

OPM'S REVOLVING FUND: A CYCLE OF GOVERNMENT WASTE

HEARING

BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
US POSTAL SERVICE AND THE CENSUS
OF THE
COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
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OPM'S REVOLVING FUND: A CYCLE OF GOVERNMENT WASTE?

Wednesday, June 5, 2013,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE AND THE CENSUS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:30 a.m., in Room 2247, Rayburn House Office Building, Hon. Blake Farenthold [chairman of the subcommittee], presiding.

Present: Representatives Farenthold, Norton, Clay and Lynch.

Staff Present: Alexia Ardolina, Majority Assistant Clerk; Jennifer Hemingway, Majority Deputy Policy Director; Scott Schmidt, Majority Deputy Director of Digital Strategy; Peter Warren, Majority Legislative Policy Director; Jaron Bourke, Minority Director of Administration; Lena Chang, Minority Counsel; Elisa LaNier, Minority Deputy Clerk; Safiya Simmons, Minority Press Secretary; Mark Stephenson, Minority Director of Legislation.

Mr. FARENTHOLD. And the subcommittee will come to order.

I would like to begin this hearing, as we do all within the Oversight Committee, by reading the Oversight Committee's mission statement. We exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well spent; and second, Americans deserve an efficient and effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold the government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission of the Oversight and Government Reform Committee.

We will start with my opening statement. Today's hearing focuses on the Federal Government's human resource bureaucracy and whether or not it is serving its agency customers and the American taxpayers efficiently and effectively. The Office of Personnel Management operates a \$2 billion business selling products and services in the very same agencies it oversees. As OPMs workload has increased, so too has the number of investigative cases, referrals and requests for audits. This has amplified concerns about OPM's revolving fund business model.

Last year, Inspector General McFarland told the committee his office had been flooded with requests from OPM to audit or investigate various aspects of the revolving fund. In April, the IG found senior OPM officials had used their position to give preferential treatment to revolving fund vendors and failed to comply with Federal contracting rules. In May, Inspector General McFarland informed the committee of an ongoing investigation in which a revolving fund contractor used deceptive practices to avoid fulfilling certain requirements under its contract with OPM in order to maximize profits.

The IG has requested legislative language to provide access to additional resources for revolving fund oversight. The authority seems to be an investment that can be accomplished at a relatively low cost, using existing funds. At a time when agencies are furloughing workers to meet payroll, questionable business practices affect the entire Federal Government. Each month seems to bring another confirmation of the waste within the revolving fund.

I look forward to hearing from today's witnesses as we examine whether OPM should be the regulator and the business service provider, and seek to better understand the business practices that have led the IG to request additional funds for critical audit needs.

And I will now give Mr. Lynch a chance for his opening statement. We will recognize the gentleman from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to thank the witnesses for coming before the committee, helping us with our work, which is to examine the pricing and quality of services provided through the Office of Personnel Management's Revolving Fund program and the Administration's legislative proposal to increase its oversight.

OPMs revolving fund provides background investigations, training and other HR products, answers to Federal agencies on a reimbursable basis. These services are essential for effective government. OPMs revolving fund budget has gone from \$191 million in fiscal year 1998 to over \$2 billion today.

The revolving fund activities comprise about 90 percent of OPMs total budget, with about two-thirds of the agency's staff devoted to this fee for service component of OPMs operations. However, private contractors perform most of the work.

The Government Accountability Office and OPM Inspector General have expressed concerns in recent years about the pricing and the quality of those background investigations and other products and services. OPMs Inspector General also identified certain programs as vulnerable to high risk of waste, fraud and abuse. GAO also recommended that OPM look to increasing efficiencies in its background investigation processes. OPMs significant reliance on a vast contractor network to conduct background investigations and to provide HR solutions appears to present additional challenges to effective contract management and oversight.

This hearing is important to strengthening oversight of OPMs revolving fund. OPMs Inspector General has indicated that he is currently hamstrung by the limited resources he has to conduct audits and investigations of OPMs revolving fund programs. Under current law, the Inspector General's budget provides only \$3 million to finance its oversight of a \$2 billion operation, along with OPMs

other non-trust fund programs, such as the Combined Federal Campaign and the Dental, Vision and Long-Term Care Insurance programs. I am sympathetic to the Inspector General's dilemma and I look forward to evaluating the Administration's legislative proposal to remedy that.

Thank you, Mr. Chairman, and I thank the witnesses for their appearance here today. I yield back.

Mr. FARENTHOLD. Thank you, Mr. Lynch.

Members will have seven days to submit opening statements for the record. We will now recognize our panel.

Mr. Chuck Grimes is the Chief Operating Officer of the Office of Personnel Management. Ms. Linda Rix is Co-Chief Executive Officer for Avue Technologies Corporation. And Mr. McFarland, of course, is Inspector General from the OPM. Pursuant to committee rules, all witnesses will be sworn in before they testify. If you will please rise and raise your right hand.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. FARENTHOLD. Let the record reflect that all witnesses have answered in the affirmative, and you may be seated.

In order to allow time for questioning, we ask that you limit your verbal testimony to five minutes. We have received and reviewed your written testimony and of course, your entire written statement will be made part of the record.

We will go left to right and start with Mr. McFarland. You are recognized for five minutes.

WITNESS STATEMENTS

STATEMENT OF THE HONORABLE PATRICK E. McFARLAND

Mr. McFARLAND. Good morning, Chairman Farenthold, Ranking Member Lynch and members of the subcommittee. My name is Patrick McFarland, I am the Inspector General of the U.S. Office of Personnel Management.

Thank you for inviting me to testify in today's hearing about the Administration and oversight of OPM's revolving fund. Once again, I am seeking the committee's help.

In 1978, the U.S. Congress took a bold step in creating the Inspector General Act, bold in that it was an experiment borne out of a multitude of government-wide mistakes, serious problems and just plain wrongdoing. In the face of much opposition from entrenched government bureaucracy, it was, I believe, Congress' pledge to the American citizens that their expectations of good government would be met, and as a result, their tax money would be protected.

The inspector general concept has transparency at its core functionality. It must be transparency without any shades of gray. Indeed, it is with this understanding that each inspector general's organization honors the independence required of them, free of any political influence which Congress mandated. We realized as early as 2006 that OPM's revolving fund operations lacked adequate transparency and thus required additional oversight, oversight that our budget could not support. Since that time, the OPM revolving

fund has developed into a \$2 billion behemoth business structure that should attract more stakeholders' attention, but instead seems to exist and operate in a vacuum. The OPM revolving fund requires immediate scrutiny.

To this end, the President's fiscal year 2014 budget includes our legislative proposal, which former director John Berry fully supported. This proposal will require Office of Inspector General oversight of the revolving fund to be paid for by the revolving fund. Please be assured that our Office of Inspector General is at the ready to jump deep into all of the programs financed by OPMs revolving fund. Based on evidence and intuition, we know there extremely serious problems. We already have several projects in high risk areas that we are eager to begin, such as an initiative to closely examine the Federal Investigative Service Program office, and determine whether there are deficiencies that may be affecting national security, as well as an audit of the pricing methodology used by human resources solutions.

Let me be clear: it is not my intention to grow government, but simply to perform the tasks entrusted to me by you and by the taxpayer. I cannot stress enough that problems within OPMs revolving fund do not affect only OPM. Every major Federal agency purchases goods and/or services from OPM through revolving fund programs. Consequently, any fraud, waste or abuse that occurs in these programs has a government-wide ripple effect and thus impacts the use of the appropriations of all of its customers.

They say that sunshine is the best disinfectant. OPMs revolving fund programs have been operating in the shadows for far too long. You have already taken significant action by holding a hearing, the first, to my knowledge, on the revolving fund. I ask the subcommittee now, take one more step and assist us by amending the revolving fund statute so that together we can bring OPMs revolving fund program into the light with full transparency where all government operations are meant to function.

The committee's involvement will ensure that this issue will not slip back into the shadows. Thank you, and I am happy to answer any questions.

[The prepared statement of Mr. McFarland follows:]



**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

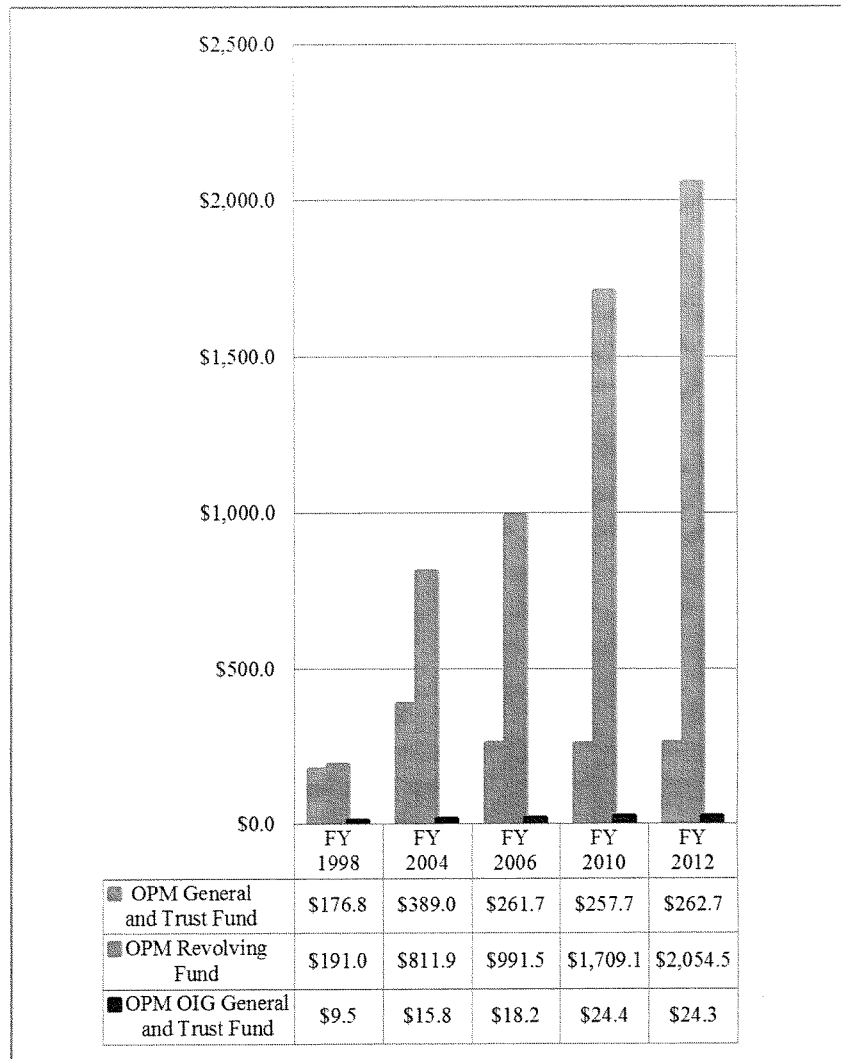
Since the late 1990s, the size of the Revolving Fund has expanded exponentially. As the chart on page 4 illustrates, the OIG's resources have not kept pace. In Fiscal Year 1998, the Revolving Fund budget was \$191 million. Today, it is \$2 billion. The OIG's current budget is approximately \$24 million. 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.

Mr. FARENTHOLD. Thank you, Mr. McFarland. We will get to questions when we have finished with all of our witnesses.

Mr. Grimes, you are up for five minutes, sir.

STATEMENT OF CHARLES D. GRIMES, III

Mr. GRIMES. Thank you, Chairman Farenthold, Ranking Member Lynch, members of the subcommittee.

Thank you for this opportunity to discuss the OPMs revolving fund and the government-wide services it supports. The fund was established by Congress in 1952 to allow OPMs predecessor, the U.S. Civil Service Commission, to recover the costs of conducting background investigations for other Federal agencies. It has subsequently been expanded to authorize OPM to provide assistance and personnel management functions at the request of agencies on a reimbursable basis.

OPM provides a wide range of human resources management services to other Federal agencies, and the payments for those services are consolidated under OPMs revolving fund. The revolving fund is similar to many other such funds across the Federal Government. The aim of the revolving fund is not to generate a profit, but instead to break even over a reasonable amount of time, generally defined as three years.

Providing human capital services and training for Federal employees, conducting background checks and other revolving fund services are integral to OPMs core mission of recruiting and retaining a high performing workforce to protect and advance the interests of American citizens. The revolving fund includes a diverse range of programs, including human resources tools and technology, enterprise human resources integration, the Presidential Management Fellows program, and the human resources line of business. I would like to briefly discuss the three most public faces of the revolving fund: Federal Investigative Services, human resources solutions and USAJOBS.

OPMs background investigation programs performance is strong. We have no backlogs, are meeting congressional timeliness mandates for OPM under the Intelligence Reform and Terrorism Prevention Act and have increased automation. Since driving down average investigative time on this from 145 days in 2005 to 40 days today, customer agencies have realized over \$26 billion in cost avoidance and efficiency.

