

**Farm Credit Administration
Office of Inspector General**

Audit Report

The Farm Credit Administration's Process for Contractor Background Investigations

A-19-02

**Auditor
Tori Kaufman**

September 26, 2019

FCAOIG

Farm Credit Administration
Office of Inspector General



September 26, 2019

The Honorable Glen R. Smith, FCA Board Chairman & CEO
The Honorable Jeffery S. Hall, FCA Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Smith and Board Member Hall:

The Office of Inspector General (OIG) completed an audit of the Farm Credit Administration's (FCA) Process for Contractor Background Investigations. The objective of this audit was to determine whether FCA's process for obtaining contractor background investigations is effective. We found that FCA had taken various steps to improve the contractor background investigation process. FCA hired a new Personnel Security Officer in the Office of Agency Services (OAS) and developed new procedures addressing the personnel security process for contractors.

We identified opportunities to improve FCA's process. We recommended that OAS:

1. Designate and train an Alternate Personnel Security Officer.
2. Reconcile and update policies and procedures, including a control to verify the status and accesses for current contractors.
3. Document justifications for internal control risk ratings for the Personnel Security and Suitability Program.
4. Develop standard contract language to address contractor background investigation requirements in new contracts.
5. Develop requirements to document exceptions and justifications in case files.
6. Evaluate security requirements addressed through the Interim Suitability Assessment process and modify current procedures, as necessary.

OAS concurred with the recommendations in our report and provided planned corrective actions. OAS initiated corrective action for recommendation 4, and we consider it resolved and closed.

We appreciate the courtesies and professionalism extended by FCA personnel to the OIG staff. If you have any questions about this audit, Tori Kaufman and I would be pleased to meet with you at your convenience.

Respectfully,

A handwritten signature in blue ink that reads "Wendy R. Laguarda". The signature is written in a cursive, flowing style.

Wendy R. Laguarda
Inspector General

Enclosure

EXECUTIVE SUMMARY

Contractor Background Investigations

Report No. A-19-02

September 26, 2019

Objective

The objective of this audit is to determine whether the Farm Credit Administration's process for obtaining contractor background investigations is effective.

Recommendations

To improve FCA's contractor background investigation process, we recommend OAS:

1. Designate and train an Alternate Personnel Security Officer.
2. Reconcile and update policies and procedures, including a control to verify the status and accesses for current contractors.
3. Document justifications for internal control risk ratings for the Personnel Security and Suitability Program.
4. Develop standard contract language to address contractor background investigation requirements in new contracts.
5. Develop requirements to document exceptions and justifications in case files.
6. Evaluate security requirements addressed through the Interim Suitability Assessment process and modify current procedures, as necessary.

The Farm Credit Administration (FCA or Agency) is an independent Federal agency responsible for regulating, examining, and supervising the Farm Credit System and the Federal Agricultural Mortgage Corporation. FCA utilizes contractors across different offices to achieve its mission. Depending on the nature of work being performed, contractors may require a background investigation. The background investigation process supports employment and retention of contractors that are consistent with public trust and the integrity and efficiency of the Government.

When contractors require access to FCA facilities, equipment, systems, or sensitive information, the Personnel Security Officer (PSO) evaluates the position's sensitivity using the Office of Personnel Management's (OPM) position designation tool. The type of investigation required is based on the sensitivity designation. Investigations for FCA contractors are conducted by the National Background Investigations Bureau.

In September 2018, FCA hired a new PSO and transferred responsibility for the Personnel Security and Suitability Program from the Office of the Chief Financial Officer to its Office of Agency Services. The PSO is responsible for verifying, initiating, and tracking the status of investigations. The PSO also works with contracting personnel and Agency Contracting Officer's Representatives to determine investigative needs and keep investigations current.

Our review identified opportunities for improvement. Specifically, FCA has not designated an Alternate PSO, in accordance with Agency policies and procedures. The Alternate PSO is an important function because FCA's PSO is responsible for all aspects of processing and maintaining investigations. We also identified opportunities to improve controls and streamline processes. Contract language addressing background investigation requirements was not always consistent or included in applicable contracts. Due to the Agency's increased use of contractors, contractor background investigations will continue to be an important element of the Agency's Personnel Security and Suitability Program.

