



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

October 30, 2015

MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: PATRICK E. McFARLAND
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland".

SUBJECT: Fiscal Year 2015 Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. In meeting this requirement, we have classified 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 may be long-term or even permanent; and internal challenges, which OPM has more control over and once fully addressed, will likely be removed as a management challenge.

The two listed environmental challenges - strategic human capital and Federal health insurance initiatives - facing OPM are due to such things as increased globalization, rapid technological advances, shifting demographics, 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 affected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency must face.

The internal challenges we have identified for this letter represent challenges related to information technology, improper payments, the retirement claims process, and the procurement process.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, the area of security assessment and authorization is the only challenge included that is currently a material weakness.

The remaining challenges, while not currently considered material weaknesses, are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. 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; and,
- Federal Health Insurance Initiatives.

Internal Challenges

- Information Security Governance;
- Security Assessment and Authorization;
- Data Security;
- Information Technology (IT) Infrastructure Improvement Project;
- Stopping the Flow of Improper Payments;
- Retirement Claims Processing;
- Procurement Process for Benefit Programs; and,
- Procurement Process Oversight.

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, the Administration, Congress, or the public;
- 4) The issue is related to key initiatives of the President; 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 are presented. I would also like to point out that we have removed the following challenges from last year's discussion:

- Improving the Federal Recruitment and Hiring Process, excluding the effort to close skills gaps, has been removed from the Strategic Human Capital challenge due to OPM's continued support of agencies' recruiting and hiring programs with tools, education, and direct support, including programs such as Pathways Programs for Students and Recent Graduates, Hiring Excellence Workshops, and Partnerships with Educational Institutions.
- The Veterans Employment Initiative has also been removed from the Strategic Human Capital challenge due to OPM's advancement of actions to improve employment opportunities, the establishment of the new Veteran Employment Performance Model for FY 2015-2017, the Feds Hire Vets website, and continued successes in hiring veterans.

- The Background Investigations challenge has been removed, in part, because the issues of capacity (the number of available resources) affecting the Federal Investigative Services' (FIS) capability to meet timeliness expectations and manage costs have been addressed through FIS's ability to fully staff its Federal investigator workforce by hiring new field investigators and retired annuitants to execute fieldwork training and other investigative support work; executing a contract to support the Federal investigative staff in Washington D.C.; and, working closely with its remaining contractor workforce to increase their resources and improve their processes and productivity to improve their capacity.
- The Information System Development challenge has been combined with the new IT Infrastructure Improvement Project challenge.

We have added the following challenges:

- Data Security was added due to the data breaches that OPM has recently experienced and the significant impact they have had on current and former Federal employees.
- The Information Technology Infrastructure Improvement Project is a large scale venture currently in process for the complete overhaul and migration of OPM's network infrastructure. The project includes implementing new IT security tools and creating a much more centralized and manageable architecture.
- Procurement Process Oversight was included this year due to recent events, such as the data breaches affecting millions of current and former Federal employees, that have focused a spotlight not only on OPM's IT system vulnerabilities, but also on the procurement oversight for the contract awarded in an effort to mitigate the impact of these events on affected individuals.

I believe that the support of the agency's management is critical to meeting these challenges and will result in a better OPM for our customer agencies. I also want to assure you that my staff is committed to providing audit or investigative support as appropriate, and that they strive to maintain an excellent working relationship with your managers.

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

Attachment

**FISCAL YEAR 2015 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.

1. STRATEGIC HUMAN CAPITAL

Strategic human capital management remains on the U.S. Government Accountability Office's (GAO) high-risk list of Government-wide challenges requiring focused attention. In their fiscal year (FY) 2015 report, GAO suggests that OPM, the Chief Human Capital Officers (CHCO) Council, and agencies implement specific strategies and evaluate their results to demonstrate progress on addressing critical skills gaps.

A. Improving the Federal Recruitment and Hiring Process

In May 2010, President Obama issued a Memorandum, *Improving the Federal Recruitment and Hiring Process*, resulting in the launch of the largest reform of the Federal hiring process in over 30 years. OPM continues to make strides and has made significant progress in addressing its human capital efforts in closing skills gaps; however, challenges remain to meet the President's reform goals.

OPM has partnered with the CHCO Council to identify and close skills gaps across the Federal Government. During FY 2015, OPM states that several activities have taken place in order to address the skills gaps challenges. OPM has led and supported the CHCO Council's Executive Steering Committee (ESC)¹ for Skills Gaps. The group worked collaboratively to reassess Government-wide occupations and they have approved the use and modification of a multi-factor model as a tool that identifies Government-wide and agency-specific Mission-Critical Occupations (MCOs) with the likelihood for the greatest risk for experiencing skills gaps.

OPM has also worked with occupational leaders representing the current group of Government-wide MCOs, including Cybersecurity, Auditor, Economist, Acquisition, Human Resources, and Science, Technology, Engineering, and Math. Once the new set of MCOs is identified, OPM's Employee Services' Strategic Workforce Planning will identify occupational leaders in FY 2016 to lead the Government-wide effort to close skills gaps.

¹ The CHCO ESC makes key decisions on the design and execution of the Government-wide and agency-specific skills gaps efforts, and brings recommendations and updates to the CHCO Council for review and approval. The CHCO ESC is co-chaired by the CHCOs from the Department of Treasury and the National Science Foundation, and staffed by subject matter experts from OPM's Employee Services' Strategic Workforce Planning Center.

