

Board of Governors of the Federal Reserve System

The Board Can Enhance Its Personnel Security Program



Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



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Executive Summary, 2022-MO-B-001, January 31, 2022

The Board Can Enhance Its Personnel Security Program

Findings

The Board of Governors of the Federal Reserve System can enhance its personnel security program. Specifically, the Board's Personnel Security Services (PSS) section has not defined objectives or risk tolerances to measure program performance. In addition, PSS did not consistently follow its processes for documenting position risk designations for the background investigations initiated during our scope. We found that PSS conducted the appropriate investigations for contractors but did not always conduct investigations at the appropriate tier for Board employees.

In addition, PSS did not have a process to reconcile data in the case management system, did not perform periodic reviews to ensure the accuracy of reinvestigation due dates in the case management system, and did not always approve security clearance access request forms in a timely manner.

Lastly, we found that PSS did not have processes to document its annual validation of a clearance holder's need for continued access to classified information and did not always document the validation attempt prior to initiating a reinvestigation.

Recommendations

Our report contains recommendations designed to enhance the Board's personnel security program and strengthen processes and controls for completing background investigations and granting security clearances for employees and contractors. In its response to our draft report, the Board generally concurs with our recommendations and outlines actions that have been or will be taken to address them. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess the efficiency and effectiveness of the Board's process and controls for completing background investigations and granting security clearances for employees and contractors. To assess the process and controls for completing background investigations and granting security clearances, we reviewed and analyzed data from the PSS case management system for employees and contractors who had investigations initiated from September 1, 2019, to September 30, 2020.

Background

The Board conducts background investigations to determine an individual's suitability to be employed and grants security clearances to individuals with a need to access classified information. PSS is responsible for initiating and managing the background investigation and security clearance processes for all Board employees and contractors. These processes include determining the risk designation for each position, initiating background investigations and periodic reinvestigations, and making adjudication recommendations to the Board's personnel security officer. The Board has policies and standard operating procedures to guide its personnel security program.



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Recommendations, 2022-MO-B-001, January 31, 2022

The Board Can Enhance Its Personnel Security Program

Finding 1: PSS Has Not Defined Specific Objectives to Measure Program Performance

Number	Recommendation	Responsible office
1	Ensure that PSS develops <ol style="list-style-type: none">measurable performance objectives and associated risk tolerances for the background investigation process.a process to regularly monitor the overall performance of the personnel security program.	Division of Management

Finding 2: PSS Did Not Always Follow Its Position Risk Designation Process

Number	Recommendation	Responsible office
2	Ensure that PSS follows its process to designate and document position risk for all Board positions in accordance with the <i>Employee Identification SOP</i> .	Division of Management

Finding 3: PSS Did Not Always Ensure That All Individuals Were Investigated at the Appropriate Tier

Number	Recommendation	Responsible office
3	Develop a review process to ensure that PSS staff initiate a background investigation at the tier indicated by the individual’s position risk designation.	Division of Management

Finding 4: The Data in the Case Management System Were Not Always Complete and Accurate

Number	Recommendation	Responsible office
4	Develop and implement a process to <ol style="list-style-type: none">perform periodic reconciliations against the Board’s official human resources records to ensure the completeness and accuracy of employee and contractor data in the case management system.resolve any discrepancies identified by periodic reconciliations.	Division of Management
5	Develop and implement a process to prevent or detect missing or overdue reinvestigation due dates.	Division of Management

Finding 5: PSS Did Not Always Timely Approve or Confirm Continued Need for Access to Classified Information

Number	Recommendation	Responsible office
6	Develop and implement a process to <ol style="list-style-type: none">ensure that all access request forms can be approved timely, regardless of the Board's working environment status.document the annual validation of clearance holders' need for continued access to classified information.ensure that PSS documents its validation of the need for continued access to classified information prior to initiating a reinvestigation.	Division of Management



Office of Inspector General

Board of Governors of the Federal Reserve System
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MEMORANDUM

DATE: January 31, 2022

TO: Winona H. Varnon
Director, Division of Management
Board of Governors of the Federal Reserve System

FROM: Michael VanHuysen 
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2022-MO-B-001: *The Board Can Enhance Its Personnel Security Program*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the efficiency and effectiveness of the Board of Governors of the Federal Reserve System’s process and controls for (1) completing background investigations for employees and contractors and (2) granting security clearances for employees and contractors.

We provided you with a draft of our report for review and comment. In its response, management concurs with the findings and generally agrees with our recommendations and outline actions that have been or will be taken to address them. We have included the response as appendix B to our report.

We appreciate the cooperation that we received from your staff during our evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Donna Butler
Curtis Eldridge
Katherine Perez
Patrick J. McClanahan
Ricardo A. Aguilera
Cheryl Patterson



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Introduction

Objectives

The objectives for this evaluation were to assess the efficiency and effectiveness of the Board of Governors of the Federal Reserve System’s process and controls for (1) completing background investigations for employees and contractors and (2) granting security clearances to employees and contractors.

To achieve our objectives, we analyzed Board documents and interviewed Board officials. We also examined background investigation and security clearance data from September 1, 2019, to September 30, 2020. During that time period, the Personnel Security Services (PSS) section, which is part of the Board’s Division of Management, initiated background investigations for 398 employees and 218 contractors. Details on our scope and methodology are provided in appendix A.