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ACRONYMS AND ABBREVIATIONS

Agency	Farm Credit Administration
COR	Contracting Officer's Representative
CVS	Central Verification System
e-QIP	Electronic Questionnaires for Investigations Processing
FCA	Farm Credit Administration
FY	Fiscal Year
ISA	Interim Suitability Assessment
MBI	Moderate Risk Background Investigation
MCP	Management Control Plan
NACI	National Agency Check and Inquiry
NBIB	National Background Investigations Bureau
OAS	Office of Agency Services
OIG	Office of Inspector General
OPM	Office of Personnel Management
PDT	Position Designation Tool
PSO	Personnel Security Officer
System	Farm Credit System
U.S.C.	United States Code

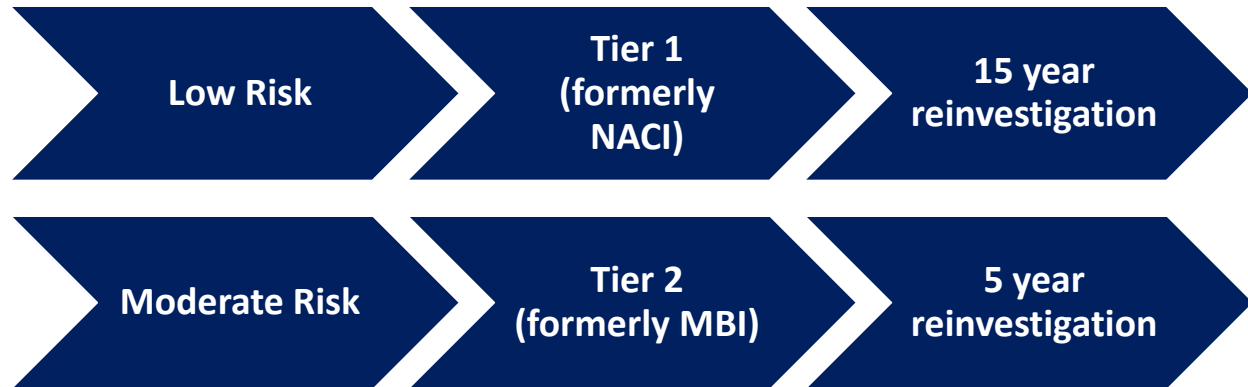
BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent federal agency responsible for regulating, examining, and supervising the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation. The Agency's mission is to ensure that System institutions are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. To achieve its mission, FCA may utilize contractors. When contractors require access to FCA facilities, equipment, systems, or sensitive information, they

must undergo a background investigation. The background investigation process supports employment and retention of contractors that are consistent with public trust and the integrity and efficiency of the Government.

FCA maintains a Personnel Security and Suitability Program within its Office of Agency Services (OAS). Overall, operations of the program are managed by the Agency's Personnel Security Officer (PSO). FCA's PSO is responsible for developing personnel security policies and procedures; designating position sensitivities; scheduling investigations; evaluating investigative reports; adjudicating completed investigations; and monitoring the program. For contractor positions, the PSO works with OAS contracting personnel and Contracting Officer's Representatives (CORs) to implement background investigation requirements.

The PSO evaluates the sensitivity of contractor positions using the Office of Personnel Management's (OPM) position designation tool (PDT). The PDT includes specific questions about the position's duties, risks, and ability to impact the public's trust or national security to determine the type of background investigation that is appropriate. Contractor positions at FCA are generally non-sensitive and designated as low risk or moderate risk requiring a Tier 1 or Tier 2 investigation, respectively. Positions are subject to reinvestigation based on the risk designation. FCA considers low risk investigations to be current for 15 years and high or moderate risk investigations to be current for five years. In Fiscal Year (FY) 2015, OPM began conducting Tier 1 investigations in lieu of National Agency Check and Inquiries (NACI) and Tier 2 investigations in lieu of Moderate Risk Background Investigations (MBI).



Contractor background investigations at FCA are conducted by the National Background Investigations Bureau (NBIB) within OPM. Before an investigation is requested, the PSO checks the Central Verification System (CVS) to determine if a contractor has an existing investigation or adjudication that fulfills current needs. A background investigation is not initiated for contractors that will not be continuously employed on a contract for more than six months. However, FCA developed an Interim Suitability Assessment (ISA) process for contractors requiring access to FCA resources or protected information.