Through HR University (www.hru.gov), the ESC agreed to create a rigorous curriculum framework that organizes courses by specialty disciplines and HR professional roles. They have designed a two-pronged approach to enhance agency participation in HRU, while assuring the curriculum provides valuable learning resources and developmental opportunities. The framework is managed by OPM and they are finalizing the technical competencies; both will be included in the development of courses in all curriculums to ensure all HR Professionals possess the necessary competencies to perform the job tasks within each identified role.

In 2012, a GAO report recommended OPM assist agencies with prioritizing training investments. OPM's collaboration with the Chief Learning Officers Council and other stakeholders initiated the idea of a Mentoring Hub. Building the Mentoring Hub is an ongoing multi-year project. It will serve as an online repository of mentoring materials and information available to all Federal employees and agencies.

While OPM has made great strides towards closing skills gaps within the Federal Government, as discussed above, there continue to be areas in which implementation of targeted goals is still in progress. GAO's FY 2015 high-risk series further confirms that while OPM and agencies have taken steps that show promise for identifying and addressing mission-critical skills gaps, additional efforts are needed to coordinate and sustain these efforts going forward, as well as to make better use of workforce analytics which can be used to predict newly emerging skills gaps.

B. Phased Retirement

Phased retirement is a human resources tool that will allow full-time employees to work a part-time schedule and draw partial retirement benefits during employment. Phased retirement was signed into law on July 6, 2012, as part of the Moving Ahead for Progress in the 21st Century Act (MAP-21). The main purpose is to enhance the mentoring and training of the employees who will be filling the positions, or taking on the duties of more experienced retiring employees, but it may also be used for any learning activities that would allow for the transfer of knowledge and skills from one employee to others.

OPM published final regulations implementing phased retirement on August 8, 2014, and began accepting applications on November 6, 2014. As part of the rollout, OPM designed and issued a variety of instructional materials, Frequently Asked Questions, and comprehensive implementation/operational guidance, and provided training to agencies to support them in understanding how this tool can be used as part of their workforce planning, retention, and knowledge transfer strategy. In addition, OPM has continued to provide interested agencies with technical assistance to support their implementation plans.

While OPM has fulfilled its primary role of providing implementing regulations and comprehensive guidance to agencies, to date, a number of agencies are working toward implementation and only a small number of phased retirement applications have been

received by OPM's Retirement Services. We realize, as OPM states, that phased retirement is just one tool in the arsenal of strategies that agencies may choose to adopt to meet their human capital needs, and that, while some agencies will find it useful, the program was never intended to be a prescribed solution that agencies would be expected to adopt regardless of their unique human capital and workforce needs. However, due to the significant impact of the aging of the Federal workforce on the continuity of agencies' services, OPM's efforts should continue to ensure that agencies that have already implemented a phased retirement program, as well as those working toward implementation, have the necessary administrative and procedural assistance during the process.

2. FEDERAL HEALTH INSURANCE INITIATIVES

Two major challenges for OPM involve the Federal Employees Health Benefits Program (FEHBP) and the new Multi-state Program Plan (MSPP). OPM must continue to administer a world-class health insurance program to Federal employees so that comprehensive health care benefits can be offered at a reasonable and sustainable price. In addition, with the passage of the Affordable Care Act (ACA), OPM's roles and responsibilities related to Federal health insurance were expanded significantly. Under the ACA, OPM is responsible for implementing and overseeing MSPP options, which began in 2014. The following sections highlight these challenges and current initiatives in place to address them.

A. Federal Employees Health Benefits Program

As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to over eight million federal employees, retirees, and their families. While the ever-increasing cost of health care is a national challenge, cost increases in the FEHBP have been relatively modest in recent years. However in 2016, the average FEHBP premium increase is 6.4 percent, which is double last year's increase of 3.2 percent.

It is an ongoing challenge for OPM to keep these premium rate increases in check. There are several initiatives that OPM is adopting to meet the challenge of providing quality health care for enrollees while controlling costs. Examples include better analysis of the drivers of health care costs, the global purchasing of pharmacy benefits, and improved prevention of fraud and abuse.

Another major challenge for OPM is adjusting to changes in the health care industry's premium rating practices. In particular, the adoption of the Medical Loss Ratio rating methodology will require that OPM update guidance and improve its financial reporting activities.

1) Program-wide Claims Analysis/Health Claims Data Warehouse

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, because OPM has not routinely collected or analyzed program-wide claims data. The Health Claims Data Warehouse (HCDW) project is an initiative to collect, maintain, and analyze data on an ongoing basis to better understand and control the drivers of health care costs in the FEHBP.

OPM has made a significant investment in the effort to build an analytical and research data warehouse which will help to fulfill the administrative responsibility of ensuring the FEHBP participants receive quality health care services while controlling the costs of premium increases.

Planning and Policy Analysis (PPA) has collaborated with the Office of the Chief Information Officer (OCIO) to provide expertise in the areas of system administration, database administration, and networking. PPA and OCIO have completed the development of the HCDW system, and it has been authorized by the CIO to run in a production environment. Although the challenges related to system development have been largely overcome, PPA's primary challenge going forward relates to the difficult and time consuming process of getting health claims data into the system in a manner that can facilitate the types of data analysis and manipulation needed to achieve the system's envisioned benefits. PPA and the OCIO also face the challenge of ensuring that this highly sensitive data remains secure. The data security section below highlights the issues that OPM faces in regard to protecting sensitive information from data breaches.