Background

The Board’s Personnel Security Program

The Board conducts background investigations to determine an individual’s suitability to be employed. *Suitability* refers to an individual’s fitness or eligibility to perform services for the Board, as evidenced by the individual’s past and present conduct. The Board uses the Defense Counterintelligence and Security Agency (DCSA) and a contractor to perform background investigations on behalf of the Board.¹ The Board also grants security clearances to individuals with a need to access classified information. Only certain employee and contractor positions require access to classified information.

PSS is responsible for initiating and managing the background investigation and security clearance processes for all Board employees and contractors.² These processes include determining the risk designation for each position, initiating background investigations and periodic reinvestigations, and making adjudication recommendations to the Board’s personnel security officer (PSO). The PSO is responsible for approving adjudication recommendations as well as determining an employee’s eligibility to access classified information.

PSS uses an electronic case management system to initiate and track background investigations, reinvestigations, and security clearances for employees and contractors. The case management system contains information such as dates for the stages of an individual’s background investigation process as well as case file notes that summarize actions taken by PSS staff and officials.

¹ DCSA is a federal agency that serves as the primary investigative service provider for the federal government. The Board’s contractor also provides background investigation services for the federal government.

² PSS is staffed by assistants, specialists, a senior analyst, and a manager.

Laws, Regulations, and Guidance

Section 10 of the Federal Reserve Act grants the Board broad authority over matters of employment. Specifically, section 10(4) states that Board employment will be governed “solely” by the provisions of the Federal Reserve Act and rules and regulations of the Board that are not inconsistent with the act. Therefore, the Board is generally not subject to the personnel provisions of title 5 of the *United States Code*, which includes provisions related to fitness or suitability for federal employment; rather, the Board has established its own suitability standards.

The Board must comply with all federal laws, regulations, and executive orders that govern access to and the classification of national security information. The Board is required to comply with the Security Executive Agent Directive (SEAD) 4, *National Security Adjudicative Guidelines*, with respect to the rules it contains regarding classified national security information. SEAD 4 states, in part, the “National Security Adjudicative Guidelines are established as the single common criteria for all U.S. Government civilian and military personnel, consultants, contractors, licensees, certificate holders or grantees and their employees, and other individuals who require initial or continued eligibility for access to classified information.”

The Board’s Personnel Security Policies and Procedures

In February 2019, the Board updated its *Suitability* policy, which outlines the suitability standards for employees and contractors as well as the Board’s process for handling employees and contractors who do not meet the suitability standards. PSS has also developed several standard operating procedures (SOPs) that provide detailed guidance on conducting and maintaining records on personnel security background investigations. PSS’s *Employee Identification* SOP provides guidance to determine the appropriate investigation tier for employees. The *Non-Employee Identification* SOP establishes the default investigation tier for contractors. Additionally, the *Periodic Reinvestigation* SOP outlines the process for conducting reinvestigations for employees and contractors.

The Board’s *National Security Clearance and Access to National Security Information* policy, effective July 2013 and updated in August 2021, establishes the Board’s process for providing a national security clearance and the conditions under which the Board grants certain individuals access to classified national security information.

The Board’s Background Investigation and Security Clearance Processes

All new Board employees or long-term contractors (those with engagements longer than 180 days) must undergo a background investigation to determine their suitability to be employed. In addition, the Board grants security clearances to those individuals with a need to obtain access to classified information. Contractors with engagements lasting fewer than 180 days are considered short term and only require fingerprints.

Prior to initiating a background investigation, a risk designation must first be assigned to the employee’s or contractor’s position.

The Position Risk Designation Process

A position's *risk designation* indicates the degree to which the position affects the security and effectiveness of Board operations. A personnel security assistant, in consultation with the Division of Management's People, Strategy, and Operations function and the applicable division, is responsible for determining the risk designation for each position by using a risk designation tool and then documenting the result on the risk designation worksheet. The risk designation tool helps the personnel security assistant evaluate the duties, responsibilities, and risk level of Board positions to determine the appropriate level of background investigation. PSS consults with the contracting officer's representative (COR) to determine the appropriate investigation level for long-term contractors.

The Board uses three risk categories—*low*, *moderate*, and *high*. A position's risk designation determines the tier of background investigation conducted on individuals in that position. The higher the risk designation, the more in-depth the background investigation. Background investigation tiers range from 1 (lowest) to 5 (highest).

- Low-risk positions: A position is low risk if the position's duties and responsibilities have a limited effect on the integrity and efficiency of the Board. The background investigation tier associated with these positions is tier 1.
- Moderate-risk positions: A position is moderate risk if it has the potential for a moderate to serious effect on duties of considerable importance to the Board. By default, all Board positions are designated moderate risk unless otherwise classified. The background investigation tiers associated with these positions are tier 2 and tier 3.
- High-risk positions: A position is high risk if it can have an exceptionally serious impact on critical duties of the Board. The background investigation tiers for these positions are tier 4 and tier 5.

According to the *Employee Identification SOP*, the default background investigation is tier 2 for employees and tier 1 for interns.³ The *Non-Employee Identification SOP* states that tier 2 is the default investigation level for long-term contractors, but the COR can request a higher level of investigation.

Initiation of Background Investigation

Based on the position's risk designation or security clearance need, a personnel security assistant initiates an individual's background investigation process in the case management system. This includes scheduling the individual for fingerprinting and requesting that they complete an electronic questionnaire.⁴

The personnel security assistant reviews questionnaires for completeness and submits an investigation request either to DCSA or to the Board's contractor, depending on the tier. Once PSS receives the completed investigation package, a personnel security specialist is responsible for adjudicating the case and making a recommendation to the PSO.

³ Employees in certain divisions require a minimum tier 4 investigation.