FCA uses the Electronic Questionnaires for Investigations Processing (e-QIP) system, a web-based automated system, to process investigation requests. The Agency initiates individuals in e-QIP, and users enter data based on the type of investigation that is required. The PSO evaluates

pertinent data in a background investigation to determine whether an individual is suitable to perform work for the Agency. Results of this adjudication are reported in CVS. Pre-appointment, investigation, and adjudicative documentation are maintained and secured by the PSO in case files.

The Federal background investigation process is currently in transition. In April 2019, the president issued an Executive Order transferring responsibility for background investigations from OPM to the Department of Defense. The change was effected to implement a legislative mandate and help address the federal government's background investigation workload, reduce risk, promote the alignment of vetting efforts for Federal employees and contractors, and facilitate other reforms. In addition, background investigation processes are moving towards a model of continuous evaluation and real-time notification. These types of changes will help agencies be currently informed when an event takes place that could impact the status of an individual's investigation. These transitions will impact investigation processing, monitoring, and timeframes and, potentially, FCA's personnel security processes for employees and contractors.

Prior Reviews

In September 2015, the Office of Inspector General (OIG) conducted an audit of FCA's Personnel Security and Suitability Program. Our report made four recommendations that were agreed-upon by management, including:

- Review and implement internal control procedures to ensure the PSO's tracking spreadsheet, security files, and risk designations are accurate and complete.
- Finalize the designation of an Alternate PSO so that appropriate resources are available to fulfill the requirements of the Personnel Security and Suitability Program.
- Update procedures for deciding and documenting position risk level and sensitivity and maintaining and organizing position designation tool records.
- Revise processes to ensure employees are cleared or pre-appointment investigative requirements are waived before entering high risk positions.

All actions were closed as of March 2016.

OPM conducted a review of FCA's Personnel Security and Suitability Program in November 2017. The purpose of the review was to assess and validate FCA's security and suitability program performance. The report made no recommendations.

AUDIT RESULTS

FCA has taken various steps to improve the contractor background investigation process. Specifically, in September 2018, the Agency hired a Personnel Security Officer (PSO) with exclusive responsibility for matters relating to suitability and security processing. Since starting the position, the PSO has reviewed current contractors to determine whether they had the correct background investigation. In February 2019, OAS issued internal procedures on FCA's Personnel Security Process for Contractors. The procedures described FCA's process for assigning a sensitivity level to contractor positions; contractor onboarding; reinvestigations; and control activities. FCA's Office of the Chief Operating Officer also issued a directive, Interim Suitability Assessments for Contractors, in May 2019. The directive describes procedures for granting contractors limited access to FCA resources while a background investigation is being completed.

Our review identified additional opportunities to improve monitoring, internal controls, and the contracting process. In addition to recent changes, areas included in our recommendations will improve the efficiency and effectiveness of FCA's contractor background investigation process. During our review, FCA had approximately 31 current contractor personnel that required a background investigation. Due to the Agency's increased use of contractors, contractor background investigations will continue to be an important element of the Agency's Personnel Security and Suitability Program.

Monitoring Contractor Background Investigations

File Testing

The PSO is responsible for initiating, verifying, adjudicating, and documenting contractor background investigations. Current contractor investigations are tracked in a spreadsheet, and supporting documentation is maintained in secured case files. To test investigation monitoring and documentation, we selected a judgmental sample of 32 current and former contractors. We selected our sample to include contractors across different offices, time periods, investigation levels, and phases of completion. Generally, we found that case files included appropriate documentation that was consistent with information in the PSO's tracking spreadsheet. We noted the following exceptions during our testing:

- An investigative file could not be located for one contractor in our sample. According to the tracking spreadsheet, the contractor departed the Agency in September 2018.
- Two files did not include a copy of the position designation tool (PDT). One stopped working as a contractor for FCA in December 2017, and one in September 2018.
- One current contractor in our sample had a lower level investigation completed than what was designated for the position. Positions for the contract were designated as moderate risk needing a Tier 2 investigation; however, the contractor had a Tier 1, low risk investigation that had been completed in August 2011. The tracking spreadsheet said that

the contractor was not currently working at FCA and served as a backup, if needed, and the PSO stated that the contractor would need a new investigation if this status changed. However, during our audit, the Contracting Officer's Representative (COR) for the contract confirmed that the individual was doing work on the contract, despite not having a current, Tier 2 investigation.