2) Prescription Drug Benefits and Costs

For the past two years, Federal employees and the American taxpayer (who pays almost 75 percent of the FEHBP health care costs) have spent at least 26 percent of each health care dollar on prescription drugs. Considering that the industry average is approximately 18 percent, it would appear that there is room for OPM to negotiate a better arrangement for the eight million Federal employees, retirees, and their family members, especially considering that the FEHBP is one of the largest employer-sponsored health care programs in the world. The question merits additional study, though, because of the rising costs of prescription drugs and the way the FEHBP is structured, a unique aspect of which is the health coverage of retirees who pay the same premium amounts as the active population.

Currently, participating FEHBP carriers are either administering their pharmacy benefits internally or contracting with pharmacy benefit managers (PBM). This is because OPM is precluded from contracting with PBMs under the laws governing the FEHBP. Unfortunately, the consequences of this are twofold:

- Instead of leveraging the purchasing power of our over eight million members to negotiate a single PBM contract, our membership is split amongst the hundreds of participating carriers; and,
- Since OPM is not a party to the contracts negotiated between the carriers and the PBMs and the carriers are reimbursed 100 percent by the FEHBP for all costs charged to them by the PBMs, we have concerns whether the fees and benefits negotiated by the carriers are providing the best value to the FEHBP members.

In 2011, “The President’s Plan for Economic Growth and Deficit Reduction” called for streamlining of the FEHBP pharmacy benefit contracting and allowing OPM to contract directly for pharmacy benefit management services on behalf of all FEHBP enrollees and their dependents. Since that time, OPM has proposed statutory authority language changes, which seek to amend the current FEHBP law to permit OPM to contract directly with PBMs. However, this proposal has continued to languish, and there has not been a concentrated effort on behalf of OPM to push this initiative to Congress for approval.

OPM has and continues to emphasize ways to ensure effective uses of prescription medications to manage drug costs through calling on participating health plans to:

- Better manage formularies and pharmacy networks;
- Implement, operate, and reinforce drug utilization management strategies;
- Limit reimbursement of specialty drugs to the pharmacy benefit;
- Offer a prescription drug benefit that includes at least four tiers; and,
- Implement a cost comparison tool that gives current and prospective enrollees access to user friendly information about the formulary tier and member cost-share for prescription drugs.

We applaud the agency for these efforts and believe they should have a positive impact on the program; however, we encourage OPM to work with its Office of Congressional and Legislative Affairs to make the proposed statutory authority language change a priority initiative to advance to Congress for its approval. Allowing OPM to have direct contracting authority with the PBMs will help to ensure that the benefits and fees negotiated are in the best interest of the FEHBP members, and will strengthen the controls and oversight of the FEHB pharmacy program. OPM should also either position itself and gain the expertise it will need to implement this contractual change or should consider delegating this responsibility to another organization, for example TRICARE, to administer should the proposed statutory language become law.

Ultimately, any changes implemented to the FEHBP’s pharmacy benefits will need to meet the challenge of ensuring that the changes do not adversely impact FEHBP enrollees’ health and safety while realizing true program savings.

3) Health Benefit Carriers' Fraud and Abuse Programs

FEHBP insurance carriers must have programs to prevent fraud and abuse (F&A), including policy, procedures, training, fraud hotlines, education, and technology. Without such programs, there are likely to be increased costs and a greater risk of harm to FEHBP members.

Recent OIG audits have determined that carriers were not in compliance with the applicable FEHBP contract clauses and FEHBP Carrier Letters relating to F&A programs. Specifically, carriers have not appropriately reported fraud and abuse cases to OPM and the OIG, and some carriers have not implemented procedures to address fraud and abuse issues in their pharmacy programs. Furthermore, most carriers did not accurately report recoveries, savings, and cost avoidance achieved as a result of their F&A programs.

OPM recognized the importance of FEHBP carriers having effective F&A programs and partnered with the OIG to develop new, comprehensive F&A guidance. Carrier Letter 2014-29 has new definitions, training guidance, and updated reporting requirements. The new Carrier Letter also requires carrier management to certify to the completeness and accuracy of the fraud and abuse information submitted on the annual report.

However, after reviewing the fraud and abuse reports submitted under the new Carrier Letter, it is apparent that the carriers still require additional guidance from OPM. We have also found that some carriers are still not reporting fraud and abuse cases appropriately. In the past year there has been an enormous increase in the number of case notifications received from the carriers. This is a direct result of our audit work and the collaboration with OPM. While the quantity of these notifications has increased dramatically, the carriers still require guidance on submitting *quality* referrals.

OPM agrees that more work needs to be done. Their next steps include:

- Analyzing carrier reports to get a better understanding of carriers' fraud and abuse programs, and to determine if carriers need further guidance.
- Continuing to partner with the OIG to resolve open fraud-related audit recommendations.
- Monitoring notifications, referrals, recoveries, and overall compliance as carriers adopt updated guidance and reporting requirements.