⁴ The questionnaire allows the individual to electronically enter, update, and transmit their personal investigative data for federal security, suitability, fitness, and credentialing purposes.

New employees or long-term contractors may come to the Board with a previously completed and favorably adjudicated background investigation. The Board may accept the results of that investigation on the basis of reciprocity if the personnel security assistant deems the previous background investigation appropriate for the individual's position.

The Adjudication Process

A personnel security specialist reviews the completed investigation package to determine whether an individual is suitable to work at the Board. Suitability is determined by a set of conduct and behavioral factors outlined in the Board's *Suitability* policy. Ultimately, a personnel security specialist makes an adjudication recommendation to the PSO.

If the PSO concludes that an individual is suitable for employment, no additional action is needed. However, if the PSO believes the individual may not be suitable for Board employment, the PSO works with the new employee's hiring division, or the COR in the case of a contractor, to make a final decision on suitability.

For individuals who require access to classified information, eligibility for access is based on specific adjudicative guidelines outlined in SEAD 4, *National Security Adjudicative Guidelines*. Generally, suitability for employment and eligibility to access classified information are considered separately. An individual may be suitable for employment but may not meet the threshold to be granted a security clearance.

Access to Classified Information and Security Clearance Process

Employees and contractors in positions that require access to classified information must obtain a security clearance. A nominating official makes an initial determination that the employee or contractor has a need to access classified information based on the nature of the assignment or the nature of the position.

A Board officer must then submit an access request form to PSS that includes a justification explaining the need for access to classified information. The PSO reviews the justification to determine whether an individual requires a clearance. In addition, the Board's senior special security officer (SSSO) determines whether an individual needs to access sensitive compartmented information (SCI) and other types of classified information.⁵

Eligibility for access to classified information is determined by conducting a background investigation in accordance with the sensitivity level of the position and the information to be accessed.⁶ Employees must undergo a tier 3 or higher background investigation to obtain a secret clearance and a tier 5 background investigation to obtain a top-secret clearance or a top-secret-with-SCI clearance. The PSO is responsible for making all final decisions about whether to grant, deny, or revoke eligibility for access to classified information.

⁵ *SCI* is classified national intelligence information concerning or derived from intelligence sources, methods, or analytical processes that requires protection within formal access control systems established and overseen by the director of national intelligence.

⁶ If an individual has a current background investigation at the tier required for the security clearance needed, the individual does not need to undergo a new background investigation.

The Board's Reinvestigation Process

All employees and contractors in positions that require a tier 2 or higher background investigation must undergo a reinvestigation at least every 5 years. The case management system notifies PSS when a reinvestigation is due.

PSS conducts reinvestigations similar to an initial investigation, except that a new set of fingerprints is generally not required. If an individual has a security clearance, PSS confirms with the employee's division or the COR that the individual still requires that clearance prior to ordering the reinvestigation. Upon completion of the reinvestigation, the assigned personnel security specialist and the PSO adjudicate the case as described in *The Adjudication Process* section above.

Recent Policy Updates Affecting Employee Background Investigation Tiers

According to the prior version of the Board's *Suitability* policy, positions designated as low-risk noncritical sensitive required a *National Agency Check and Inquiries* investigation, and employees in these positions were not required to undergo a periodic reinvestigation.⁷ In 2019, the Board updated its *Suitability* policy, and PSS created its SOPs. Notable updates include the requirement that employees and contractors be investigated at a minimum tier 2 level and reinvestigated at least every 5 years.

These updates resulted in a need to reinvestigate approximately 2,000 Board employees. As part of the process to reinvestigate these employees, PSS will also need to assess the employees' position risk designations. Based on the minimum tier requirements of certain divisions, approximately 59 percent of these employees require a minimum tier 4 level investigation.⁸

In June 2021, PSS began initiating reinvestigations for these employees, and PSS officials expect to complete these reinvestigations over 5 years. These additional reinvestigations represent a significant workload increase.⁹ To assist with the increased workload, PSS hired a manager and additional staff after PSS began initiating reinvestigations.

⁷ The *National Agency Check and Inquiries* is equivalent to a tier 1 investigation.

⁸ These figures are based on data we obtained and analyzed from the case management system.

⁹ As of October 8, 2020, PSS had a total of 2,969 employees in its case management system. The number of employees that now require a reinvestigation as a result of the *Suitability* policy update represent approximately 68 percent of the Board's workforce.



Finding 1: PSS Has Not Defined Specific Objectives to Measure Program Performance

We found that PSS can improve its monitoring approach by defining specific performance objectives and risk tolerances, which will allow it to better measure program performance. The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states that management should define measurable objectives and risk tolerances. In addition, management should compare actual performance to planned or expected results and analyze significant differences. A PSS official conducts ad hoc reviews; however, those reviews do not focus on PSS's overall performance. Developing performance objectives and associated risk tolerances for the background investigation process will enable PSS to assess and monitor its performance, determine whether adjustments are needed, and identify any performance issues timely. Such performance objectives and risk tolerances are of particular importance given the increase in PSS's workload because of the *Suitability* policy update, which resulted in a need to reinvestigate approximately 2,000 employees.