Additionally, the Government Accountability Office had long listed the government personnel security clearance program in the Department of Defense on their high-risk list. OPM assumed responsibility for the background investigation function in February of 2005, and the program was removed from the high-risk list in January 2011, as a result of the major efforts of OPM, the Office of Management and Budget, DOD, and the Office of the Director of National Intelligence.

Despite a shift towards more costly field work-intensive investigations, OPM remains resourced to meet the investigative timeliness and quality standards based on the projected needs of the executive branch community that we service. HRS provides human

resources products and services through a variety of methods to meet the needs of the Federal Government. HRS offers a by government, for government solution to a variety of human resources needs and is uniquely well-positioned to help Federal agencies meet their recruitment, testing and training needs.

The HRS team has expert knowledge and experience with Federal policy and operating environments, and designs and delivers solutions well-suited for government. In recent years, HRS has worked with OPMs Office of the Inspector General to become even more transparent and efficient. HRS offers agencies the opportunity to access world class consulting experience from pre-competed private sector companies through our training and management assistance contracting vehicle. Pre-competition allows agencies to save valuable time and resources in gaining access to consulting experts and conformance with OPMs contracting requirements.

Finally, USAJOBS is another critical program that operates through the revolving fund. Pursuant to law and OMB guidance, USAJOBS operates on a fully reimbursable basis, charging fees to agencies that use USAJOBS to pay the cost of providing Federal employment information to the public, along with various services. USAJOBS offers a wide array of products and services to job seekers, agencies and vendors. These products include the job board with job opportunity announcements, the resume builder, the agency recruitment portal, mobile apps and the USAJOBS help desk.

To increase quality, we have worked to increase agency participation in USAJOBS by encouraging cross-government involvement and integrated project teams. These teams have led to direct system improvements to the USAJOBS resume and user profile sections, greatly benefitting the user experience for the thousands of job seekers using the service. We've also successfully cleared the audit and security reviews by OMB and the White House cross-agency SWAT team, OPMs Office of the Inspector General and the Department of Homeland Security.

OPM agrees that it is important to have a strong oversight in order to ensure the integrity of their revolving fund, and we look forward to continuing to work with the OIG in this area. I am proud of the government-wide services that OPM provides, and I look forward to addressing any questions that you may have. Thank you.

[The prepared statement of Mr. Grimes follows:]



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**STATEMENT OF
CHARLES D. GRIMES III
CHIEF OPERATING OFFICER
U.S. OFFICE OF PERSONNEL MANAGEMENT**

before the

**SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE & CENSUS,
UNITED STATES HOUSE OF REPRESENTATIVES**

on

THE OFFICE OF PERSONNEL MANAGEMENT'S REVOLVING FUND

June 5, 2013

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee, thank you for the opportunity to testify today on the Office of Personnel Management's (OPM) revolving fund programs.

OPM provides a range of human resources management services to other Federal agencies on a reimbursable basis, and the payments for those services are consolidated under OPM's revolving fund. The revolving fund was first established by Congress in 1952 to allow OPM's predecessor, the U.S. Civil Service Commission, to recover the costs of conducting full background investigations for other Federal agencies.¹ In 1969, Congress expanded the scope of reimbursable services for which the revolving fund could be used to include training and other functions that the Commission was authorized or required to conduct.² After Congress removed restrictions on

¹ 66 Stat. 107.

² Public Law 91-189.

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agencies to perform their own personnel management functions under delegated authority from OPM in 1995, the revolving fund was further expanded to authorize OPM to provide assistance in such functions at the request of agencies on a reimbursable basis.³

The revolving fund, funded through fees charged to other agencies for services provided on an actual cost basis, is similar to many other such funds across the Federal government, including working capital funds at the Department of Justice, the United States Navy, and the Department of Labor. The aim of the revolving fund is not to generate profit, but instead to break even over a reasonable amount of time, generally defined as three years. Providing human capital services and training for Federal employees, conducting background checks, and other duties funded by the revolving fund are functions integral to OPM's core mission of recruiting and retaining a high performing workforce to protect and advance the interests of American citizens. While the revolving fund includes a diverse range of programs, including Human Resources Tools and Technology (HRTT), Enterprise Human Resources Integration (EHRI), the Presidential Management Fellows Program (PMF), and Human Resources Line of Business (HRLoB), the three most public faces funded by the revolving fund are Federal Investigative Services (FIS), Human Resources Solutions (HRS), and USAJOBS.

Federal Investigative Services

OPM's background investigation program's performance is strong, as demonstrated by years of providing timely and quality products to our customer agencies. We have no backlogs, are meeting timeliness mandates, and have increased automation. As a consequence, benefits across

³ Public Law 104-208.

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agencies have been realized, amounting to over \$26 billion in cost-avoidance and efficiency. Additionally, the Government Accountability Office had long listed the government personnel security clearance program at the Department of Defense (DOD) on their annual high risk list. Since OPM assumed responsibility for the background investigation function from DOD in February 2005, this program was removed from the list in January 2011 as a result of a major effort including OPM, the Office of Management and Budget (OMB), DOD, and the Office of the Director of National Intelligence (ODNI). FIS, one of the largest operations in OPM, is comprised of nearly 10,000 employees, including both Federal employees and contractors. In FY12, OPM completed nearly 615,000 initial security clearance investigations.

OPM promotes quality in FIS through reorganized functions that emphasize the importance of quality in all aspects of FIS's operations. We are co-chairing the Interagency Quality Assessment Working Group to establish an industry and government-wide standard for assessing the quality of background investigations. The working group brings together over 20 Federal agencies and involves both Investigative Service Providers and adjudicating agencies. The working group's primary objectives are to bring consistency to investigative quality expectations and to standardize the evaluation of quality within the Federal government. FIS has also engaged our customers via the Customer Satisfaction Survey (the "Survey"). The Survey for FY11, conducted in early FY12, reflected an overall 98 percent customer satisfaction rating. As part of the FY12 strategic goal of delivering quality, we followed up on input from the Survey within one week of receiving the Survey responses. In the process, we addressed all quality specific issues raised in the follow-up dialog by the end of the second quarter of FY12.

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The main cost drivers in FIS are process reforms, timeliness, and the present workload mix. Reform initiatives have resulted in enhancements to better share reciprocity data, collect more information up front in the investigative process, expand automated records sources, and standardize investigator training. The resources invested in process reform are off-set by the government-wide benefit and cost avoidance savings by putting people to work quicker using high quality investigative products.

The Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004 established Timeliness Requirements for Investigation and Adjudication. FIS has been able to meet and then exceed IRTPA mandates over the years, achieving unprecedented timeliness, by increasing Federal staffing, broadening the use of overtime, and adding other temporary and permanent investigative resources. At the same time, FIS has been able to eliminate the inherited backlog from DOD and return inventory levels to a healthy state. For FY12, FIS continued to meet the IRTPA mandate to complete the fastest 90 percent of initial national security investigations in an average of 40 days. Overall, we have succeeded in improving timeliness and keeping prices stable.

The shift in case requests towards more costly fieldwork-intensive investigations impacts FIS's business costs. These cases have more item checks to complete, and also involve a higher percentage of items that are fieldwork and manually intensive, requiring a greater level of effort and time to complete. OPM is resourced to meet the investigative timeliness and quality standards based on the projected needs of the Executive Branch community we service.

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OPM uses aggregated operating costs to determine product fees. FIS officials estimate the total operating costs for the upcoming fiscal year, which include but are not limited to: contracts; salaries and benefits for Federal full-time employees; IT infrastructure maintenance and upgrades; rents, maintenance and equipment; and fees associated with providing background investigations, such as payments to the Federal Bureau of Investigation and credit bureaus for records. In estimating revenue, FIS officials take into account investigation projection numbers which are based on historical workload data. Projections are then broken down by investigation type. Prices for the upcoming fiscal year are determined by multiplying the investigation projections by the current fiscal year prices to see if the estimated costs are covered. If the estimated revenue does not equal estimated costs, then prices are increased until they are equal.

Human Resources Solutions

HRS provides human resources products and services through a blend of private and public sector offerings to meet the needs of the Federal Government. HRS is “by Government, for Government” and is uniquely positioned to help Federal Agencies meet recruitment, testing, and training needs. As Federal employees, the OPM HRS team has expert knowledge of and extensive experience with Federal policy and operating environments, and designs and delivers solutions uniquely suited for Government. In recent years, HRS has worked with OPM’s Office of the Inspector General (OIG) to become even more transparent and efficient.

OPM HRS offers agencies the opportunity to access world class consulting experience from pre-competed private sector companies through our Training and Management

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Assistance (TMA) contracting vehicle. Pre-competition allows agencies to save valuable time and resources in gaining access to consulting experts, while also ensuring observation of OPM's contracting requirements.

Included under HRS are OPM's Administrative Law Judge (ALJ) Program Office, the TMA Program, the Federal Staffing Group (FSG), the Center for Leadership Development (CLD), and Human Resources Strategy and Evaluation Solutions (HRSES).

Under the ALJ Program Office, HRS manages the recruitment, assessment, and selection of ALJs, and provides HR services to current ALJs. The TMA Program provides assisted acquisition services in the areas of human capital strategy, recruitment and branding, and employee training solutions. FSG offers a variety of hiring and staffing services, such as nationwide testing and examining, and tools, such as USAStaffing®, to support the recruitment, assessment, and acquisition of employees for customer agencies. The CLD provides leadership, management, and Federal executive professional development and training. Led by our resident faculty from the Federal Executive Institute and the Federal Management Development Centers and supported by adjunct faculty members as needed, our comprehensive catalog of programs builds upon the competencies that make up the Executive Core Qualifications, embraces public service and Constitutional values, and incorporates the latest research on leadership development and adult learning. HRSES provides strategic assessments and workforce planning, classification, performance management and program evaluation services to help transform agencies into high performing organizations.

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HRS has a truly national reach. On an annual basis, HRS partners with agency leaders on approximately 500 projects that support their unique missions and performance requirements, educates nearly 20,500 Federal leaders from 326 agencies through over 64 multi-agency and 162 single-agency program offerings. We presently have over 800 fulltime, part-time, and intermittent employees in every state in the nation, 12 brick and mortar locations, and 32 pre-competed vendors. HRS is positioned to provide for essential investments and mitigate the impact of temporary downturns in customer demand resulting from overall Federal budget reductions. The quality controls in place for HRS are driven by the market as HRS is not a mandatory source of supply for Federal agencies. If OPM does not deliver a superior product at a best value price, our customers do not have an incentive to come back to us as their vendor of choice in the future. We continually monitor our score on the American Customer Satisfaction Index (ACSI) and strive to improve OPM's rank and to increase manager satisfaction as reported in survey results. As of 2012, HRS had an ACSI equivalent score of 76.2. Finally, in listening to our customers, we have created specific training offerings and increased the number of new leadership development programs available for Federal employees that align with Administration management priorities.

Pricing for the array of HRS' products and services is based on the full cost recovery operating principle, as well as factoring in a contingency reserve for market downturns, and to cover potential liquidation costs in the event of an orderly shut-down. There are three cost categories that are considered in pricing estimates: direct delivery costs (salaries/benefits, travel, contracts, supplies, etc.), HRS overhead costs (program management oversight), and OPM shared services costs (General Counsel, OCFO, Contracting, etc.). All three categories are accounted for when

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developing pricing using the most appropriate model dependent upon the solution the customer is purchasing. The pricing models include consulting rates, fixed price per unit, and percentage of contract value. Due to the nature of overhead and shared service costs being relatively fixed in the short term, annual sales estimates must also be calculated to ensure overhead costs are distributed equitably across reimbursable offerings for pricing purposes.

USAJOBS

USAJOBS offers a wide array of products and services to job seekers, agencies, and vendors. These products include the job board with the job opportunity announcements, the resume builder, the agency recruitment portal, mobile apps, and the USAJOBS help desk. In maintaining quality, we have worked to increase agency participation in USAJOBS by encouraging cross-government involvement in integrated project teams. This has led to direct system improvements to the USAJOBS Resume and User Profile sections, which greatly benefits the seeker experience. We have also successfully cleared audit and security reviews by the OMB and White House Cross Agency SWAT Team, OPM's Office of the Inspector General, and the Department of Homeland Security. We are proud that assessors reported no critical security findings or risks to the public, the system, OPM, or agency partners.

Pursuant to OMB guidance, USAJOBS must operate on a fully reimbursable basis. Regulations authorize OPM to charge fees to agencies to pay the cost of providing Federal employment information and services. The Senior Executive Service is also required to post on USAJOBS. Similar per-capita competitive service staff and SES fees are charged to excepted-service agencies which voluntarily elect to use USAJOBS.

