United States Office of Personnel Management

Agency Financial Report

Fiscal Year 2016

OPM.GOV

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Message from the Director

Over the past year, the U.S. Office of Personnel Management (OPM) has made significant progress on key agency and Administration priorities that advance our mission to recruit, retain, and honor a world-class workforce to serve the American people. We maintained our focus on strengthening our cybersecurity and modernizing our information technology (IT) systems, and initiated a series of fundamental reforms that will build on years of interagency reform efforts to also strengthen and modernize the background investigation process. We have made major strides to implement the People and Culture section of the President's Management Agenda (PMA), worked collaboratively with our interagency partners to support their human resource needs, and made strong progress to improve customer service and deliver excellent benefits to the Federal community.

KEY ACCOMPLISHMENTS

STRENGTHENING CYBERSECURITY AND MODERNIZING IT SYSTEMS

We are pleased to report that OPM made important advancements on a number of IT related priorities in FY 2016. We collaborated with the OPM's Office of the Inspector General (OIG) and our interagency partners to accelerate efforts to strengthen our cybersecurity posture and modernize our IT systems.

We have taken significant steps to upgrade the security of our legacy systems and network perimeter. In addition to implementing new cybersecurity tools, and upgrading firewalls, OPM has:

- Completed the implementation of two -factor authentication for 100 percent of users accessing OPM networks
- Established a new 24-hour Security Operations Center
- Deployed HTTPS web security access protections for all OPM web pages
- Fully implemented DHS's Einstein I, II, and IIIA tools
- Adopted the DHS Continuous Diagnostics and Mitigation (CDM) Program
- Formalized and improved OPM's cybersecurity incident response process

As a result of these efforts, OPM is one of the leaders in all categories in the FY 2015 Cybersecurity Cross Agency Priority (CAP) goals and is becoming a recognizable leader among Federal agencies in meeting or exceeding IT security initiatives.

OPM continues to modernize our IT systems with plans to manage costs, support and strengthen critical program operations, and mitigate security and operational risks. We recognize, going forward, that it is important that we continue to prioritize our efforts to strengthen and modernize our systems.

IMPROVING FEDERAL BACKGROUND INVESTIGATIONS

Building on years of work to construct a stronger and more effective background investigations process, the Federal Government announced in January 2016 a series of changes to modernize and secure the way the government conducts investigations for Federal employees and contractors. Central to this announcement was the establishment of the National Background Investigations Bureau (NBIB), a new entity with a strong national security focus housed within OPM and dedicated solely to the background investigations process.

The NBIB was formally established on October 1, 2016. While the complete transition will take some time, the interagency team has made significant progress towards what will fundamentally strengthen this critical function. The NBIB will have modernized business processes, a strengthened funding model, a new organizational model to bolster privacy and intergovernmental communications, and an updated governance structure that will better align the policy and operations and facilitate continuous improvements. The Department of Defense will have responsibility for the design, development, and security of NBIB's IT systems.

OPM is also hard at work building capacity. For example, during fiscal year 2016, OPM made 400 conditional offers of employment to Federal field investigators. The goal for fiscal year 2017 will be to increase staff levels an additional 200 federal employees. OPM also awarded a new fieldwork contract – adding further capacity by increasing the number of contractors from 2 to 4.

We would like to thank those in OPM who support the background investigation mission and our interagency partners for all the work they have done and will continue to do to deliver on our mission to conduct high quality background investigations and continue to strengthen this critical government function.

ADVANCING THE PRESIDENT'S MANAGEMENT AGENDA

OPM is a leader in advancing the People and Culture pillar of the PMA, which focuses on the support of an engaged, innovative, diverse, and productive Federal workforce. During FY 2016, OPM:

- Launched a nationwide "Hiring Excellence Campaign," a series of 32 training sessions around the country and in virtual forums with Federal HR professionals and hiring managers designed to provide technical assistance to help agencies better use existing hiring flexibilities and processes to hire the best talent.
- Worked aggressively to implement the President's 2015 Executive Order on "Strengthening the Senior Executive Service" to support efforts to hire the best talent, strengthen development, and improve accountability for the senior executives across government.
- Continued efforts to attract, hire, and develop a diverse workforce at all levels of the government that draws from all segments of society. This year, OPM surpassed the 2011 goal of hiring 100,000 people with disabilities in 5 years and continued to make significant progress in expanding opportunities for veterans through OPM's Veterans Employment Initiative. In 2015 alone, agencies hired approximately 71,000 veterans; and the percentage of veterans in the Federal workforce increased from 25.8 percent in 2009 to 30.9 percent today. OPM's Office of Diversity and Inclusion developed new tools to help agencies promote inclusion in the workplace, and administered unconscious bias training to more than 2,000 Federal employees.
- Led efforts to drive employee engagement across agencies through continuous improvement of the Federal Employee Viewpoint Survey (FEVS). Since 2010, OPM has remodeled FEVS and developed dynamic tools that provide leaders and managers at every level of government actionable information to make data driven decisions to drive employee engagement. And this year, for the second year in a row, the

government-wide employee engagement and the global satisfaction indices have risen by one percent breaking a four-year decline. OPM looks forward to continuing this momentum.

- In support of the President's Cybersecurity National Action Plan (CNAP) and in collaboration with interagency partners, OPM released a Federal Cybersecurity Workforce Strategy to develop and strengthen the cybersecurity workforce to meet the growing need for talented cybersecurity professionals in 21st century government. The plan takes steps to account for the existing workforce to address recruitment challenges, and develop and retain the existing talent, and builds off a vision where cybersecurity professionals see a tour of duty in Federal service as an essential stop in their career trajectory. This will help develop a modern cybersecurity workforce to address a critical need in the Federal Government, but it also has the potential to create a blueprint that can inform hiring needs for other critical occupations in the future.

STRENGTHENING CUSTOMER SERVICE

PROVIDING WORLD CLASS HEALTH BENEFITS

OPM is proud that excellent health benefits are a key incentive for many Federal employees to join or stay in Federal service. OPM has taken steps in FY 2016 to continue to improve its insurance offerings and expand access to health care through implementation of the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA).

The ACA expanded the scope of OPM's mission to include contracting with health insurance issuers to offer health insurance plans to uninsured individuals and their families, and employees of small businesses through the creation of the Multi-State Plan Option (MSP). In 2016, consumers in 33 states and the District of Columbia had a Multi-State Plan option as part of their health coverage choices, and 400,000 people have selected this coverage in the marketplace. OPM also extended insurance benefits through Federal Employee Health Benefits (FEHB) to employees of Native American and Alaskan Native tribes. So far, since this option became available in May 2012, 90 tribes participate and 40,000 individuals have received coverage.

OPM continued to strengthen the FEHB by working to support program options that offer comprehensive benefits with strong consumer protections that meet customer needs. In 2016, OPM began to offer Self Plus One, a new enrollment option for the FEHB that allows individuals and one designated family member to enroll. Additionally, FEHB plans required that all insurers cover Applied Behavior Analysis treatment for childhood autism.

REDUCING THE RETIREMENT CLAIMS INVENTORY

OPM is responsible for the administration of the Federal Retirement Program covering more than 2.7 million active employees, including the United States Postal Service, and 2.6 million annuitants and survivors. OPM is dedicated to processing Federal retirement claims quickly and accurately to provide the best possible support to annuitants. During FY 2016, OPM processed 70.1 percent of the retirement cases within 60 days or less. OPM is also continuing its efforts to increase usage and functionality of web-based self-service options for retirees.

While part of the retirement process is paper-based, we remain focused on transitioning to a fully-digitized process. OPM's Strategic Plan for FY 2014-2018 and our Strategic IT Plan call for fully-automated processes. We are also developing high-level functional requirements for a case management system and online retirement application. OPM continued to improve our retirement information system infrastructure and the services our customers deserve and expect. To help reduce wait times and assist more retirees and their families, we have consolidated all of the call center activities into one location to improve oversight, provide better coaching and mentoring for staff, and have hired 40 new representatives.

COMPLETENESS AND RELIABILITY OF FINANCIAL AND PERFORMANCE INFORMATION

The financial and performance information used by OPM in this AFR for FY 2016 is complete and reliable, as defined by OMB Circular No. A-136 Financial Reporting Requirements and the Government Performance and Results Act. If there are instances where full and complete data for a measure are not available, these instances are noted and we plan to provide available updates in the Annual Performance Report in February 2017.

This AFR is an alternative to the consolidated Performance and Accountability Report pursuant to Office of Management and Budget (OMB) Circular No. A-136. It is one in a series of reports used to convey budget, performance, and financial information to our constituents. Under separate cover, OPM will submit its Annual Performance Report (APR), concurrent with the submission of the President's FY 2018 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a succinct reporting of OPM's accountability of its resources and improves reporting through more meaningful and transparent information to the public.

CONCLUSION

OPM will continue to advance initiatives throughout the organization to improve the performance of its programs and to maximize taxpayer value. By focusing on measurable results, maintaining a relentless focus on customer service, and working collaboratively with our partners across the government, we will continue to meet the unique human resource demands of the Federal Government and continue to make the Federal Government a model employer for the 21st century.

Beth F. Cobert
Director
November 15, 2016

SECTION 1

Management's Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

AGENCY FINANCIAL REPORT OVERVIEW

As the Federal Government's chief human resources agency and personnel policy manager, OPM aspires to *Recruit, Retain and Honor a World-Class Workforce to Serve the American People* by directing human resources policy; promoting best practice in human resource management; administering retirement, healthcare, and insurance programs; overseeing merit-based and inclusive hiring into the civil service, and providing a secure employment process.

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, D.C., 20415, field offices in 16 locations across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. In FY 2016, the agency had 5,295 full-time equivalents. OPM's total discretionary budget authority, excluding the Office of the Inspector General, for FY 2016 totaled $245,238,000. For more information about OPM, please refer to the agency's website, ***www.opm.gov***.

ABOUT THIS REPORT

The FY 2016 Agency Financial Report (AFR) provides an overview of OPM's financial results to help Congress, the President, and the public assess the agency's stewardship over the financial resources entrusted to it. In March-May 2017, OPM will publish its FY 2016 Annual Performance Report. The Annual Performance Report will provide an overview of OPM's progress in implementing the strategies and achieving the goals in its FY 2014-FY 2018 Strategic Plan.

The AFR provides an accurate and thorough accounting of OPM's financial performance in fulfilling its mission during FY 2016, and meets reporting requirements stemming from laws focusing on improved accountability among Federal agencies and guidance described in Office of Management and Budget (OMB) Circulars A-11, A-123, and A-136. All reports are available on the OPM website at ***https://www.opm.gov/about-us/budget-performance/performance/***.

Suggestions for improving this report should be sent to the following address:

Office of Personnel Management
Financial Services
1900 E Street, NW, Room 5478
Washington, D.C., 20415

OPM'S MISSION AND STRATEGIC GOALS

OPM's FY 2014-2018 Strategic Plan is the starting point for performance and accountability. The plan details nine strategic goals and corresponding strategies to *Recruit, Retain and Honor a World-Class Workforce to Serve the American People*. The agency uses a series of performance measures, developed during its annual performance budgeting process, to gauge its progress in implementing the strategies and achieving the goals in the plan.

OPM's strategic goals are as follows:

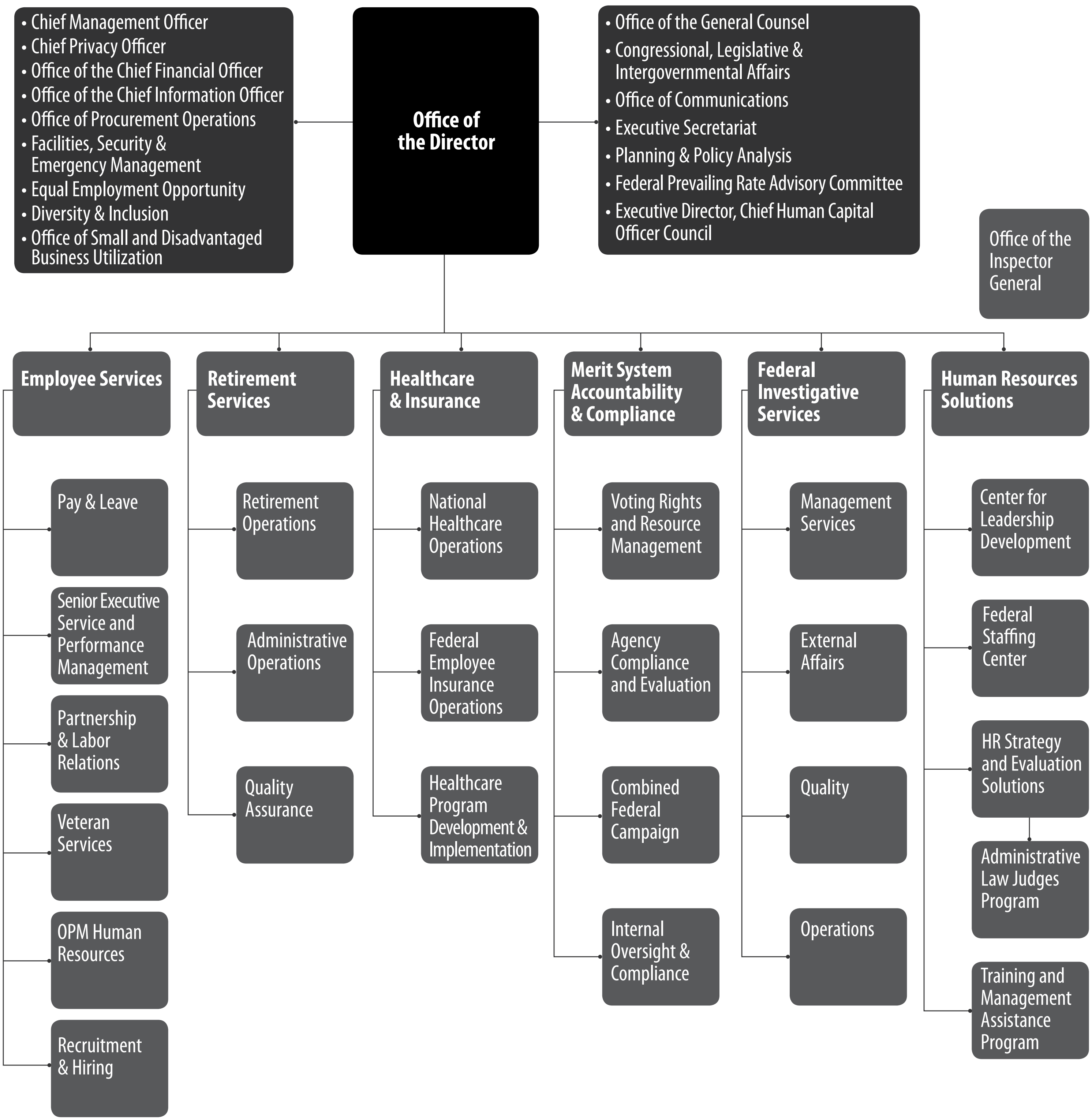
TABLE 1 - OPM's Mission Statement:
Recruit, Retain and Honor a World-Class Workforce to Serve the American People

Strategic Goal	Goal Statement
GOAL 1 Diverse and Effective OPM Workforce	Attract and engage a diverse and effective workforce
GOAL 2 Timely, Accurate, and Responsive Customer Service	Provide timely, accurate, and responsive service that addresses the diverse needs of our customers
GOAL 3 Evidence-Based Policy and Practices	Serve as the thought leader in research and data-driven human resource management and policy decision-making
GOAL 4 Efficient and Effective Information Systems	Manage information technology systems efficiently and effectively in support of OPM's mission
GOAL 5 Transparent and Responsive Budgets	Establish responsive, transparent budgeting and costing processes
GOAL 6 Engaged Federal Workforce	Provide leadership in helping agencies create inclusive work environments where a diverse federal workforce is fully engaged and energized to put forth its best effort, achieve their agency's mission, and remain committed to public service
GOAL 7 Improved Retirement Benefit Service	Ensure that Federal retirees receive timely, appropriate, transparent, seamless, and accurate retirement benefits
GOAL 8 Enhanced Federal Workforce Integrity	Enhance the integrity of the Federal workforce
GOAL 9 Healthier Americans	Provide high quality health benefits and improve the health status of Federal employees, Federal retirees, their families, and populations newly eligible for OPM-sponsored health insurance products

OPM's complete Strategic Plan is available on OPM's website at ***http://www.opm.gov/about-us/budget-performance/strategic-plans/2014-2018-strategic-plan.pdf***.

