of transparency makes it impossible for OPM to ensure that FEHBP enrollees are receiving quality benefits at a fair price.

There has also been Congressional interest in the lack of transparency and high cost of prescription drugs within the FEHBP. To date, there has been one hearing

and one roundtable forum presenting program concerns, as well as the pros and cons of potential changes to the current structure of the FEHBP prescription drug benefit. We anticipate continued interest by Congress in controlling prescription drug costs.

To help formulate a better understanding of prescription drug costs and the PBM industry, as well as to develop steps to strengthen the controls and oversight of the FEHBP pharmacy benefits, OPM established a working group. The working group has completed or planned the following activities:

- Meeting with Federal officials that run pharmacy programs for other large government-sponsored health care programs to develop best practices in managing drug programs. The programs included TRICARE, the Centers for Medicare and Medicaid Services, and the U.S. Department of Veterans Affairs.
- Meeting with various PBMs to get a better understanding of the many products and services they offer.
- Discussing the pros and cons of changing contracts, regulations, and/or laws to provide the necessary transparency, as well as improve controls and oversight.
- Exploring alternative approaches/changes in contracting arrangements with PBMs, such as:
 - using the Federal Supply Schedule to purchase prescription drugs at a lower cost;
 - carving out pharmacy services from the existing FEHBP benefit structure; and,
 - developing an alternative prescription drug plan design.

Due to the complexities and the significant costs associated with the FEHBP pharmacy benefit program, it is critical that all alternative approaches be carefully evaluated and modeled before implementing changes. Changes must ensure the health and safety of all FEHBP enrollees and be cost effective.

3. WELLNESS AND WORK-LIFE BALANCE

OPM is challenged with providing Federal agency Work-life and wellness staff with guidance and support for the policies, programs, and practices in the field of Work-life, thus enabling agencies to support employee needs. Work-life is the practice of providing employees with a flexible, supportive work environment that allows employees to be focused and productive at work. Workplace wellness focuses on programs designed to improve employees' health and productivity and to reduce health care costs.

In recent Congressional testimony, the National Business Group on Health summarized why many businesses are interested in worksite wellness:

- The Centers for Disease Control and Prevention Community Guide Task Force concluded that worksite health promotion programs reduced tobacco use, dietary fat consumption, high blood pressure, total cholesterol levels and days of work lost, while also increasing productivity (*Goetzel and Ozminkowski, 2008*).
- A review of 25 return on investment (ROI) studies of workplace health promotion and disease management programs found an average annual cost reduction of 2 – 4 percent of total medical claims costs, which translated into an ROI of 1:1.5 to 1:3.0 for health promotion programs. In other words, looking only at direct medical costs (not factoring in productivity, absenteeism or other indirect costs), these worksite health promotion programs showed a small but definite positive ROI (*Serxner et al, 2006*).
- An ROI projection model used by The Dow Chemical Company (Dow) to analyze the breakeven point for its investments in employee wellness showed that even small improvements in health risks for Dow employees would yield large savings in health costs for the company. “The breakeven point, at which savings exactly equals investment dollars, occurs when each health risk is reduced by 0.17% annually.” (*Goetzel et al, 2005*). Increasingly, employers see themselves as population health managers – especially in companies with relatively low employee turnover – and small risk reductions over a large workforce carried out over several years can dramatically reduce health expenditures.

In May 2009, President Barack Obama requested that the OPM, OMB, National Economic Council, and the Department of Health and Human Services explore the development of Wellness Programs for the Federal workforce.

OPM proposed to launch a government-wide Wellness Program. OPM’s plan is based on best management practices focusing on producing outcomes that increase employee satisfaction and that drive employee engagement. Research has indicated employee satisfaction and engagement are positively linked to building high-performing organizations. Organizations striving to become employers of choice must focus their attention on employee work-life and health and well-being issues. The elements of OPM’s comprehensive worksite Wellness Program are:

- Health education;
- Supportive social and physical environments;
- Integration of worksite Wellness Program into organizational structure;
- Screening programs; and,
- Linkages with related benefits programs (FEHBP, Flexible Spending Account, Employee Assistance Program, Flexible schedules, and Telework, etc.).

An employee's wellness and ability to balance work and life is the responsibility of the employee, as well as the employer. Work-life effectiveness is accomplished through well planned and implemented programs, services, practices and policies that express the specific needs of the agency. OPM’s challenge will be to determine how

best to put into practice a wide-ranging Wellness Program that will meet the President's goals.