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The annual bills for USAJOBS are calculated based on overall agency populations. Those using USAJOBS are billed a portion of the total costs to operate. The portion each agency is billed for is proportioned based on their overall full-time equivalent counts. In other words, the largest agencies are billed a higher portion than the smaller agencies. Population counts are used to obtain an overall rough order of magnitude proration and are not intended to be an exact day to day count for each agency. Due to budget cuts, USAJOBS is using FY2010 FTE counts to allocate fees for FY12, 13, and 14 in order to keep fees at a flat rate so that agencies can plan accordingly. In addition, effective FY2011, the USAJOBS Program bills annually for the Annual Chief Human Capital Officers (CHCO) Satisfaction Survey and Application. This cost shall only be billed to the official CHCO members using the same basic algorithm but substituting the total costs of the survey proportioned to the CHCO agencies only.

Inspector General Oversight of OPM Revolving Fund Programs

The President's FY2014 Budget includes a proposal to permit OPM's OIG to access the revolving fund for its estimated expenses to adequately audit, investigate, and provide other oversight activities of the revolving fund and the activities financed by it. OPM agrees with the importance of strong oversight in order to ensure the integrity of the revolving fund, and we look forward to continuing to work with OIG on this and other legislative proposals in this area.

Mr. FARENTHOLD. Thank you, Mr. Grimes.

We will now go to Ms. Brooks Rix. You are recognized for five minutes, ma'am.

STATEMENT OF LINDA E. BROOKS RIX

Ms. RIX. Chairman Farenthold, Ranking Member Lynch and members of the Subcommittee, good morning. My name is Linda Rix, and I am the Chairman and Co-CEO of Avue Technologies Corporation. I want to thank you today for the opportunity to testify on this important topic.

Avue provides a comprehensive human resources management platform to Federal agencies using a cloud-centered model. If you combine the content of Westlaw, the rules and engines capability of TurboTax and the use of self-service ATM machines, you would have the equivalent technology Avue offers to its Federal Government clients. Avue has competed with the Office of Personnel Management's human resource products and services for more than 10 years.

Before founding Avue, I began my career and spent five years as an employee of OPM.

The subject of this hearing is whether OPMs revolving fund is a cycle of government waste and the resounding answer to that is yes. There are three compelling factors that lead to this conclusion. First, despite dramatically reduced hiring government-wide, the cost of Federal HR has escalated dramatically at a time when the private sector has reduced its HR staff by 21 percent and its cost per hire by 28 percent, the Federal sector has increased its HR staff by 41 percent and its cost per hire is more than 12 times that of industry.

The real breadth of OPMs impact can be seen at the VA, which uses the OPMs USA Staffing product by mandate for all of its hiring. In the last five years, the VA has increase its HR specialist workforce by over 51 percent and has created a corresponding increase in HR payroll of \$100 million per year. During the same period, the VA awarded contracts for HR services at a rate of \$16 million per year and paid OPM an average of \$216 million per year for the last three years.

After increasing its payroll by \$100 million, its contractor support by \$16 million and its fees to OPM by \$216 million, the VA hired a net 13,475 fewer people in 2012 than it did in 2008. If you look across government for the last five years, agencies using USA Staffing product have increased their HR payroll, added contracted services and paid OPM extremely high fees while concurrently reducing the number of new hires.

The second factor that gives rise to this level of duplication of waste is that OPM is an innovation inhibitor. OPM has a clear self-interest in promoting inefficiencies that are better aligned with its own products and services. For example, OPM mandates that all agencies post positions on USAJOBS. OPM spent \$20 million re-coding the existing Monster USA job system plus another \$1 million in emergency fixes to in-source USAJOBS board from Monster. To date, features and functionalities would be typical of what we would find in a job board in the 1990s.

At the same time, private employers have dropped their use of job boards. Today, private sector only hires one of every six people from job boards. Progressive employers leverage innovations, like LinkedIn, search engine marketing social media sites and employee referrals.

While the VA is one example, Inspector General McFarland correctly observes that OPMs problems affect the entire government. OPM offers that its customers choose products because they are better than private offers and they are by government for government. But Federal HR is not any more complicated than you would find in a unionized company and the theory that OPMs technologies and services are cheaper or even cost-competitive are not validated.

This brings us to the third factor, OPMs extraordinary conflict of interest and the lengths to which OPM will go to expand its revenues. OPM violates the Competition in Contracting Act, illegally asserting OPM products may be purchased through the Economy Act and therefore non-competitively. OPM duplicates GSA's 738X Federal supply schedule, and adds layers of waste in the form of excessive fees. Where GSA is capped at a service fee of not to exceed .75 percent, OPM openly states that its fees range from 8 percent to 12 percent. OPM also abuses its role as portfolio manager for the HR lines of business. It exerts its role as advisor to agencies to steer contracts exclusively to Federal shared service centers.

This illustrates the dual identities of OPM, one as regulator and the other as a for-profit business. As a for-profit company, OPM is the systemic reason the Federal Government HR costs are skyrocketing.

OPM has succumbed to its own monetary interest at the expense of what is best for the government as a whole, and every day furthers this extraordinary conflict of interest while insulating itself from competition with the private sector. OPMs legitimate role must focus exclusively on its statutory mission, which desperately needs to be restored. Its revolving fund business, which draws all resources and intellectual attention, should be returned to the private sector, so that the government can enjoy billions in savings through the elimination of wasteful spending, as illustrated here.

Thank you for this opportunity to contribute to this hearing. This concludes my remarks and I look forward to your questions.

[Prepared statement of Ms. Rix follows:]

Statement of
Linda E. Brooks Rix

Chairman & Co-Chief Executive Officer, Avue Technologies Corporation

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 Linda Rix and I am the Chairman and Co-CEO of Avue Technologies Corporation. Thank you for the opportunity to testify today and to contribute to discussions about OPM's revolving fund programs. Avue provides a comprehensive human resources management platform to federal agencies based a Software-as-a-Service, Cloud-centric model. The platform is an expert system that automatically applies the myriad of federal rules and regulations, and agency policies, that apply to various HR business processes, including job classification, performance management, hiring, learning management, and benefits administration.

Avue has been a competitor of OPM's Human Resources software products and associated services for more than 10 years.

Before founding Avue, I began my career and spent five years as an employee of OPM and I think I have a keen appreciation for what the agency was, has become, and should be.

INTRODUCTION

I want to begin by commending the Subcommittee and Inspector General McFarland for bringing transparency and clarity to the subject of this hearing, OPM's revolving funds and revolving fund authority. Examining OPM's revolving funds is a critical step in taking a stand against waste, especially in this era of tight budgets and spending controls. As Inspector General McFarland has identified, and the facts show:

...every major Federal agency purchases goods and/or services from OPM through its Revolving Fund programs and, as a result, problems within these programs impact the entire Federal Government.

...over the past 15 years, OPM's Revolving Fund has expanded exponentially into what Mr. McFarland correctly calls a \$2 billion *business*. I would add that the rate of this growth is accelerating – having grown 615% between 2005 to 2010.

...OPM's revolving fund competitive business activity, is most vulnerable to fraud, waste, and abuse through price setting, in large part because OPM's customers enter into interagency agreements without competition.

We have also assembled significant analysis that is contained in a Fact Sheet document that I would request be entered into the record with my testimony.

Since 1955 and until 2000, it was the policy of the United States Government through every administration regardless of political party that government "...will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels."

Correspondingly, federal departments and agencies have traditionally been free to purchase whatever products and services available in the marketplace best met their needs without interference from other Executive Branch components so long as the products and services met certain standards such as not being produced by child labor.

I strongly believe these two policies are together firmly rooted in the best interests of our government, our economy, and our country. Unfortunately, during the past decade, this policy has been completely subverted with respect to products and adjunct services for federal human capital management and payroll processing.

WHY OPM IS DIFFERENT: THE CONFLICT OF INTEREST DILEMMA

Even if one chooses to believe it is appropriate to have government agencies producing and providing products and services to one another in competition with the private sector, OPM should not be allowed to do so.

While OPM often suggests that its revolving funds are no different than other agencies and that there should be no cause for alarm, this characterization is patently false. No other revolving fund in government is used to run a business enterprise that sells products and services to the very entities it regulates. The potential for coercion, express or implied, is simply too great to risk.

OPM's conflict of interest and web of control can be discerned in the conduct of its business activities – which are inextricably intertwined in a complex nexus of roles and responsibilities that include, among other things:

- As the lead agency for all Federal HR policies and recommended statutory changes and reforms;
- Chair of the CHCO Council where it routinely markets its own products and services as well as preferred vendors (i.e., the subject of the recent interim report by the OPM IG concerning contract steering in favor of a specific consultant);
- Names the CHCO of the Year;
- Regulatory authority over personnel matters, with audit rights and power to revoke agency personnel management authorities;
- Manager of the USAJobs government-wide job board, for which it earns fees from agencies mandated to use it;

- Portfolio manager of the Federal HR Line of Business (HRLOB) Initiative, including contract requirements development, sole arbiter of contract terms and conditions, and serving as the source selection official;
- Contract Manager and Contracting Officer with respect to the Training Management Assistance (TMA) blanket purchase contract vehicle (this is a contract vehicle through which agencies can purchase private sector goods and services from a pre-selected group of vendors chosen by OPM and subsequently awarded contracts on a non-competitive basis).

Agency contributions to OPM's revolving funds have grown exponentially in the last 10 years, representing a 203% overall growth rate. Its human resources services (HRS) business grew by 615% in the five year period from 2005 to 2010, accelerating notably between 2008 and 2010, and averaging some \$900M a year for the past five years.

OPM's 2012 cash carryover reached a record high of \$379M, at a time when all other agency missions were seriously impacted by reduced budgets. In fact, despite a reduced workload in its background investigations function, diving steeply from a 2008 peak, OPM still brought in a record \$1.1B in 2011.

The revolving fund is now 8.6 times OPM's appropriations. Its staff level has grown 79% in that same period.

Our concern, as shared by many private companies, is that OPM acts as a regulator and a policymaker at the same time it operates a fee-for-service business that competes against private industry. OPM sells human resources products and services to the very agencies it regulates and whose human resources processes it audits. In fact, concurrent with revolving fund growth is a growing OPM audit trend is to revoke authorities delegated to agencies – effectively re-centralizing authorities delegated to agencies since 1995 – all while insulating itself from competition with the private sector.

With over 70% of OPM's budget funded by its revolving fund, fee-for-service activities, and 79% of OPM staff is engaged in performing these services, OPM is under constant peril of succumbing to its own monetary interests at the expense of what is best for the Government as a whole and furthering its extraordinary conflict of interest.

It is against this backdrop of conflicting missions that OPM's revolving funds must be considered. The conflict of interest dilemma is structural and provides a powerful incentive to continue its history of promoting waste and abusing its authority in order to sustain its growing dependency on its revolving fund. Correcting this structural defect means eliminating the underlying business that gives rise to the problems in the first place.

DUPLICATION AS WASTE

OPM sells its own services and products through sole-source interagency agreements, avoiding full and open competitions. Interagency agreements for OPM typically cite as authority for the agreement the Economy Act, 31 U.S.C. § 1535(a). However, the Economy Act does not provide authority for these agreements.

While OPM's revolving fund authority, 5 U.S.C. § 1304(e), authorizes OPM to sell HR products and services, nothing excludes procurement of those services from existing procurement laws and regulations. Thus, OPM does not have the authority to enter into interagency agreements without full and open competition and this is a loophole we urge the Inspector General to close in the same manner as it is correcting the illegal carryover of funds from one fiscal year to the next.

To resell products and services of commercial companies, OPM uses its TMA contract vehicle, which it established and manages. However, the General Services Administration (GSA) maintains the 738x Federal Supply Schedule to support agency acquisitions of the full array of HR products and services available in the market. Vendors that are on various OPM procurement vehicles are also on the GSA 738x schedule.

Where GSA is capped at a service fee NTE 0.75%, OPM's fees range from 8% to 12%, adding a layer of waste to the procurement process in the form of excessive fees. Agencies seeking to procure private company services are willing to pay OPM's excessive fees for the expediency of a non-competitive process. In one case an agency CHCO stated, "they're expensive but they're fast so we went with them."

This is a time when the entire government is seeking to cut waste, reduce duplication, and direct as much funding to mission-essential activities as possible. OPM's duplicative procurement vehicles and its use of the Economy Act to shield itself from competition should be discontinued. All of these practices increase cost and protect OPM from market forces that would require it to reduce its cost and improve the quality of its products to compete.