ORGANIZATIONAL STRUCTURE

OPM's divisions and offices and their 5,295 full-time equivalent employees implement the programs and deliver the services that enable the agency to meet its strategic goals. The agency's organizational framework consists of program divisions and offices that both directly and indirectly support agency mission. This section contains descriptions of each organization and the key roles and responsibilities it plays in contributing to the achievement of OPM's overall mission.



OPM's organizations are categorized into five different types of offices which are detailed below:

EXECUTIVE OFFICES

- **The Office of the Director (OD)** provides guidance, leadership and direction necessary to make the Federal Government the model employer in the United States, and OPM its model agency. The OD is the leadership of OPM, the agency responsible for attracting and retaining an innovative, diverse and talented workforce to make the Federal Government a model employer for the 21st century. The Suitability and Security Clearance Reform Performance and Accountability Council's Program Management Office (PAC PMO) is also housed within the OD.

- **Office of the General Counsel (OGC)** provides legal advice and representation to the Director and OPM managers and leaders so they can work to provide the Federal Government an effective civilian workforce. OGC does this by rendering opinions, reviewing proposed policies and other work products, and commenting on their legal efficacy, serving as agency representatives in administration litigation, and supporting the Department of Justice in its representation of the Government on matters concerning the civilian workforce. OGC also carries out several programmatic, substantive functions that fulfill other statutory or regulatory mandates and thus benefit other OPM offices or the Executive Branch as a whole. For example, OGC is responsible for the Government-wide Hatch Act regulations, administers the internal agency Hatch Act and ethics programs and serves in a policy and legal role in the Government-wide function of determining which Merit Systems Protection Board and arbitral decisions are erroneous and have a substantial impact on civil service law, and, thus, merit judicial review.

- **Congressional, Legislative and InterGovernmental Affairs (CLIA)** is the OPM component that fosters and maintains relationships with Members of Congress and their staff. CLIA accomplishes its mission by keeping informed of issues related to programs and policies administered by OPM. CLIA staff attends meetings, briefings, mark ups and hearings in order to interact, educate and advise agency, Congressional, State, Local and Tribal Governments.

- **Office of Communications (OC)** coordinates a comprehensive effort to inform the public of the Administration's and OPM's goals, plans and activities through various media outlets. The OC provides the American public, Federal agencies and pertinent stakeholders with accurate information to aid in their planning and decision making process. The OC coordinates the publication and production of all video products, printed materials, and websites generated by OPM offices. The office develops briefing materials for the Director, OPM officials and Congress for various activities and events. The OC also plans events that amplify the Administration's and OPM's key initiatives within the agency and Government-wide.

- **Office of the Executive Secretariat (OES)** is responsible for the administrative management and support for the Office of the Director, and other executive offices including coordination and review of agency correspondence, policy and program proposals, regulations and legislation. OES also manages the agency's international affairs program coordinating meetings and the transfer of information between OPM officials and foreign delegations.

- **Equal Employment Opportunity (EEO)** provides a fair, legally-correct and expeditious EEO complaints process (for example, EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping).

- **Office of Diversity and Inclusion (ODI)** examines policy options, Government-wide data trends, and employee survey findings that affect OPM's management of HR policy, as it relates to diversity and inclusion throughout the Federal Government. ODI develops comprehensive strategies to drive diversity and inclusion practices throughout the Federal Government and build a diverse and inclusive workforce, respecting individual and organizational cultures, while complying with merit principles and applicable Federal laws. ODI also designs and implements all required internal OPM diversity and inclusion efforts, to promote diversity management.
- **Office of Procurement Operations (OPO)** provides centralized contract management that supports the operations and Government-wide mission of OPM.
- **Office of Small and Disadvantaged Business Utilization (OSDBU)** manages the development and implementation of appropriate outreach programs aimed at heightening the awareness of the small business community to the contracting opportunities available within OPM. The office's responsibilities, programs, and activities are managed under three lines of business: advocacy, outreach, and unification of the business process.

PROGRAM OFFICES

- **Employee Services (ES)** provides policy direction and leadership in designing, developing and promulgating Government-wide human resources systems and programs. OPM continued to support agencies' recruiting and hiring programs with tools, education and direct support. Additionally, ES provides recruitment, pay, leave, performance management and recognition, leadership and employee development, work/life/wellness programs and labor and employee relations. ES provides technical support to agencies regarding the full range of human resources management policies and practices, to include veterans' employment as well as the evaluation of their human resource programs. ES also manages the operation of OPM's internal human resources program.
- **Retirement Services (RS)** is responsible for administering, developing, and providing Federal employees, retirees and their families with benefits programs and services that offer choice, value and quality to help maintain the Government's position as a competitive employer. RS is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), serving nearly 2.6 million Federal retirees and survivors who receive monthly annuity payments. Even after a case is adjudicated and added to the annuity roll, OPM continues to serve annuitants by making address or tax status changes to their accounts, sending out 1099-Rs, surveying certain annuitants to ensure their continued eligibility to receive benefits, and other post adjudication activities.
- **Healthcare & Insurance (HI)** consolidates OPM's healthcare and insurance responsibilities into a single organization. This includes functions such as the Affordable Care Act's Multi-State Plan Option, OPM's responsibilities to perform External Review of consumer complaints plus existing responsibilities for the Federal Employees Health Benefits Program (FEHBP), Federal Employee Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employee Dental Vision Insurance Plan (FEDVIP), and Flexible Spending Accounts for Federal Employees (FSAFEDS). HI comprises National Healthcare Operations and Federal Employee Insurance Operations.
- **Merit System Accountability & Compliance (MSAC)** ensures through rigorous oversight that Federal agency human resources programs are effective and meet merit system principles and related civil service requirements. MSAC carries out this responsibility with a staff of employees in five field offices across the nation

and in Washington, D.C. The three key components of the oversight and compliance programs are (1) Delegated Examining Unit Evaluations, (2) Large Agency Human Resources (HR) Evaluations, and (3) Small Agency HR Evaluations. MSAC also manages the classification appeals program, which provides Federal employees with an independent third-party review of their classification decisions and provides evidence as to whether agencies are technically accurate in the use of delegated classification and job grading authority. MSAC has Government- wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights (VR) programs. The mission of the CFC is to promote and support philanthropy through a program that is employee focused, cost-efficient, and effective in providing all Federal employees the opportunity to improve the quality of life for all. The Voting Rights Program provides observers to cover political subdivisions (counties, cities, etc. as determined by the Attorney General) to monitor and report on those elections designated by the Attorney General. Finally, MSAC manages OPM's Office of Internal Oversight and Compliance (IOC). IOC drives the resolution of audit recommendations, conducts program evaluations, and oversees the review of capital investments to strengthen OPM's risk management and operational performance.

- **Human Resources Solutions (HRS)** is a reimbursable organization offering a complete range of tailored and standardized human resources products and services designed to meet the unique and dynamic needs of the Federal Government. As such, HRS provides customer agencies with innovative, high quality Government-to-Government solutions to help them develop leaders, attract and build a high quality public sector workforce, and achieve long-lasting results. This includes recruiting and examining candidates for Administrative Law Judge positions for employment by Federal agencies nationwide, managing the Leadership for a Democratic Society program, automating the full range of Federal rules and procedures for external hires, developing specialized assessments and performance management strategies, and offering Federal customers an expedited procurement process to acquire mission-critical training.

- **Federal Investigative Services (FIS)** mission is to ensure the Federal Government has a suitable workforce that protects national security and is worthy of the public trust. FIS is responsible for providing investigative products and services for over 100 Federal agencies to use as the basis for a variety of adjudicative decisions, including but not limited to security clearance and suitability decisions as required by Executive Orders and other rules and regulations. Over 95 percent of the Government's background investigations are provided by OPM.

MISSION SUPPORT SERVICES

- **Chief Financial Officer (CFO)** manages and oversees OPM accounting, billing and collections, disbursements and contractor payments, budgeting, strategic planning, performance, program evaluation, financial systems, financial statements, internal control and financial policy functions which enable the agency to achieve its mission. CFO also ensures the completion of timely and accurate financial reports that improve decision making, comply with Federal requirements and demonstrate effective management of taxpayer dollars.

- **Chief Information Officer (CIO)** develops the Information Resource Management Plan and defines the information technology vision and strategy to include information technology policy and security for OPM. CIO shapes the application of technology in support of the agency's strategic plan including the information technology that outlines the long term strategic architecture and systems plans for agency information technology capital planning. CIO supports and manages pre- and post-implementation reviews of major information technology programs and projects, as well as, project tracking at critical review points. CIO provides oversight of major information technology acquisitions to ensure they are consistent with the agency's architecture and the information technology budget, and is responsible for the development of the agency's information technology security policies. CIO directs the realization of the agency's information technology architecture to further architecture integration, design consistency, and compliance with Federal standards. CIO also works with other agencies on Government-wide projects such as E-Government, and develops long range planning for human resource information technology strategies.

- **Facilities, Security & Emergency Management (FSEM)** manages the agency's personal and real property, building operations, space design and layout, mail management, realty, safety, physical security and occupational health programs. FSEM provides personnel security and suitability and national security clearance determinations for OPM personnel and directs the operations and oversight of OPM's preparedness and emergency response programs. The organization also oversees publishing and printing management for internal and external design and reproduction, including graphics design work.

OTHER OFFICES

- **Planning and Policy Analysis (PPA)** provides planning and analytical support to the Director and the agency. PPA assesses issues that affect OPM across the full array of human resources programs and benefits. A particular area of responsibility is the analysis of policy options, legislative changes and trends that affect OPM's management of health and retirement benefits for Federal employees. To assure benefits provide maximum value and are secure, the office conducts actuarial analyses, as well as statistical analyses using large databases such as the Enterprise Human Resources Integration - Statistical Data Mart (EHRI-SDM), containing Federal employee data, and the Health Claims Data Warehouse (HCDW). PPA develops and standardizes data analysis policies related to evidence-based decisions and practices. The Director of PPA also serves as OPM's Performance Improvement Officer.

- **Federal Prevailing Rate Advisory Committee (FPRAC)** studies the prevailing rate system and other matters pertinent to the establishment of prevailing rates under subchapter IV of chapter 53 of Title V, United States Code, and advises the Director of OPM on the Government-wide administration of the pay system for blue-collar Federal employees.

OFFICE OF THE INSPECTOR GENERAL

- **Office of the Inspector General (OIG)** conducts comprehensive and independent audits, investigations, and evaluations relating to OPM programs and operations. It is responsible for administrative actions against health care providers that commit sanction able offenses with respect to the FEHBP or other OPM programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of agency programs and operations, and the need for corrective action.

FY 2016 PERFORMANCE HIGHLIGHTS

This section contains a summary of OPM's key performance results for FY 2016. The key results reflect OPM's progress towards achieving the Agency Priority Goals, which are areas where OPM wants to achieve near-term performance acceleration through focused senior leadership attention. For more information on APGs across the Federal Government, including overviews, strategies, and next steps, please refer to ***www.Performance.gov***.

OPM's complete performance results will be published in OPM's FY 2016 Annual Performance Report, which is scheduled for publication on the agency's website at ***www.opm.gov*** in March-May 2017, concurrent with OPM's FY 2018 Congressional Budget Justification.

FY 2016-2017 AGENCY PRIORITY GOAL 1: BACKGROUND INVESTIGATIONS CASE PROCESSING TIMELINESS AND QUALITY

Goal Statement: Increase investigative capacity and implement additional process improvements with the aim of meeting the timeliness standards set by the Intelligence Reform and Terrorism Prevention Act of 2004 for background investigations while maintaining investigative quality. Throughout FY 2017, OPM will improve production output in response to the increasing workload demands of its customers, while reducing the larger than normal inventory of cases created during the transition from one of its investigative contractors. OPM will accomplish this while maintaining its target of 99 percent or more of all OPM investigations adjudicated as "quality complete" for investigations closed.

Progress Update:

- On October 1, 2015, OPM implemented the Tier 3 and the Tier 3 Reinvestigation products. The new products are based on the 2012 Federal Investigative Standards. OPM will assess the impact of the Tier 3 and the Tier 3 Reinvestigation products on timeliness throughout FY 2016.
- On October 1, 2016, OPM launched the Tiers 4 and 5 investigation products for high risk and top secret clearance determinations.
- In October 2015, OPM published a Federal Investigations Notice (FIN) announcing its products and service pricing for FY 2016.
- Beginning in the second quarter of FY 2016, OPM began the process to hire 400 additional Federal investigators. At the end of the fourth quarter, FIS had hired 363 new Federal investigators. An additional 34 Federal investigators were in the investigation pipeline and were brought on board October 16, 2016. In all, a total of 400 job offers were extended to qualified job candidates.
- To counter the loss of one of the FIS contractors in FY 2014, OPM continued to work with its two remaining fieldwork contractors to increase their production. In addition, in September 2016, OPM awarded contracts to two additional fieldwork contractors, further expanding its investigation capacity.
- Actions taken to expand investigative capacity were within budget constraints, and maintained the current high quality of OPM's investigations.