4. INFORMATION TECHNOLOGY SECURITY

In a July 27, 2007 report to Congress (GAO-07-837 Federal Information Security), the GAO stated that "Federal agencies rely extensively on computerized information systems and electronic data to carry out their missions. The security of these systems and data is essential to prevent data tampering, disruptions in critical operations, fraud, and the inappropriate disclosure of sensitive information."

Information technology (IT) security represents a continuous environmental challenge that encompasses a wide variety of issues for which Federal agencies are required to develop a set of specific IT security controls. The implementation of these controls will strengthen OPM's overall IT security environment. The areas of information security governance, protection of personally identifiable information, and Homeland Security Presidential Directive 12, "Policy for a Common Identification Standard for Federal Employees and Contractors", have been highlighted as specific IT security challenges for OPM in FY 2010.

A. Information Security Governance

OPM relies on information technology to manage its core business operations and deliver products and services to many stakeholders. With increasing reliance on information systems, growing complexity, and constantly evolving risks and threats, information security has become a mission-critical function. Managing an information security program to reduce risk to agency operations is clearly an ongoing environmental challenge.

Information security governance is the overall framework and supporting management structure and processes that are the foundation of a successful information security program. Proper governance requires that agency management is proactively implementing cost-effective controls needed to protect the critical information systems that support the core mission, while managing the changing risk environment. This includes a variety of activities, challenges, and requirements, but is primarily focused on identifying key roles and responsibilities and managing information security policy development, oversight, and ongoing monitoring activities.

For several years, the OIG has reported increasing concerns about the state of the agency's information security governance. In May 2009, the OIG issued a Flash Audit Alert (FAA) to you and the Chief Information Officer highlighting these concerns. The primary issues outlined in the FAA included outdated information security policies and procedures, and an understaffed IT security program, particularly the longstanding lack of a permanent senior agency information security official (SAISO).

In the interim, there has been limited progress in correcting these issues. The underlying cause, in our opinion, is that OPM has not established adequate information security governance activities in accordance with legislative and regulatory requirements. Specifically, the agency has not fully documented information security policy and procedures or established appropriate roles and responsibilities.

The lack of policies and procedures was reported as a material weakness in the FY 2007 and FY 2008 Federal Information Security Management Act (FISMA) audit reports. This year we are expanding the material weakness to include the agency's overall information security governance program and incorporating our concerns about the agency's information security management structure.

As of late September 2009, there had been no permanent SAISO in the agency for nearly 18 months. During this time, we observed a serious decline in the quality of the agency's information security program. In addition, there was no permanent Privacy Program Manager assigned to manage the agency's privacy program. As a result, there are many deficiencies in OPM's privacy program, including non-compliance with OMB guidance and outdated internal policy.

In late September 2009, the agency appointed a new SAISO; however, it remains to be seen whether the agency will commit the necessary resources and develop the appropriate functions required of this role. Clearly management faces a major challenge in correcting the ongoing and very serious deficiencies in information security governance at OPM.

B. Homeland Security Presidential Directive 12 – Personal Identification Verification II

On August 27, 2004, President Bush signed Homeland Security Presidential Directive 12 (HSPD-12), "Policy for a Common Identification Standard for Federal Employees and Contractors." HSPD-12 requires the development and agency implementation of a mandatory, government-wide standard for secure and reliable forms of identification for Federal employees and contractors.

One critical component of HSPD-12 relates to personal identification verification (PIV II). It calls for all Federal employees and contractors to use a standard smart card credential (card) to verify their identity for secure access to Federal buildings and information systems. OPM is participating in USAccess, a General Services Administration shared service solution for PIV II compliant identity credentials.

There are three phases to the PIV II project. Phase I involves issuing the cards to all employees and contractors who require credentials. Phase II is integrating PIV II compatibility with building access control systems, and the third phase relates

to incorporating the PIV II cards with logical access to agency information systems.

OMB Memorandum M-08-01 requires that agencies issue PIV II cards to all Federal employees and contractors by October 27, 2008. Although OPM did not meet the OMB deadline, it made significant progress. As of September 10, 2009, OPM has:

- Activated PIV II cards for 94 percent of all applicable OPM employees and 54 percent of all relevant contractors. OPM expects to complete phase I by the end of the third quarter of FY 2010.
- Implemented the PIV II credential into the physical access control system at the OPM Theodore Roosevelt Building in Washington, DC. OPM plans to expand this to its facility in Boyers, Pennsylvania, completing phase II of the project by the end of FY 2010. OPM's other facilities, which include multi-tenant buildings, will be managed by GSA's Public Building Service.