OPM's HR PRODUCTS PROMOTE INEFFICIENT BUSINESS PROCESSES

Where OPM's products may appear, at first glance, to be offered at a low cost, the total cost of ownership for a federal customer is extraordinarily high. For example, the VA has a mandate to use OPM's USASTaffing products on an agency-wide basis. Because USASTaffing is technologically outdated and does not scale appropriate to the VA's size and hiring needs, the VA has had to hire more HR personnel to use the software within its operations.

In the last five years, the VA has increased its HR Specialist workforce by 51.52% - with a concurrent increase in HR payroll of approximately \$100M. In addition, in the last five years, VA has awarded approximately \$82M in human resources contracts *and* paid OPM an average of \$216M in fees or additional HR services per year for the last three years.

This kind of skyrocketing cost is typical of what OPM's products promote. While the VA should have been made more efficient by using technology to streamline complex business processes, it has, instead, had the total cost to the agency increase because it adopted an inferior technology that lags behind industry innovation by 20 years. And the VA is just one of many agencies that have non-competitively acquired OPM's products, with or without coercion by OPM, and have experienced a rise in both cost and headcount as a result.

In contrast, the private sector, in response to economic forces, reduced its HR costs. According to a PWC and Saratoga Institute report, the private sector has reduced its HR staff by 21% and its cost per hire by 28%, the federal sector has *increased* its HR staff by 41% and its cost per hire is 12.27 times that of the private sector. This is directly in line with the increased use of OPM's USAStaffing product and with the expansion of OPM's monopoly on HR services. It gets worse.

Where the average cost per hire, in all industries, has been benchmarked by the Society for Human Resources Management at \$2,744, the federal government's cost-per-hire is now \$33,677. In one instance this year, a federal agency paid OPM \$80,000 for its services to fill a single position.

For 2010, world-class companies saw costs drop by 12 percent, according to Hackett. "World-class companies now spend 28 percent less per employee on HR than typical companies, and operate with 25 percent fewer HR staff."

In contrast, HR costs per employee for the federal government have continued to rise. The cost of HR services in the federal government is now \$11,614 per employee – an expense that is 7.4 times higher than the private sector. HR costs in 2009, according to a survey of 300 private sector firms, averaged \$1,569 per employee.

In the area of background investigations, the National Security Agency, National Reconnaissance Office and State Department perform background investigations without using OPM's services. For NSA a Single Scope Background Investigation at costs between \$2,500 and \$3,000, whereas OPM charges \$4,005 -- AND the NSA completes approximately 90 percent of SSBIs in fewer than 30 days, and 100 percent within 60 days where OPM states it has 90 percent completed on average in fewer than 40 days and 100 percent within 80 days.

If private third party companies were allowed to compete with OPM's monopoly on background investigations at the Department of Defense there would be a downward pressure on cost and greater responsiveness to agencies in terms of cycle time.

OPM AS INNOVATION INHIBITOR

Recent trends show OPM has furthered the divide between government functions and best practices. Instead of leveraging its considerable policymaking authority to reform the federal human resources regulatory base and modernize the HR function, OPM has a clear self-interest in promoting inefficiencies that are better in line with its own products and services.

In turn, this monopolization of human capital management and payroll products and services has resulted in billions in wasteful and duplicative investment and spending: (1) by the providers themselves for product development, maintenance, and support, and (2) by their customer departments and agencies who are stuck with the inferior and expensive products and services that each year cost them tens of billions of dollars in wasteful and duplicative operations expenses, including the funding of thousands of unnecessary HR and administrative support positions.

The real tragedy is to see Departments and agencies repeatedly urged to be more mission effective and cost-efficient, while at the same time shackled with key operations systems that are stuck in the 1980s. Department Secretaries and Agency Directors are held responsible for the budget, efficiency, and effectiveness of their departments and agencies but are not given the corresponding authority to make their own decisions on the technology systems and associated services used in those same operations. It is an impossible situation when those accountable for the outcome are not responsible for the means used to achieve it.

OPM has explicitly prohibited agencies from selecting private sector products and services by inaccurately using section 735 of the 2010 Omnibus Bill (Public Law 111-117, Dec. 16, 2009), to assert that under section 735 agencies may only acquire HR services from federal shared service centers (SSC's) – of which it considers itself one. OPM, as a Government provider of HR services in competition with private providers, is targeting private competitors to prevent legitimate procurements from moving forward and completely distorting section 735 in order to do so. OPM, and the current federal SSCs, are operating end-of-life technologies that are in most cases mainframe based, COBOL era systems. In cases of more modern systems, these systems are still operating from 1990's technology which has been overcome by much more efficient and cheaper models such as those found in cloud computing.

Despite the fact that OPM has no authority to fabricate these roadblocks to competition, through sheer authoritative bluff these publicly communicated assertions have effectively curtailed government adoption of more innovative, efficient, and lower cost solutions. Instead, the agency is directed by OPM that it must select a federal SSC and has inserted itself by mandating OPM approval of the agency's technology choices using purely fabricated authority.

Another good example of OPM's insistence on antiquated technologies and business models is the mandate that all agencies post positions to USAJOBS. OPM has dedicated considerable resources to 'insource' the USAJOBS job board from Monster Government Solutions. As a part of that process OPM expended \$20M in re-coding the existing Monster USAJOBS system plus another \$1M in emergency fixes. To date, the features and functionality in USAJOBS are essentially what one would find in a job board from the 1990's.

In comparison, private employers have dropped their use of job boards like USAJOBS significantly. In 2013, only one of every 6 external hires is made through a job board. Today, progressive employers are reducing their spending on job boards in favor of professional networking sites like LinkedIn, search engine marketing, social media sites, employee referrals, and other strategies. In Bersin & Associates' The Talent Acquisition Factbook, "interviews with talent acquisition leaders suggest that they are generating higher quality leads at lower cost than traditional job boards. As a result, we expect the number of hires from these sources to continue to grow as these tools further revolutionize recruiting."

Continued requirements that agencies financially support the USAJOBS board keeps agencies from using that funding to source candidates using more robust sources, particularly in highly competitive jobs such as Cyber Security, where costs per recruit are lower and results are more specific and higher in quality.

WHAT SHOULD BE DONE

OPM should be divided into two components. The surviving entity should be exclusively focused on the statutory mission of OPM. The revolving fund component should be abolished because it is duplicative and wasteful and inextricably wedded to practices that lead to abuse of authority. There is no way to balance or optimize the structure of the agency to eliminate this conflict of interest. Despite OPM's claims that its fee for service operations are essential to the HR operations of federal agencies, nothing could be further from the truth. The private sector alternatives are up and running and several are specifically "tuned" to operate in the federal government.

Attachment A: OPM's Conflict of Interest and Monopoly Status

Abuse and Misuse of the Revolving Fund Inflated Pricing of Inferior Products Competes Unfairly With the Private Sector



The U.S. Office of Personnel Management (OPM) was established in 1978 under the Civil Service Reform Act as the successor agency to the Civil Service Commission. The Commission and OPM were chartered with development, release and oversight of regulations and governing rules affecting management of Federal employees.

Over time, OPM has created a conflict of interest in its primary policy mission.

As depicted in the chart *OPM Appropriations vs. Collections From Agencies*, OPM has evolved from its chartered role around policy to that of a fee-based service provider, or, as it characterizes itself — a toolmaker of technology platforms and software.

It collects more than \$2 billion annually from other Federal agencies whose funds, appropriated by Congress, were directed for programs and mission support activities and not authorized as transfers to OPM. These Revolving Funds pay for OPM products and services, often inferior and always at a cost greater to taxpayers than agencies would find from private sector solutions.

OPM has positioned itself at once as the primary provider of software solutions to Federal agencies and overseer of policies those solutions will address.

Despite numerous Congressional hearings, reports by the General Accounting Office and damaging audits by its Office of Inspector General, OPM continues to thumb its nose at any oversight attempts, increasing its costs by 360 percent without transparency to customers, adding unnecessary overhead and layers of bureaucracy that must be, in the end, supported by taxpayers, more than doubling the size of its workforce, and inexplicably misusing taxpayer dollars to replicate technology solutions already offered by myriad private sector companies at less expense and with greater functionality.

What follows are just the facts about OPM, its practices, products and services.

FACT SHEET

The Revolving Fund

OPM's "fee for service" business funnels taxpayer dollars from agency funds — appropriated for the purpose of administering programs and basic mission activities — to OPM for services rendered related to hiring and human resources functions. OPM uses these funds to create a for-profit business while shutting out better, less expensive private sector solutions.

- OPM Inspector General Patrick E. McFarland says, "While OPM has its agency financial statements audited each year, the financial statements of the Revolving Fund have never been audited in their

entirety.” McFarland says that the Revolving Fund has never been considered “material” to OPM’s agency financial statements, which include “hundreds of billions of dollars in the trust funds that OPM administers¹.”

- OPM’s Revolving Fund has exploded over the past 10 years, tripling its annual collections from agencies to approximately \$2 billion in 2012 and 2013².
- Just 15 years ago, the OPM Revolving Fund accounted for just \$191 million of its annual budget (\$272 million in 2012 dollars).³
- Since 2005, OPM’s Revolving Fund has exploded from 2.7 times its annual appropriation from Congress to more than 8.6 times that number.⁴
- In the past 10 years, OPM has collected more than \$15 billion⁵ in fees from agencies — fees that were appropriated to those agencies for use for their own programs and mission support activities and not authorized for transfer to OPM.

¹ Written testimony of OPM Inspector General Patrick E. McFarland before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, U.S. House of Representatives, June 5, 2013.

² The Budget for Fiscal Year 2014, page 1167.

³ United States Office of Personnel Management Congressional Budget Justification Annual Performance Plan Fiscal Year 1999, February 1998.

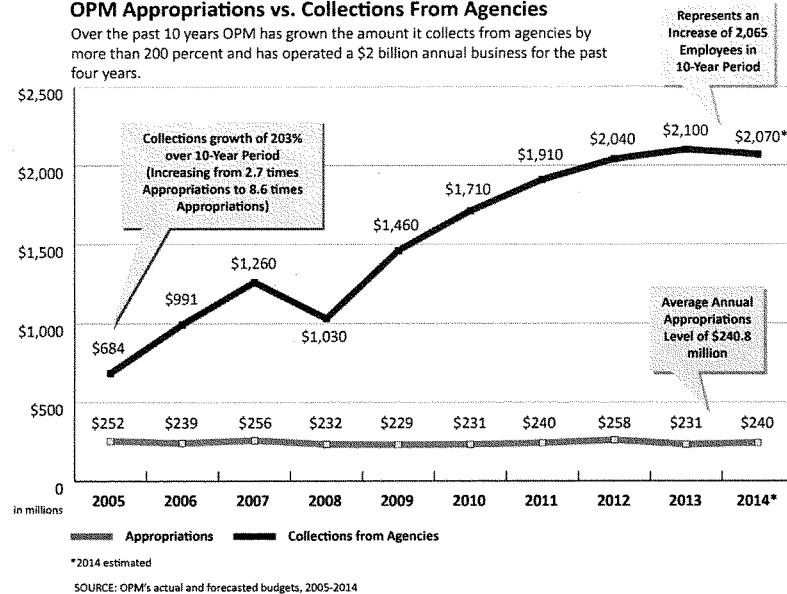
⁴ <http://archive.opm.gov/budget/fy99bjap.pdf>

⁵ OPM’s Actual and Forecasted Budgets, 2005-2014.

⁵ OPM’s Actual and Forecasted Budgets, 2005-2014.

OPM Appropriations vs. Collections From Agencies

Over the past 10 years OPM has grown the amount it collects from agencies by more than 200 percent and has operated a \$2 billion annual business for the past four years.



- These transfers of funds from agencies to OPM have little transparency and difficult to track because of OPM's own wildly inaccurate fiscal year forecasts for such transfers. In 2009, the final collected amount was 39 percent higher than OPM's forecast; 11 percent higher in 2010; 15.8 percent higher in 2011.⁶
- OPM abuses the decades-old statute, 5 U.S.C. § 1304(e)(1)⁷, which characterizes the Revolving Fund as mandatory reimbursable, stating, "Any unobligated and unexpended balances in the fund with the Office determines to be in excess of amounts needed for activities financed by the fund shall be deposited in the Treasury of the United States as miscellaneous receipts."
- OPM does not abide by the statute, instead carrying any unobligated or unexpended balances forward into the next fiscal year and using the money to bankroll new technology products.
- In addition to the list of services financed through the Revolving Fund programs, including background investigations, workforce planning, recruitment and applicant assessments, OPM also aggressively funds USA Staffing, a software product that competes with more innovative and cost-efficient commercial offerings.
- OPM has posted a net gain on operations of \$71 million over the past four years, including \$22 million in 2012⁸.

⁶ OPM's Actual and Forecasted Budgets, 2005-2014.