Performance Measures:

Percent of investigations determined to be quality complete						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
99.9%	99.8%	99.9%	99.9%	99.8%	≥99%	Met

Explanation of Actual: OPM determined 2,513,602 of 2,519,872 applications to be quality complete. This was the result of an efficient quality review process and skilled review workforce.

Average number of days to complete the fastest 90 percent of all initial national security investigations						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
36	35	35	67	123	≤40	Not Met

Explanation of Actual: Contract decisions made in 2014-Q4 have impacted timeliness of all initial national security investigations.

Average number of days to complete the fastest 90 percent of initial Secret national security investigations						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	28	30	58	108	≤40	Not Met

Explanation of Actual: Contract decisions made in 2014-Q4 have impacted timeliness of initial Secret national security investigations.

*N/A - Not Available - no historical data available for this period.

Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	80	75	147	220	≤80	Not Met

Explanation of Actual: Contract decisions made in 2014-Q4 have impacted timeliness of initial Top Secret national security investigations.

*N/A - Not Available - no historical data available for this period.

Number of Federal investigators hired by OPM						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	363	Contextual	Contextual

Explanation of Actual: OPM initiated its hiring plan at the beginning of the second quarter of FY 2016. As of the end of the fourth quarter of FY 2016, OPM hired 363 additional Federal investigators. An additional 34 Federal investigators were in the investigation pipeline and were brought on board October 16, 2016. In all, a total of 400 job offers were extended to qualified job candidates in FY 2016.

*N/A - Not Available - no historical data available for this period.

Number of fieldwork source units completed by OPM's fieldwork contractors						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	2,475,900	Contextual	Contextual

*N/A - Not Available - no historical data available for this period.

FY 2016-2017 AGENCY PRIORITY GOAL 2: RETIREMENT SERVICES CASE PROCESSING

Goal Statement: Reduce Federal retirement case processing time by making comprehensive improvements and moving toward electronic processing of all retirement applications.

In FY 2016, process 90 percent of cases in 60 days or less (as of March 2015, 70.1 percent of cases were processed in 60 days or less). Support the 90/60 goal by:

- increasing the percentage of complete cases received from agencies to 90 percent or greater;
- continuing to develop capabilities to receive electronic retirement applications; and
- building a court-ordered benefit case reporting mechanism to capture inventory and timeliness of court-ordered cases by the first quarter of FY 2016. Establish baseline data for timeliness by the end of FY 2016.

Progress Update:

- OPM's claims processing accuracy rate was 95.7 percent as of July 2016, using a weighted average (FY 2016 target is 95 percent).
- In FY 2016, an average of 89.2 percent of retirement applications submissions that OPM received were considered complete. Data is posted on the OPM website: ***http://www.opm.gov/about-us/budget-performance/strategic-plans/agency-audit-monthly-update.pdf***.
- In FY 2016, OPM processed 77 percent of pending claims within 60 days (target is 90 percent). The overall average processing time for retirement claims was 54.1 days, with an average of 45 days for claims processed in 60 days or less and 100 days for claims processed in more than 60 days.
- OPM continued to expand access for agency human resources and payroll offices to the Retirement Data Repository via Data Viewer. The Data Viewer enhances productivity and reduces errors by aggregating information

from multiple systems and enabling users to see retirement-related data submitted via data feeds and imaged documents based on the users' defined roles and responsibilities in the system. OPM continued to add increased user access to the Data Viewer by working with agencies and payroll providers. At the end of September 2016, approximately 600 users and over 30 agencies were using the Retirement Data Viewer. These agencies primarily represent the executive branch customers of the Defense Finance and Accounting Service and the Interior Business Center.

- Retirement Services conducted two Federal Erroneous Retirement Coverage Corrections Act (FERCCA) workshops in early August, at OPM headquarters in DC. The target audience for the workshops was benefits or staffing human resource specialists who work with retirement coverage determinations or issues. The first day of the workshops included a review of the basic retirement coverage rules and the steps to take in processing an error decision. Day two of the workshops guided attendees through the process of putting together a complete decision package for employees who need to make a FERCCA election as well as the correction process once the employee makes an election.
- OPM hosted a webcast on Special Benefits Provisions for Senior Officials and Congressional employees. The webcast included topics such as background information and service credit deposits, with the main focus on the special elections that senior officials are entitled to when they became subject to Social Security coverage. The target audience for the website was benefits officers, individuals who fall in the staff categories, and staffing human resource specialists who work with retirement coverage determinations or issues.
- OPM also hosted a webcast on FERS Revised Annuity Employee (RAE) and FERS Further Revised Annuity Employee (FRAE). The webcast included background information and coverage determinations. The target audience for the webcast was benefits officers, individuals who are covered under these benefits, and staffing human resource specialists who work with retirement coverage determinations or issues.
- OPM placed a system for tracking court ordered benefits into production in June 2016. The agency loaded data from the previous system into the new system and is currently doing data cleanup, which is necessary to ensure accurate reporting of processing times and workload. OPM has mapped out the work flows for measuring processing times and will be now testing those workflows with real data. The agency is preparing to train the users in September/October.

Performance Measures:

Relative ratio of complete retirement submissions versus incomplete cases						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
85%	90%	84%	87.7%	89.2%	≥90%	Not Met

Explanation of Actual: Of the 44,769 retirement submissions reviewed, 39,937, or 89.2 percent, were complete and required no development action.

Percent of retirement claims processed within 60 days						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	79%	70.1%	77.1%	≥90%	Not Met

Explanation of Actual: In FY 2016, OPM processed 72,913 of 94,545 cases, or 77.1 percent, within 60 days. The aged case inventory dropped, but due to a low number of cases in the inventory, the percentage processed with 60 days decreased when older cases were completed. On average, cases processed in 60 days or less took 45 days to complete and cases taking longer than 60 days took 100 days to complete. While the monthly percentage rate of claims processed within 90 days fluctuates, the overall fiscal year to date percentage has remained relatively stable at approximately 80 percent since December. For claims influenced by factors outside of OPM's control, the agency continues to search for process improvements, coordinating with other agencies as necessary. For example, OPM meets biweekly with both the U.S. Postal Service and National Personnel Records Center to address common issues attendant to retirement processing.

*N/A - Not Available - no historical data available for this period.

Average number of days to process court-ordered benefit cases						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	N/A*	Establish Baseline	Establish Baseline

Explanation of Actual: The system used to track Court Ordered Benefits is undergoing modifications. OPM is not ready to report at this time. The revised projected reporting date is FY 2017 Q1.

*N/A - Not Available - no historical data available for this period.

FY 2016-2017 AGENCY PRIORITY GOAL 3: FEHB PLAN PERFORMANCE

Goal Statement: Improve health outcomes for the 8.2 million Federal employees, retirees, and their dependents enrolled in health plans participating in the Federal Employees Health Benefits (FEHB) program. In 2016, FEHB plan performance will be assessed based on a common set of measures of clinical quality, customer service and appropriate resource use; this performance assessment will be used in the determination of plan profit margins. While each plan will be assessed based on its performance, overall progress for the FEHB program will be measured by an increase in the number of FEHB plans at or above the 50th percentile of the relevant national, commercial benchmark year-on-year as measured by FEHB plan scored values on the designated high-priority indicators used continuously during the evaluation period. These high-priority measures include: risk adjusted all cause readmissions, timeliness of prenatal care and blood pressure control.

Progress Update:

OPM:

- executed the Plan Performance Assessment;
- conducted end-to-end testing of implementation of the Plan Performance Assessment using 2015 data;
- developed methodology for the Plan Performance Assessment Improvement Increment;
- announced measures for potential future use in the Plan Performance Assessment;
- prepared processes for receipt, calculation, and reporting of 2016 Plan Performance Assessment scores;
- provided a QCR preview to carriers for review and comment;
- participated in working groups examining case studies and best practices;
- held another meeting of the Plan Performance Best Practices workgroup on August 17, 2016 demonstrating root cause analysis techniques;
- provided FEHB carriers an overview of the Plan Performance Assessment Improvement Increment with a Carrier Letter on August 1, 2016 and a webcast on August 18, 2016;
- researched health care performance in commercial lines of business;
- conducted ongoing analysis of the OPM Measure Set alignment with high-priority industry and government measures sets;
- administered Automated Data Collection to Federal Employees Health Benefits plans to monitor for plan management;
- used corrective action plans and provide other targeted assistance for specific plans based on performance in high priority measures; and
- identified opportunities for targeted assistance for specific plans based on 2015 data.

Performance Measures:

Percent of plans with timely prenatal care above the national commercial 50th percentile

FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	43.4%	39.8%	41%	46.0%	≥41%	Met

Explanation of Actual: In FY 2016, 52 of 113 FEHB plans reported prenatal care above the national commercial 50th percentile. This measure was assigned to the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit. The financial incentive helped motivate plans to update claims submission procedures for bundled maternity episodes to include the date of the first prenatal visit or pursue medical records data to verify the visit date.

*N/A - Not Available - no historical data available for this period.

Percent of plans with all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50th percentile

FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	49%	51%	44.5%	≥51%	Not Met

Explanation of Actual: In FY 2016, 53 of 119 FEHB plans reported all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50th percentile. There was a change in methodology for risk adjustment in this Healthcare Effectiveness Data and Information Set measure. The National Committee for Quality Assurance announced that the change in methodology impacts evaluations of trends between 2016 and prior years.

*N/A - Not Available - no historical data available for this period.

Percent of plans controlling blood pressure above the national commercial 50th percentile

FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	48%	43%	49.2%	≥43%	Met

Explanation of Actual: In FY 2016, 59 of 120 FEHB plans reported controlling blood pressure above the national commercial 50th percentile. This measure was assigned to the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit. OPM's Call Letter emphasized Million Hearts hypertension treatment protocols and medication adherence as strategies to improve measure performance (see ***www.opm.gov/healthcare-insurance/healthcare/carriers/2016/2016-03.pdf***).

*N/A - Not Available - no historical data available for this period.

Percent of adults receiving flu shots based on CAHPS Effective Care						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
52%	53%	50%	49%	49.6%	Contextual	N/A*

Explanation of Actual: The CDC target was originally set in the Healthy People 2020 targets set in December 2010. The target was revised in 2013. Low effectiveness for flu shots has been widely reported in the media, likely impacting the desire for flu shots. OPM continues to emphasize the importance of flu shots, including with a joint memo with HHS. Calculation of this measure is based on a weighted average of 214 Consumer Assessment of Healthcare Providers and Systems reports. Median rates were 44.9 percent for HMO/POS, 50.3 percent for HMO, and 51 percent for PPO and EPO.

*N/A - Not Available - no historical data available for this period.

FY 2016-2017 AGENCY PRIORITY GOAL 4: HUMAN RESOURCE WORKFORCE CAPABILITY

Goal Statement: Improve the ability of the Federal human resource workforce to attract, develop, train, and support talent in the Federal Government by developing and launching a Federal HR curriculum. By the end of FY 2016, build and launch curricula for staffing and classification. Baseline HR professionals' proficiency levels for the Staffing specialty area competencies, and set targets for improvement. By the end of FY 2017, build and launch curricula for employee relations and labor relations; and design a certification of mastery for existing HR University curricula.

Progress Update:

In Q1, OPM developed course titles and content requirements based on internal technical expertise and consultation with the CHCO Council (CHCOC). The development of these course/ titles and requirements is consistent with OPM's university-like approach for the HR curriculum, which includes foundational (community college); specialties (undergraduate); and world class strategy (graduate).

In Q2, OPM worked to identify a vendor with the technical expertise required to build courses based on learning requirements. Meanwhile, OPM partnered with the CHCOC to identify additional resources Federal HR specialists will need to supplement the curriculum. Examples include:

- a competency assessment to identify skills gaps and development needs;
- developmental detail programs that will enable HR specialists to pursue experiential learning to develop competencies; and
- certification of mastery as a micro-credentialing strategy that can develop support for certification as a formal requirement for advancement in the Federal HR profession.

OPM also continued its initiative to validate technical competencies for the classification technical specialty area, as a precursor for eventual development of classification courses. Finally, OPM launched planning for the 2016 HR Virtual Conference, which will focus thematically on staffing in support of the Hiring Excellence Campaign and the HRU curriculum build-out.

In Q3, OPM assembled an integrated program team to redesign the Delegated Examining (DE) Certification Program to include a more robust and comprehensive assessment process. The IPT developed a draft framework and presented it to the CHCOC members on May 24th, 2016, and received concurrence to continue the effort. The framework will include a formal assessment, as well as proof of mastery through demonstrated experience, to ensure HR staffing professionals are knowledgeable and have proven capable to perform delegated examining successfully and in accordance with law and regulation.

Also in Q3, OPM awarded a contract for the development of the HR curriculum. The selected contractor began work on developing the objectives and curriculum recommendations for the staffing component of the curriculum. These recommendations and subsequent HR staffing courses will map to OPM learning requirements as well as those needs articulated by the CHCOC. OPM also began planning for the curriculum rollout to take place in Q4, worked with the CHCOC to formulate a strategy for assessing HR competencies in order to help agencies and HR specialists target their developmental investments and activities, continued validating technical competencies for the classification technical specialty area, and continued planning the HR Virtual Conference.

In Q4 of FY 2016, OPM presented the draft objectives and curriculum recommendations for the staffing specialists and a DE certification prototype to the CHCOC's Executive Steering Committee for HR Skills Gap for acceptance. OPM also held an HR Virtual Conference to launch HRU staffing courses as part of the President's Management Agenda Hiring Excellence Initiative. OPM validated technical competencies for classification, which will be used to inform the classification curriculum.

Also in Q4, the HR Closing Skills Gaps FAST Team and the Workforce Data Analytics Strategy group completed a root cause analysis for the Federal HR Specialist. This data will be used to inform OPM's planning efforts in FY 2017 and beyond.