OPM appears to be dedicated to working collaboratively to address this important challenge facing the FEHBP. However, OPM must continue to implement controls which will hold carriers accountable for operating effective fraud and abuse programs. Now that better, more comprehensive guidance has been issued, OPM needs to enforce these requirements and hold carriers accountable. Effective F&A programs will result in significant cost savings and, more importantly, better protect FEHBP members.

4) Medical Loss Ratio Implementation and Oversight

The FEHBP Medical Loss Ratio (MLR) methodology is closely monitored by the OPM's Office of the Actuaries. For each community-rated FEHBP plan, Office of the Actuaries documents each year's MLR and the associated penalties or credits in a formal letter. The underlying data used in the letter is kept in a secure proprietary database so the following year's letter will reference any remaining credit.

Office of the Actuaries works closely with OPM's Office of the Chief Financial Officer to confirm that proper accounting for MLR credits and penalties is established to ensure both disbursement and receipts of MLR transactions are appropriately accounted for and documented.

As OPM's MLR methodology matures, and unique situations to the FEHBP MLR surface, the need for detailed criteria and carrier instructions is vital. During recent community-rated carrier audits, the OIG identified new areas of the MLR methodology that lack clear instruction from OPM. OPM's rate instructions currently refer community-rated carriers to the Department of Health and Human Services (HHS) MLR guidelines for issues not covered in the OPM instructions. However, in some instances this is not feasible or even applicable. Some areas identified during our MLR audits include Federal income tax allocation methods and the use of global capitations as claims cost in the MLR calculation. Failure to implement clear instructions may result in inaccurate or incomplete subsidization penalties. OPM must stop relying solely on HHS regulations and address these FEHBP-specific problems by providing the necessary guidance via the rate instructions to avoid continued confusion and ambiguity.

A pressing issue that the OIG is experiencing on MLR audits is the large variances between OPM's subscription income reports and the FEHBP premiums carriers track in their systems. The MLR rules state that carriers can choose to use their own premium numbers in the MLR calculation, but the carrier premiums will be subject to audit if used. Most carriers therefore use OPM's subscription income as the denominator in the MLR formula instead of their own premium numbers. However, carriers are frustrated with OPM's inability to support the accuracy of the subscription income numbers. OPM's subscription income is unsupported and has been for decades. This is concerning since the subscription income is now used in the vast majority of the carriers' MLR calculations. OPM should verify the accuracy of the subscription income reports and work to correct hindrances to the accurate reporting of carrier subscription income. With the denominator of the calculation being unsupported by OPM, the whole validity of the MLR calculation is in question.

B. Affordable Care Act (ACA)

Under the ACA, OPM is designated as the agency responsible for implementing and overseeing the multi-state plan options. In accordance with the ACA, at least two multi-state plans should be offered on each state health insurance exchange beginning in 2014. Multi-state plans (MSP) will be one of several health insurance options for small employers and uninsured individuals from which to choose.

While implementing any new program represents a host of complex challenges, one of the greatest challenges continues to be securing sufficient resources for OPM's MSP function. The ACA does not specifically fund OPM for this new health care responsibility. In addition, the ACA mandates that resources essential to the management of the FEHBP cannot be used to start up and manage the MSP program.

Even with adequate resources, implementation of the ACA presents a unique set of challenges for OPM. Since this is a totally new and complex program, OPM must:

- Continue to develop a thorough understanding of complex laws and regulations governing the ACA, as well as state health care insurance;
- Develop and implement regulations, policies, and contracts supporting the MSPP;
- Work cooperatively with Administration Officials, Congress, and other Federal agencies/departments responsible for implementing the ACA;
- Recruit and hire employees with insurance and legal competencies related to health insurance;
- Initiate an outreach program with all stakeholders;
- Design and implement an internal control structure and management information system to ensure that MSPP goals and objectives are met, as well as to ensure compliance with all laws, regulations, and guidance; and,
- Create a comprehensive oversight program.

To continue to meet the goal of making MSPP health insurance options available for enrollment, OPM has accomplished the following:

- Contracted with the Blue Cross Blue Shield Association and several individual Co-Ops to offer MSPs in 36 marketplaces;
- Published an updated final rule on the MSP Program on February 24, 2015;
- Continued to develop relationships with state health care regulators to facilitate the exchange of information on MSP Program operations and various state requirements to sell insurance products in that state;
- Planned an MSP Issuer Conference for November 2015;
- Conducted outreach efforts to insurance issuers and other groups to raise awareness and potential participation in the MSPP;
- Continued to work with the Office of Management and Budget and HHS to develop standard operating procedures for collecting the MSP user fee;

- Compiled and transmitted information on each applicable state-level issuer to HHS for the Federally Facilitated Marketplace, to states that intend to operate their own exchange but utilize the prescribed HHS templates, and directly to those states who will operate their own marketplace;
- Reorganized OPM's National Healthcare Operations in June 2015 along four main functional areas to prepare for an expanded number of MSP issuers; and,
- Established an MSP Program Advisory Board to exchange information, ideas, and recommendations regarding the administration of the MSP Program.

OPM has made MSPs available in 36 marketplaces and is steadily establishing necessary processes for working with the various stakeholders. However, OPM's goal to increase both the number of Issuers and enrollment in MSP options continues to be a management challenge for OPM given the uncertainty about the ACA due to the many lawsuits and concerns with large premium rate increases in 2016.