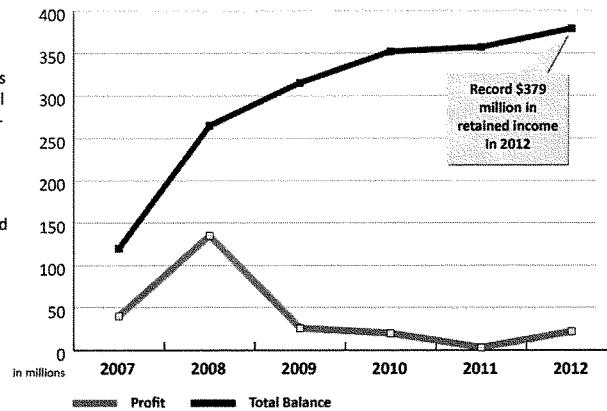
⁷ 5 U.S.C. § 1304(e)(1). <http://codes.lp.findlaw.com/uscode/5/11/13/1304>

⁸ The Budget for Fiscal Year 2014, page 1168.

- Lack of oversight and accountability allows OPM to operate the Revolving Fund programs for profit, amassing \$357 million in excess collections in 2011⁹ and \$379 million in 2012¹⁰.

OPM's Run to Record Cash

In recent years OPM has continued to see annual profits from its "fee-for-service" business while amassing more than a third of a billion dollars in cash on its balance sheet, including a record \$379 million in 2012.



SOURCE: The Budget of the Federal Government, Fiscal Years 2009 through 2014.

- OPM's recent use of its Revolving Fund to bankroll new technology projects warrants immediate examination. Past OPM Revolving Fund documentation states that each Revolving Fund program should achieve full cost recovery¹¹, meaning that these programs should be on an actual cost basis¹² and not run with a surplus.
- A 2012 GAO report noted "operating OPM's revolving fund with deficits or surpluses for 5 or more years is not consistent with the statutory goal of operating each activity on an actual cost basis to the maximum extent feasible."¹³

⁹ The Budget for Fiscal Year 2013, page 1258.

¹⁰ The Budget for Fiscal Year 2014, page 1168.

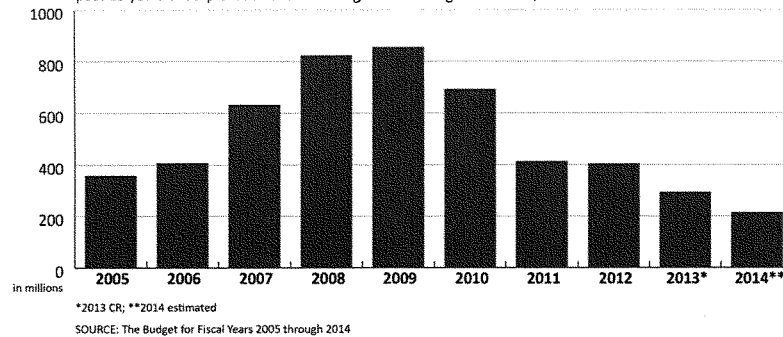
¹¹ OPM Strategic Plan, 2006-2010. http://www.opm.gov/strategicplan/archive/2006/StrategicPlan_2006-2010.pdf

¹² GAO audit on OPM Revolving Fund, April 1994. <http://gao.justia.com/office-of-personnel-management/1994/4/opm-revolving-fund-ggd-94-120/GGD-94-120-full-report.pdf>

¹³ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

Billions in surpluses: No Oversight of OPM

For nearly 30 years, the GAO has worked to force OPM to operate on an actual cost basis, saying that surpluses in the Revolving Fund for 5 or more years is not consistent with its statutory goal. Here are the past 10 years of surpluses in the Revolving Fund totaling more than \$5 billion.



- OPM's Office of Inspector General (OIG) says oversight of "the vast OPM revolving fund programs" is a "challenge."¹⁴
 - OPM Inspector General McFarland says, "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 so¹⁵."
- McFarland says, "Based on referrals of alleged fraud and identified audit risk factors, there is an urgent need to an immediate and strong infusion of oversight¹⁶" in the Federal Investigative Services and Human Resources Solutions Revolving Fund programs.
- Because of funds not appropriated by Congress being funneled to OPM, its Revolving Fund is extraordinarily difficult to track and has been identified by the GAO as one of the top three reasons it cannot render an opinion on the financial statements of the U.S. Federal Government.¹⁷
 - OPM's 5,689 total employees projected for Fiscal Year 2014 represent a level not seen at the agency in 20 years, when there were 5,991 in 1994.¹⁸

¹⁴ The Budget for Fiscal Year 2014, page 1163.

¹⁵ Written testimony of OPM Inspector General Patrick E. McFarland before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, U.S. House of Representatives, June 5, 2013.

¹⁶ Written testimony of OPM Inspector General Patrick E. McFarland before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, U.S. House of Representatives, June 5, 2013.

¹⁷ Press release by GAO - WASHINGTON (December 21, 2010) - The U.S. Government Accountability Office (GAO) cannot render an opinion on the 2010 consolidated financial statements of the federal government, because of widespread material internal control weaknesses, significant uncertainties, and other limitations. The main obstacles to a GAO opinion were: (1) serious financial management problems at the Department of Defense (DOD) that made its financial statements unauditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies, and (3) the federal government's ineffective process for preparing the consolidated financial statements. <http://www.gao.gov/financial.html>.

¹⁸ United States Office of Personnel Management Congressional Budget Justification Annual Performance Plan Fiscal Year 1999, February 1998. <http://archive.opm.gov/budget/fy99bjap.pdf>

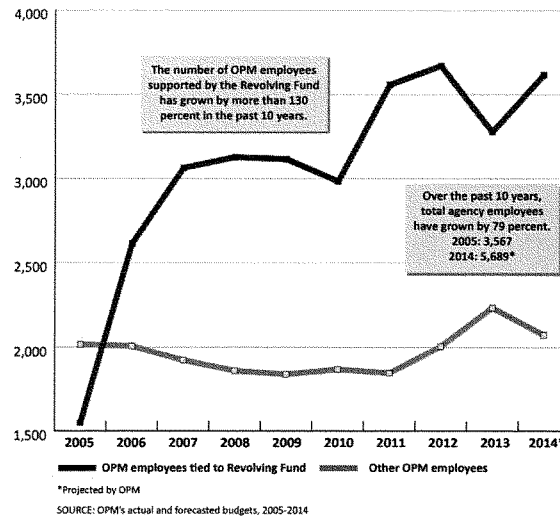
- In its 1999 Congressional Budget Justification, OPM was proud of the fact that it had reduced its number of FTEs by 52 percent, from 6,208 in 1993 to 3,005 in 1999, "more than any other Federal agency."¹⁹
- Between 2005 and FY2014, OPM will have grown its workforce by 79 percent.²⁰
- The number of OPM employees supported by the Revolving Fund over the past 10 years, by year:

2005: 1,550
 2006: 2,613
 2007: 3,063
 2008: 3,127
 2009: 3,115
 2010: 2,983
 2011: 3,557
 2012: 3,668
 2013: 3,278
 2014: 3,615*

*Estimated

Revolving Fund Bureaucracy Explodes

OPM's fee-for-service business has mushroomed and its workforce has exploded by more than 2,100 employees in the past 10 years — additional and unnecessary layers of bureaucracy. Sixty-four percent of OPM's payroll is supported by the Revolving Fund.



Human Resources / Talent Acquisition Business

Instead of providing policy guidance to Federal agencies — as is its primary mission — OPM has chosen to operate its programs as businesses and employs methods that squash private sector competition and stifle innovation. OPM's substandard, overpriced and cost-inefficient products and services like USA Staffing and USAJobs — along with coercive tactics that force agencies to fund development of and buy those software tools — have helped OPM create monopoly status through its human resources and talent acquisition business.

¹⁹ United States Office of Personnel Management Congressional Budget Justification Annual Performance Plan Fiscal Year 1999, February 1998. <http://archive.opm.gov/budget/fy99bjap.pdf>

²⁰ OPM's Actual and Forecasted Budgets, 2005-2014.

A monopoly achieved by conflict of interest.

Over the past 10 years, on more than one occasion, OPM directed agencies with regulatory violations regarding veterans' preference that a purchase of its products would ensure the agency would receive a clear audit report. The Department of Veterans Affairs chose this route with OPM.

OPM also has inserted itself in the decision-making process of agencies engaged in the procurement of private sector systems in competition with its products and coerced those agencies to cancel the procurements — or convinced those agencies that a procurement of products other than an OPM product would be met with adverse consequences.

OPM also routinely abuses its official role as the Co-Chair of the Chief Human Capital Officers Council to further push its products and services while specifically prohibiting private sector companies from doing so.

What have these tactics brought OPM? An unchecked and growing monopoly in the human resources and talent acquisition business.

- OPM's Office of Inspector General has completed a risk assessment of OPM's Human Resources Solutions and found OPM's methodology for its services and products and the way its customers pay for those services and products "most vulnerable to fraud, waste and abuse."²¹
- The GAO has noted in its studies on OPM that the agency has a track record of being a poor steward of taxpayer dollars by failing to provide customer agencies transparent pricing, identifying and addressing efficiencies that could lead to cost savings.
- Over the past five years, OPM's Human Resources Solutions business has averaged nearly \$1 billion annually. In 2005, OPM's HRS business accounted for just \$147 million²².
- Between 2005 and 2010, OPM's HRS business grew 615 percent²³ to \$1.052 billion.
- In its budget justifications to Congress, OPM classifies the majority of its budget in this area vaguely, as "Other Services" — no other line item breakouts, explanation or breakdown.
- In 2010, OPM classified about half — \$589,258,000²⁴ — of its HRS business as "Other Services", a little more than half of the \$1.052 billion for that year.
- In 2011, OPM classified an astounding 89.9 percent — \$723,310,000²⁵ — as "Other Services", followed by 75 percent of nearly \$1 billion in 2012²⁶.

²¹ Written testimony of OPM Inspector General Patrick E. McFarland before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, U.S. House of Representatives, June 5, 2013.

²² The Budget for Fiscal Year 2005.

²³ The Budget For Fiscal Years 2005-2010.

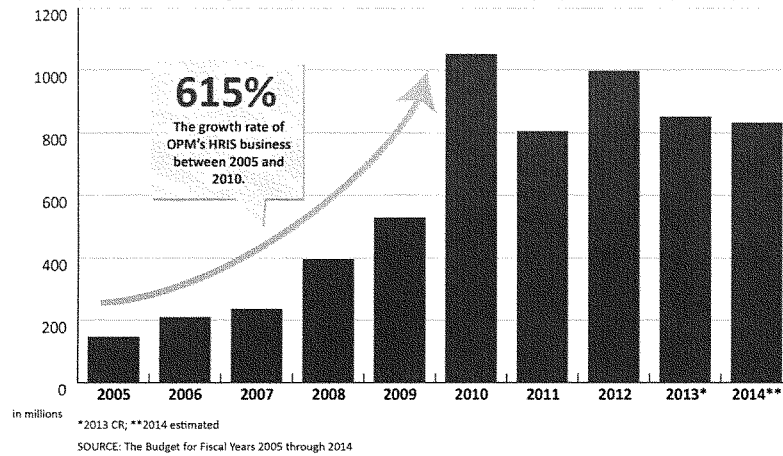
²⁴ The Budget for Fiscal Year 2010.

²⁵ The Budget for Fiscal Year 2011.

²⁶ The Budget for Fiscal Year 2012.

Unchecked Growth of OPM's HRIS Monopoly

Between 2005 and 2010, OPM's Human Resources / Talent Acquisitions business grew at a rate of 615 percent and has averaged nearly \$1 billion annually — \$907 million per year — over the past five years.



- Over a four-year period, 2010 through 2013, no insight was given into what services OPM provided to agencies for \$2.6 billion.
- The Department of Veterans Affairs is a particularly noteworthy customer for OPM displaying inefficiency, duplicative services and questionable spending.
- In 2008, the VA had 3,558 HR employees with salaries totaling \$216 million²⁷. OPM took over HR functions for the VA that same year.
- By 2012, the VA — with OPM handling the agency's HR functions — had grown its number of HR employees by 36.5 percent to 4,854²⁸.
- By 2012, the amount the VA spent on HR employee salaries — again, with OPM providing products and services — had grown more than 50 percent to \$325 million²⁹.
- That's a five-year change of 1,298 additional employees and an additional \$109 million³⁰ in salaries, meaning wasteful and unnecessary duplication of functions exist — a fact contrary to the goals of government-wide suitability and reform efforts.
- Over that same period, the VA was spending \$200 million annually on average with OPM for HRS services and products³¹.

²⁷ Fedscope and Bloomberg Government data.

²⁸ Fedscope and Bloomberg Government data.

²⁹ Fedscope and Bloomberg Government data.

³⁰ Fedscope and Bloomberg Government data.