Performance Measures:

Percent of HR specialists who complete at least one course on HRU						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	66.6%	≥70%	Not Met

Explanation of Actual: Of those 201/203s registered on HRU 22,260 of 33,431, or 66.6 percent, have completed at least one HRU course as of the end of Q4 FY 2016. OPM is continuing to partner with the CHCO Council Executive Steering Committee to implement the new HR course curriculum. This includes defining whether HRU will be used as the vehicle to support registration and course completion for the new curriculum. Final decisions have not yet been made regarding how, or whether, HRU will have a continued role in the delivery of the curriculum, OPM has deferred most of its activities related to HRU, including promotional activities that the agency engaged in previously to drive HR specialists to the site. As a result, the target was not met this quarter, but once final decisions are made, OPM will determine how to proceed.

*N/A - Not Available - no historical data available for this period.

Percent of course participants demonstrating successful achievement/mastery of learning objectives						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	N/A*	≥70%	N/A*

Explanation of Actual: On September 27th 2016, OPM piloted the Foundations of Service Excellence for HR Professionals – Staffing instructor-led prototype to demonstrate proof of concept in terms of content, learning strategies, branding/design, and media allowing forward movement with the development of the rest of the curriculum with confidence. The course content and design were accepted by participants, and achievement of learning objectives demonstrates that the design of the full course will enable mastery of content.

*N/A - Not Available - no historical data available for this period.

FY 2016-2017 AGENCY PRIORITY GOAL 5: CYBERSECURITY MONITORING

Goal Statement: Continue enhancing the security of OPM's information systems by strengthening authentication and expanding the implementation of continuous monitoring.

OPM will enhance the use of two-factor authentication in multiple ways. By August of FY 2015, 99 percent of OPM users were required to use Personal Identity Verification (PIV) authentication for network access and the remaining one percent was enforced by the end of October 2015. By the end of FY 2016, 80 percent of non-OPM users who have a PIV card will be required to authenticate to OPM applications using their PIV cards. By the end of FY 2017, OPM will enforce two-factor authentication for 100 percent of all PIV-enabled users and 80 percent of non-PIV-enabled users.

OPM will enhance its security posture by expanding on the Continuous Diagnostic and Mitigation (CDM) capabilities implemented throughout FY 2015. The CDM program enables OPM to expand continuous diagnostic capabilities by increasing the network sensor capacity, automating sensor collections, and prioritizing risk alerts. By the end of the second quarter of FY 2016, OPM will have acquired and implemented four CDM controls including vulnerability assessment, continuous monitoring, hardware asset management, and software asset management. These tools should increase OPM's ability to identify and respond to security issues. By the end of FY 2016, OPM will have fully implemented dashboard capabilities allowing OPM to benchmark its CDM program with other Federal agencies. In FY 2017, OPM will use the benchmarking results to identify and prioritize the implementation of other CDM controls. OPM will continue to pursue a number of additional actions as outlined in its Cybersecurity Monitoring goal.

Progress Update:

OPM continued its Continuous Diagnostic and Mitigation (CDM) implementation plan. All CDM tools for Phase 1 have been fully implemented and the agency is preparing for Phase 2. The configuration of the Phase 1 tools progressed while OPM awaited requirements from DHS on the Federal Dashboard. OPM worked with its integrator to resolve issues with the Archer dashboard and data feeds. Once completed, the Archer dashboard will provide accurate real-time updates from the CDM tool. In Q4, OPM reached its target of 95 percent of its network covered by CDM Phase 1. OPM has started the configuration of the Archer Federal Compliance module, which will be used to manage Assessment and Authorization activities and reporting.

During Q4, OPM transferred Identity Management implementation responsibilities to its cybersecurity team. This decision was predicated on bringing the necessary skillset, experience and expertise from within the cybersecurity team to bear on this important project. The cybersecurity team began its planning effort for this implementation.

OPM continued to work on addressing Federal Information Security Management Act (FISMA) findings and ensuring systems have active Authority to Operate (ATOs). OPM improved its overall ATO process and is performing assessments on systems that have expired ATOs. As of Q4, OPM reached 64 percent, exceeding its target of 50 percent.

During Q4, OPM's Office of the Chief Information Officer (OCIO) continued to work with the Office of the Inspector General (OIG) on closing FISMA findings and made progress since Q3. In addition, the cybersecurity team has established a Plan of Actions and Milestones (POA&M) Management Review Board that will provide consistent management decisions on the creation, review, update, closure and cancellation of POA&Ms.

On August 25, the OPM Investment Review Board approved the Infrastructure as a Service Analysis of Alternatives, which recommended that OPM consolidate the nine data centers that it currently operates to two strategic locations in Macon, GA and Boyers, PA. The Analysis of Alternatives was developed as part of OPM's effort to comply with the Office of Management and Budget's Federal Data Center Optimization Initiative and OIG's recommendation that OPM conduct an Analysis of Alternatives to determine the best future-state model for OPM's IT infrastructure. The agency has started the data center consolidation effort and is nearing completion on the shutdown of one data center. During this consolidation, OPM continues to plan and prepare for system migrations.

Performance Measures:

Percent of network covered by phase one Continuous Diagnostics and Mitigation (CDM) capabilities						
FY 2012 Results	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2016 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	N/A*	94.8%	≥95%	Met

Explanation of Actual: As of the end of FY 2016, 100 percent of Hardware Asset Management, 100 percent of Software Asset Management, 100 percent of Configuration Settings Management and 79 percent of Vulnerability Management were covered by phase 1 CDM controls.

*N/A - Not Available - no historical data available for this period.

Percent of network covered by phase two Continuous Diagnostics and Mitigation (CDM) capabilities						
FY 2012 Results	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2016 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	N/A*	0%	0%	-

Explanation of Actual: Phase two will not begin until FY 2017.

*N/A - Not Available - no historical data available for this period.

Percent of non-OPM users required to use multi-factor authentication to access OPM High Value Asset (HVA) systems						
FY 2012 Results	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2016 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	N/A*	N/A*	≥50%	N/A*

Explanation of Actual: The Identity Management implementation team will be formulating a strategy for this in Q1 FY 2017 and will be able to provide additional information once the strategy is formulated.

*N/A - Not Available - no historical data available for this period.

Percent of High Value Asset (HVA) databases encrypted						
FY 2012 Results	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2016 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	N/A*	63.6%	≥60%	Met

Explanation of Actual: OPM has 14 of 22 HVAs with databases encrypted.

*N/A - Not Available - no historical data available for this period.

Percent of OPM Business Systems migrated to new network infrastructure environment						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	0%	≥60%	Not Met

Explanation of Actual: OPM continues to plan for the migration of its systems during the data center consolidation initiative.

*N/A - Not Available - no historical data available for this period.

Percent of OPM IT Systems compliant with FISMA required documentation						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	63.8%	≥50%	Met

Explanation of Actual: As of the end of Q4, 30 of 47 systems had active Authority To Operate.

*N/A - Not Available - no historical data available for this period.

Percent of FISMA audit findings mitigated						
FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2016 Target	Met/ Not Met
N/A*	N/A*	N/A*	N/A*	75.7%	≥80%	Not Met

Explanation of Actual: OPM closed 165 of 218 FISMA audit findings.

*N/A - Not Available - no historical data available for this period.

QUALITY OF PERFORMANCE DATA

In accordance with the requirements of the Government Performance and Results Acts, OPM ensures the information in its AFR, as well as APR and SPFI, accurately reflects its performance and is based on reasonably complete, accurate and reliable data. To promote data quality, OPM's Office of the Chief Financial Officer works with other OPM offices to document and improve data collection, reporting, validation, and verification procedures for performance measures. Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2016 APR in March-May 2017.

ANALYSIS OF OPM'S FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, OPM prepares consolidated financial statements, which include OPM operations, as well as the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. These statements are audited by an independent certified public accounting firm, Grant Thornton LLP. For the seventeenth consecutive year, OPM has earned an unmodified audit opinion on its consolidated financial statements and on the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs, respectively. These consolidated and individual financial statements are the:

- Balance Sheet (consolidated)
- Statement of Net Cost (consolidated)
- Statement of Changes in Net Position (consolidated)
- Statement of Budgetary Resources (combined)

BALANCE SHEET

The Balance Sheet is a representation of OPM's financial condition at the end of the fiscal year. It shows the resources OPM holds to meet its statutory requirements (*Assets*); the amounts it owes that will require payment from these resources (*Liabilities*); and, the difference between them (*Net Position*).

Assets

At the end of FY 2016, OPM held $1.06 trillion in assets, an increase of 2.4 percent from $1.03 trillion at the end of FY 2015. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

The largest category of assets is investments at $1.01 trillion, which represents 96.0 percent of all assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and its total assets, in normal years, usually both grow. However, in the prior FY 2015, there was a Debt Issuance Suspension Period (DISP) instated by the Treasury Department that began on March 16, 2015, and continued into the fiscal year of 2016 until November 2, 2015. As such, the investment portfolio increased by 19.2 percent, with the largest increase for investments occurring in the Retirement Program.

Furthermore, for the DISP, Treasury took steps on November 2, 2015, to restore principal not invested and interest foregone for the OPM's Trust Funds. See Note 1 in Section 2 of the AFR for additional information.

In FY 2016, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $21.6 billion. When the net effect is favorable, the Retirement Program has the ability to reinvest interest earnings and apply the excess funds to the U.S. Treasury Transferred-In to subsidize the underfunding of the Civil Service Retirement System (CSRS). The CSRS under funding was a total of more than $36.7 billion for FY 2016.

Liabilities

At the end of FY 2016, OPM's total liabilities were $2,211 billion, a decrease of 2.1 percent from $2,259 billion at the end of FY 2015. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.3 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future.

To compute these liabilities, the actuaries make assumptions about the future economy and about the demographics of the future Federal employee workforce and annuitants, retirees and their survivors, populations.

The *Pension Liability*, which represents an estimate of the future cost to provide CSRS and FERS benefits to current employees and annuitants, is $1,806 billion at the end of FY 2016, a decrease of $38 billion, or 2.0 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Post-Retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $341 billion at the end of FY 2016. This reflects a decrease of approximately $11.7 billion from the amount at the end of FY 2015, or 3.3 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The *Actuarial Life Insurance Liability* is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.3 billion in FY 2016 to $50.0 billion, or 2.7 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Actuarial Gains and Losses

Due to actuarial gains and losses, OPM's Net Cost to Provide Retirement, Health Benefits, and Life Insurance Benefits can vary widely from year to year. Actuarial gains decrease OPM's Net Cost, while actuarial losses increase it. What are actuarial gains and losses?

In computing the Pension, Post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, OPM's actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits, and Life Insurance Programs differs from these assumptions, as it generally will, actuarial gains and/or losses will occur. For example, should the Cost of Living Adjustment factor (COLA) increase be less than the actuary assumed, there will be an actuarial experience gain. A decrease in the assumed future rate of inflation would produce a gain due to a revised actuarial assumption.

Net Position

OPM reports its Federal employees' benefit programs funds in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 43, Dedicated Collections: Amending SFFAS No. 27, "Identifying and Reporting Earmarked Funds." This Statement among other provisions, adds "an explicit exclusion for any fund established to account for pensions, other retirement benefits (ORB), other postemployment (OPEB), or other benefits provided for federal employees (civilian and military)."

OPM's Net Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM's net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM against which no outlays have been made.

OPM's total liabilities exceeded its total assets at the end of FY 2016 by $1,155 billion, primarily due to the large actuarial liabilities. However, it is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 3 - Net Assets Available for Benefits - shows that OPM's net assets available to pay benefits have increased by $23.6 billion in FY 2016 to $1,041.6 billion.

TABLE 3 - Net Assets Available for Benefits

($ in Billions)	FY 2016	FY 2015	Change
Total Assets	$1,056.1	$1,031.9	$24.2
Less "Non-Actuarial" Liabilities	14.5	13.9	0.6
Net Assets Available to Pay Benefits	$1,041.6	$1,018.0	$23.6

STATEMENT OF NET COST

The Statement of Net Cost (SNC) in the Federal Government is different from a private-sector income statement in that the SNC reports expenses first and then subtracts the revenues that financed those expenses to arrive at a net cost.

OPM's SNC presents its cost of providing four major categories of benefits and services: Civil Service Retirement and Disability Benefits (CSRS and FERS), Health Benefits, and Life Insurance Benefits, as well as HR Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services.

OPM's total FY 2016 Net Cost of Operations was a gain of $22.4 billion, as compared with a net cost of $86.8 billion in FY 2015. The primary reasons for the decrease in net cost are due to changes in the actuarial assumptions and the actual annuitant COLA being lower than anticipated.

Net Cost to Provide CSRS Benefits

As presented in Table 4, OPM incurred Gross Cost for the CSRS Benefits of $24.4 billion compared with a Gross Cost of $43.6 billion, a decrease of $19.2 billion from FY 2015. As reported on the SNC, there was a current year gain of $25.1 billion for CSRS due to changes in actuarial assumptions, such as decreases in assumed future long term rates of the annuitant Cost of Living Adjustment (COLA) factor.

There are three prime determinants of OPM's cost to provide net CSRS benefits: one cost category - the actuarially computed Pension Expense, and two categories of earned revenue: 1) contributions by and for CSRS participants, and 2) earnings on CSRS investments. The Pension Expense for the CSRS is the amount of future benefits earned by participants during the current fiscal year, including net actuarial losses and interest costs on the accrued actuarial liability.

Contributions by and for CSRS participants decreased in FY 2016 by $299 million from FY 2015 and OPM's earnings on CSRS investments declined by approximately $768.0 million from the prior fiscal year.

TABLE 4 - Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2016	FY 2015	Change
Gross Cost	$24.4	$43.6	($19.2)
Associated Revenues	12.9	15.0	(2.1)
Net Cost	$11.5	$28.6	($17.1)

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, SFFAS No. 33 requires gains and losses from changes in long term assumptions to be displayed on the statement of net cost separately from other costs. OPM's CSRS benefits expense was $46.6 billion in FY 2016, as compared to the $50.7 billion in FY 2015. The decrease in benefits paid is due to both the lower service cost and decrease in interest expense.

Net Cost to Provide FERS Benefits

As shown in Table 5, the Net Cost to Provide FERS Benefits in FY 2016 decreased by $27.3 billion from FY 2015 resulting in a Net Income for the FY 2016. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category: the actuarially computed Pension Expense; and two categories of earned revenue: 1) contributions by and for participants, and 2) earnings on FERS investments. The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year, including net actuarial losses and interest costs on the accrued actuarial liability.