PSS Does Not Have a Consistent Approach to Measure Its Performance

PSS has not defined performance objectives or risk tolerances for the background investigation process and has not developed an approach to consistently monitor performance. Because PSS does not have its own performance objectives related to timeliness, we chose two U.S. Office of Personnel Management (OPM) timeliness metrics to assess the efficiency of the PSS background investigation process.¹⁰

OPM has established an initiation timeliness metric of 14 days for 90 percent of all investigation requests.¹¹ OPM also requires that agencies report adjudicative determinations within 90 days of receiving a completed investigation. We analyzed data in the case management system and did not identify any significant deviations from the OPM timeliness targets. We found that PSS

- requested 316 of 370 employee investigations (85 percent) within 14 days of receiving a completed electronic questionnaire¹²

¹⁰ The Board is not subject to OPM's timeliness metrics.

¹¹ This metric measures the time elapsed from the date an individual completes the electronic questionnaire to the date PSS requests the investigation.

¹² These results include background investigations for security clearances, which were all requested within OPM's 14-day timeliness metric.

- adjudicated 264 of 274 employee cases (96 percent) within 90 days of receiving a completed investigation¹³

Although the Board is not required to meet OPM’s performance metrics, management is responsible for defining its own performance objectives and measuring performance against those objectives and risk tolerances. GAO’s *Standards for Internal Control in the Federal Government* states that management should define measurable objectives and risk tolerances so that performance toward achieving those objectives can be assessed. Defining risk tolerances allows management to identify the acceptable level of variation in performance relative to the achievement of the objectives. In addition, management should compare actual performance to planned or expected results and analyze significant differences.

A PSS official informed us that PSS staff are responsible for notating an individual case’s status in the case management system monthly and that a PSS official periodically reviews these notations. However, these reviews are ad hoc and do not focus on PSS’s overall performance.

Developing performance objectives and associated risk tolerances for the background investigation process will better enable PSS to assess and monitor its performance. In addition, we believe that a more structured monitoring approach will allow PSS to determine whether adjustments are needed in staffing or other programmatic areas and to identify any performance issues timely. This is of particular importance given the need to reinvestigate approximately 2,000 employees. Specifically, establishing performance objectives can assist PSS in understanding how the additional cases are affecting overall performance.

Recommendation

We recommend that the director of the Division of Management

1. Ensure that PSS develops
 - a. measurable performance objectives and associated risk tolerances for the background investigation process.
 - b. a process to regularly monitor the overall performance of the personnel security program.

Management Response

The director of the Division of Management generally concurs with our recommendation. The response states that PSS plans to use performance and program metrics from DCSA, the Board’s contractor, and the Office of the Director of National Intelligence (ODNI) to measure and monitor its overall performance of the personnel security program. PSS plans to establish risk tolerances to ensure cases are processed within timeliness and quality requirements. Additionally, PSS will use monthly and quarterly reports to monitor background investigations and clearances. The director of the Division of Management plans to implement these actions by the fourth quarter of calendar year 2022.

¹³ These results include background investigations for security clearance cases, which were adjudicated within OPM’s 90-day timeliness metric.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 2: PSS Did Not Always Follow Its Position Risk Designation Process

We found that PSS did not consistently follow its process to document position risk designations in the position designation worksheet. In addition, we were informed that PSS does not typically use its risk designation tool. The *Employee Identification* SOP requires that a personnel security assistant use the risk designation tool to determine the appropriate investigation tier and then update the position designation worksheet to record the position's investigation tier for future reference. A PSS staff member informed us that they work with divisions rather than using the risk designation tool, and PSS officials could not explain why the investigation tiers were missing from the position designation worksheet. By following the position risk designation process, PSS will be in a better position to make accurate and consistent risk designations, which is of particular importance given that approximately 2,000 employees now require a reinvestigation.

PSS Did Not Consistently Follow Its Position Risk Designation Processes

We found that PSS did not consistently follow its processes for documenting position risk designations for background investigations initiated during our scope. Specifically, 50.9 percent of positions did not have the investigation tier documented in the position designation worksheet. In addition, a PSS staff member informed us that PSS does not typically use the risk designation tool.

According to the *Employee Identification* SOP, if PSS has not previously assigned a risk designation for a position, a personnel security assistant should use the risk designation tool to determine the appropriate investigation tier and then update the position designation worksheet to record the position's investigation tier for future reference.

The risk designation tool was created to be used in lieu of OPM's *Position Designation Tool*. The tool is intended to provide a systematic, dependable, and uniform approach to designating position risk. The position designation worksheet documents the results from the tool and provides a reference point when making future investigation tier determinations.

PSS officials did not provide an explanation for why some investigation tiers were missing from the position designation worksheet. In addition, a PSS staff member informed us that PSS does not typically use the risk designation tool; instead, a PSS staff member works with the division to designate positions.

Because PSS did not document some positions' risk designations on the position designation worksheet, we were unable to determine whether all employees were investigated at the appropriate tier. Additionally, by not following the position risk designation process, personnel security assistants may make risk designations inconsistently. For example, we identified inconsistencies between similar position types within our scope. Specifically, we found that an employee whose position was not included on the worksheet received a lower tier background investigation than is designated on the worksheet for a similar position type.

By following the position risk designation process, PSS will be in a better position to make accurate and consistent risk designations. This is of particular importance given that approximately 2,000 employees now require a reinvestigation.

Recommendation

We recommend that the director of the Division of Management

2. Ensure that PSS follows its process to designate and document position risk for all Board positions in accordance with the *Employee Identification SOP*.