³¹ Written testimony of OPM Inspector General Patrick E. McFarland before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, U.S. House of Representatives, June 5, 2013.

- Additionally, the VA has doled out more than \$80 million in HR contracts since 2008 and spent more than \$100 million in media services (which includes ad placement for vacant positions)³².
- From 2009-2012, the VA paid OPM nearly \$1 billion for HR products and services, and still ended up incurring additional expenses of \$109 million to its salary base by 2012 and nearly \$200 million in contracts and external services for HR functions³³.

Personnel Background Investigations

The Revolving Fund for background investigations has fast become a highly controversial and expansive program under OPM, which provides more than 90 percent³⁴ of the government's background investigations for federal employees and contractors, increasingly shutting out private sector companies who can provide faster, more cost effective service. The General Accounting Office looked at OPM's business practices for background investigations under a microscope to determine what was driving its cost structure — agencies were reporting greatly increased costs through OPM's services with little insight into what additional value the agencies were receiving from these costs.

- The GAO report noted the cost for investigations nearly doubled between 2005 and 2011, from \$602 million to \$1.1 billion — and increase of 79 percent³⁵.
- OPM has estimated budget authority for Fiscal Year 2014 for its Federal Investigative Services Revolving Fund at \$1.189 billion and 2,700 FTE³⁶.
- The GAO determined that more than half of OPM's fiscal year 2011 costs, \$532 million³⁷, went to "investigation fieldwork and support contracts." Compensation and benefits for its fast-growing workforce to support its investigation business accounted for \$265 million.
- Another eye-opening expenditure from the GAO report was OPM's information technology investments — made with the agency's profits from the Revolving Fund — up 682 percent³⁸ over a six-year period to more than \$91 million in 2011.
- Despite performing 600,000 fewer investigations per year from OPM's FY 2008 high of 1.8 million, OPM still brought in more than \$1 billion in each of FY 2010 and 2011 — more than \$100 million more revenue in each of those years than in 2008.
- Interestingly, the GAO says it can't be sure of OPM's numbers for background investigations because "independent audits found material weaknesses in internal controls for OPM's overall financial management system."³⁹

³² Fedscope and Bloomberg Government data.

³³ Fedscope and Bloomberg Government data.

³⁴ The Budget for Fiscal Year 2014, page 1162.

³⁵ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

³⁶ OPM FY 2014 Congressional Budget Justification, page 31.

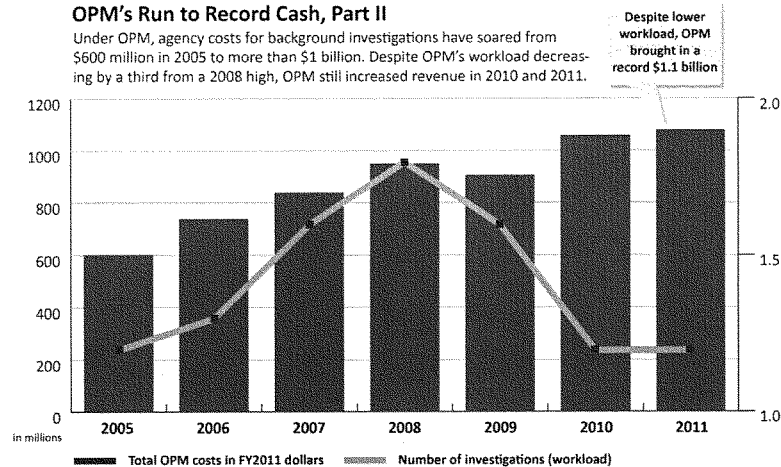
³⁷ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

³⁸ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

³⁹ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

OPM's Run to Record Cash, Part II

Under OPM, agency costs for background investigations have soared from \$600 million in 2005 to more than \$1 billion. Despite OPM's workload decreasing by a third from a 2008 high, OPM still increased revenue in 2010 and 2011.



SOURCE: 2012 GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings"; GAO analysis of OPM data.

- The report noted "operating OPM's revolving fund with deficits or surpluses for 5 or more years is not consistent with the statutory goal of operating each activity on an actual cost basis to the maximum extent feasible."⁴⁰
- For the Revolving Fund covering background investigations, the total surplus for the five years from 2007 through 2011 was \$227.5 million.⁴¹
- According to the GAO report⁴², "Government-wide suitability and personnel security clearance reform efforts have not yet focused on cost savings. . . . However, GAO identified opportunities for achieving cost savings or cost avoidance. Specifically, agencies have made duplicative investments in case-management and adjudication systems without considering opportunities for leveraging existing technologies. Further, OPM's investigation process has not been studied for process efficiencies that could lead to cost savings. In addition, OPM invested in an electronic case-management program yet continues to convert submitted electronic files to paper."
- OPM conducts all background investigations for the Department of Defense, which took over background investigations on a fee-for-service basis. Once OPM took over the cost per background investigation to the DoD, which spends \$750 million annually⁴³ on the service, increased.
- The National Security Agency, National Reconnaissance Office and State Department perform background investigations without using OPM's services — with some being more cost effective. One study notes a

⁴⁰ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁴¹ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁴² GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁴³ White Paper, "Third Party Investigation of Automated Record Checks," The MITRE Corporation, Oct. 7, 2012, page 1.

Single Scope Background Investigation at NSA costs between \$2,500 and \$3,000, while OPM charges \$4,005⁴⁴. If private third party companies were allowed to compete with OPM's monopoly on background investigations at the Department of Defense there would be a downward pressure on cost.

- The NSA completes approximately 90 percent of SSBIs in fewer than 30 days, and 100 percent within 60 days⁴⁵. OPM says it has 90 percent completed on average in fewer than 40 days and 100 percent within 80 days⁴⁶.
- The State Department controls costs by contracting at the lead level instead of the case level with tight accountability over investigators. OPM contracts at the case level⁴⁷.

OPM Pricing and Lack of Feature Functionality In Its Products

- A 2012 GAO report⁴⁸ said "OPM develops prices for background investigations using aggregated operating costs and does not provide customer agencies with transparent information underlying its prices and price increases."
- The GAO report also takes OPM to task for the difference in its advertised price for a stand-alone investigation and the final amount the customer agencies pay. The Department of Defense has said that the final price it pays OPM for these investigations is often higher.⁴⁹
- The GAO found that OPM includes "excessive overhead" in its prices and has additional costs because of its "centralized" nature that has to be covered by its pricing.⁵⁰
- Customer agencies that have delegated authority to conduct business outside of OPM's bloated price structure have found that private sector investigation providers were as much as \$1,500 lower per investigation than OPM prices.⁵¹
- OPM's prices for its products and services are an estimated 313 percent higher than those offered by commercial vendors⁵², according to third-party analysis of those figures.
- The price paid by a large agency customer for OPM's product is at least 68 percent higher than private sector products⁵³, while the OPM products provide significantly less functionality.
- Most private sector companies will offer price discounts for agencies with large numbers of employees. In the case of one private sector company⁵⁴, that meant that its cost per FTE to taxpayers was 60 percent *less* than OPM's, \$12.54 to \$21.07.

⁴⁴ White paper, "Potential 'Next Steps' for the Joint Reform Effort Third Party Assessment," published Oct. 25, 2012.

⁴⁵ White Paper, "Third Party Investigation of Automated Record Checks," The MITRE Corporation, Oct. 7, 2012, page 20.

⁴⁶ OPM FY 2014 Congressional Budget Justification, page 31.

⁴⁷ White Paper, "Third Party Investigation of Automated Record Checks," The MITRE Corporation, Oct. 7, 2012, page 20.

⁴⁸ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁴⁹ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁵⁰ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁵¹ GAO Report, Background Investigations, "Office of Personnel Management Needs to Improve Transparency of Its Pricing and Seek Cost Savings." <http://www.gao.gov/assets/590/588947.pdf>

⁵² NBC's "Purchasing OPM's USA Staffing Through the NBC" fact sheet (prices valid through 2009); NBC's "MGS Hiring Management Enterprise Purchasing Through the NBC" fact sheet (prices valid through 2009)

⁵³ GAO Testimony, Information Technology: OMB and Agencies Need to Improve Planning, Management, and Oversight of Projects Totaling Billions of Dollars, 7/31/2008. GAO-08-1051T and information from HRIS customer familiar with USA Staffing pricing.

⁵⁴ Based on historical private sector company pricing discount for 200,000+ agency headcount.

- OPM's cost to agencies for use of USA Staffing includes an hourly rate of \$850⁵⁵ for support — what OPM itself notes as "HRS overhead costs" for each job posted.
- In these seven key areas, OPM's USA Staffing product lacks applicant tracking system functionality and the ability to produce efficiencies and integrations offered by superior yet more cost effective private sector products. OPM's USA Staffing also lacks data warehouse and Web service integration, which means that agencies using USA Staffing have additional time and costs associated with transferring this information to other HR systems.

	Private Sector Vendor Systems	OPM's USA Staffing
Robust reporting capabilities		X
Comprehensive assessment questions to support automated applicant scoring	√	X
Data warehouse integration	√	X
Web service integration	√	X
Human Resource Information System (HRIS) integration	√	X
Agency branding options	√	X
Electronic case file management	√	X

- OPM's track record of developing and operating its own software systems is littered with failure, as the GAO has noted on multiple occasions. During testimony before a House oversight subcommittee hearing⁵⁶ on Nov. 15, 2011, GAO's Director of Information Management and Human Capital Issues said that OPM, throughout multiple IT projects going back 20 years, had displayed questionable ability "not only to lead, but manage the capability going forward."
- In August 2011, OPM's USA Staffing crashed resulting in the loss of 70,000 federal job applications for the 54 agencies that use the service⁵⁷. The system was down for two days, then when the problem could not be fixed, OPM had to use a backup version, effectively wiping out two days' worth of applicant activity on the site.
- OPM spent \$20 million in 2011 to deliver USAJobs 3.0 — nearly one year behind schedule — which launched in October 2011 to crashes and user complaints⁵⁸ of inaccurate search returns, inaccurate geographic filtering, server capacity issues, lost profile and saved information, account access problems, and personal information security issues.
- OPM had to spend nearly \$1 million in "emergency" upgrades⁵⁹ to fix the failed launch of USAJobs 3.0.

⁵⁵ Third-party analysis of OPM prices for single grade, series or location job postings; single series, two grades or locations; or single series, combined internal/external announcement, two grades or locations

⁵⁶ "USAJobs Site Glitches Point to Longtime IT Woes," InformationWeek, Nov. 16, 2011.

⁵⁷ "Federal job seekers' applications lost when hiring system goes down," The Federal Times, Aug. 16, 2011.

⁵⁸ Compiled from OPM's USAJobs Facebook page.

⁵⁹ "OPM spends 'under \$1M' for emergency upgrades to USAJobs 3.0," FierceGovernmentIT.com, Nov. 3, 2011.

Mr. FARENTHOLD. Thank you very much. I will now recognize myself for five minutes of questioning.

Mr. Grimes, Ms. Rix really does point out what is a great concern with me, in that you guys are both the regulator and the vendor. You set the rules and you say all right, you can go out to the private sector and do this and comply with all those rules, oh come on, bring it in here, deal with us. Do you see a conflict there and how do you answer Ms. Rix's concern about that?

Mr. GRIMES. Thank you, Mr. Chairman. We don't see a conflict at all. In fact, we provide a vehicle for training and management and so forth, through our training and management assistance program that utilizes private sector contractors. In fact, 80 percent of the work that we do in HRS is through private sector contractors. So they are certainly not being cut out of the deal.

The bright line that we have is that our merit systems and accountability division that evaluates whether agencies are examining and hiring people in the right way has nothing whatsoever to do with our human resources and products division. They don't tell agencies that they need to use them. The HRS merely provides an opportunity for agencies to get lower cost contracting help in a quick way for their training, hiring, assessment needs.

Mr. FARENTHOLD. Thank you.

Mr. McFarland, have you done any, has the IG's office done any investigative work as to the competitive practices there? I realize this is something we didn't prepare you for.

Mr. MCFARLAND. No, Mr. Chairman, we have not done any work in that area.

Mr. FARENTHOLD. Mr. Grimes, do you use appropriated funds to operate any of the revolving fund or is it fully self-funding?

Mr. GRIMES. The revolving fund is fully self-funding. We work on a cost recovery principle of whatever we spent we recover from our customers.

Mr. FARENTHOLD. And you don't use appropriated funds to promote it or anything like that?

Mr. GRIMES. Absolutely not.

Mr. FARENTHOLD. That is certainly good to hear.

Mr. Grimes, the Inspector General recently informed the committee of an investigation involving an OPM contractor utilized by the revolving funds investigative service division. Given the particularly serious nature of the investigation, is the contractor still conducting background and security investigations as an OPM contractor and what steps has OPM taken to address the concern raised by the IG?

