



**Office of the Inspector General
United States Office of Personnel Management**

**Statement of the Honorable
Patrick E. McFarland
Inspector General**

before the

Subcommittee on Federal Workforce, U.S. Postal Service and the Census

Committee on Oversight and Government Reform

United States House of Representatives

on

“OPM’s Revolving Fund: A Cycle of Government Waste?”

June 5, 2013

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

Good morning. My name is Patrick E. McFarland. I am the Inspector General of the U.S. Office of Personnel Management (OPM). Thank you for inviting me to testify at today’s hearing about the administration and oversight of OPM’s Revolving Fund programs.

As you know, my office has been alarmed for many years about serious problems within the Revolving Fund programs and I am grateful for your attention to this

issue. *Every major Federal agency purchases goods and/or services from OPM through the Revolving Fund programs.* Consequently, the impact of problems within the OPM Revolving Fund programs is not confined to OPM, but rather ripples through the entire Federal Government.

OPM's Revolving Fund

Through its Revolving Fund programs, OPM provides commercial-like services, such as personnel background investigations and various human resources management services, to other Federal agencies on a reimbursable basis. Under 5 U.S.C. § 1304(e), OPM is required to set the price for these services at a level that will allow it to recover the actual cost of administering the programs. That is, OPM's other appropriations are not to be used to subsidize Revolving Fund activities. In practice, however, that is not the case because unlike OPM's administrative costs, the Office of the Inspector General's (OIG) oversight costs are not permitted to be charged against the Revolving Fund.¹ This inconsistent treatment is what the Administration's legislative proposal seeks to remedy, as I will discuss later in my testimony.

Today, activities financed by the Revolving Fund generate more than \$2 billion annually and through them, OPM interacts with over 200 Federal entities, including all major Federal departments and agencies. Key Revolving Fund activities consist of: Federal Investigative Services, Human Resources Solutions, USAJOBS, Human Resources Line of Business, HR Tools & Technology, Enterprise Human Resource Integration, and the Presidential Management Fellows Program. My testimony will focus upon the two largest Revolving Fund programs, Federal Investigative Services and Human Resources Solutions.

Size and Scope of Revolving Fund Operations

OPM spends more money and devotes more resources to administering the Revolving Fund programs than on any of its other operational programs. The estimated Revolving Fund obligations for Fiscal Year 2014 will exceed \$2 billion, comprising approximately 90 percent of OPM's total funding request for the year.

¹ In contrast, the OPM retirement and health care trust funds are charged for the cost of the OIG's oversight of those programs.

Moreover, Revolving Fund personnel make up almost 63 percent of OPM's total full-time equivalent employees.²

We note that the Revolving Fund programs also rely heavily on contract employees. Currently, Federal Investigative Services utilizes approximately 6,100 contract employees through its contracts with three companies: U.S. Investigation Services, LLC (commonly referred to as USIS), Keypoint Government Solutions, and CACI International, Inc. In addition, Human Resources Solutions has contracts with approximately 40 contractors, which utilize an unknown number of subcontractors.³