For FY 2016, OPM incurred a Pension Expense for FERS of $45.7 billion, as compared with $70.7 billion in FY 2015. The primary reasons for the decrease in FERS pension expense were due to changes in actuarial economic assumptions, and actual salary expense was lower than expected. Due to changes in actuarial assumptions such as the lower long term COLA assumption there was a loss of $8.2 billion in FY 2015, which was followed by a gain of $8.9 billion in FY 2016. This contributed to the decrease in pension expense of $25.0 billion from FY 2015 to FY 2016. The FY 2016 Pension Expense also reflected an experience gain primarily due to the actual salary expense being lower than expected.

The actuarial liabilities for current FERS employees are much greater than for current CSRS employees, thus the actual salary experience is relatively more significant for FERS employees than for CSRS employees. Conversely, the actuarial liabilities for current FERS annuitants are much smaller than the liabilities for current CSRS annuitants, therefore the actual first-year COLA is much less significant for FERS annuitants than for CSRS annuitants.

Contributions by and for FERS participants increased by $2,343 million, or 8.0 percent from the prior FY, also due to the increasing number of participants in the FERS.

TABLE 5 - Net Cost to Provide FERS Benefits

($ in Billions)	FY 2016	FY 2015	Change
Gross Cost	$45.7	$70.7	($25.0)
Associated Revenues	48.0	45.7	2.3
Net Cost (Net Income)	($2.3)	$25.0	($27.3)

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and therefore, do not appear on the Statement of Net Cost. In FY 2016, OPM paid FERS benefits of $12.7 billion, compared with $11.3 billion in FY 2015. The increase is due to the growing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2016 decreased by $116.4 billion from that in FY 2015, see Table 6. There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories: the actuarially computed Post-Retirement Health Benefits Expense, and Current Benefits and Premiums, and one earned revenue category: contributions by and for participants.

TABLE 6 - Net Cost to Provide Health Benefits

($ in Billions)	FY 2016	FY 2015	Change
Gross Cost	($38.6)	$75.3	($113.9)
Associated Revenues	45.9	43.4	2.5
Net Cost (Net Income)	($84.5)	$31.9	($116.4)

The Postal Service Retiree Health Benefits (PSRHB) Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, Public Law (P.L.) 111-68, Division B - Continuing Appropriations Resolution 2011 which contained significant changes to the funding requirements and scheduled payments of P.L. 109-435, December 20, 2006, known as the Postal Act. In addition, due to the Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the United States Postal Service's (USPS) payment schedule was amended. The subsequent funding law, P.L. 112-74, included a provision to extend the deadline to August 1, 2012 for the $5.5 billion payment that was originally due September 30, 2011.

As such, there were two payments due from USPS in FY 2012, one for $5.5 billion by August 1, 2012, and a second payment of $5.6 billion due by September 30, 2012, a total of $11.1 billion. In addition, for FY 2015, the scheduled payment was $5.7 billion, and for FY 2016, the scheduled payment was $5.8 billion. As of September 30, 2016, the Postal Service has indicated payment of the total $33.9 billion due will remain open. Furthermore, at this point in time, Congress has not taken further action on these payments due from USPS to the PSRHB Fund.

The Post-Retirement Health Benefits (PRHB) Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2016, OPM incurred a PRHB expense of $3.3 billion, as compared with $42.1 billion in FY 2015, due to an actuarial loss from assumptions in FY 2015 resulting from changes in trend and interest; the actuarial loss from experience also was less due to lower medical costs in FY 2016 as compared to FY 2015.

For the Actuarial gain/loss portion of the PRHB expense, the results were due primarily to population change, the lower medical cost increase, updated cost curve assumptions, and changes in the SFFAS No. 33 trend and interest assumptions; the interest assumption is a single equivalent rate of 4.0 percent.

Current Benefits and Premiums stayed level with FY 2015. However, the contributions (for and by participants) increased by $2.4 billion from FY 2015 to FY 2016. As discussed above, in FY 2016, a total of $33.9 billion in scheduled payments was due to the PSRHB Fund from the USPS.

Due to accounting standards, a portion of the costs to provide health benefits is netted against the PRHB Liability and not fully disclosed on the Statement of Net Cost. The actual costs to provide health benefits are presented in Table 7.

TABLE 7 - Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2016	Total FY 2015
Claims	$28.9	$11.4	$40.3	$38.3
Premium Expense	4.2	2.1	6.3	6.2
Administrative Exp. and other	$2.0	$1.5	$3.5	$3.2

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from $0.6 billion in FY 2015 to $0.7 billion in FY 2016. Gross cost increased $0.1 billion due to the smaller actuarial gain in FY 2016 as compared to FY 2015. In applying SFFAS No. 33 for calculating the Actuarial Life Insurance Liability (ALIL), OPM's actuary used salary increase and interest rate yield curve assumptions consistent with those used for computing the CSRS and FERS Pension Liability in FY 2016 and 2015. This entails determination of a single equivalent interest rate that is specific to the ALIL. Both the interest rate and rate of increases in salary assumptions were lower for FY 2016 as compared to FY 2015. Associated revenues remained at the same level.

TABLE 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2016	FY 2015	Change
Gross Cost	$4.3	$4.2	$0.1
Associated Revenues	3.6	3.6	.0
Net Cost (Net Income)	$0.7	$0.6	$0.1

STATEMENT OF BUDGETARY RESOURCES

In accordance with Federal statutes and implementing regulations, OPM may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Statement of Budgetary Resources (SBR) presents the sources of OPM's budgetary resources, their status at the end of the year, obligated balances, and the relationship between its budgetary resources and the outlays it made against them.

As presented in the SBR, a total of $253.6 billion in budgetary resources was available to OPM for FY 2016. OPM's budgetary resources in FY 2016 included $64.5 billion (25.4 percent) carried over from FY 2015, plus three major additional sources:

- Appropriations Received = $49.1 billion (19.4 percent)
- Trust Fund receipts of $98.2 billion, less $15.3 billion* not available = $82.9 billion (32.7 percent)
- Spending authority from offsetting collections (SAOC) = $57.0 billion (22.5 percent)

*Total budgetary resources do not include $15.3 billion of Trust Fund receipts for the Retirement obligations pursuant to public law.

In addition, in accordance with P.L. 109-435, contributions for the PSRHB Fund of the Health Benefits Program are precluded from obligation and therefore temporarily not available; the total is $51.5 billion.

Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions for retirees and survivors who participate in the Health Benefits and Life Insurance Programs.

Sources of Budgetary Resources	FY 2016	FY 2015
Trust Fund Receipts	32.7%	33.4%
Balance Brought Forward from Prior Year	25.4%	25.8%
Spending Authority from Offsetting Collections	22.5%	21.6%
Appropriations	19.4%	19.2%

Trust Fund Receipts are Retirement Program contributions and withholdings from participants, and interest on investments. *Spending Authority from Offsetting Collections* includes contributions made by and for those participating in the Health Benefits and Life Insurance, and revenues in Revolving Fund Programs.

Obligations Incurred by Program	FY 2016	FY 2015
Retirement Benefits	63.9%	64.6%
Health Benefits	33.4%	32.6%
Life Insurance Benefits	1.6%	1.7%
Other	1.1%	1.1%

From the $253.6 billion in budgetary resources OPM had available during FY 2016, it incurred obligations of $187.1 billion less the $36.7 billion transferred from the Treasury's General Fund (see Note 1G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $51.5 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligation. Most of the excess of budgetary resources OPM had available in FY 2016 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

ANALYSIS OF OPM'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

This section provides information on OPM's compliance with the following legislative mandates:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Inspector General Act, as amended
- Federal Information Security Modernization Act (FISMA) of 2014
- Compliance with Other Key Legal and Regulatory Requirements

Management Assurances

FMFIA and FFMIA Assurance Statement

The Office of Personnel Management (OPM) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, OPM can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016, with the exception of the material weaknesses reported in Exhibit A of this report.

In addition, OPM is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. OPM conducted its assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this assessment, OPM can provide reasonable assurance that its internal control over financial reporting as of June 30, 2016 was operating effectively, with the exception of the material weakness in the agency's information system control environment noted in Exhibit A, and that no other material weaknesses were found in the design or operation of internal control over financial reporting.

The *Federal Financial Management Improvement Act* (FFMIA) requires agencies to implement and maintain financial management systems that are in compliance with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Other than the non-conformance with financial management system requirements noted in Exhibit B, OPM can provide reasonable assurance that it complies with FFMIA.

11-10-16

Beth F. Cobert
Acting Director

Date

COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

FMFIA requires agencies to establish internal control and financial systems that provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations,
- Reliable financial reporting, and
- Compliance with applicable laws and regulations.

It also requires that agencies conduct an evaluation of their systems of internal control and that the head of the agency provide an annual Statement of Assurance to the President and the Congress on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides the implementing guidance for FMFIA and defines management's responsibility for managing risk and establishing and assessing internal control. OPM's Risk Management Council (RMC) oversees the Agency's internal control program. The RMC is chaired by the Chief Management Officer and includes senior representatives from all major OPM organizations. The Policy and Internal Control group (PIC) within the Office of the Chief Financial Officer has primary responsibility for coordinating the annual assessment of internal control.

OMB Circular A-123, Appendix A also requires that the agency head provide a separate assurance statement on the effectiveness of internal control over financial reporting (ICOFR). The assurance on ICOFR is a component of the overall FMFIA assurance statement.

OPM evaluated its systems of internal control by conducting an assessment of its internal control over Agency operations and compliance with applicable laws and regulations. As part of the assessment and under the oversight of the RMC, PIC requested that office heads conduct self-assessments of the internal controls under their purview and provide an assurance statement detailing whether their internal control systems met the requirements of FMFIA. Office heads also submitted documentation supporting their internal control objectives, risk assessments, and control activities in individual units under their purview and describing the results of their self-assessments. PIC reviewed the majority of those submissions along with applicable reports of audits performed by the Office of the Inspector General throughout the reporting period to determine if there were other material weaknesses that should be reported in the assurance statement.

In addition, the FY 2016 planning, testing, evaluation, and reporting for internal control over financial reporting were done by PIC under the direction of the RMC. Due to significant staffing shortages, PIC was unable to fully execute its testing plan in accordance with the new requirements of A-123. As a result, Grant Thornton reported this as a significant deficiency in its report on internal control. However, PIC has already begun to develop and implement corrective actions to ensure that adequate testing in compliance with Appendix A is conducted in FY 2017.

EXHIBIT A: SUMMARY OF MATERIAL WEAKNESSES

Information System (IS) Security Assessment and Authorization Program

The OIG stated in its FISMA audit that OPM has a material weakness as a result of not having complete and current authorizations for 18 of our major systems. In FY 2016, OPM launched two major initiatives to update the ATOs of all major systems without current authorizations. The OIG acknowledged the significant efforts to remediate the material weakness and will continue to evaluate the ongoing work being accomplished in this area. From the beginning of FY 2016 through the first 45 days of FY 2017, OPM has issued 27 ATOs and plans to have all major systems with a current authorization by the end of December 2016.

Information System Control Environment

In FY 2016, OPM's independent auditor reported deficiencies, including implementation of two-factor authentication, documentation of access rights and personnel roles, implementation of security control monitoring, inventory management, and vulnerability management collectively as a material weakness in OPM's information system control environment. Although OPM has wholly or partially resolved conditions for a number of these deficiencies, the audit covered the entirety of the fiscal year and the controls may not have been implemented for the entirety of that period, which resulted in these deficiencies being considered part the material weakness. OPM is committed to assessing each condition contributing to this material weakness and will develop an appropriately risk-based, cost effective plan to address each condition.

Information Security Management Structure

In its FY 2016 report, the OIG noted that during FY 2016 there was a high employee turnover rate for the Information System Security Officer (ISSO) positions that OPM previously consolidated through reorganization under the Chief Information Security Officer. OPM struggled to backfill these vacancies, resulting in a regression in OPM's compliance with FISMA requirements. In FY 2016, OPM hired eight ISSOs to address the ISSO turnover and expanded the resources dedicated to that role, bringing the total number of ISSOs to 16. OPM plans to hire an additional eight ISSOs, three of which are now onboarding, for a total of 24 ISSO positions. These ISSOs will support all of OPM's major information systems.

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

Financial Management Systems

The Federal Financial Management Improvement Act of 1996 (FFMIA) was established to ensure that Federal financial management systems provide accurate, reliable, and timely financial management information to the Federal Government managers and leaders. Further, the Act required this disclosure be done on a basis that is uniform across the Federal Government from year to year by consistently using professionally accepted accounting standards. Specifically, FFMIA requires each agency to implement and maintain systems that comply substantially with:

- Federal Government financial management systems requirements;
- Applicable Federal Government accounting standards; and
- The United States Government Standard General Ledger at the transaction level.

As part of the audit of OPM's FY 2015 financial statements, it was reported that OPM made significant improvements in its Fund Balance with Treasury (FBWT) reconciliations for the Revolving Funds (RF) programs, and we continued to achieve improvements throughout FY 2016, thereby improving the accuracy and timeliness of reporting for both Salaries and Expense (S&E) and RF reporting. Since becoming a Central Accounting and Reporting System (CARS) reporter in FY 2015 we were able to reconcile IPAC transaction on a daily basis minimizes data redundancy and enhances data sharing between the Fiscal Service central accounting system, financial service provider systems, and agency core financial systems.

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2016, except for the financial management systems requirements, OPM substantially complies with all FFMIA requirements regarding Federal Financial Accounting Standards, and application of the USSGL. The objectives of our assessment were to ensure that our financial systems achieve their intended results.

In addition, our resources were used consistent with OPM's mission and are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets; and reliable and timely information was maintained, reported, and used for decision making. The results indicated that the CFO was consistent with FFMIA guidelines and OPM's mission to provide reliable and timely information for agency decision making.

The agency continues to apply major improvements to its financial systems each year. The Consolidated Business Information System [CBIS] program continues to support OPM's strategic goal to "Establish responsive, transparent budgeting and costing processes" through implementation of an agency-wide Cost Accounting Model and processes that began in FY 2015. In addition, CFO is addressing a key agency goal to identify and acquire an enterprise managerial cost accounting system solution that will support full costing of services and products that each segment produces in alignment with OPM strategic goals. This acquisition was executed in the end of quarter four of FY 2016 with system implementation commencing in quarter four of FY 2017.

To give OPM the ability to achieve its business objectives and requirements relative to managing and administering agency's budgetary resources, CFO has defined and approved a Budget Formulation and Execution system solution that will integrate with CBIS. CFO is preparing to implement the Budget Management System to respond to FY 2018 budget formulation requests.