INTERNAL CHALLENGES

The following challenges relate to current program activities that are critical to OPM's core mission, and while impacted to some extent by outside stakeholders, guidance, or requirements, they are OPM challenges with minimal external influence. They are areas that once fully addressed 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. INFORMATION SECURITY GOVERNANCE

OPM relies on information technology to manage its core business operations and deliver products and services to many stakeholders. With continually increasing reliance on information systems, growing complexity, and constantly evolving risks and threats, information security continues to be a mission-critical function. Managing an information security program to reduce risk to agency operations is clearly an ongoing internal management 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 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 many years, we have reported increasing concerns about the state of OPM's information security governance. Our Federal Information Security Management Act (FISMA) audit reports from FY 2007 through FY 2013 reported this issue as a material weakness, and our recommendation was that the agency recruit a staff of information security professionals to act as Information System Security Officers (ISSO) that reports to the OCIO.

Our FY 2014 FISMA report reduced the severity of the material weakness to a significant deficiency based on OPM's plan to fill enough positions to manage the security for all OPM information systems. Throughout FY 2015, OPM successfully filled the vacant ISSO positions, effectively centralizing IT security responsibility under the Chief Information Officer and fulfilling our audit recommendation. However, our FY 2015 FISMA audit demonstrated that system owners are still not in compliance with many FISMA requirements. While we are optimistic that with this new governance structure in place OPM can eventually improve FISMA compliance, we will continue to monitor its effectiveness in future years.

2. SECURITY ASSESSMENT AND AUTHORIZATION

Information System Security Assessment and Authorization (Authorization) is a comprehensive assessment that evaluates whether a system's security controls are meeting the security requirements of that system. FISMA requires the OCIO to conduct an annual agency security program review in coordination with agency program officials.

Previous FISMA audits identified a material weakness in OPM's Authorization process related to incomplete, inconsistent, and sub-par work products. OPM resolved the issues by implementing new policies and procedures to standardize the Authorization process. However, in FY 2014, we found that OPM program offices failed to conduct the appropriate Authorization process for 11 of OPM's 47 major information systems. The situation worsened in FY 2015 with 23 of 47 systems operating in the production environment without a valid Authorization. As a result, we reinstated the material weakness related to this issue.

In April 2015, OPM's OCIO issued a memorandum that granted an extension of the previous Authorizations for all systems whose Authorization had already expired, and for those scheduled to expire through September 2016. The justification was that OPM is in the process of modernizing its IT infrastructure, and that once this modernization is complete, all systems would have to receive new Authorizations anyway. However, the Office of Management and Budget's (OMB) Circular A-130, Appendix III mandates that all Federal information systems have a valid Authorization. A system must be Authorized every three years, and OMB does not recognize interim or temporary Authorizations such as those being used by OPM. Without subjecting its information systems to a routine and thorough security controls assessment, OPM is increasing the risk that IT security vulnerabilities will remain in its environment undetected.

The OCIO has also referenced other areas where controls have been strengthened as further justification. Significant changes related to information security and assessment have been put in place, including an effort to close OIG audit findings. In addition, OPM's Security Operations Center (SOC) provides continuous centralized support for OPM's security incident prevention and management program. The SOC deployed multiple tools to strengthen the security of the overall environment.

Furthermore, the OCIO has updated the continuous monitoring document that provides a high-level strategy for the implementation of information security continuous monitoring. The OCIO began implementation of the Department of Homeland Security's Continuous Diagnostic and Mitigation program (CDM) and believes that once fully implemented, Authorizations will no longer be necessary.

We agree that, eventually, a mature continuous monitoring program built around CDM will be sufficient to eliminate the need for Authorizations. However, OPM's continuous monitoring program has not reached that point, and with OPM's new technical environment potentially five years away from completion, it is clear that OPM must continue to conduct Authorizations for all systems that require them.

Maintaining active Authorizations for all information systems is a critical element of a Federal information security program, and failure to thoroughly assess and address a system's security weaknesses increases the risk of a security breach. We believe that the volume and sensitivity of OPM systems that are operating without an active Authorization continues to represent a material weakness in the internal control structure of the agency's IT security program.

3. DATA SECURITY

Targeted and advanced attacks on computer networks are becoming increasingly frequent, and IT security professionals are in a race to secure their networks before the next breach occurs.

In 2015, OPM was the victim of devastating data breaches in which the personal information of more than 20 million people was compromised. Personnel data of 4.2 million current and former Federal government employees was stolen. In addition, OPM discovered that the background investigation records of 21.5 million current, former, and prospective Federal employees and contractors had been compromised.

OPM's technical environment is complex and decentralized, characteristics that make it extremely difficult to secure. Over the past several years, the agency has increased the staffing levels of its network security team, and has procured a variety of tools to help automate efforts to secure the OPM network. However, our FY 2014 FISMA audit determined that not all of these tools are being utilized to their fullest capacity, as the agency was having difficulty implementing and enforcing the new controls on all endpoints of this decentralized infrastructure. In the wake of the data breach, OPM procured even more security tools to help further secure the network. We agree that these tools add value, but OPM continues to face the challenge of implementing them into a fragmented environment and fully leveraging their capabilities.