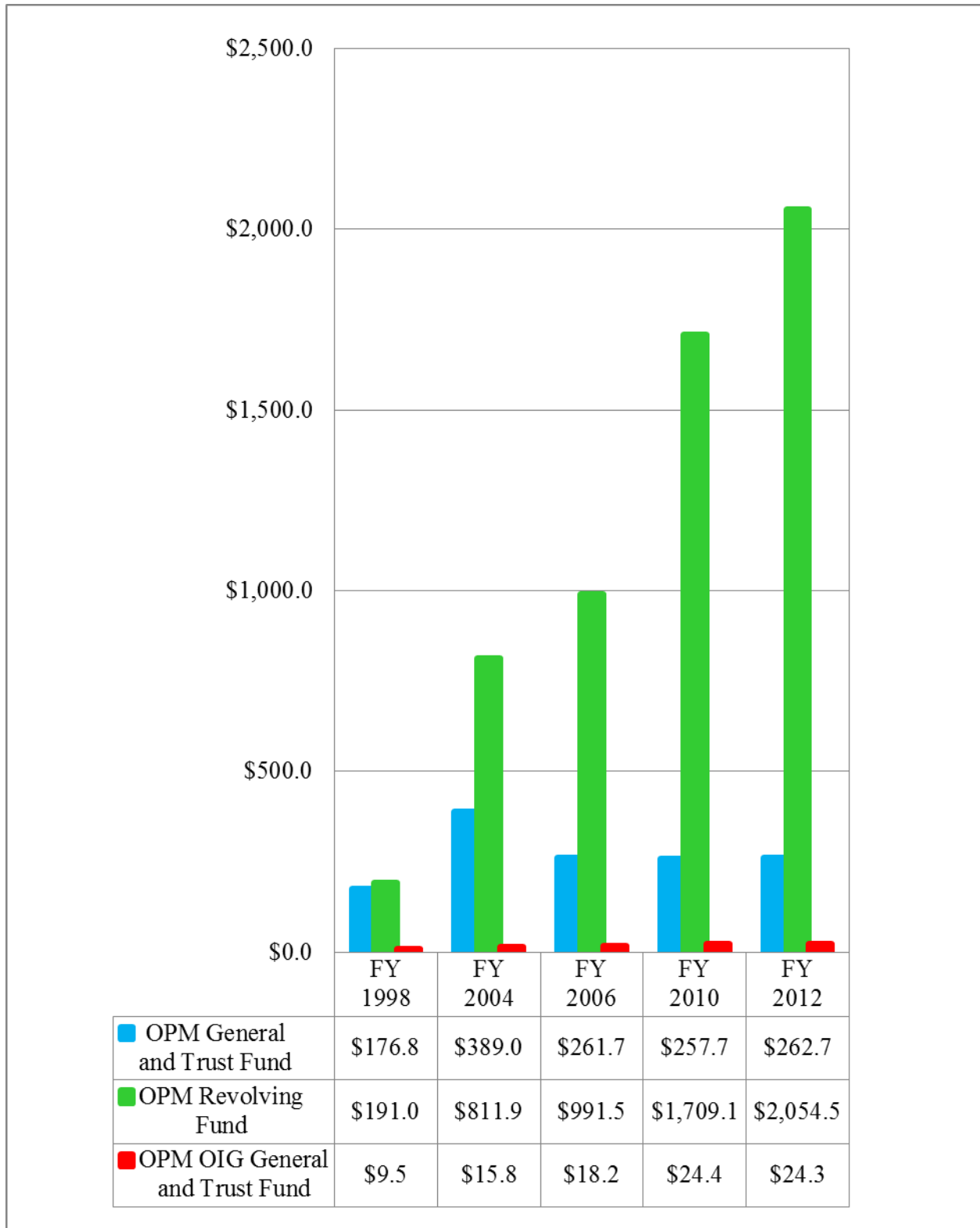
Since the late 1990s, the size of the Revolving Fund has expanded exponentially. As the chart on page 4 illustrates, the OIG's resources have not kept pace. In Fiscal Year 1998, the Revolving Fund budget was \$191 million. Today, it is \$2 billion. The OIG's current budget is approximately \$24 million. However, \$21 million of this amount is from the retirement and health care trust funds and thus must be used solely for oversight of those programs. Consequently, we are left with \$3 million to conduct oversight of this \$2 billion "business," *in addition* to all other non-trust fund programs that OPM operates (*e.g.*, Combined Federal Campaign, flexible spending account program, and the dental, vision, and long-term care insurance programs).

² These figures exclude the OIG's funding and personnel.

³ There is no way to estimate how many subcontractors are utilized for Human Resources Solutions' projects because OPM is not a party to the agreements between the prime and subcontractors and thus does not maintain such a list.

**Chart: Multi-Year Budget Comparison of the Revolving Fund,
OPM, and the OIG**

(in millions)



The Revolving Fund programs require intensive audit and investigative oversight, as opposed to the *de minimis* oversight we are currently able to provide with our limited resources. For example, while OPM has its agency financial statements audited each year, the financial statements for the Revolving Fund have never been audited in their entirety. This is due in part to the fact that the Revolving Fund is not considered material to OPM's agency-wide financial statements, which include the hundreds of billions of dollars in the trust funds that OPM administers.

The lack of basic oversight measures such as an annual financial audit is unheard of in the private sector. Shareholders would never entrust \$2 billion of their own money to private business managers under such lax conditions, and there is no reason why taxpayers should be asked to do so.

Based upon referrals of alleged fraud and identified audit risk factors, there is an urgent need for an immediate and strong infusion of oversight in two particular Revolving Fund programs. These two programs are discussed in more detail below.