OPM has initiated activity for the logical access phase (phase III) of the PIV II project, with a targeted completion date of December 31, 2011. The Agency is participating in a multi-agency working group to identify proven logical access control solutions, and will separately develop budgetary estimates for implementation. The target date is contingent upon approval and funding of the implementation plan, and of course is subject to unknown technical challenges moving forward.

Completing the PIV project will remain a significant management challenge for three main reasons. First, there are not enough GSA/USAccess processing centers to accommodate the remaining OPM employees and contractors who require cards, especially those located in remote areas. Unfortunately, the GSA light activation solution that would have mitigated this concern has not been made available as planned. Second, OPM has a dynamic population of contractors located throughout the country. Identifying these contractors and determining whether PIV II cards are required continues to be a major challenge, as is negotiating the necessary contract modifications. Third, designing and building a new infrastructure to accommodate PIV II integration with logical access to OPM's existing information systems will most likely be a difficult process fraught with considerable uncertainty.

INTERNAL CHALLENGES

The following challenges relate to current program activities that are critical to OPM's core mission, and that while impacted to some extent by outside stakeholders, guidance, or requirements, they for the most part are OPM challenges that have minimal external influence. They are areas that once fully implemented and functioning will in all likelihood be removed as management challenges. While OPM's management has already expended a great deal of resources to meet these challenges, they will need to continue their current efforts until full success is achieved.

1. RETIREMENT SYSTEMS MODERNIZATION

Processing the retirement payments of Federal employees is a mission-critical OPM program. As the administrator of the Federal employees retirement program, OPM is challenged with the massive scale and complexity of supporting over 2.9 million active employees, 2.5 million annuitants, and managing the Federal retirement and disability trust fund, which consists of over \$740 billion in assets.

The Retirement Systems Modernization (RSM) program is OPM's long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. RSM is critical for two reasons: 1) the workload of the Retirement Program staff has grown over the years and will continue to grow as up to 60 percent of the Federal workforce will become eligible to retire in the next 10 years; and 2) the Retirement Program's existing systems and paper-based processes cannot support the most fundamental needs of the program – providing timely and accurate benefit payments to more than 2.5 million annuitants and their families.

While OPM depends on IT systems to deliver retirement service and to pay its retirees, the RSM program has faced a number of challenges over the years. The most recent failure to deliver a calculation engine has impaired OPM's ability to:

- Pay accurate retirement benefit payments on time with more efficient and flexible processes;
- Automate retirement processing with active employee data available through recurring electronic feeds from the Enterprise Human Resources Integration (EHRI) initiative and Federal agencies;
- Enhance customer service including single-call issue resolution made possible by changing from paper to electronic data; and,
- Allow real-time automated and self-service processing.

The RSM program is now challenged with refocusing its efforts to determine the best solution for implementing a modernized retirement administration environment, as well as obtaining a calculation engine to calculate and process retirements while continuing to remain focused on the following:

- Updating the Federal Annuity Calculator and Estimator System (FACES) to add the remaining calculation types and a modeling tool for Federal employees;
- Ensuring that agency data received is accurate, complete, useable, and compatible with the technology solution;
- Ensuring that the business rules are documented and validated to enable any future solution to correctly calculate annuities of retiring Federal employees;
- Ensuring that the technology solutions and other systems involved in RSM are secure and in compliance with FISMA and in compliance with all relevant laws, regulations, rules and official guidance that govern the design and creation of electronic systems of record;
- Ensuring that the users are properly and adequately trained to use the technology solution in order to provide effective and efficient customer service;
- Incorporating the post-adjudication processes, for which final decisions have not been made, into the new technology; and,
- Acquiring needed skills in new technology to supplement existing staff that are very knowledgeable in the business rules coded in the legacy applications.

During this transition period, OPM must continue to maintain the existing legacy processes and process claims for annuitants and survivors with fewer full-time equivalent staff, limited technology, and increased workloads and customer service expectations.

The need to pay Federal annuitants is as critical as ever to OPM's mission. The RSM program must meet these challenges to continue moving forward in providing a solution to modernize the Federal retirement process.