OPM's progress in centralizing IT security responsibility under the OCIO is a positive first step in gaining the ability to better control and secure its technical infrastructure. However, the agency still has significant work ahead to further secure the sensitive data it maintains.

The control that would have the greatest impact in securing sensitive data is the full implementation of two-factor authentication via personal identity verification (PIV) credentials. OPM has made progress in requiring the use of PIV authentication to connect an OPM-issued device to the network. However, this control in itself is not sufficient, as users or attackers can still access OPM applications containing sensitive data with a simple username and password. If the back-end applications were configured to only allow PIV authenticated users, an attacker would have extreme difficulty gaining unauthorized access to data without having physical possession of an authorized user's PIV card.

The loss of this data has significantly damaged national security. It is critical that OPM continue to strengthen cyber defenses to prevent similar thefts in the future. OPM also has

an obligation to make affected employees and other victims whole by providing identity theft protection and other necessary products for these breaches in data. Careful attention is needed to ensure proper management of the contract for identity theft protection services, as victims deserve the highest standards of customer service.

4. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT PROJECT

While working to implement new IT security tools into its decentralized technical environment, OPM determined that the network infrastructure ultimately needed a complete overhaul and migration into a much more centralized and manageable architecture. While we have serious concerns with the way in which this project was initiated and planned (see our Flash Audit Alert – Report No. 4A-CI-00-15-055), we agree in principle that this infrastructure improvement project outlines an ideal future goal for the agency’s IT environment.

However, OPM faces enormous hurdles in reaching its desired outcome – many of which we do not believe the agency is adequately prepared to address. OPM has a history of troubled information system development projects. Despite multiple attempts and hundreds of millions of dollars invested, OPM has encountered well publicized failures to modernize its retirement claims processing system. OPM has also faced struggles in modernizing its financial systems and its applications supporting the background investigation process. These are just three specific examples, and OPM’s current initiative will be far more complex than anything the agency has attempted in the past. OPM has dozens of major information systems and hundreds of minor applications that must all be migrated into the new technical environment (referred to as the Shell).

The first major challenge that OPM faces is to identify all of the information systems that must be migrated to the Shell. OPM’s historically decentralized approach to IT management makes it very difficult to develop a single, comprehensive inventory of systems and applications. OPM has several initiatives underway to improve its inventory management program, but it is a monumental task.

The second major challenge relates to the complexity of migrating old information systems into a new environment. Many of OPM’s systems are supported by legacy technology that will not be compatible with the new environment. These systems must be completely redesigned and rebuilt before they can be migrated to the Shell. OPM has implemented systems development lifecycle (SDLC) policies and procedures, but our audit work has repeatedly determined that the SDLC policy is not being enforced on all IT development projects, including this infrastructure improvement project. The OCIO acknowledges the need to enforce the SDLC policy on 100 percent of OPM's IT portfolio, and is currently implementing a reorganization that addresses this issue by assigning OCIO IT project managers as a direct point of contact for each of the agency's program offices.

Although these positions have been planned and funded, the staff necessary to properly enforce and oversee the SDLC process for all OPM systems is not in place at this time.

In the interim, the OCIO continues to provide training to existing project managers through a Project Management Community of Practice designed to provide guidance on best practices in systems development. The best chance for a successful modernization of OPM's IT environment is to enforce disciplined SDLC and project management processes.

The third and most critical challenge is the fact that OPM does not have dedicated funding to support this project. Having not yet documented a comprehensive inventory of systems that need to be migrated to the Shell, OPM cannot even estimate how much this project will ultimately cost. OPM failed to adequately plan for this project before initiating it, and now faces great risk of not being able to finish it due to lack of funding. The results of running out of money in the middle of the project could be catastrophic. The agency could end up with half of its systems in the new Shell environment and half of its systems in the legacy environment. Neither of the environments would be fully secure, and OPM would be in a position where it is forced to pay indefinitely for the overhead costs of both infrastructures.

While we fully support OPM's efforts to modernize its IT environment, we are concerned that there is a high risk that its efforts will ultimately be unsuccessful.

5. STOPPING THE FLOW OF IMPROPER PAYMENTS

Reducing improper payments by Federal agencies continues to be a top priority of both the Administration and Congress. Between 2009 and the present, the Federal Government has built a robust infrastructure of legislative and administrative requirements with which agencies must comply in order to achieve tangible results, most notably Office of Management and Budget (OMB) Circular A-123, Appendix C. OMB released M-15-02, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, to Circular No. A-123 on October 20, 2014, with significant changes to the policy that oversees how agencies track, report, and oversee improper payments.

Despite these changes, the improper payment of retirement benefits, specifically those to deceased annuitants, continues to be a significant problem at OPM. The retirement programs operated by OPM continue to meet OMB's definition of programs susceptible to significant improper payments because their annual improper payments are over \$100 million per year. Indeed, the improper payments made to deceased annuitants alone regularly total over \$100 million. Between FY 2011, when we first included this issue as a management challenge, and FY 2014, OPM has paid out over \$430 million to deceased annuitants. We acknowledge that OPM's recapture rate for these improper payments has improved and they recover a large amount of these funds. However, the fact that they continue to make over \$100 million of improper payments each year is a serious problem and indicates that there are still significant deficiencies in the internal controls designed to prevent improper payments from being paid in the first place.