Federal Investigative Services

Federal Investigative Services conducts background investigations which are used by over 100 Federal agencies as the basis for determining individuals' suitability for Federal civilian, military, and contract employment as well as their eligibility for access to classified national security information. Over 90 percent of the Government's background investigations are performed by OPM's Federal Investigative Services.

OPM estimates that approximately \$1.1 billion in Federal funds will be used to purchase Federal Investigative Services' products in Fiscal Year 2014. As Table 1 illustrates, Federal Investigative Services' largest customers are the Defense Agencies, underscoring the fact that this program's integrity does not only affect huge sums of money, but also has a significant impact upon national security.

TABLE 1: FIS’S TOP TEN CUSTOMERS FOR FISCAL YEARS 2010, 2011, AND 2012

Please note that these figures represent the value of all services purchased by these customers in the fiscal years shown. These services might be developed and delivered over multiple years, and thus the agencies may pay these “bills” over multiple years.

FY 2010		
Rank	Federal Entity	Amount (millions)
1	Defense	\$252.9
2	Army	\$215.8
3	Navy	\$148.4
4	Air Force	\$137.5
5	Energy	\$49.6
6	Homeland Security	\$44.4
7	Justice	\$41.4
8	Veterans Affairs	\$18
9	Treasury	\$13.6
10	Health and Human Services	\$13
Total		\$934.6

FY 2011		
Rank	Federal Entity	Amount (millions)
1	Defense	\$274
2	Army	\$212
3	Navy	\$160.8
4	Air Force	\$131.2
5	Homeland Security	\$57.3
6	Energy	\$44.5
7	Justice	\$28
8	Veterans Affairs	\$16.8
9	Health and Human Services	\$13.2
10	Treasury	\$11.9
Total		\$949.7

FY 2012		
Rank	Federal Entity	Amount (millions)
1	Defense	\$306.5
2	Army	\$199.2
3	Navy	\$164.6
4	Air Force	\$135.8
5	Homeland Security	\$57
6	Energy	\$47
7	Justice	\$35.1
8	Veterans Affairs	\$23.5
9	OPM	\$13.4
10	Treasury	\$11.8
Total		\$993.9

The majority of our office's Revolving Fund criminal investigations involve the falsification of Federal Investigative Services background investigations. These are situations where background investigators report interviews that never occurred, record answers to questions that were never asked, and document records checks that were never conducted. For example, we had one situation where a background investigator admitted to falsifying 1,600 credit checks. That case is particularly alarming since during the course of our investigation, we discovered that *her* background investigation had been completed by an individual convicted in a *different* Federal Investigative Services fabrication case.

As of today, 18 OPM and contract background investigators and record searchers have been criminally convicted. These 18 cases alone resulted in \$1,287,899 in court-ordered restitution to the Revolving Fund. Currently we have approximately 50 open cases, involving both OPM employees as well as contractors, at various stages of investigation.

Due to our limited resources, we are able to pursue only the most serious cases. Consequently, Federal Investigative Services must handle lower level fabrication situations itself. Although the program's Quality Assurance Group has done an excellent job with its own limited resources, greater OIG involvement is critical.

Human Resources Solutions

Human Resources Solutions is commonly referred to as the "training" component of the Revolving Fund activities. The term "training," however, falls far short of fully describing the array of human resources products it offers. While Federal Investigative Services has historically generated more revenue, Human Resources Solutions is much more diverse. It is constantly developing and marketing new services and reorganizing its operations to adapt and compete with other providers of similar services.

Human Resources Solutions has its own nationwide staff of consultants, psychologists, information technology specialists, faculty, and program managers that work with Federal agencies on matters including human resources strategy, training, leadership development, staffing, recruitment, and performance management, to name just a few areas. As I mentioned earlier, Human Resources Solutions also has contracts with approximately 40 companies to deliver services to its customer-agencies. Table 2 on page 8 contains information about Human Resources Solutions' top customers.

TABLE 2: HRS’S TOP TEN CUSTOMERS FOR FISCAL YEARS 2010, 2011, AND 2012

Please note that these figures represent the value of all services purchased by these customers in the fiscal years shown. These services might be developed and delivered over multiple years, and thus the agencies may pay these “bills” over multiple years.