In FY 2016, OPM prepared an implementation plan to comply with the Digital Accountability and Transparency Act [Data Act] in accordance to Treasury's Data Act Implementation Playbook. CFO has two separate financial systems affected by the implementation of the Data Act. The technical approach to obtain the financial and procurement data will be readily available to publish FY 2017 agency's data on the ***USASpending.gov*** website during the third quarter.

In FY 2015, OPM began efforts to conduct and complete an assessment of the Trust Funds (TF) systems that included an Analysis of Alternatives (A of A) study to determine the viability in its replacement. The study rendered a recommendation on three (3) alternatives for OPM's consideration to replace its existing Federal Financial System (FFS) to improve and streamline TF business processes that support effective retirement and insurance benefits accounting and fiscal management. In FY 2016, OPM conducted a detailed cost benefit analysis of each of the three alternatives that resulted in a final recommendation for senior leadership approval. OPM's TF migration to a Shared Service Provider [SSP] must undergo Office of Financial Innovation and Technology's (OFIT's) Federal Agency Migration Evaluation [FAME] process that consist of four [4] lengthy processes to determine and assess the capabilities of the SSP to meet its requirements and business process needs. During FY 2017, OPM will identify for each phase the dependencies between them to include OFIT reviews of customer agency artifacts, and determination of SSP bandwidth and capacity.

OPM views its compliance to FFMIA through furthering its relationship with certified Federal Shared Service Providers (FSSP) that provide assurances related to their systems of controls and compliance with Federal guidelines and policy. OPM is further benefiting from its "blended approach" to shared services as directed in OMB's 25-Point Implementation Plan through the use of a Shared Services Provider for transaction processing, IT hosting, and application management services. Beginning in FY 2017, activities to lift and shift the CBIS to a shared services provider offers flexibility to reduce the cost, risk and complexity of financial system modernizations. Furthermore, OPM is exploring options to further implement OMB's Memorandum 13-08 requiring agencies to utilize FSSP's financial management solution beginning in third quarter of FY 2017.

In FY 2017, OPM will continue to optimize functions, processes, and service delivery across the financial management components and workflows to further its compliance with FFMIA. These include: integration, reporting and analysis, transaction processing, and continuous training.

EXHIBIT B –NON-CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

The Agency has determined that the material weakness related to the information system control environment described in Exhibit A represents a non-conformance with Federal financial management system requirements. OPM will actively pursue corrective actions to mitigate the deficiencies.

COMPLIANCE WITH THE INSPECTOR GENERAL ACT

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its Office of the Inspector General. OPM is reporting on audit follow-up activities for the period October 1, 2015 through September 30, 2016. Table 9—Inspector General Audit Findings—provides a summary of OIG's audit findings and actions taken in response by OPM's management during this period.

TABLE 9 - Inspector General Audit Findings

FY 2016	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2015	1	$4.5
New reports requiring management decisions	24[1]	83.8
Management decisions made during the year	21	83.3
Costs disallowed	-	84.4
Costs not disallowed	-	-1.1[2]
Reports with no management decision on September 30, 2016	4	$4.9

Source: Audit Reports and Receivables Tracking System Reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2015 through March 31, 2016, and April 1, 2016 through September 30, 2016.

1 The number of new reports requiring a management decision represents reports with monetary recommendations. The total number of new reports issued during the fiscal year is 55, of which 31 included only procedural recommendations, or were without any recommendations.

2 Represents the net of allowed cost, which includes overpayments and underpayments to insurance carriers.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The FISMA requires the Chief Information Officer (CIO) to conduct an annual Agency security program review in coordination with Agency program officials. OPM is pleased to provide the results of this review conducted for the FY 2016.

In FY 2016, the Office of the Chief Information Officer (OCIO) has consolidated cybersecurity functions under a newly-created Chief Information Security Officer (CISO), which reports directly to the CIO. Additionally, over 20 new employees have been hired to join the cybersecurity program, including eight additional Information System Security Officer (ISSO) positions bringing the total number of ISSOs currently in place to 16. OCIO plans to hire an additional eight ISSOs, three of which are now onboarding, for a total of 24 ISSO positions to support all OPM major information systems. With the support provided by the consolidation under the CISO, an Authorization to Operate (ATO) sprint initiative was started in order to obtain a current ATO for all OPM major information systems and resolve the outstanding material weakness in the program. By the end of FY 2016, OPM obtained 15 ATOs with seven others in progress. OCIO plans to have current ATOs for all systems by the end of the calendar year.

In addition, in FY 2016 the Security Operations Center (SOC) implemented security capabilities to strengthen the security of the overall environment in support of a new defense-in-depth architecture. These capabilities include:

- Network data loss prevention to protect Controlled Unclassified Information (CUI) from being exfiltrated from OPM's information systems;
- Restricting the ability to connect mass storage devices to OPM systems to deter potential data loss;
- Requiring emails to be digitally signed for non-repudiation;
- Whitelisting applications which denies software from being installed on endpoints unless it is explicitly trusted; and
- Enrolling in the Department of Homeland and Security (DHS) Einstein 3 Accelerated (E3A) program to further increase visibility and to detect and block potential incidents.

The OCIO has updated the continuous monitoring strategy document that provides a high-level strategy for the implementation of information security continuous monitoring. While the initial stages of implementation began in FY 2012, full implementation of the plan is an ongoing process. The OCIO worked with the Department of Homeland Security (DHS) and is the first agency to have implemented phase one capabilities of the Continuous Diagnostic and Mitigation program (CDM). This first phase of the CDM program supports the management of hardware and software assets, vulnerabilities, and secure configurations. The OCIO continues to work with DHS in the second phase of the CDM program to support trust in people granted access, security-related behavior, credentials and authentication, and privilege management.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

OPM is required to comply with other legal and regulatory financial requirements, such as the Debt Collection Improvement Act (DCIA). Information concerning these regulatory requirements can be found in the Other Information, Section 3, of this report.

OPM continues to comply with the Digital Accountability and Transparency Act (DATA Act) of 2014, Public Law No. 113-101, as it is being implemented by OMB and the Treasury Department. Among other requirements, it requires a federal agency to notify the Treasury of any legally enforceable non-tax debt owed to such agency that is over 120 days delinquent so that Treasury can offset such debt administratively; previously, it was 180 days per the DCIA. In FY 2015, OMB Memorandum M-15-12 was issued for reporting requirements pursuant to the DATA Act.

On October 30, 2015, the Office of Management and Budget, in coordination with the National

Security Council (NSC) staff and the DHS, released annual guidance to agencies on improving the security of Federal information and networks, in accordance with the Federal Information Security Management Act of 2002, and the Federal Information Security Modernization Act (FISMA) of 2014.

On November 6, 2014, Federal agencies were able to send their Phased Retirement applications to OPM for review. Phased retirement under CSRS and FERS was made possible by P.L. 112-141, the Moving Ahead for Progress in the 21st Century Act (MAP-21).

The Federal Information Technology Acquisition Reform Act (FITARA) was enacted on December 19, 2014, as part of P.L. No. 113-291. On June 10, 2015, OMB issued a memorandum to provide implementation guidance for the FITAR A and related information technology (IT) management practices.

The Bipartisan Budget Act of 2013 established a Self Plus One enrollment type in the Federal Employees Health Benefits (FEHB) Program. Coverage under the Self Plus One enrollment was available beginning in January 2016. The first opportunity to enroll in Self Plus One was during the annual Federal Benefits Open Season in November 2015.

GOALS AND STRATEGIES

OPM is firmly committed to improving financial performance and has received an unmodified audit opinion for seventeen consecutive years for OPM's financial statements. OPM has developed a plan to implement enterprise-wide managerial cost accounting standards across the Agency; routinely provides status of funds and other financial reports to financial and program managers; has integrated financial and performance information; and uses such information to formulate its annual budget requests, as well as for day-to-day management and program analysis. OPM has instilled management discipline to help ensure accurate, timely, and effective budget formulation and execution.

OPM established and has followed the strategy below to achieve the goals for improved financial-management performance:

- Ensure that critical financial performance indicators are objective, understandable, meaningful, fair, and fully measurable
- Improve internal controls over financial reporting through improved systems and processes
- Re-affirm processes, controls, and procedures to ensure that continuing Independent Public Accountant (IPA) unmodified audit opinions will be achieved on the annual financial statements
- Continue to implement a new integrated financial management system fully compliant with Federal standards providing sound, effective support to all customers
- Strengthen stewardship, accountability, and internal controls over financial reporting, as stipulated by revised OMB Circular No. A-123
- Reduce improper payments to target levels

LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

- The principal financial statements have been prepared to report OPM's financial position and results of operations, pursuant to the requirements of 31 United States Code 3515(b).
- The statements have been prepared from OPM's books and records in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by the OMB. They are in addition to the financial reports used to monitor and control OPM's budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

SECTION 2

FY 2016 Financial Information

A Message from the Chief Financial Officer

This is the ninth year the United States (U.S.) Office of Personnel Management (OPM) has chosen to produce an Agency Financial Report (AFR), which provides details on relevant financial data within 45 days of the fiscal year end in accordance with Office of Management and Budget (OMB) guidelines. Under a separate cover, OPM will submit the Annual Performance Report in conjunction with its Congressional Budget Justification for submission of the President's Fiscal Year (FY) 2018 Budget to Congress. This approach offers more transparent conveyance to the public with improved quality and utility for management and stakeholders.

For the seventeenth consecutive year, OPM has earned an unmodified audit opinion on its consolidated financial statements from our independent public accountants, Grant Thornton LLP. This opinion provides reasonable assurance that the financial statements are reported fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

OPM issued a qualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. This was due to the continued material weakness regarding OPM's information systems control environment. OPM's Office of the Chief Information Officer (OCIO) continues to make significant progress on resolving the information systems control environment and security issues noted. Additionally, OCIO has continued to take steps to solidify OPM's information technology infrastructure and cybersecurity posture. For data that impacts the agency's financial statements, our validation efforts demonstrated the data files and relevant financial analysis were reliable, and a robust action plan for review of standard operating procedures are in place.

In July 2016, OMB announced policy changes to the OMB Circular No. A-123 and required agencies to implement an Enterprise Risk Management (ERM) capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Act Modernization Act (GPRAMA), the internal control processes required by the Federal Managers' Financial Integrity Act (FMFIA), and the Government Accountability Office's Green Book. In an effort to comply with such requirement and continue strengthening OPM's internal controls, the Office of the Chief Financial Officer (OCFO) has partnered with other OPM components to develop an ERM governance structure in alignment with our strategic planning efforts to improve mission delivery, reduce costs, and focus corrective actions towards key risks. A risk profile will also be developed and implemented across OPM to identify enterprise risks and establish controls to mitigate them.

Our reviews under the Improper Payments Information Act (IPIA), as modified by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments and Elimination Recovery Improvement Act (IPERIA) of 2012, included payments made under the major programs: Retirement and Health Benefits. OPM's annual improper payment rates for these programs are less than one percent and small when compared to major programs at other Federal agencies. OPM also exceeds OMB's target recovery rate of eighty-five percent for these programs. OPM will continue to strive to reduce improper payments even further for these two major programs.

For the FY 2017 Congressional Budget Submission (CBJ), OPM continued to clearly align financial resources with the agency's strategic plan and have made plans for the FY 2018 Budget Submission to account for the Presidential Transition. This provides all of our stakeholders, to include the American taxpayer, with detailed information into the distribution and focus of agency resources necessary to accomplish our mission. We will continue to submit agency budgets that provide full transparency into resource utilization in alignment with agency goals and strategies, to shape our future.

OPM's Revolving Fund (RF) Programs continue to adapt to the changing Federal landscape as it relates to the demand for reimbursable services and our ability to deliver those services in the most efficient and cost-effective manner possible. The RF programs are streamlining processes and right-sizing operations, while also developing new and improved business models that better serve stakeholders. This includes the standing up of the new National Background Investigations Bureau (NBIB), officially established on October 1, 2016 in transition of the Federal Investigative Services (FIS). NBIB will be housed within OPM and have a strong national security focus to provide effective, efficient, and secure background investigations for the Federal Government. As it relates to the FY 2016 AFR, FIS will continue to be referenced throughout the document. In addition, we are continuing the implementation of our enterprise-wide managerial cost accounting efforts to provide a more thorough understanding of the cost of activities and services provided by our OPM-wide programs. As a result of this effort an initial cost accounting model has been developed that will be integrated with the agency accounting system, the Consolidated Business Information System (CBIS).

OPM is also improving its financial management by continuing to work with our stakeholders, shared services providers and contractors to enhance the current financial processes, business intelligence tools, and systems. In FY 2016, OPM engaged in collaborations with OMB and the General Services Administration's (GSA) Unified Shared Services Management for migrating CBIS to a Federal Shared Service Provider, the Federal Aviation Administration's Enterprise Service Center (ESC). Migration to the new integrated system will allow OPM to fulfill its long-term financial management goals more effectively and will result in more standardized processes, dedicated platforms, and reduced overall operational support costs over time. In this process, we will ensure that CBIS continues to provide efficient and effective transmissions of data for the Government-wide Accounting (GWA) and the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting.

As designated under the OMB Memorandum M-15-12 for Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable, OPM is also working hard towards fulfilling the new reporting requirements under the Digital Accountability and Transparency Act of 2014 (DATA Act) to transform all spending information into open data and meet the expansion of the reporting requirements pursuant to the Federal Funding Accountability and Transparency Act (FFATA). In response to the DATA Act requirements, we have laid the groundwork for implementing the expansion of FFATA through standardizing our data and publishing it online to link OPM expenditures to contract spending at the programmatic levels. As the OPM Senior Accountable Official, I am confident that we have developed an implementation plan that incorporates the necessary steps to achieve the new reporting requirements.

Finally, we continue to carry out our fiduciary responsibilities over the $1 trillion in assets in the Federal employees' earned-benefit trust and other funds with pride. In FY 2016, we disbursed approximately $136 billion in benefits for over 5 million retirees, survivors, and current employees. On behalf of Federal employees, retirees, their families, and survivors, we are honored to safeguard these assets against waste, fraud and abuse. It is with great pleasure that I, on behalf of the OCFO organization, provide you with the FY 2016 AFR documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds.