Management Response

The director of the Division of Management generally concurs with our recommendation. The response states that PSS will (1) use the position designation tool, (2) review and update the *Employee Identification SOP*, and (3) continue to work with divisions to ensure each current active position is designated at the correct investigation tier. The director of the Division of Management plans to implement these actions by the fourth quarter of calendar year 2022.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 3: PSS Did Not Always Ensure That All Individuals Were Investigated at the Appropriate Tier

We found that although PSS conducted the appropriate investigations for contractors, it did not always conduct investigations at the appropriate tier for Board employees. GAO's *Standards for Internal Control in the Federal Government* states that management should perform periodic reviews to determine the effectiveness of its policies and procedures in achieving objectives and addressing risks. A personnel security assistant is responsible for initiating the appropriate background investigation in accordance with the *Employee Identification* and *Non-Employee Identification* SOPs; however, a PSS official informed us that PSS does not have a review process to ensure that the personnel security assistant initiates the background investigations at the appropriate tier. Developing such a review process would help ensure that PSS investigates all individuals at the appropriate tier and that all employees and contractors meet the suitability standards appropriate for their position.

PSS Did Not Always Conduct the Appropriate Investigation for Board Employees

We found that PSS did not always conduct background investigations at the appropriate tier for Board employees. Specifically, we found that 16 of 199 employees (8 percent) whose investigation tiers were documented in the position designation worksheet were investigated at a lower tier than required, including 3 employees whose previous investigations were accepted based on reciprocity. In addition, we found that PSS investigated all security clearance holders within our scope at the appropriate tier for their clearance type.

According to the *Employee Identification* SOP, a personnel security assistant determines whether PSS has previously assigned a risk designation for an employee's position and, if so, requests the investigation at the appropriate tier. For employees who have been previously investigated, the personnel security assistant is responsible for determining whether the prior investigation can be accepted on the basis of reciprocity. In addition, the *Investigation Submission* SOP specifies that the personnel security assistant is responsible for initiating the background investigation.

GAO's *Standards for Internal Control in the Federal Government* states that management should perform periodic reviews to determine the effectiveness of its policies and procedures in achieving objectives and addressing risks.

A PSS official informed us that PSS does not have a review process to ensure that the personnel security assistant initiates background investigations at the appropriate tier or appropriately accepts background investigations on the basis of reciprocity. Establishing a review process that ensures that investigations are initiated and conducted at the correct tier or are appropriately accepted based on reciprocity would help ensure that Board employees meet the suitability standards required for their position and reduce

potential risks to the organization. Establishing such a process is particularly important given that approximately 2,000 employees now require a reinvestigation.

PSS Conducted the Appropriate Investigation for All Contractors

We found that 193 of 194 long-term contractors were investigated at the tier 2 level or higher and that all short-term contractors received a fingerprint screening. The 1 remaining long-term contractor originally had an engagement of 204 days, and although this contractor did not initially receive a tier 2 background investigation, PSS did initiate a tier 2 investigation upon extension of the original contract engagement. In addition, we found that PSS properly conducted tier 2 background investigations on 3 short-term contractors whose contract engagements were extended beyond 180 days.

The *Non-Employee Identification* SOP states that tier 2 is the default investigation level for a long-term contractor but that the COR can request a higher level of investigation. Short-term contractors only require a fingerprint screening but should receive a tier 2 investigation if their contract engagement is extended beyond 180 days.

Recommendation

We recommend that the director of the Division of Management

3. Develop a review process to ensure that PSS staff initiate a background investigation at the tier indicated by the individual's position risk designation.

Management Response

The director of the Division of Management generally concurs with our recommendation. The response states that PSS will continue to strengthen its internal processes to ensure that all subjects are reinvestigated at the correct investigation tier. Additionally, PSS plans to revise its internal processes to ensure all individuals are investigated at the appropriate tier for the position. The director of the Division of Management plans to implement these actions by the fourth quarter of calendar year 2022.

OIG Comment

We believe that the actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 4: The Data in the Case Management System Were Not Always Complete and Accurate

We found that not all current employees and contractors were active in the case management system. We also found instances of missing or incorrect reinvestigation due dates in the case management system. The *Suitability* policy requires that employees and contractors undergo a background investigation when they begin working for the Board and at least once every 5 years. GAO's *Standards for Internal Control in the Federal Government* states that management should perform ongoing monitoring, including regular reconciliations. PSS was not aware of these omissions and errors because it does not perform periodic reconciliations against official personnel records to ensure that all current Board employees and contractors are active in the case management system. In addition, PSS does not have a process to identify missing or overdue reinvestigation due dates for individuals in the case management system. Performing periodic reconciliations and implementing a process to prevent or detect missing or incorrect reinvestigation due dates can help PSS ensure that employees and contractors are properly vetted and reinvestigated at least once every 5 years.

PSS Does Not Reconcile Data in Its Case Management System Against Personnel Records

We found that not all current employees and contractors were active in the case management system. Specifically, we found that PSS had deactivated 15 current employees in the system. In addition, we found that 2 current contractors had been deactivated and 4 current contractors were missing from the system. When we notified PSS of these individuals, a PSS staff member informed us that these individuals were reactivated or added to the case management system, except for 1 contractor whose engagement concluded in November 2021.

In addition, we identified 24 contractors who were included on the contractor roster obtained from the Board's human resources system but who were missing from the case management system. Because PSS had no record of these individuals, we were unable to determine the appropriate action that PSS should have taken for these individuals.

The *Suitability* policy states that PSS conducts background investigations to determine an individual's suitability to be employed in a certain position and requires at least one background investigation when an employee or contractor begins working for the Board as well as a reinvestigation every 5 years. In addition, GAO's *Standards for Internal Control in the Federal Government* states that management should perform ongoing monitoring as part of its normal operations, including regular reconciliations.