FY 2010		
HRS Rank	Federal Entity	Amount (millions)
1	Defense	\$235.5
2	Veterans Affairs	\$227.9
3	Homeland Security	\$107.8
4	Army	\$49.9
5	Navy	\$42.8
6	Transportation	\$36.6
7	Justice	\$35
8	Health & Human Services	\$35
9	OPM	\$31.7
10	Central Intelligence Agency	\$23
Total		\$825.2

FY 2011		
HRS Rank	Federal Entity	Amount (millions)
1	Defense	\$255
2	Veterans Affairs	\$192.5
3	Homeland Security	\$61
4	Navy	\$57.5
5	OPM	\$35.2
6	Army	\$28.9
7	Transportation	\$25
8	Agriculture	\$22.5
9	Health and Human Services	\$18
10	Treasury	\$12.8
Total		\$708.4

FY 2012		
HRS Rank	Federal Entity	Amount (millions)
1	Defense	\$267
2	Veterans Affairs	\$230.7
3	Homeland Security	\$58.5
4	Army	\$58.3
5	Health and Human Services	\$50.5
6	Navy	\$32.8
7	OPM	\$31.5
8	Transportation	\$30.5
9	Agriculture	\$20
10	Interior	\$11.4
Total		\$791.2

Our audit staff recently completed a risk assessment of Human Resources Solutions' activities/functions and program groups. The program activities that were rated as being most vulnerable to fraud, waste, and abuse were (1) the methodology used to price its services and products and (2) the means through which customer-agencies pay for those services and products. Pricing methodology was ranked the highest because our auditors discovered instances where program offices were unable to provide documentation to support its pricing policy. Payment method is also a high risk area because most Human Resources Solutions customers enter into interagency agreements with it to make purchases. Our prior audit work has already uncovered weaknesses in OPM's interagency agreement processes. We plan to begin an audit of Human Resources Solutions' pricing methodology during Fiscal Year 2014.

The Human Resources Solutions program office with the highest risk rating was the Vendor Management Branch,⁴ which manages approximately 800 projects annually for about 200 customer-agencies. It has also been at the center of multiple controversies during the past few years.

In 2011, there was a significant problem related to how the Vendor Management Branch treated the funds transferred to Human Resources Solutions from other agencies through interagency agreements. OPM's Office of the Chief Financial Officer found that Human Resources Solutions project managers were operating under an inaccurate interpretation concerning the legally permissible periods for funding vendor contracts with customer-agencies' appropriations. For several years, the project managers mistakenly believed that those funds received by the Revolving Fund to pay for services could be converted to "no-year" funding, despite the fact that in most cases, the funds were constrained by their original, limited appropriation time periods of a single fiscal year. To further complicate matters, it appears that OPM's customer-agencies were not consistent in identifying the proper funding types when signing interagency agreements with Human Resources Solutions. As a result, OPM identified approximately 800 open interagency agreements with about thirty agencies, encompassing numerous projects and thousands of task orders spanning multiple years, where it questioned if the funds were handled appropriately.

⁴ Within the last month, the Vendor Management Branch changed its name to the Training and Management Assistance Program. However, because most people are familiar with its former name, we will use the name Vendor Management Branch in this testimony.

Once informed of the Chief Financial Officer's findings, OPM formed an interagency review team to evaluate these interagency agreements and engaged Deloitte Consulting Services (Deloitte) for forensic accounting services to assist with that effort. OPM took various actions based upon this work, including returning funds to customer-agencies and finalizing the accounting for completed projects. Neither OPM nor Deloitte discovered violations of appropriations laws (including the Anti-Deficiency Act), or other legal improprieties. (We note, however, that while OIG auditors reviewed plans for resolving this issue and several completed case files, they have not conducted a formal review of the work and confirmed their findings.)

While I am glad that OPM and Deloitte did not find legal violations, I am dismayed at the time, effort, and money expended to address this problem. OPM employees from several program offices (including the OIG) spent countless hours reviewing documentation and conducting research, and the taxpayers had to pay \$2.7 million for Deloitte's forensic accounting services. If my office had sufficient resources to conduct regular reviews of Revolving Fund activities, including audits of Human Resources Solutions accounting practices, this situation may well have been avoided.