Mr. GRIMES. Mr. Chairman, the Department of Justice is looking into that and I just can't comment right now.

Mr. FARENTHOLD. All right. I appreciate that. I would, as the investigation progresses, I do think it is important that this committee be kept abreast of what is going on, particularly with those investigations. It is especially troubling that this investigation involves background checks that are critical to not only the trust of the government but the safety of American people.

Let's talk a little bit about technology. Of the 26 record checks that OPM currently performs, Mr. Grimes, only 7 return records in machine readable format. And nine only provide hard copy records.

And there are no common standards for data structure or formats for FIS providers.

What is hindering the progress and how can we get this automation going to save money and to speed the process?

Mr. GRIMES. Mr. Chairman, I regret that I can't tell you that, because I am not in the FIS operation. But we can certainly take it for the record and get you an answer.

Mr. FARENTHOLD. I would appreciate that.

Let me ask Ms. Rix a question. You indicate that the online system for finding jobs is more antiquated than, I think you said, a 1990s system. Can you expand a little bit on what effect you think that is having on the quality of applicants in the process overall?

Ms. RIX. Sure. As many of you know, the USAJOBS board is a mandated jobs board. It actually is generated from an older requirement by statute that OPM ensure that Federal agencies provide a public notice of job postings, which is completely different than a centralized controlled job board.

The purpose of the job board is essentially to be able to let people know that have been RIFed from the Federal Government to base realignment closure and other principles what job opportunities might be available to them so they can be restored to public service. Right now, the OPM jobs board is very confusing. It leads to a lot of people who are expending resources, the VA is a very good example here. The VA is part of the \$16 million a year expenses in media buys for recruitment. And doing those media buys, they've spent about \$100 million in media buys in the last five years.

When you see a local advertisement for jobs at the VA for critical health care professional positions, you then go to USAJOBS where the VA has approximately 30 to 40 percent of the job postings on any given day, which means you are going through 3,000 to 4,000 individually-posted jobs to find a position for which you would like to apply.

Mr. FARENTHOLD. This is an ongoing problem. I am down at my VA office regularly talking to them and talking to veterans who are saying, we don't have the doctors. So how do we get the doctors in better? What do we need to do to fix that?

Ms. RIX. What needs to happen is, the VA needs to be able to do single job postings, for example, for physicians, allow users to select locations in which the user would like to work, not have 4,000 job postings where a user has to individually has to search every job posting, not just to determine where it is, but also to determine whether they are even eligible to apply for the posting.

So centralizing that process and running open, continuous recruitment is the best way to go about that objective. But you have to have the technology.

Mr. FARENTHOLD. Are there now solutions to do that, cloud-based solutions to do that, where we don't have to spend a whole lot of money reinventing the wheel?

Ms. RIX. Absolutely.

Mr. FARENTHOLD. I see my time is greatly expired. I will of course extend the same courtesy to Mr. Lynch in his questioning. So we will recognize Mr. Lynch for five minutes plus a minute 33.

Mr. LYNCH. No problem, Mr. Chairman. I appreciate that. Mr. McFarland, good to see you again. I do want to say that I do share

some of the concerns that you have raised, and that Ms. Rix has raised, with the lack of pricing transparency. This has been raised before by GAO.

Mr. Grimes, what have you done to address the concerns that they have and that I share with the lack of pricing transparency?

Mr. GRIMES. This year, our FIS organization released an annual report that has extensive price transparency included in the annual report. For our HRS operation, the prices are clearly marked, as they say. Agencies know what they are getting when they buy services from HRS, and the prices are either set in advance or negotiated with the agency, and they do know exactly what they are getting and how those prices were arrived at.

Mr. LYNCH. That is part of the problem. Now, Ms. Rix has pointed out, and it seems that Mr. McFarland agrees, that in some cases, for the same investigation, that OPM is charging about \$1,500 more per investigation than some of the folks in the private sector. We are doing an awful lot of these. And also the amount of money we are spending is staggering here.

The cost to conduct background investigations increased by almost 79 percent from \$602 million in fiscal year 2005 to \$1.1 billion in fiscal year 2011. So what are we doing to increase competition? We have some difficult challenges here fiscally, across the budget. What are we doing in this regard to bring these prices down and introduce some real competition?

Mr. GRIMES. First of all, with respect to comparisons between other agencies that conduct background investigations and our FIS operation, it is important to note that, I think the example maybe was NSA, they have appropriated funds. So when they charge for an investigation, they don't recover the cost of those appropriated funds. Our FIS operation has to include, has to recover all funds. We get no appropriated funds.

If we were to get appropriated funds, say, for our personnel, our cost would go down by 27 percent. So it is not exactly a fair comparison.

Mr. LYNCH. Mr. McFarland, what do you think I should do here? If we wanted to fix this, give me a couple of bold strokes that would help us get to a better place with this whole process?

Mr. MCFARLAND. Show me the money.

Mr. LYNCH. Could you elaborate on that?

Mr. MCFARLAND. Yes, I can.

Mr. LYNCH. Okay, I bet you can. Why don't you take a minute and do that?

Mr. MCFARLAND. The question goes right to the heart of our concern and our frustration. We just have not been able to do in the revolving fund the work that we need to do, by any stretch of the imagination. We have devoted as much time and money as we can from our salary and expense fund to do work in that revolving fund area, especially on the Federal Investigative Service cases. Because to us, they demonstrate a real problem that could occur at any given time and that is picking the wrong person for a government job, picking the wrong person that is going to get a particular classification that shouldn't have it. There are many instances of that taking place, not just with OPM employees per se, but with the contractors.

So what we want to do, it is a broad scope, but the only way I can describe it is we really want to delve into everything in the revolving fund, because it is \$2 billion, it is out of control from our perspective inasmuch as we can't tell you hardly anything about it. That is a real shame. We were talking a minute before, when Mr. Grimes was talking about transparency, that things are published, when my point is, that is not really transparency from our perspective. Transparency is only going to be there if we give an independent review of it.

Mr. LYNCH. Right. Well, I just want to say, maybe this is editorializing, but I think the Chairman and I are of a like mind on this, we should be able to come up with something that would allow you to have that transparency. I think that serves our economic interests as well as our national security interests, to make sure that that happens. I would like to work with you on this and figure out a way that we can make that happen.

Ms. Rix, do you have some thoughts of your own in terms of how we can straighten this mess out?

Ms. RIX. I think one thing to really focus on is the availability of private sector alternatives for highly scalable technologies that can be instituted quickly. I think you had a hearing previously related to retirement examinations and processing. There are plenty of options out there in the private sector that OPM could adopt that would in effect reduce both cycle time and cost dramatically.

In addition to that, and I will throw this out there even though it might be fairly controversial, I do think that OPM should delegate more of its authorities directly to agencies where agencies can manage those funds. Despite Mr. Grimes saying that the fact that there is appropriated funds make the process cheaper, it is all still taxpayer funds.

Mr. LYNCH. That is right.

Ms. RIX. It is just a redistribution of that.

Mr. LYNCH. Right, exactly right. There are no appropriated funds, but you are charging these Federal agencies who are being funded by taxpayer money. So there is a pass-through here, so there is a real cost to the taxpayer, even though it is not through the appropriations process. I get that. Thank you.

I am just about of time. Thank you, Mr. Chairman, I yield back.

Mr. FARENTHOLD. Thank you very much, Mr. Lynch.

We will now go to the gentlelady from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. I thank you for holding this hearing.

I generally support revolving funds, normally because they are cost savings. We see the opposite here.

I really am confused, by the way, Mr. Chairman, I see that the President has a proposal in his budget to give the Inspector General precisely the jurisdiction he would allow. I hope our subcommittee or committee quickly authorizes this, carries it to the Floor so that we can see this done this year. It seems to me that hands-down, the case has been made for that oversight.

I am confused here, though, because as I read your testimony, Mr. McFarland, he notes that the revolving fund relies heavily on contract employees. So it does seem to me that the OPM has partly

privatized this anyway. And I don't understand, if the reliance on contract employees saves you money then it seems to me you should explain why this is such a government operation. You are not using Federal employees, and indeed, I would wonder if you use Federal employees, would these extraordinary increases be any less? That is directed to the witness from OPM, Mr. Grimes.

Mr. GRIMES. Thank you, Ms. Norton. A couple of things. One, expenses have gone up because the ratio of more expensive investigations to less expensive investigations has gone up.

Ms. NORTON. So you are doing more expensive investigations than the private sector is doing. And their costs do not reflect that.

Mr. GRIMES. The investigations that we do with our Federal Investigative staff, which consists of both Federal employees and contract—

Ms. NORTON. What percentage is Federal employees and what percentage are outsourced employees?

Mr. GRIMES. About half of the FIS budget is spent on contractors.

Ms. NORTON. Why the difference?

Mr. GRIMES. We use a balance of contractors and Federal employees, so that when we get a lot more business, we can expand quickly through the contracting side of the house.

Ms. NORTON. Does it cost any more or less for the Federal employees and the contract employees?

Mr. GRIMES. I cannot give you a number there. I would be happy to take that for the record. I don't know what those cost figures are. But it gives us the ability to expand as our need increases.

Ms. NORTON. So as far as a Federal agency is concerned, the Federal agency is really without recourse when the Federal agency comes to you, Mr. Grimes, isn't that the case? It needs the background investigation, it wants the employee. Is there anyplace else for the Federal agency to go?

Mr. GRIMES. Congress told us to do background investigations. So we do them. We do over 2 million investigative products a year, deliver more than 2 million investigative products a year. And we do them under 40 days on average, in accordance with the recent legislation that was directed us to do so.

Ms. NORTON. How do you control costs? There is no competition. How do you control costs, Mr. Grimes?

Mr. GRIMES. Well, we control costs through our—

Ms. NORTON. Because it looks like you don't, frankly. When we look at these increases, I ask that almost pejoratively, how do you control costs, does anybody ever sit down and say, wow, these costs are really going up? Is there any group in the agency that maybe sits down every once in a while and gives some attention to these costs?

Mr. GRIMES. They work very hard to control costs. In fact, the law requires us to recover the costs that we do have and in fairness to our customers, our FIS operation works very hard to control costs.

Ms. NORTON. So one of the things you can do as you get more business, and can charge whatever you desire, is you can just go out and get more employees instead of, for example, considering, can we do this work with fewer employees, as for example, Federal agencies have to do all the time?

Mr. GRIMES. In fact, that is what we do. We do not staff up our Federal workforce to respond to increased demand.

Ms. NORTON. Where are the increases, then? Where have the increases come, then? They have not come from Federal employees, have they? Or have they? If the increases haven't come from Federal employees, I have to assume that this outsourcing gives you the ability to just go get whoever you need. You said as much when you said that, when we have extra work or if we need more employees we need these outsourced employees.

Mr. GRIMES. The number of investigations that require more extensive field work has gone up. So that raises our costs, because it is more expensive to gather information in the field.

Ms. NORTON. Have Federal agencies given you more people who need background checks or are you testifying that deeper background checks are needed? The Federal workforce I don't think has been exponentially rising.

Mr. GRIMES. The number of products probably is about the same from year to year. But the ratio of more expensive products to less expensive products has increased.

Ms. NORTON. Mr. Grimes, don't you see the problem? If you are sitting on a product that keeps going up, didn't you believe that at some point somebody was going to call the question on you? I am amazed that you don't have a remedy to offer the committee for these extraordinary increases. I am speaking now for the rest of the government, which has to come to you and has no place else to go. Do you have a remedy that you would offer for these extraordinary increases?

Mr. GRIMES. I guess I would have to disagree that there have been extraordinary increases. The last time we had a price increase was in 2010. I think it was about 3 percent, and they have remained static since.

Ms. NORTON. Mr. Chairman, I know I am over my time. I was looking at a graph.

Mr. FARENTHOLD. Without objection, we will give you another minute or two.

Ms. NORTON. It is this graph, multi-year budget comparison of revolving fund, OPM and OIG is what it really increases there. I am trying to account for the 4,000, if I look at 4,012 and 98. I am asking, if the depth of the work that you have to do is what accounts for the increases, the 79 percent increase, for example, in pricing that I think has already been indicated to the agencies.

Mr. GRIMES. Our pricing has only gone up once in the last, I think, five years. That was in 2012.

Ms. NORTON. OPMs reported cost to conduct background investigations increased by almost 79 percent in fiscal year 2005 to \$1.1 billion in fiscal year 2011. That is the GAO report.

Mr. GRIMES. Right, and I think that reflects, again, the depth of the investigations that are required and the types of investigations that have been asked for.

Ms. NORTON. Yes, Mr. Chairman, you can see why we need an in-depth look at this agency.

Mr. FARENTHOLD. Thank you very much, Ms. Norton. We will now go to the gentleman from Missouri, Mr. Clay. You are recognized for five minutes or thereabouts.