- Four files did not include an onboarding form, and 11 files in our sample did not include a Personnel Security Notification Letter. Three other contractors' investigations were ongoing or incomplete, so a letter was not appropriate. A Personnel Security Notification Letter is prepared by the PSO to inform the COR that a contractor's background investigation has been favorably adjudicated.
- Of the contractors with case files, each file included a Declaration for Federal Employment,¹ and all but four files included a contractor resume.

Alternate PSO and Internal Control Assessment

FCA's policies and internal procedures address internal controls related to the contractor background investigation process, including:

- The PSO will maintain a master list of active contractor employees that includes the status of background investigations.
- The master list will be reviewed and updated on a continuous basis.
- Case files will be maintained for each contract employee and include pre-appointment and adjudicative documentation.
- The PSO and Alternate PSO will maintain a listing of all active investigations and monitor the status. At a minimum, this will include checking the date of e-QIP initialization, the date the investigation was released to OPM, and the date OPM initiated the investigation.
- At the end of each month, the Alternate PSO will provide the PSO with a listing of all employees due for reinvestigation for the next two months.
- By October 30 of each year, the Alternate PSO will conduct an annual audit of recently appointed employees and contractors to ensure their positions have been properly designated, the appropriate investigation has been scheduled or completed, appropriate suitability determinations have been made, and an official notice of results was placed in the security file. A report of the findings will be provided to the PSO and the office director.

Internal controls and monitoring help to ensure processes are working as intended. Control systems are especially important because FCA's PSO is responsible for all aspects of personnel suitability and security processing. The following were not addressed or implemented in accordance with policies and procedures:

¹ A Declaration for Federal Employment form is used to collect information to assess fitness for Federal and contract employment.

- FCA had not designated an Alternate PSO. The Alternate PSO can serve as a backup to the PSO to ensure appropriate coverage, continuity, and oversight of personnel security and suitability functions. The Agency had designated an Alternate PSO in November 2015, in response to our Personnel Security and Suitability audit recommendation; however, the employee left OAS in March 2018.
- FCA maintains various policies, internal procedures, and directives addressing contractor background investigations. FCA's Personnel Security Procedures were issued in March 2016. These procedures state that the Alternate PSO will conduct an annual audit to verify background investigations were timely and documented appropriately. Conversely, FCA's Personnel Security Process for Contractors procedures did not include responsibilities for an Alternate PSO since this position had not been designated when these procedures were completed in February 2019. Reconciling and updating policies and procedures will improve consistency and clarity.
- The PSO continuously reviews and updates the tracking spreadsheet with current information. However, contractor onboarding responsibilities are distributed across different offices and personnel, and it is the responsibility of the COR to inform the PSO when contractor personnel or access needs change. The PSO works with other offices to determine whether the tracking spreadsheet and sensitivity designations are current; however, formalized controls will help ensure current contractor information is communicated to the PSO and background investigations are appropriate.

The Personnel Security and Suitability Program was identified as an assessable element in the Agency's management control plan (MCP). For FY 2018, FCA's Office of the Chief Financial Officer was responsible for the program and assigned the program a low risk rating. For FY 2019, OAS was responsible for the program and assessed it as high-risk; however, the basis for the assessment had not been documented. FCA's Policies and Procedures Manual 1007 Evaluation of Internal Control Systems includes an annual internal control assessment form that includes questions about whether responsibilities are delineated and policies and procedures have been maintained. This type of detailed assessment helps ensure controls are up-to-date and appropriate for the risk environment. This is especially important for periods in which the risk rating is modified.

Recommendations 1-3

To strengthen controls, we recommend OAS:

1. Designate and train an Alternate Personnel Security Officer.
2. Reconcile and update policies and procedures, including a control to verify the status and accesses for current contractors.

3. Document justifications for internal control risk ratings for the Personnel Security and Suitability Program.

Management Response:

Management concurred with the recommendations in our report. OAS agreed to designate an Alternate PSO and update policies and procedures. OAS also agreed to document justifications for internal control risk ratings.

OIG Response:

The OIG concurs with management's planned actions.