Mismanagement within the Vendor Management Branch was again discovered in a recent (and still ongoing) OIG investigation involving improper procurement actions related to obtaining the services of Stewart Liff & Associates, Inc. This investigation was a continuation of one conducted by the Department of Labor OIG, and our work confirmed their findings. In April 2013, we released an interim investigative report which found that within OPM, senior officials misused their position to direct contracts to Stewart Liff & Associates. Weak internal controls within Human Resources Solutions, as well as the failure of OPM's Facilities, Security, and Contracting office to properly oversee the Vendor Management Branch's contracting operations, contributed to the award of approximately \$450,000 worth of Federal contracts to a single preferred vendor without going through the competitive process.

Since this misconduct occurred in 2010 and 2011, OPM has reorganized Human Resources Solutions and modified its operating procedures. I would like to give both former OPM Director John Berry and Acting OPM Director Elaine Kaplan credit for taking immediate action upon release of the report in April 2013. The agency took prompt administrative action with regard to the persons involved in the report as well as steps to educate all agency managers in proper contracting

procedures, including the circulation of an agency-wide memorandum and a webinar addressing the issue.

Unfortunately, these actions are not enough to ensure the integrity of Human Resources Solutions as a whole, as demonstrated by the increasing number of audits and investigations being conducted by other OIGs of their agencies' interactions with Human Resources Solutions. I am frustrated that other OIGs are pursuing issues related to OPM programs, the oversight of which my office is expressly mandated – and best positioned – to perform. It would be much more efficient to have a single OIG conducting oversight activities of these OPM programs.

Legislative Proposal

We have sought funding to increase our oversight of Revolving Fund activities since 2006, and have specifically requested direct access to the Revolving Fund itself since 2009. OPM has long taken the position that the Revolving Fund may not be used to fund OIG oversight work under the current statutory language, which permits the recovery only of the agency's "actual cost" in administering the programs. However, I am pleased to say that in the President's Fiscal Year 2014 Budget, the Administration proposed a legislative amendment that would make it clear that OIG oversight costs are part of the Revolving Fund programs' "actual costs" that are taken into account when setting the prices charged for Revolving Fund products and services.

I would like to state that this is not a radical proposal. Indeed, it simply seeks to have the OIG treated as part of OPM for purposes of the Revolving Fund, as the OIG is treated for all other budgetary purposes. Like OPM, the OIG would be required to submit an annual budget request and report detailing its Revolving Fund work. Further, the OIG would be limited to requesting up to one-third of one percent of the entire Revolving Fund budget estimate. For Fiscal Year 2014, when OPM estimates that the Revolving Fund budget will be approximately \$2 billion, this amount would equal \$6.6 million.

The financial impact of this proposal on OPM's customers is negligible. Let me put this into context. If the OIG accessed the *entire maximum amount* under the proposal (\$6.6 million), then a customer would pay an additional \$3.30 for every \$1,000 spent on a Revolving Fund product. Money recovered or saved as a result of the OIG's oversight of the Revolving Fund would be returned back to the

Revolving Fund. Considering that over the past five years my office has achieved an average return of \$7 for each oversight dollar we expend, I believe that OPM customers as well as the taxpayers would agree that this money would be well spent.

Conclusion

In closing, I cannot emphasize enough that the issues I have discussed here today are not about the operation of a single agency, but rather affect efficiency and economy across the entire Federal Government.

While only the Federal Investigative Services evokes unique national security concerns, *all* Revolving Fund activities have the potential to cause Government-wide waste. Our office's Revolving Fund work does not benefit OPM alone. This was illustrated in the Stewart Liff & Associates investigation that I mentioned earlier. Like the Department of Labor OIG, we found that the Department of Labor as well as OPM essentially paid a premium in order to access a specific vendor through Human Resources Services in violation of Federal contracting procedures. Consequently, the appropriations of *two different agencies* were misspent due to waste and mismanagement within Human Resources Solutions.

We have only scratched the surface when it comes to conducting oversight of the Revolving Fund programs, but given what our limited work has uncovered thus far, it is clear that additional work is badly needed. However, we cannot do this work without direct access to the Revolving Fund. One need only look back to Tables 1 and 2, listing the amounts spent by Federal Investigative Services' and Human Resources Solutions' top customers, to see the magnitude of potential savings that could result from a relatively small investment in increased oversight.

I would like to thank the Subcommittee for its work on this issue. We have been meeting with your staff for several years now and I appreciate the support that you have always shown for our efforts to fight fraud, waste, and abuse. I would be happy to respond to any questions that you may have.