Mr. CLAY. Thank you, Mr. Chairman. Thank you for conducting this hearing.

As the stewards of the taxpayer funds, the Federal Government needs to prevent waste, fraud and abuse. The concerns raised by GAO and the OPM IG regarding OPMs revolving fund provide strong support for improving the IG's oversight of the fund's activities. And I appreciate that OPM has been able to eliminate the investigations backlog and improve its timeliness.

When GAO was looking at OPMs background investigation service, it had recommended that OPM look at process efficiencies to eliminate costs. Panel members, are there particular revolving fund processes that you believe can be streamlined? We will start with you, Ms. Rix.

Ms. RIX. Thank you. I believe that both the investigative process, retirement claims processing processes, the hiring and staffing process of the Federal Government, and the general process by which agencies are able to operationally execute their HR service should in fact all benefit from innovations in technology. There is no reason to have conflicting requirements, to have non-digital methods of getting work done or not having case files and records that are 100 percent digital going forward.

These are products and innovations that are readily available from the private sector. OPM has had a not invented here, build don't buy process that has effectively ignored the innovations of the last five to ten years in terms of where technology is today, supporting very large scale private companies, for example.

Mr. CLAY. Mr. Grimes, how can we streamline? Thank you for your response, Ms. Rix. Mr. Grimes, any comments on how we can streamline the processes?

Mr. GRIMES. There are steps that could be taken to streamlining the revolving fund process by, for example, looking at maybe a five-year rate of return rather than the three years that we do now. Possibly by annual budgets instead of annual year budgets. That would help.

With regard to investigations, we are undergoing a transformation in our FIS operation to bring more automation into the process. We are looking to increase our timeliness through changing from batch processing to real-time processing. We are looking at increasing our quality by providing enhanced data validations and real-time information and with the field agents as they conduct their work.

We are improving our data security and so forth. So we are taking steps to improve and streamline that process.

Mr. CLAY. Thank you for your response. Mr. McFarland, any suggestions on streamlining?

Mr. MCFARLAND. Mr. Clay, this is very difficult, because I sit here giving you the same answer all the time, based on this particular subject. I don't know, because we haven't been able to look into the processes. It is very frustrating for an inspector general office to have to say that, and I apologize for having to say that.

But once we are able to, we will delve into everything.

Mr. CLAY. Mr. McFarland, given the fact that OPMs revolving fund operations are operated on a cost recovery basis, does that in

a way serve as a disincentive to streamline business processes and reduce costs?

Mr. MCFARLAND. One might think so, simply because it is controlled, and there is really not competition per se. But once we could evaluate pricing methodology, technology innovation and everything else, we will have some very definitive answers.

Mr. CLAY. Mr. Grimes, does that serve as a disincentive to streamline business processes?

Mr. GRIMES. I think again, on the surface, yes, I can see where someone might make that assumption. But that is not the way we operate. We constantly look for ways to streamline our operations.

Mr. CLAY. What about you, Ms. Rix? What is your opinion?

Ms. RIX. I think the VA example that I read to you is probably the clearest example of the impact government-wide of having products and services that are mandated for agency use, that are inadequate and antiquated technologies producing considerable cost inefficiencies. The revolving fund does in fact distort the incentive for OPM, because it is incented to maintain that revenue level in order to maintain its employment level.

Mr. CLAY. Thank you so much for your responses. I yield back.

Mr. FARENTHOLD. Thank you very much, Mr. Clay.

We are still under an hour here, and I have a couple more questions, so we will do a second round of questioning. So if you have some more, Mr. Clay, or Mr. Lynch, we will get back to you as well. We will get going here with a second round of questioning.

Ms. Rix, you are in a company that basically does work similar to what OPM does in their revolving fund. What percentage or, can you give me an idea of what you spend on, I would call it quality control, security investigations, what have you all been doing in-house? What Mr. McFarland wants to do is an IG with respect to the revolving fund. Obviously you have a higher level of transparency in government than the private sector. But management would dictate that you have some sort of quality control similar to what an IG would do.

How do you all do it? What do you all spend there? Percentages are good.

Ms. RIX. We probably spend about 50 percent of our total revenues on maintaining the security level of protocols of our data centers and access to our systems, which is a requirement by the Federal Information Security Management Act. In addition to that, the quality control function, as well as ensuring that our expense rate is maintained at a low level.

I will give you a couple of examples of recent innovations that have allowed for dramatic cost savings for our company.

Mr. FARENTHOLD. Let me limit that to about 45 seconds, because I have some more questions.

Ms. RIX. One thing that we have been able to do is reduce our cost from about \$1.4 million in a year in data center operations to approximately \$14,000 a year by adopting cloud-based solutions from Amazon that are government-approved. Another is we have been able to reduce our fees to our customers by the Avue budget protection plan in concert with the reductions to their budget, so that we can be in line with reductions that our clients are experiencing.

So those are things we pay attention to and monitor constantly as well as price.

Mr. FARENTHOLD. Let's go back to Mr. McFarland now. I think we are going to get some bipartisan agreement that we need to get you guys looking into the revolving fund. What do you want in the legislation? How much money, how many people? Give us an idea how you want us to craft the legislation and how you would suggest that we pay for it in this tight budgetary environment.

Mr. MCFARLAND. What we have asked for in our planning was .33 percent of the total budget. In this particular case, that would bring us to \$6.6 million. Our anticipation is the first year probably, but not for sure at all, that we would spend possibly \$1.5 million to get things moving.

There has to be a plan in place which we have already started working on. And we have to move aggressively to get people trained.

Mr. FARENTHOLD. I have to get to funding. I do have a limited amount of time. The FIS and the revolving fund is cost specific. We could pull some money out of that without appropriating some more money and give you some money there to investigate it and do some of the management structures without really directly costing the taxpayers some money. Is that accurate?

Mr. MCFARLAND. Are you saying such as a memorandum of understanding, that type of thing?

Mr. FARENTHOLD. We just say, all right, for the for-profit or non-traditional activities, X percent goes to the IG to investigate that.

Mr. MCFARLAND. That is what we are seeking in the legislation.

Mr. FARENTHOLD. That is what you are after?

Mr. MCFARLAND. Yes.

Mr. FARENTHOLD. No direct appropriations.

Mr. MCFARLAND. That is right.

Mr. FARENTHOLD. Obviously Mr. Grimes might argue, well, we are going to raise the price to our customers to pay for that. Or do you have some sort of flexibility in profit, where a small percentage wouldn't hurt you?

Mr. MCFARLAND. Let's say tomorrow we get it and the next day we use all \$6.6 million. That is very easy to explain away as far as what the cost would be. OPM would have to raise the cost to the customer, per \$1,000, \$3.35. We are not anywhere close to taking that kind of money, \$6.6 million. We want to probably start about \$1.5 million.

Mr. FARENTHOLD. Mr. Grimes, do you think you would have to significantly raise the prices to your customers to fund the IG looking at what you were doing?

Mr. GRIMES. No. We would not have to raise them significantly.

Mr. FARENTHOLD. Would you have any objection to that sort of legislation?

Mr. GRIMES. In fact, we support that legislation.

Mr. FARENTHOLD. All right, great. I appreciate that. Just one quick last question. One of the things you said in your testimony that kind of tweaked my interest was, you stated that the OPM has created specific training offerings for Federal employees that align with the Administration's management priorities. What are the Administration's management priorities and what are you

doing with respect to that? Are there any specific courses or directives there?

Mr. GRIMES. I can't list off any specific courses, but they are leadership and training courses and management and so forth that we offer, that agencies can avail themselves of.

Mr. FARENTHOLD. All right, thank you very much.

Mr. Lynch, do you have some more questions? You have five minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

I just want to go back, Mr. McFarland, the Administration has proposed a way to increase the IG's budget, you are familiar with that?

Mr. MCFARLAND. Yes, sir.

Mr. LYNCH. And I know in your testimony you indicated that you might be able to achieve a return of \$7 for every \$1 you spend.

Mr. MCFARLAND. That was reflective of what we do now with the retirement and the health care. That is what we bring back now. And that changes year to year, of course.

Mr. LYNCH. Right. The President does have a proposal, as the chairman pointed out, that would give you about \$6.6 million, something like that. Any problems or any refinements that you might have to the President's proposal?

Mr. MCFARLAND. No. That would be just fine the way it is.

Mr. LYNCH. Mr. Grimes, you seem to be okay with that as well?

Mr. GRIMES. Yes, we are.

Mr. LYNCH. Okay, I don't have any more questions. Thank you. I yield back.

Mr. FARENTHOLD. It is good when we have consensus.

Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman. I understand that Congress created OPMs revolving fund back in 1952, and that it was originally used to allow OPMs predecessor to recover the cost of conducting background checks for other Federal agencies.

Over the years, the revolving fund was expanded to permit OPM to recover the cost of providing training and other HR related services to Federal agencies. I firmly believe that these activities are necessary for an effective government.

Mr. Grimes, both Mr. McFarland and Ms. Rix have testified about the tremendous growth in the revolving fund. Can you explain to us what you believe are the reasons for the substantial growth?

Mr. GRIMES. Thank you, Mr. Clay. I can. In 2005, we inherited the workload from the Department of Defense investigation program. It came with an enormous backlog. And as I mentioned in my testimony, that did increase the cost of the revolving fund. But in six years, we were able to get that backlog eliminated and get our timeliness to processing down to 40 days.

Mr. CLAY. And then with that, do you do background checks for the DOD?

Mr. GRIMES. Yes, we do.

Mr. CLAY. Okay. Mr. Grimes, I understand that at the end of fiscal year 2012 the amount of surplus in the revolving fund was \$379 million. Now, Mr. Grimes, does the statute authorizing OPMs re-

volving fund allow for the carryover of surplus funds from one year to another?

Mr. GRIMES. The statute allows us to maintain a corpus that would allow us to, for example, shut down a program without having to rely on appropriated funds. So for example, if the HRS program were shut down, there needs to be enough money there to shut the program down. And that is kind of the standard that we use.

The amount of the revolving fund, I believe FIS had an independent contract calculate what they ought to have. And that number was between \$180 million and \$270 million. So they are probably around \$210 million right now, I believe, and the balance is probably in our HRS. I can get you more specific figures if you are interested.

Mr. CLAY. Yes, would you do that? And do you ever turn any money back in to the Treasury?

Mr. GRIMES. We would if we had excessive returns. But so far, we have not.

Mr. CLAY. Well, okay. Do you have plans for the use of the current revolving fund surplus?

Mr. GRIMES. That fund exists for capital investment and also the ability to shut the program down, should we have to do that. So to the extent that we get, we make more money in a year than we calculate what that fund ought to be, then we would have to do something like that, yes.

Mr. CLAY. Is there any of the money used for conferences?

Mr. GRIMES. We don't spend much on conferences any more.

Mr. CLAY. Very good. Mr. Chairman, I yield back.

Mr. FARENTHOLD. On that note, we would like to thank our witnesses and of course, my fellow members for participating. This was a great hearing, one that shows more bipartisan consensus than I think I have seen in my two years in Congress. I think you can count on some positive results as a result of this hearing. And again, thank you for being here, and we are adjourned.

[Whereupon, at 10:38 a.m., the subcommittee was adjourned.]

Statement of Chairman Blake Farenthold
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and the Census
“OPM’s Revolving Fund: A Cycle of Government Waste?”
June 5, 2013

Today’s hearing will explore whether the federal government’s human resources bureaucracy is serving agency customers and the taxpayer well by playing both quarterback and referee in its interactions with other federal agencies.

The Office of Personnel Management operates a \$2 billion business whereby it sells products and services to the very same agencies over which it exercises regulatory authority.

The significant growth in revolving fund activity and the dramatic increase in the number of investigative case referrals and requests for audits in revolving fund program areas raise questions about OPM’s business model. Last year, Inspector General McFarland told the Committee his office had been inundated with requests *from OPM* to audit or investigate various aspects of the revolving fund. In April, the Inspector General found senior OPM officials utilized their positions to give preferential treatment to a Revolving Fund vendor and failed to ensure compliance with federal contracting rules. In May, Inspector General McFarland informed the Committee of an ongoing investigation in which a Revolving Fund contractor used deceptive practices to avoid fulfilling certain requirements under its contract with OPM, in order to maximize profits.

The Inspector General has requested legislative language to provide access to additional resources for revolving fund oversight. The authority seems to be an investment that can be accomplished at relatively low cost, using existing amounts.

At a time when agencies are furloughing workers to meet payroll, questionable business practices affect the entire federal government. Each month seems to bring a new allegation or confirmation of waste within the revolving fund. I look forward to hearing from today’s witnesses as we examine whether OPM should be the regulator and business service provider and seek to better understand the business practices that have led the Inspector General to request additional funds for critical audit needs.