Contractor Requirements

Inconsistencies in Statements of Work

We reviewed the statement of work for current contracts in our sample that required a Tier 2 public trust investigation. Tier 2 was the highest risk level assessed for current contractor positions. There were nine contracts with 17 current contractors in our sample of 32 contractors for which the position designation tool in the file concluded that a Tier 2 investigation was required. We noted inconsistencies in the contract requirements we reviewed. The following exceptions were noted:

- One contract stated all personnel performing work "shall currently possess a Tier 2 background investigation, or higher, that was completed within the last five years, that was favorably adjudicated, and must maintain the same level of security for the duration of the contract." Furthermore, the contract stated the PSO would determine renewal requirements for investigations that expired during the period of performance. The contract stated that contractor staff failing to meet background investigation requirements would be ineligible for work on the contract. For the two contractors working at FCA, one had a background investigation that expired nine months prior to beginning work on the contract. The other contractor had a background investigation that was set to expire during the contractor's work at FCA. The PSO stated that the employees were short-term and that a background investigation may be accepted for up to seven years;² therefore, it did not make sense to initiate a new background investigation. Both the contract and FCA procedures stipulate that a moderate risk background investigation (Tier 2) will be considered current for five years.
- One contract stated "The contractor is required to already have completed a favorably adjudicated National Agency Check and Inquiries (NACI) within the past 4 years or have

² Security Executive Agent Directive 7, *Reciprocity of Background Investigations and National Security Adjudications*, states that background investigations and national security eligibility adjudications shall be reciprocally accepted when the most recent background investigation is not more than seven years old, unless otherwise directed by the Security Executive Agent.

an active US Government security clearance. A moderate background clearance is preferred.” The contract also stated that the contractor may be required to undergo a background check as deemed appropriate by FCA. The PDT in the contract file concluded that contractors should have a Tier 2 background investigation for work on the contract. The NACI (Tier 1 equivalent) background investigation stipulated in the contract was a lower level than the Tier 2 designation in the contract file.

- One contract related to human resources services required contractors to maintain confidential information related to employee records and highly sensitive employee relations issues. However, the statement of work did not include language addressing background investigation requirements.
- One contract stated, “Contractor staff may be required to obtain, or already possess, varying levels of security clearances in the performance of this contract.” However, the type of background investigation was not included.

FCA does not have standard contract language addressing background investigations. Although security requirements differ based on the type of work being performed, standard language will help ensure background investigation requirements are addressed and implemented when new contracts are developed. Including security requirements in contracts helps FCA hire contractors with the correct qualifications, prevents onboarding delays, and protects systems and information. In addition, OAS procedures, and the contract we reviewed, stated that contractor background investigations will be considered out of scope when they are more than five years old for moderate risk positions (Tier 2 investigation). However, the PSO determined a new investigation was not needed for the contractors in our sample due to the contract length and reciprocity timeframes. It is important to explain and document exceptions to maintain complete information in case files. Documenting exceptions helps ensure decisions are supported and policies and procedures are appropriately considered.

Currently, for awards where the contractor may have access to FCA facilities, equipment, systems, personally identifiable information and/or sensitive information, the COR is required to complete an onboarding form before the contractor comes onboard. To determine and address background investigation requirements in FCA contracts, the contracting office and COR must work with the PSO early in the contracting process. The PSO must receive the onboarding form and other necessary information to run the position designation tool before the statement of work is finalized. During our review, FCA was in the process of creating an application-based contractor onboarding process to streamline workflows and improve efficiencies.

Interim Suitability Assessments

In May 2019, FCA’s Office of the Chief Operating Officer issued Directive 1, Interim Suitability Assessments (ISA) for Contractors. The ISA is a minimum background review designed to preliminarily identify obvious or easily discovered security concerns and assess whether limited access to FCA resources or protected information should be granted on a temporary basis. ISA

procedures state that the process should be used when a background investigation is reasonably expected to take more than 60 days. The use of ISAs is limited to contracted personnel needing a Tier 1 or Tier 2 background investigation and short-term contracted personnel for whom FCA will not initiate a background investigation that will require access to protected information. FCA's ISA directive defines protected information as:

"Agency information that may be personal, sensitive but unclassified, confidential, or otherwise protected by Federal law, including personal identification information and other information protected by the Privacy Act (5 U.S.C. Section 552a), and data collected by FCA in its role as the independent federal regulator of the Farm Credit System."