The employees and contractors were deactivated or missing from the case management system for a variety of reasons, including human error and a change to an individual's employment date or status that was not fully processed. PSS was not aware of these omissions and errors because it does not perform

periodic reconciliations against official personnel records to ensure that all current Board employees and contractors are active in the case management system.

If periodic reconciliations are not performed, employees and contractors may have access to Board property and information without being properly vetted. For example, the missing contractors we identified worked at the Board for 11–18 months without a background investigation. As such, these contractors worked at the Board without PSS determining whether each contractor was suitable to be employed. In addition, if employees and contractors are missing or deactivated in the case management system, PSS may not be aware that an individual requires a reinvestigation, which may expose the Board to unnecessary organizational risk.

PSS Does Not Perform Periodic Reviews to Ensure the Accuracy of Reinvestigation Due Dates in the Case Management System

We found instances of missing or incorrect reinvestigation due dates in the case management system. Specifically, we found that

- 5 employee records and 29 contractor records were missing a reinvestigation due date
- 2 contractor records had a reinvestigation due date greater than 5 years from the close date of the previous investigation, ranging from 6 to 10 years

The *Suitability* policy and *Periodic Reinvestigation* SOP each state that employees and contractors should be reinvestigated at least once every 5 years. In addition, GAO's *Standards for Internal Control in the Federal Government* states that management should design control activities, such as checks of data entered, to achieve objectives and address risk. These control activities can be designed to either prevent or detect risks to the organization.

A PSS staff member informed us that the case management system automatically populates the reinvestigation due date. However, during a walk-through of the system, we learned that the reinvestigation due date can be manually changed to a different date or removed by clicking a *No Reinvestigation* checkbox. PSS staff attributed the incorrect reinvestigation due dates to human error. In addition, PSS does not have a process to identify missing or overdue reinvestigation due dates for individuals in the case management system.

Missing or incorrect reinvestigation due dates can cause PSS to unintentionally skip or delay an individual's required reinvestigation. If required periodic reinvestigations are not conducted, PSS cannot be assured that an employee or contractor continues to meet suitability standards for employment at the Board.

Recommendations

We recommend that the director for the Division of Management

4. Develop and implement a process to
 - a. perform periodic reconciliations against the Board's official human resources records to ensure the completeness and accuracy of employee and contractor data in the case management system.
 - b. resolve any discrepancies identified by periodic reconciliations.
5. Develop and implement a process to prevent or detect missing or overdue reinvestigation due dates.

Management Response

The director of the Division of Management generally concurs with our recommendations. For both recommendations 4 and 5, the response states that PSS will be more proactive in performing periodic reconciliations using information from the Board's human resources system to validate employee and contractor data in the case management system. The director of the Division of Management plans to implement these actions by the second quarter of calendar year 2023.

OIG Comment

We believe that the actions described by the director of the Division of Management appear to be generally responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 5: PSS Did Not Always Timely Approve or Confirm Continued Need for Access to Classified Information

We found that the Board did not always follow its process to timely approve security clearance access requests during the COVID-19 pandemic, when the Board was in a remote work environment. In addition, we found that PSS can improve its processes to document a clearance holder's need for continued access to classified information, both annually and at the time of reinvestigation. The Board's *National Security Clearance and Access to National Security Information* policy includes requirements for approving security clearance access requests as well as annually validating an individual's need for a clearance. Additionally, the *Reinvestigation* SOP requires that PSS validate that an individual still requires a security clearance before initiating a reinvestigation and to document that validation attempt in the case management system. PSS staff informed us that PSS made temporary changes to its process to facilitate access requests submitted during the pandemic; however, PSS did not implement similar changes for the approval of these requests. Further, PSS does not have a formal process to document the annual security clearance validation and did not always document validation attempts for reinvestigations in the case management system. Obtaining proper and timely approvals for security clearance requests can reduce the risk of granting an individual premature access to classified information. In addition, improving the processes to validate and document the need for continued access can reduce potential risks to the Board as well as create a historical record for an individual's need for continued access.

PSS Did Not Always Timely Approve Security Clearance Access Request Forms

We reviewed the access request forms for nine security clearance holders who were granted clearances during our scope. We found that all nine clearance holders had an approved request form. However, we found that four access request forms submitted during the pandemic were not approved timely. Specifically, we found that the PSO or the SSSO approved the access request forms for those clearance holders 273–441 days after the date the security clearance was granted.

According to the Board's *National Security Clearance and Access to National Security Information* policy, a senior Board officer must submit a request for the appropriate level of security clearance, including a justification statement specifically explaining the need for access, to the PSO. The PSO will evaluate the request and determine whether an individual requires a security clearance. The SSSO makes the final determination for individuals who require access to information at the SCI classification level.

PSS staff informed us that PSS made temporary changes to the access request process as a result of the Board's remote work environment during the COVID-19 pandemic. Specifically, PSS allowed senior Board officers to digitally sign access request forms for security clearances; however, PSS did not implement digital signing for PSO approval.

If approvals are not obtained in a timely manner, the need for an individual's security clearance cannot be fully established and documented, which may result in PSS granting clearances prematurely. While we understand that the pandemic presented several challenges to Board operations, we believe PSS can modify the access request process to help ensure that, regardless of the Board's work environment status, the PSO and the SSSO can approve access request forms timely.

PSS Does Not Have a Formal Process to Document Annual Checks of Clearance Holders' Need for Continued Access

We found that PSS does not have a formal process to validate clearance holders' need for continued access to classified information on an annual basis, as required.