Sincerely,

Dennis D. Coleman
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the Inspector General

November 14, 2016

Report No. 4A-CF-00-16-030

MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: NORBERT E. VINT
Deputy Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2016 Consolidated Financial Statements

This memorandum transmits Grant Thornton LLP's (Grant Thornton) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2016 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

Audit Reports on Financial Statements, Internal Controls and Compliance with Laws and Regulations

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm Grant Thornton to audit OPM's consolidated financial statements as of September 30, 2016 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Grant Thornton's audit report for Fiscal Year 2016 includes opinions on the consolidated financial statements and the individual statements for the three benefit programs. In addition, Grant Thornton separately reported on internal controls and on compliance with laws and regulations. In its audit of OPM, Grant Thornton found:

Honorable Beth F. Cobert 2

- The consolidated financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

- Grant Thornton's internal control report identified one material weakness in the internal controls:

  - Information Systems Control Environment

  A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis.

- Grant Thornton's internal control report identified one significant deficiency:

  - Monitoring Internal Controls

  A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- Grant Thornton's report identified instances of non-compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), as described in the material weakness, in which OPM's financial management systems did not substantially comply with the Federal financial management systems requirements. The results of Grant Thornton's test of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level.

OIG Evaluation of Grant Thornton's Audit Performance

In connection with the audit contract, we reviewed Grant Thornton's reports and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of Grant Thornton's audit of OPM's Fiscal Year 2016 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- provided oversight, technical advice, and liaison to Grant Thornton auditors;

- ensured that audits and audit reports were completed timely and in accordance with the requirements of Generally Accepted Government Auditing Standards (GAGAS), OMB Bulletin 15-02, and other applicable professional auditing standards;

- documented oversight activities and monitored audit status;

- reviewed responses to audit reports and reported significant disagreements to the audit follow-up official per OMB Circular No. A-50, Audit Follow-up;
- coordinated issuance of the audit report; and
- performed other procedures we deemed necessary.

Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. Grant Thornton is responsible for the attached auditor's and internal control reports dated November 10, 2016, and the conclusions expressed in the reports. However, our review disclosed no instances where Grant Thornton did not comply, in all material respects, with the generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. The OMB Circular also requires that agency management officials provide a timely response to the final audit report indicating whether they agree or disagree with the audit findings and recommendations. When management is in agreement, the response should include planned corrective actions and target dates for achieving them. If management disagrees, the response must include the basis in fact, law or regulation for the disagreement.

To help ensure that the timeliness requirement for resolution is achieved, we ask that the CFO coordinate with the OPM audit follow-up office, Internal Oversight and Compliance (IOC), to provide their initial responses to us within 60 days from the date of this memorandum. IOC should be copied on all final report responses. Subsequent resolution activity for all audit findings should also be coordinated with IOC. The CFO should provide periodic reports through IOC to us, no less frequently than each March and September, detailing the status of corrective actions, including documentation to support this activity, until all findings have been resolved.

In closing, we would like to thank OPM's financial management staff for their professionalism during Grant Thornton's audit and our oversight of the financial statement audit this year.

If you have any questions about Grant Thornton's audit or our oversight, please contact me at 606-1200, or you may have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Dennis D. Coleman
Chief Financial Officer

Daniel K. Marella
Deputy Chief Financial Officer

Honorable Beth F. Cobert 4

David DeVries
Chief Information Officer

Janet L. Barnes
Director, Internal Oversight and Compliance

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Beth F. Cobert, Acting Director
United States Office of Personnel Management

Norbert E. Vint, Deputy Inspector General
United States Office of Personnel Management

Report on the financial statements

We have audited the accompanying financial statements of the United States Office of Personnel Management (OPM) (the "Agency"), which comprise the consolidated and consolidating balance sheetsas of September 30, 2016, and the related consolidated and consolidating statements of net costs and changes in net position, and combined and combining statements of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (the financial statements).

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of thefinancial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on thesefinancial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in thefinancial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'spreparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency'sinternal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OPMas of September30, 2016, and the results of its net costs, changes in net position and budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

The financial statements of OPM as of and for the year ended September 30, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated November 12, 2015.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the information in Management's Discussion and Analysis (Section 1) and the combining schedule of budgetary resources by major budgetary accountbe presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the FederalAccounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America and OMB Bulletin 15-02. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other information

The Other Information (Section 3) is presented for purposes of additional analysis and isnot a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 10, 2016, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of thosereports is to describe the scope of our testing of internal control over financial reporting and complianceand the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*in considering the Agency's internal control over financial reporting and compliance.

Grant Thornton LLP

Alexandria, VA
November 10, 2016

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Beth F. Cobert, Acting Director
United States Office of Personnel Management

Norbert E. Vint, Deputy Inspector General
United States Office of Personnel Management

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements,* the financial statements of the United States Office of Personnel Management (OPM) (the "Agency") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 10, 2016.

Our report includes a reference to other auditors who audited the financial statements of OPM, as described in our report on the Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be

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material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies in the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the section titled Material Weakness – Information Systems Control Environment below to be a material weakness in the Agency's internal control.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the in the section titled Significant Deficiency – Monitoring Internal Controls to be a significant deficiency in the Agency's internal control.

Material Weakness – Information Systems Control Environment

In accordance with the Federal Managers' Financial Integrity Act of 1982 and the requirements of the Office of Management and Budget (OMB) Circular A-123, Agency management is responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance. This includes establishing information technology (IT) controls as management relies extensively on information systems for the administration and processing of its programs, to both process and account for their expenditures, as well as, for financial reporting. Lack of internal controls over these environments could compromise the reliability and integrity of the program's data and increase the risks of misstatements whether due to fraud or error.

Our internal control testing covered both general and application controls. General controls encompass the security management program, access controls (physical and logical), configuration and change management, and segregation of duties. General controls provide the foundation for the integrity of systems including applications and the system software which make up the general support systems for the major applications. General controls, combined with application level controls, are critical to ensure accurate and complete processing of transactions and integrity of stored data. Application controls include controls over input, processing of data, and output of data as well as interface and other user controls. These controls provide assurance over the completeness, accuracy, and validity of data. Our audit included testing of the Agency's mainframe, networks, databases, applications, and other supporting systems and was conducted at headquarters.

During FY 16, OPM made progress in strengthening controls over its information systems to address the material weakness over its Information System Control environment reported in Fiscal Year (FY) 2015. However, while OPM continues to make progress in remediating prior year findings over its IT control environment, our FY 2016 testing identified similar and new control issues in both design and operation of key controls. We believe that, in many cases, these deficiencies exist because of one, or a combination, of the following:

- Risk mitigation strategies and related control enhancements require additional time to be fully implemented or to effectuate throughout the environment.
- OPM has current information security vacancies. The vacant IT positions have impacted the overall security management structure of the organization and have resulted in required controls, such as the review of system security assessments, audit logs and the recertification of user accounts, not being performed.
- Lack of centralized or comprehensive policies and procedures.
- The design of enhanced or newly designed controls did not completely address risks and recommendations provided over past audits.
- Oversight and governance were not sufficient to enforce policies and address deficiencies.

We noted the following deficiencies in OPM's IT control environment in the areas of Security Management, Logical and Physical Access, and Configuration Management that in the aggregated are considered to be a Material Weakness.

Security Management

Appropriate security management controls provide reasonable assurance that the security of Agency's IT control environment is effective. Such controls include, amongst others, security management programs, periodic assessments and validation of risk, security control policies and procedures, and security awareness training and other security-related personnel. We noted the following deficiencies during our review of OPM's IT security management:

- OPM's Information Security and Privacy Policy Handbook has not been reviewed and or updated in over three years.
- System Security Plans, Risk Assessments, Authority to Operate Packages and Information System Continuous Monitoring documentation is outdated.
- OPM does not have a formal process in place to track a complete and accurate listing of systems and devices to provide security oversight/risk mitigation in the protection of its resources.
- OPM does not have a centralized process in place to identify and generate a complete and accurate listing of terminated OPM contractors.

- Role based training has not been completed by individuals with significant information system responsibility.

- Documentation of the periodic review of Plan of Action and Milestones (POA&Ms) does not exist.

Logical and Physical Access

Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. Such controls include both logical and physical controls. Logical access controls require users to authenticate themselves while limiting the files and other resources that authenticated users can access and actions they can execute. Physical access controls involve restricting physical access to computer resources and protecting them from intentional or unintentional loss or impairment. We noted the following deficiencies during our review of OPM's logical and physical access to its IT environment:

- OPM did not comply with the organization's policies regarding the periodic recertification of the appropriateness of user access and active directory password settings.

- Physical access to the datacenter is not restricted to authorized individuals.

- A number of its financial relevant systems are not compliant with OMB-M-11Continued Implementation of Homeland Security Presidential Directive (HSPD) 12 Policy for a Common Identification Standard for Federal Employees and Contractors or Personal Identity Verification (PIV) and lack the two-factor authentication requirement as required by Agency policy and OMB requirements.

- System roles and associated responsibilities/functions, including the identification of incompatible role assignments have not been documented.

- OPM has not enforced policies and procedures for the removal of terminated user access to systems.

- OPM is unable to generate a complete listing of users who have the ability to input and approve journal vouchers to ensure that access rights are appropriately segregated.

- For one key financial relevant system management does not review the invalid login report, which captures invalid activities, de-activated accounts and invalid login attempts.

Configuration Management

Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Such controls include, amongst others, effective configuration management policies, plans, and procedures, proper authorization, testing, approval, and tracking of all configuration changes, and routine monitoring of the systems configuration. We noted the following deficiencies during our review of OPM's IT configuration management:

- OPM has not developed comprehensive configuration management policies and procedures governing changes to the mainframe environment that is formally approved and disseminated to OPM personnel.

- OPM does not have the ability to generate a complete and accurate listing of all modifications made to configuration items to the mainframe and mid-range environments.

- OPM does not have the ability to generate a complete and accurate listing of all modifications made to a number of its financially relevant systems.

- OPM does not maintain a security configuration checklist for all known platforms.

- Access to the one of its financially relevant system's production environment is not appropriately restricted.

Recommendations
We recommend that the Office of the Chief Information Officer, in coordination with system owners take the following actions to improve OPM's IT control environment.

Security Management

- Review, update and approve the security management policies and procedures at the organization defined frequency. Updates should incorporate current operational procedures and removal of outdated procedures and terminology.

- Create and/or update system documentation as follows:
    - System Security Plans – Update the plans and perform periodic reviews in accordance with the organization defined frequencies.
    - Risk Assessments – Conduct a risk assessment for financially relevant applications and systems and document comprehensive results of the testing performed.
    - Authority to Operate – Perform security assessment and authorization reviews in a timely manner and create up-to-date authority to operate packages for systems.
    - Information System Continuous Monitoring – Document results of continuous monitoring testing performed for systems.

- Enhance processes in place to track the inventory of the Agency's systems and devices.

- Implement a system /control that tracks terminated contractors.

- Establish a means of documenting a list of users with significant information system responsibility to ensure the listing is complete and accurate and the appropriate training is completed.

- Fill the vacant IT positions or designate existing personnel to perform the responsibilities of these vacant positions.

- Assign specific individuals with overseeing / monitoring POA&Ms to ensure they are addressed in a timely manner.

Logical and Physical Access

- Perform a comprehensive review of the appropriateness of personnel with access to systems at the Agency's defined frequencies.
- Implement physical security controls over the data center so that users cannot gain unauthorized access and limit access to authorized individuals.
- Implement two-factor authentication at the application level in accordance with agency and federal policies.
- Document access rights to systems to include roles, role descriptions, and privileges/activities associated with each role and role or activity assignments that may cause a segregation of duties conflict.
- Ensure termination processes (e.g., return of PIV badges and IT equipment, completion of Exit Clearance Forms and completion of exit surveys) are followed in a timely manner and documentation of completion of these processes is maintained.
- Develop a process to systematically generate a listing of users that can input and approve journal vouchers to ensure users are user access is appropriately separated.
- Review audit logs on a pre-defined periodic basis for violations or suspicious activity and identify individuals responsible for follow up or elevation of issues to the Security Operations Team for review. The review of audit logs should be documented for record retention purposes.

Configuration Management

- Establish a comprehensive configuration management plan that includes roles, responsibilities and outlines details supporting authorization, testing and documentation requirements.
- Establish a methodology to systematically track all configuration items that are migrated to production and be able to produce a complete and accurate listing of all configuration items for both internal and external audit purposes, which will in turn support closer monitoring and management of the configuration management process.
- Enforce existing policy requiring mandatory security configuration settings, developed by OPM or developed by vendors or federal agencies, are implemented and settings are validated on a periodic basis to ensure appropriateness.
- Segregate duties between user roles with development responsibilities and user roles with access to the production environment. Implement and operate monitoring controls to verify only authorized and valid changes are implemented into the production environment.

Agency's response to findings
The Agency concurs with the findings and recommendations described above and will implement a corrective action plan to address these deficiencies in the new fiscal year.

OPM's response to our findings described above was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Agency's response.

Significant Deficiency – Monitoring Internal Controls

Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control* (A-123) Appendix A, provides a methodology for agency management to assess, document, and report on the internal controls over financial reporting. OPM's implementation of the annual OMB Circular A123, Appendix A assessment process serves as a key monitoring control of OPM's overall financial reporting control environment and related control activities.

We reviewed OPM's implementation of OMB Circular A-123, Appendix A assessment process performed by OPM's Policy and Internal Controls (PIC) group, within the Office of the Chief Financial Officer, and noted the following:

- PIC postponed testing for 16 of 26 financially relevant areas, which were planned to be tested during FY 2016 to future fiscal years. Of the 16 postponed areas, five were considered by management to be 'High Risk' and; therefore, per OPM policy required to be evaluated annually.

- Entity Level Controls, while planned to be evaluated in FY 2016 as required by A-123 Appendix A, were not evaluated.

- Documentation of management's understanding of the agency's internal control over financial reporting was limited to descriptions of controls tested.

During Grant Thornton's discussions with PIC, it was noted that there has been a significant amount of turnover within the group during FY 2016 which has resulted in a large number of planned evaluation and testing areas to be postponed until FY 2017.

Management's inability to conduct a full financial reporting controls assessment could lead to weaknesses in the design and operating effectiveness of financial reporting controls going undetected which could lead to misstatements in OPM's financial statements.

Recommendations
We recommend that OPM strengthen the annual internal assessments, testing and documentation based on OMB A-123, Appendix A guidance.

Agency's response to findings

The Agency concurs with the findings and recommendations described above and will implement a corrective action plan to address these deficiencies in the new fiscal year.

OPM's response to our findings described above was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Agency's response.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether the Agency's financial management systems substantially comply with FFMIA Section 803(a) requirements. To meet this requirement, we performed tests of compliance with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests of FFMIA Section 803(a) requirements disclosed instances, as described above in the section titled Material Weakness –Information Systems Control Environment, in which OPM's financial management systems did not substantially comply with the Federal financial management systems requirements. The results of our tests of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with the applicable Federal accounting standards and the USSGL at the transaction level.