OPM has recognized this problem and taken steps to address it, including the initiation of two special projects in FY 2015. First, it began a review of undeliverable 2014 Internal Revenue Service tax forms, an exercise which it has conducted two other times in the past (2006 and 2009 tax years). Second, the agency also instituted a program whereby it sends

“happy birthday” letters to annuitants who turn 100 and older. If a tax form or letter is returned as undeliverable, OPM investigates the cause.

We are pleased to see this activity, but our concerns about the adequacy of OPM’s prevention efforts continue. Our oversight work has identified multiple deficiencies and areas that require improvement. For example, OPM continues to rely primarily on the Social Security Administration’s (SSA) death data to identify deceased annuitants. While the use of this data is very effective, both the SSA OIG and the Government Accountability Office have raised concerns about the completeness of these files, so it is important that OPM utilize a variety of additional detection methods to supplement the data match.

Another example is the failure to utilize data mining techniques to address improper payments to deceased annuitants. OPM did make an attempt at this by establishing a Data Mining Working Group (DMWG) in 2012. The stated purpose of the group was to use data analysis to identify specific improper payments and high-risk situations where improper payments may be likely to occur. The DMWG issued a report in 2014 and was then disbanded. This raises two concerns. First, the OIG has repeatedly recommended that such a group be a *permanent* part of OPM’s ongoing efforts to combat improper payments. Second, while the DMWG’s report contained excellent policy suggestions (illustrating the value of having such a group in place), the group did not perform any actual *data analysis*. We continue to believe the DMWG should be a permanent working group, and we reiterate that it should contain subject matter experts who can conduct both policy *and* data analysis.

A key problem with OPM’s identification efforts is that they rarely require an annuitant to actively engage with the agency. Almost all benefit payments are deposited directly into annuitants’ bank accounts through electronic funds transfer. OPM routinely sends mail to annuitants, such as information on new cost of living adjustments or changes in the FEHBP, but these mailings do not require any action by the annuitant. Although OPM does send biannual surveys to certain types of annuitants (such as those with representative payees), large segments of the elderly annuitant population do not receive these surveys. OPM proactively reaches out to older annuitants only through special projects conducted on an intermittent basis or if the agency has a specific reason to suspect an annuitant is deceased. Even OPM’s new birthday letter is a passive effort as the annuitant is not requested to respond. It is true that the agency investigates undeliverable birthday letters, but the successful delivery of a letter, by itself, is not evidence that the annuitant is alive since the letters can simply be ignored.

Overall, based upon our oversight, we continue to believe that the deficiencies in OPM’s improper payments prevention program are significant and it thus remains a top agency challenge.

6. RETIREMENT CLAIMS PROCESSING

OPM is responsible for processing in excess of 100,000 retirement applications a year for Federal employees. The timely issuance of full annuity payments to annuitants has been a long-standing challenge for OPM.

In January 2012, OPM released and began implementation of a strategic plan with the goal of adjudicating 90 percent of retirement cases within 60 days starting in July 2013. As of June 2015, only 68.7 percent of pending claims were processed in 60 days or less. On average, those cases processed in 60 days or less took 42 days to complete, while cases taking longer than 60 days to process took 87 days to complete. Quite often the delay occurred due to the need for additional information from the retiree's former agency or for the retiree to make an election.

OPM typically receives a surge of retirement claims at the beginning of the calendar year. In FY 2015, the surge included approximately 30,000 new claims, exceeding projections and stretching from January into February. In previous years, OPM has hired additional staff at the beginning of the fiscal year to offset the increased workload. Due to resource constraints, OPM was not able to use this approach in FY 2015, hindering their ability to address this influx of claims in a timely manner.

OPM remains committed to providing timely processing of retirement claims by making internal and external process improvements, and continues to implement the core components in the Retirement Services strategic plan, including people; productivity and process improvements; partnering with agencies; and partial, progressive information technology improvements. However, without proper resources, OPM's ability to meet its goal of processing 90 percent of retirement claims in 60 days is in jeopardy. In addition, if OPM does not receive funding for its IT initiatives, the ability to achieve sustained progress in meeting its processing goals will be severely impacted.

7. PROCUREMENT PROCESS FOR BENEFIT PROGRAMS

For the past two years our office has raised concerns about OPM's procurement processes over certain benefit programs. Specifically, these programs include the BENEFEDS benefits portal, the Federal Long Term Care Insurance Program (FLTCIP), and the Federal Flexible Spending Account Program (FSAFEDS). We would like to say that we have seen noticeable improvements in OPM's processes in the last two years; instead, we continue to have serious concerns with OPM's handling of the procurements for these benefit programs.

We initially raised our concerns to OPM's Federal Employee Insurance Operations (FEIO) group in FY 2012. At that time, our concerns were related to the FSAFEDS program, which by that point had been operating under its initial Federal Acquisition Regulation (FAR) contract for nine years without a re-competition. In addition to the fact that the FAR limits the period of performance for this type of procured service to a five year period, this contract is administered by only one contractor, thereby limiting competition that helps reduce costs, which is inherent in other benefit programs administered by OPM.