ISA procedures require OAS to obtain and review specific information. Certain checks are part of FCA's standard contractor onboarding process, including completing an Optional Form 306 (Declaration for Federal Employment); reviewing CVS to determine whether a current background investigation and adjudication was completed; and a criminal record check. However, ISA procedures also require additional requests and reviews, including credit reports, reference checks, and resume verification. The ISA process is not included in Federal requirements and is not applicable to FCA employees. Additional reviews may reduce security risks for contractors that must access protected information. However, these reviews require time and resources, and FCA can utilize other methods to achieve this objective. As noted above, FCA was moving towards including background investigation requirements in contracts. This approach limits risk, saves resources, and allows contractors to immediately start working once their investigation has been verified.

In addition, although use of the ISA process was limited, FCA was conducting ISAs before the directive was issued in May 2019. An ISA was issued for three contractors in our sample. Two ISAs were issued in February 2019, of which one contractor did not begin work at the Agency. The third contractor had been granted an ISA through April 2019 with an extension through July 2019. However, when the extension expired, the PSO stated the contractor no longer needed access to sensitive information.

Recommendations 4-6

To improve FCA's contractor investigation process, we recommend OAS:

4. Develop standard contract language to address contractor background investigation requirements in new contracts.
5. Develop requirements to document exceptions and justifications in case files.
6. Evaluate security requirements addressed through the Interim Suitability Assessment process and modify current procedures, as necessary.

Management Response

OAS concurred with our recommendations. OAS agreed to revise procedures to address documenting exceptions in case files. In addition, OAS agreed to review the current ISA process and make recommendations to the Director of OAS. OAS provided a template for new contracts that included standard contract language addressing background checks. Therefore, recommendation 4 is resolved and considered closed.

OIG Response

The OIG concurs with management's planned actions.

See Appendix A for management comments.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether FCA's process for obtaining contractor background investigations is effective. We performed this audit at FCA's headquarters in McLean, Virginia, from May 2019 through September 2019.

The scope of our audit was limited to FY 2017 through March 2019.

We performed the following steps to accomplish the audit objective:

- Identified and reviewed laws and regulations related to the audit objective;
- Identified and reviewed related policies, procedures, directives, and guidance;
- Reviewed FCA's process for reviewing, conducting, and monitoring contractor background investigations;
- Selected a judgmental sample of 32 contractors and reviewed documentation supporting the PSO's tracking spreadsheet. We selected our sample from the PSO's list of 62 current contractors and departed contractors from 2017 through 2019. We selected our sample to include contractors across different offices, time periods, types of investigations, and phases of completion. Because our sample was judgmental, it cannot be projected to the entire population;
- Requested and reviewed supporting documentation from the PSO, including statements of work for current contracts designated as moderate risk; and
- Interviewed the Personnel Security Officer and OAS personnel.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

We assessed internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We also assessed the computer-processed data relevant to our audit objective and determined that the data was sufficiently reliable.

We assessed the risk of fraud related to our audit objective while evaluating audit evidence. Overall, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX A: MANAGEMENT COMMENTS

Memorandum

Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000



September 10, 2019

To: Tori Kaufman, Senior Auditor
FCA Office of Inspector General

From: Vonda Bell, Director of the Office of Agency Services
and Chief Human Capital Officer at FCA

Subject: Office of Agency Services' Response to OIG's draft audit report titled *FCA's Process for Contractor Background Investigations*

A handwritten signature in black ink that reads 'Vonda Bell'.

This memorandum responds to the draft audit report from the Office of the Inspector General, dated September 3, 2019 and titled, *FCA's Process for Contractor Background Investigations*. The objective of the audit was to determine whether FCA's process for obtaining contractor background investigations is effective. The draft audit report identifies six (6) recommendations to improve FCA's contractor background investigation process. The Office of Agency Services concurs with the overall recommendations outlined within the draft audit report.

Further, OAS will develop and submit a corrective action plan to adequately address the points identified within the OIG's draft audit report.

FCAOIG

Farm Credit Administration
Office of Inspector General

REPORT FRAUD, WASTE, ABUSE, & MISMANAGEMENT:

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