According to the Board's *National Security Clearance and Access to National Security Information* policy, the PSO will verify that an individual still requires a security clearance annually. The policy also states that only individuals who need access to classified information should retain a clearance and that an individual's security clearance should be terminated when an employee no longer requires access to classified information or is no longer considered eligible to access classified information.

PSS staff informed us that PSS only documents annual checks for individuals who no longer require a security clearance. Formalizing the annual process to validate clearance holders' need for continued access may help to reduce the number of individuals with access to classified information, which is an important element of reducing potential risks to the organization.

PSS Did Not Always Document Its Validation of the Need for Access at the Time of Reinvestigation

We found that PSS did not always document its validation that individuals still have a need for access to classified information at the time of reinvestigation. We found that for 14 of 17 employees (82 percent), PSS documented its validation that a security clearance was still required at the time of reinvestigation. However, PSS did not document its validation attempt for the remaining 3 employees (18 percent).

The *Periodic Reinvestigation* SOP requires that PSS confirm that an individual requires continued eligibility for access to classified information before initiating the reinvestigation and to document the validation attempt in the case management system. In addition, GAO's *Standards for Internal Control in the Federal Government* states that management should properly manage and maintain documentation and records.

We could not confirm whether PSS validated the continued need for access for the three employees because there was no notation in the case management system. Ensuring that proper documentation is maintained creates a historical record for an individual's need for continued access to classified information.

Recommendation

We recommend that the director of the Division of Management

6. Develop and implement a process to
 - a. ensure that all access request forms can be approved timely, regardless of the Board's working environment status.
 - b. document the annual validation of clearance holders' need for continued access to classified information.
 - c. ensure that PSS documents its validation of the need for continued access to classified information prior to initiating a reinvestigation.

Management Response

The director of the Division of Management concurs with our recommendation. To ensure more timely approval of requests, the PSO and SSSO have already designated and begun to use a delegate in their absence to approve the access request forms. The PSO also plans to send an annual official notification to the designated point of contact for each division or Federal Reserve Bank to verify each clearance holder's need for continued access. PSS will also ensure the validation is documented in the case management system prior to initiating a reinvestigation. The director of the Division of Management plans to implement these actions by the fourth quarter of calendar year 2022.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Appendix A: Scope and Methodology

To assess processes and controls for completing background investigations and granting security clearances, we reviewed and analyzed data from PSS's case management system for employees and contractors who had investigations initiated from September 1, 2019, to September 30, 2020. We excluded OIG employees from our testing. We assessed the reliability of the Board's case management system data by reviewing existing information about the data and the system that produced them and by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

In addition, we reviewed Board policies and procedures and relevant laws and regulations related to background investigations and security clearances and confirmed our understanding of the processes with PSS staff and relevant officials.

To assess the efficiency and effectiveness of the Board's process and controls for completing background investigations, we reviewed PSS position designation worksheet to verify that all positions in our scope were documented and designated properly. Additionally, we tested the background investigation tiers for employees and contractors against the associated position risk designation to ensure that investigations were conducted at the appropriate tier. We also analyzed data from the case management system to determine the overall efficiency of the PSS program and to ensure that all employees and contractors within our scope were active. Further, we reviewed the reinvestigation process to determine whether all employees and contractors had appropriate reinvestigation dates recorded.

To assess the efficiency and effectiveness of the Board's process and controls for granting security clearances, we interviewed PSS staff and officials to understand the security clearance process and how access is approved. We also reviewed security clearance nomination forms for all employees and the one contractor who obtained a clearance during our scope to confirm that appropriate documentation was maintained to support approval for access to classified information. To ensure that risk designations were appropriate, we tested data from the case management system to determine whether all clearance holders' investigations within our scope were conducted at the appropriate tier. In addition, we reviewed the validation processes to determine whether PSS staff confirmed that clearances were still required for employees and contractors annually and at the time of reinvestigation.

We conducted our fieldwork from October 2020 through September 2021. We performed this evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

WINONA H. VARNON
DIRECTOR
DIVISION OF MANAGEMENT

January 20, 2022

Michael VanHuysen
Associate Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Michael:

Thank you for the opportunity to comment on the draft report, *The Board Can Enhance Its Personnel Security Program*. We appreciate the Office of Inspector General's (OIG) effort in developing this report and the recommendations for strengthening the Board's processes and controls for completing background investigations and granting security clearances for employees and contractors.

We are extremely proud of the work accomplished by our staff during the pandemic. As we pivoted to full-time telework, and the health and safety of all Board staff was paramount, our Personnel Security Services (PSS) unit pivoted operations as well and continued to process background investigations and ensure security clearances were granted for Board and Reserve Bank Staff. We realize we have additional work, and we take seriously your recommendations, as they are helpful as we continue to enhance our program to better serve the Federal Reserve System.

We have reviewed the report. We concur with the five findings and generally agree with the recommendations offered for those findings. Our responses for each recommendation follow. In some cases, we have already begun making changes in our processes that we believe are also responsive to your findings and recommendations. Additionally, we have added additional staff to PSS to ensure we have successful implementation of our program.

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We value your objective and independent viewpoints. We appreciate the professionalism demonstrated by all OIG personnel throughout this audit and your efforts to understand our processes. We look forward to continuing to work with your office in the future.

Regards,

A handwritten signature in black ink, appearing to read "Winona H. Varnon".

Winona H. Varnon

cc: Donna Butler
Curtis Eldridge
Katherine Perez

**Response to recommendations presented in the Draft OIG Report,
“The Board Can Enhance Its Personnel Security Program”**

Finding 1: The PSS Has Not Defined Specific Objectives to Measure Program Performance

Recommendation 1: Ensure that the PSS develops:

- a. measurable performance objectives and associated risk tolerances for the background integration process.
- b. a process to regularly monitor the overall performance of the personnel security program.