In late 2013, FEIO stated that policies and procedures were in place to ensure that future re-competitions for all programs administered by FEIO would be handled in a timely manner; however, the FSAFEDS contract has still not been re-competed. Instead, FEIO modified

the contract twice to extend the periods of performance and did not demonstrate that either extension followed the protocols established by the FAR for the exercise of options. Despite raising our concerns to OPM's Chief of Staff, a new FSAFEDS contract has still not been awarded, and is in danger of being extended once again. In addition, due to resource limitations within FEIO, they can only handle one procurement action at a time. Therefore, as a result of the continued delays rebidding the FSAFEDS contract, the re-competition of the FLTCIP contract, which is the next contract due for procurement, is almost a year behind the target dates of its second procurement timeline.

We believe the delays can be attributed to a lack of oversight by OPM's Office of Procurement Operations and FEIO's desire for program continuity overriding its responsibilities for ensuring contracts are re-competed in accordance with the FAR.

OPM's Office of Procurement Operations (OPO), formerly the Contracting Office, is involved in the procurement process through contract award; however, after awarding the contract, it transfers its responsibilities to FEIO for contract administration. While this is understandable since FEIO staff are the program experts and are best able to address questions that typically arise in the administration of programs under their purview, this should not absolve the OPO from keeping abreast of the procurement's status. The contracting officer must be aware of modifications that have been issued, the options that have been exercised, and ensure appropriate and timely re-competition.

Along the same lines, while we understand the logic behind delegating responsibilities to FEIO to administer OPM's program contracts, unfortunately, FEIO's interest in ensuring program continuity has overridden its responsibilities to ensure that future procurements are properly planned, are awarded timely, and follow the protocols established by the FAR. From what we have observed with the current contract delays, there appears to be no sense of urgency to ensure the contracts are re-competed in a timely manner since FEIO can modify the contract to extend the period of performance, as was done multiple times with the FSAFEDS and BENEFEDS procurements.

While program continuity for these benefit programs is extremely important, and we are not suggesting that benefit programs be allowed to lapse while waiting for a new contract to be awarded, benefit continuity is but one of many factors that must be considered before extending a period of performance under the FAR. Another factor to be considered is whether the option to extend is the most advantageous to the Government. For a program like FSAFEDS, where there are constant changes in the market for this type of benefit and where there is a lack of built-in competition for enrollees that is inherent in other benefit programs administered by OPM, we would argue that allowing the FSAFEDS contract to continue for over 12 years without ever being re-competed was not the most advantageous option for the Government.

Because FEIO has been unable to demonstrate over the last several years that it is able to meet its responsibilities in the timely procuring and awarding of the benefit programs it administers, we strongly suggest that OPM consider consolidating all contract administration functions under its OPO and that these responsibilities no longer be

delegated to the program offices. We also suggest that future contracting officers assigned to these contracts not have responsibilities for administering the benefit programs, as we believe that these dual roles are a conflict of interest and will result in continued delays to these contracts being re-competed, especially when program continuity is at risk.

8. PROCUREMENT PROCESS OVERSIGHT

OPM's Office of Procurement Operations is responsible for providing centralized contract management that supports the operations and Government-wide missions of OPM, as well as managing the Government-wide Purchase Card program. In FY 2014, OPO awarded \$1.5 billion of contracts and processed almost 4,000 transactions, consisting of awards, modifications, and agreements.

Recent internal events, such as the data breach that affected 4.2 million current and former Federal employees, have focused a spotlight not only on OPM's IT system vulnerabilities, but on the contracts awarded in an effort to mitigate the impact of these recent events on current and former Federal employees.

During FY 2015, the OIG conducted a risk assessment of Facilities, Security, and Contracting (FSC), in which the OPO was identified as a high risk area. More specifically, the lack of proper management oversight and supervision, and contracting files not in compliance with the FAR, were identified as two of the key areas in need of improvement. While the lack of resources appears to be a main cause of the risks identified, OPM must ensure that the proper oversight is conducted over procurements to ensure that all contract awards meet regulation requirements.

During FY 2015, the OPO took steps to determine areas of improvement, by contracting with a consulting company to perform an independent strategic assessment of OPO's procurement compliance, procurement oversight, workload and staffing, and acquisition certification and training. The consulting group issued a report of its findings, including 16 recommendations. FSC is in the process of developing and implementing a plan to address the recommendations.

We have also completed a special review of OPM's award of a credit monitoring and identify theft services contract to Winvale Group LLC, and its subcontractor, CSIIdentity (draft report has been issued, final report is forthcoming). The objective of the review was to determine if OPO awarded the Winvale contract in compliance with the FAR and OPM's policies and procedures. We determined that the OPO did not award the Winvale contract in compliance with the FAR and OPM's policies and procedures, which led to the OPO selecting the wrong contracting vehicle. While we are unable to determine whether the issues we uncovered are significant enough to have impacted the award of the contract to Winvale Group LLC, and its subcontractor, CSIIdentity, it is evident that significant deficiencies existed in the OPO over the contract award process.

OPM recently implemented a reorganization of the FSC, which involved making the OPO a direct report to the Director, hiring key management officials, and working towards

improving its procurement processes. While we recognize that OPM is working on improving the overall procurement process, the challenge still remains to ensure that the proper policies, procedures and controls are in place to ensure that staff are properly trained, internal OPM policies are routinely updated, contract files are complete and accurate, and procurements are awarded in compliance with FAR requirements.