2. BACKGROUND INVESTIGATIONS

OPM's Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FISD conducts approximately 90 percent of all personnel background investigations for the Federal Government. With a staff of over 8,400 Federal and contract employees, FISD processed approximately 2 million investigations in FY 2009.

While FISD has enhanced the timeliness and efficiency of its background investigations by meeting the mandates in the Intelligence Reform and Terrorism Prevention Act of 2004, the Office of the Inspector General (OIG) has observed a dramatic upsurge in the number of referrals it has received pertaining to fraudulent activity within the background investigations program. Many of these violations involve fabrication by investigators (i.e., the submission of work products that purport to represent investigative work which was not in fact performed). As of **September 10, 2009**, we have referred 18 such cases to U.S. Attorney's offices for criminal prosecution, 8 of which have resulted in convictions. Of the remainder, six

are pending prosecution, one committed suicide after indictment, and three were declined for prosecution. In addition, the OIG has active or pending criminal investigations of approximately 50 background investigators for various offenses, to include suspected falsification of work product and misuse/abuse of credentials. The full significance of our concerns regarding investigator integrity lies in its implications for the national security of the United States.

Prior to 2005, the OIG did not receive fraud referrals from FISC. FISC is to be complimented on their efforts in recent years to aggressively pursue wrongdoing on the part of Federal and/or contractor staff and on their referral of suspected fraud to the OIG. We acknowledge that the increase in referrals to the OIG since 2005 is attributable, in part, both to the significant increases in the total number of FISC's Federal and contractor staff since 2005 and to the improved communication between FISC and the OIG concerning suspected fraud. Nevertheless, this is an area requiring continued close attention by OPM management. Agencies use the reports of investigations conducted by OPM to determine individuals' suitability for Federal civilian, military, and Federal contract employment, as well as their eligibility for access to national security classified information. If a background investigation contains incorrect, incomplete, or fraudulent information, a qualified candidate may be wrongfully denied employment or an unsuitable person may be cleared and allowed access to Federal facilities or classified information. In our estimation, the sensitivity of the Federal Government's personnel security and suitability program demands that OPM meets the challenge of continually strengthening its quality control efforts, identifying risks, addressing wrongdoing by its background investigators, and implementing reliable controls over critical processes.

3. FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

During the audit of OPM's FY 2008 financial statements, the Auditors noted that deficiencies continued to exist in the operation of the Office of Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E). A majority of these deficiencies are attributable to OPM's current accounting system, Government Financial Information System (GFIS), which cannot be effectively configured to capture essential financial information and generate useful and accurate financial reports related to intragovernmental activities and balances.

In an effort to improve their financial management system including information system software, business processes and procedures, outsourcing support, and internal controls, OPM acquired the services of Accenture National Security Services. Accenture National Security Services is providing software, integration, hosting and operational support services for the Consolidated Business Information System (CBIS) Project under a 10-year blanket purchasing agreement.

To **further** improve and modernize its accounting processes, the OCFO implemented OPM's first Financial Management Manual (FMM) in 2006, providing policy and **procedural** guidance for the entire Agency, including detailed procedural guidance to the OCFO staff responsible for accounting operations and reporting, particularly those governing the RF and S&E accounts. The OCFO will revisit and update the FMM and associated work instructions as part of the CBIS implementation.

OPM has had a long standing issue with reconciling its RF account with the Department of the Treasury (Treasury). Revisions to the work instructions for reconciling the GFIS cash balances to the Fund Balance with Treasury for the RF were made in FY 2008 and 2009 to include strict deadlines for the completion of monthly reconciliations. These work instructions are being used to reconcile cash balances during FY 2009 and this effort continues to be supported under the CBIS Project through data analysis and cleansing activities. Additionally, the RF and S&E staff has taken action to resolve differences, making correct entries where necessary.

The CBIS Project recently deployed Phase 1 Release 1 at the beginning of October 2009, and as the next phases of the implementation progress, OPM will continue to be challenged with ensuring adequate oversight over requirements management, testing, data conversion, systems interfaces, and change management.

Continuing into FY 2010, it is critical that OPM ensure they are able to capture and generate useful, accurate, and complete financial information in their current financial, procurement, and budgetary legacy systems. OPM is challenged to continue to improve business processes, facilitate data clean up, review access controls, and conduct business process analysis to ensure a smooth and effective implementation of CBIS.