Management Response: We generally concur with the finding and the recommendation. To implement the recommendation, the Chief of the Law Enforcement Unit who serves as the Board’s Personnel Security Officer (PSO), has ensured that the manager of Personnel Security incorporated measurable performance objectives into the new Start Up Agreements for all PSS staff for the 2022 3Cs performance cycle. PSS will use performance and program metrics from DCSA, Peraton, and ODNI to measure and monitor the overall performance of the personnel security program. Using these metrics, we will establish risk tolerances to monitor cases to ensure they are within timeliness and quality requirements. Monthly reports will include measures for fingerprints, initial investigations, reinvestigations, and continuous evaluation enrollment, allowing measurable goal reporting to the Board’s appointed PSO and Director of the Division of Management (MGT). Quarterly metric reporting to ODNI will give insight to the measure of the clearance investigations. We will implement the full recommendation no later than Q4, 2022.

Finding 2: The PSS did not always follow its position risk designation process.

Recommendation 2: Ensure that the PSS follows its process to designate and document position risk for all Board positions in accordance with the *Employee Identification SOP*.

Management Response: We generally concur with this finding. During the time period of the review, the Board had begun to use Position Designation and PSS was implementing both a newly issued policy for FOMC/CSI access, as well as the Board’s recently revised Suitability Policy. It became clear to PSS that the economic divisions, as well as the IT division, would require the Tier 4 investigation for all positions, except those positions that required access to classified national security information. Although PSS has delegation for the Board’s personnel security program, final determination of the level of risk designation is controlled by the divisions, based on the positions and work of their respective employees. The worksheet maintained by PSS is based on each division’s initial determination of the level of risk, as PSS is not solely responsible for that determination – PSS must work with the divisions, who are responsible for maintaining their position descriptions. To ensure appropriate designation, each Division Director attests, in writing, to the position designations sought for their employees.

We concur with the recommendation, and moving forward, PSS will: (1) use the Position Designation tools designed by the MITRE study; (2) review and update the Employee

Identification SOP; and (3) continue to work with divisions to ensure each current active position is designated to the correct Tier investigation/risk level. We will implement the full recommendation no later than Q4, 2022.

Finding 3: The PSS Did Not Always Ensure That All Individuals Were Investigated at the Appropriate Tier

Recommendation 3: Develop a review process to ensure that PSS staff initiate a background investigation at the tier indicated by the individual's position designation.

Management Recommendation: We generally concur with the finding and are encouraged that the review found that contractors are being investigated at the appropriate level. For employee investigations, while we generally believe that the investigations initiated by PSS were appropriate for the position/access required of the employee *during the initial phase of onboarding* the employees, PSS will revise its internal processes to ensure PSS staff conduct a review of investigations initiated, to verify all subjects are investigated at the correct level of Tier investigation for the position/access required. Therefore, we concur with the recommendation. We will implement the recommendation no later than Q4, 2022.

Finding 4: The Data in the Case Management System Was Not Always Complete and Accurate

Recommendation 4: Develop and implement a process to:

- a. perform periodic reconciliations against the Board's official human resources records to ensure the completeness and accuracy of employee and contractor data in the case management system.
- b. resolve any discrepancies identified by periodic reconciliations.

Recommendation 5: Develop and implement a process to prevent or detect missing or overdue reinvestigation due dates.

Management Response: We generally concur with the finding and accept the recommendations. PSS will be more proactive in performing periodic reconciliations using information from PeopleSoft to validate employee and contractors are populated in FRACMS. PSS will remain proactive in monitoring the status of the cases, particularly overdue investigations. Reconciliation of PeopleSoft and FRACMS data will be a manual, labor-intensive process. We will implement the recommendations no later than Q2, 2023.

Finding 5: The PSS Did Not Always Timely Approve or Confirm Continued Need for Access to Classified Information

Recommendation 6: Develop and implement a process to:

- a. ensure that all access request forms can be approved timely, regardless of the Board's working environment status.

- b. document the annual validation of clearance holders' need for continued access to classified information.
- c. ensure that the PSS documents its validation of the need for continued access to classified information prior to initiating a reinvestigation.

Management Response: We concur with the finding and recommendations. The Board's appointed PSO established the process to accept clearance requests via email without the need for a digital signature during the implementation of the full-time telework due to COVID-19. While this may have resulted in less timely approvals, this flexibility was necessary to support the health and safety of Board employees particularly in the early months of the pandemic when we transitioned to full-time telework. To ensure more timely approval of the requests, the PSO and SSSO have already designated and begun to use a signatory/delegate in their absence to approve the forms. The PSO will send an annual official notification to the designated PSO/POC for each division/bank with the direction to provide verification for each clearance holder's need or continued access. The Manager of PSS will instruct the staff to ensure the validation is documented in the FRACMS prior to initiating a reinvestigation. We will implement the full recommendation no later than Q4, 2022.



Abbreviations

COR	contracting officer’s representative
DCSA	Defense Counterintelligence and Security Agency
GAO	U.S. Government Accountability Office
ODNI	Office of the Director of National Intelligence
OPM	U.S. Office of Personnel Management
PSO	personnel security officer
PSS	Personnel Security Services
SCI	sensitive compartmented information
SEAD	Security Executive Agent Directive
SOP	standard operating procedure
SSSO	senior special security officer

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