Intended purpose

The purpose of this report on internal control over financial reporting and on compliance and other matters is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Alexandria, VA
November 10, 2016

CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2016 and September 30, 2015
(In Millions)

	FY 2016	FY 2015
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$2,736	$147,440
Investments [Note 3]	1,014,420	851,179
Accounts Receivable [Note 4]	36,404	30,930
Total Intragovernmental	**1,053,560**	**1,029,549**
Accounts Receivable from the Public, Net [Note 4]	1,729	1,486
General Property and Equipment, Net	5	10
Other [Note 1L]	782	823
Total Assets	**$1,056,076**	**$1,031,868**
LIABILITIES		
Intragovernmental [Note 6]	$1,387	$870
Federal Employee Benefits:		
Benefits Due and Payable	11,748	11,470
Pension Liability [Note 5A]	1,805,700	1,843,200
Postretirement Health Benefits Liability [Note 5B]	341,077	352,819
Actuarial Life Insurance Liability [Note 5C]	49,976	48,673
Total Federal Employee Benefits	**2,208,501**	**2,256,162**
Other [Notes 6 and 7]	1,396	1,540
Total Liabilities	**$2,211,284**	**$2,258,572**
NET POSITION		
Unexpended Appropriations	42	49
Cumulative Results of Operations	(1,155,250)	(1,226,753)
Total Net Position - All Other Funds	**(1,155,208)**	**(1,226,704)**
Total Liabilities and Net Position	**$1,056,076**	**$1,031,868**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2016 and 2015
(In Millions)

		FY 2016	FY 2015
Provide CSRS Benefits	Gross Costs	$24,407	$43,963
	Less: Earned Revenue	12,927	14,596
	Net Cost	**11,480**	**29,367**
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	(25,083)	(369)
	Net Cost of Operations [Notes 8 and 9]	**($13,603)**	**$28,998**
Provide FERS Benefits	Gross Costs	$54,616	$62,438
	Less: Earned Revenue	47,974	45,731
	Net Cost	**6,642**	**16,707**
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	(8,929)	8,238
	Net Cost of Operations [Notes 8 and 9]	**($2,287)**	**$24,945**
Provide Health Benefits	Gross Costs	$52,026	$66,509
	Less: Earned Revenue	45,890	43,416
	Net Cost	**6,136**	**23,093**
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	(13,449)	8,834
	Net Cost of Operations [Notes 8 and 9]	**($7,313)**	**$31,927**
Provide Life Insurance Benefits	Gross Costs	$3,917	$3,841
	Less: Earned Revenue	3,584	3,581
	Net Cost	**333**	**260**
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	386	361
	Net Cost of Operations [Notes 8 and 9]	**$719**	**$621**
Provide Human Resource Services	Gross Costs	$1,311	$1,748
	Less: Earned Revenue	1,279	1,411
	Net Cost of Operations	**$32**	**$337**
Total Net Cost of Operations	Gross Costs	$136,277	$178,499
	Less: Earned Revenue	111,654	108,735
	Net Cost	**24,623**	**69,764**
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	(47,075)	17,064
	Net Cost of Operations [Notes 8 and 9]	**($22,452)**	**$86,828**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2016 and 2015
(In Millions)

	FY 2016	FY 2015
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	**($1,226,753)**	**($1,187,898)**
Budgetary Financing Sources:		
Appropriations Used	49,028	47,950
Other Financing Sources	23	23
Total Financing Sources	**49,051**	**47,973**
Net Cost of Operations	(22,452)	86,828
Net Change	**71,503**	**(38,855)**
Cumulative Results of Operations - Ending Balance	**($1,155,250)**	**($1,226,753)**
UNEXPENDED APPROPRIATIONS		
Beginning Balance	**$49**	**$60**
Budgetary Financing Sources:		
Appropriations Received	49,078	48,220
Other Adjustments	(57)	(281)
Appropriations Used	(49,028)	(47,950)
Total Budgetary Financing Sources	**(7)**	**(11)**
Total Unexpended Appropriations - Ending Balance	**42**	**49**
Net Position - All Other Funds	**($1,155,208)**	**($1,226,704)**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2016 and 2015
(In Millions)

	FY 2016	FY 2015
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, October 1	$64,532	$63,809
Adjustment to Unobligated Balance Brought Forward, October 1	1	-
Unobligated Balance Brought Forward, October 1, as adjusted	**64,533**	**63,809**
Recoveries of Unpaid Prior Year Obligations	113	118
Other Changes in Unobligated Balance	(6)	(15)
Unobligated Balance, from Prior Year Budget Authority, Net	**64,640**	**63,912**
Appropriations	131,962	130,052
Spending Authority from Offsetting Collections	56,993	53,581
Total Budgetary Resources	**$253,595**	**$247,545**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments [Note 11]	$187,120	$183,013
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	795	321
Unapportioned, Unexpired Accounts	65,615	64,143
Unexpired, Unobligated Balance, End of Year	66,410	64,464
Expired, Unobligated Balance, End of Year	65	68
Total Unobligated Balance, End of Year	**66,475**	**64,532**
Total Budgetary Resources	**$253,595**	**$247,545**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$15,022	$15,145
Adjustment to Unpaid Obligations, Start of Year	4	-
New Obligations and Upward Adjustments	187,120	183,013
Less: Outlays, Gross	186,676	183,018
Less: Recoveries of Prior Year Unpaid Obligations	113	118
Unpaid Obligations, End of Year	**$15,357**	**$15,022**
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	$3,172	$3,178
Adjustment to Uncollected Payments, Federal Sources, Start of Year	5	-
Change in Uncollected Payments, Federal Sources	(149)	(6)
Uncollected Payments, Federal Sources, End of Year	**$3,028**	**$3,172**
Memorandum (Non-add) Entries:		
Obligated Balance, Start of Year	$11,849	$11,967
Obligated Balance, End of Year	$12,329	$11,850
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$188,955	$183,633
Less: Actual Offsetting Collections	57,144	53,589
Less: Change in Uncollected Payments, Federal Sources	(149)	(6)
Budget Authority, Net	**$131,960**	**$130,050**
Outlays, Gross	$186,676	$183,018
Less: Actual Offsetting Collections	57,144	53,589
Outlays, Net	**129,532**	**129,429**
Less: Distributed Offsetting Receipts	38,215	37,694
Agency Outlays, Net	**$91,317**	**$91,735**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

[$ in millions]

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The United States (U.S.) Office of Personnel Management (OPM) is the Federal Government's human resources (HR) agency. It was created as an independent agency of the Executive Branch of Government on January 1, 1979. Many of the functions of the former Civil Service Commission were transferred to OPM at that time.

The accompanying financial statements present OPM's financial position, net cost of operations, changes in net position, and status of budgetary resources, as required by the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). The financial statements include all accounts — appropriation, trust, trust revolving, special and revolving funds — under OPM's control. The financial statements do not include the effect of any centrally administered assets and liabilities related to the Federal Government as a whole, which may, in part, be attributable to OPM.

The financial statements comprise the following major programs administered by OPM: The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program. The statutory authority for OPM's Federal employees' benefit programs can be found in Title 5, United States Code (USC); Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89 provides a complete description of the Employees' Health Benefits Fund and the Retired Employees' Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees' Group Life Insurance Fund provisions. In addition, Sections 802 and 803 of Public Law (P.L.) 109- 435, the Postal Act, amended certain provisions of Chapters 83 and 89 of Title 5 dealing with the Retirement Program and the Health Benefits Program, respectively. The financial statements also encompass OPM's Revolving Fund Programs as well as Salaries and Expenses.

Retirement Program. The Program consists of two defined-benefit pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Together, the two plans cover substantially all full-time, permanent civilian Federal employees. The CSRS, implemented in 1921, is a stand-alone plan, providing benefits to most Federal employees hired before 1984. The FERS uses Social Security as its base and provides an additional defined benefit and a voluntary thrift savings plan to most employees entering the Federal service after 1983. The FERS was established in 1986 and when it became effective on January 1, 1987, CSRS Interim employees with less than 5 years of creditable civilian service on December 31, 1986, were automatically converted to FERS. Both plans are operated via the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. Title 5, USC, Chapters 83 and 84, provide a complete description of the CSRDF's provisions. OPM does not administer the voluntary Thrift Savings Plan.

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees' Health Benefits Fund and the Retired Employees' Health Benefits Fund. Title 5, USC, Chapter 89 provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health-care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMO), which provide or arrange for services on a pre-paid basis through designated providers. Most of the contracts with carriers that provide fee-for-service benefits are *experience-rated*, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated*, so that the amount of profit and administrative expenses charged to the FEHB by the plan can be no more than what is allowed in the large group market overall.

The Bipartisan Budget Act of 2013 established a Self Plus One enrollment type in the Federal Employees Health Benefits (FEHB) Program. Coverage under a Self Plus One enrollment was available beginning in January 2016. The first opportunity to enroll in Self Plus One was during the annual Federal Benefits Open Season in November 2015, and another offering, a Limited Enrollment Period for the Self Plus One, was conducted during February 2016.

On December 20, 2006, President Bush signed into law the Postal Accountability and Enhancement Act (the Postal Act), P.L. 109-435. Title VIII of the Postal Act made significant changes in the laws dealing with CSRS benefits and the funding of retiree health benefits for employees of the U.S. Postal Service (USPS). The Postal Act required the USPS to make scheduled payments to the Postal Service Retiree Health Benefits (PSRHB) Fund. The PSRHB Fund is included in the Health Benefits Program.

Life Insurance Program. The Program provides group, term-life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Federal Employees Group Life Insurance Fund, a trust revolving fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. Title 5, USC, Chapter 87 provides a complete description of the fund's provisions. The Program provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

Revolving Fund Programs. OPM provides a variety of HR-related services to other Federal agencies, such as pre-employment testing, security clearance investigations and employee training. These activities are financed through an intra-governmental revolving fund. In addition, the Federal Government announced a series of changes to modernize and strengthen the way we conduct background investigations for Federal employees and contractors and protect sensitive data. These changes included the establishment of the National Background Investigations Bureau (NBIB), which is absorbing the U.S. Office of Personnel Management's (OPM) existing Federal Investigative Services (FIS), and is headquartered in Washington, D.C. This new government-wide service provider for background investigations is housed within the OPM. Its mission is to provide effective, efficient, and secure background investigations for the Federal Government. Additionally, the U.S. Department of Defense is assuming the responsibility for the design, development, security, and operation of the IT background investigations systems for the NBIB.

Salaries and Expenses. Salaries and Expenses provides the budgetary resources used by OPM for administrative purposes in support of the Agency's mission and programs. These resources are furnished by annual, multiple-year, and no-year appropriations. Annual appropriations are made for a specified fiscal year and are available for new obligations only during that fiscal year. Multiple-year appropriations are available for a definite period in excess of one fiscal year. No-year appropriations are available for obligation without fiscal year limitation.

B. BASIS OF ACCOUNTING AND PRESENTATION

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of OPM as required by the CFO Act and GMRA. These financial statements have been prepared from the books and records of OPM in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and Office of Management Budget (OMB) Circular

No. A-136, "Financial Reporting Requirements." GA AP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. OPM, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control the OPM's use of budgetary resources.

OPM has presented comparative financial statements for the Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, and Combined and Combining Statements of Budgetary Resources.

The financial statements should be read with the realization they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

C. USE OF MANAGEMENT'S ESTIMATES

The preparation of financial statements in accordance with GA AP requires management to make certain estimates. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of earned revenues and costs during the reporting period. Actual results could differ from those estimates.

D. FINANCIAL STATEMENT CLASSIFICATIONS

Entity vs. Non-entity Assets. Entity assets are those the reporting entity has the legal authority to use in its operations. Accordingly, all of OPM's assets are entity assets.

Funds from Dedicated Collections. SFFAS No. 27, as amended by SFFAS No. 43, requires disclosure of all Funds from Dedicated Collections for which the reporting entity has program management responsibility. Generally, Funds from Dedicated Collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. It has been determined that OPM does not have any Funds from Dedicated Collections.

Intragovernmental and Other Balances. Throughout these financial statements, intragovernmental assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as intragovernmental those transactions with other Federal entities. In accordance with Federal accounting standards, OPM classifies employee contributions to the Retirement, Health Benefits and Life Insurance Programs as exchange revenues "from the public." OPM's entire gross cost to provide Retirement, Health and Life Insurance benefits are classified as costs "with the public" because the recipients of these benefits are Federal employees, retirees, and their survivors and families. As a consequence, on the accompanying consolidated Statements of Net Cost and in other notes to OPM's financial statements, OPM reports there are no intragovernmental gross costs to provide retirement, health and life insurance benefits.

Exchange vs. Non-exchange Revenue. Per SFFAS No. 7, exchange or earned revenue is an inflow of resources to an entity that it has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the "predominant source of revenue that funds the investments;" OPM, therefore, classifies earnings on investments as earned revenue. Employing agency and participant contributions to the Retirement, Health Benefits and Life Insurance Programs and the scheduled payment contributions to the PSRHB Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits. The consolidated Statements of Net Cost provides users with the ability to ascertain whether OPM's exchange revenues are sufficient to cover the total cost it has incurred to provide Retirement, Health, and Life Insurance benefits.

Liabilities Covered by Budgetary Resources. OPM has no authority to liquidate a liability, unless budgetary resources have been specifically made available to do so. Where budgetary resources have not been made available, the liability is disclosed as being "not covered by budgetary resources." Since no budgetary resources have been made available to liquidate the Pension, post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, they are disclosed as being "not covered by budgetary resources." With minor exception, all other OPM liabilities are disclosed as being "covered by budgetary resources."

Net Position. OPM's Net Position is classified into two separate balances: the *Cumulative Results of Operations* comprises OPM's net results of operations since its inception; *Unexpended Appropriations* is the balance of appropriated authority granted to OPM against which no outlays have been made. The Statements of Changes in Net Position separately disclose other financing sources, including appropriations, as well as net cost of operations and cumulative results of operations.

Obligated vs. Unobligated Balance. OPM's Combined and Combining Statements of Budgetary Resources present its unobligated and obligated balances as of the end of the fiscal year. The obligated balance reflects the budgetary resources against which OPM has incurred obligations. The unobligated balance is the portion of budgetary resources against which OPM has not yet incurred obligations.

Direct vs. Reimbursable Obligations. A reimbursable obligation reflects the costs incurred to perform services or provide goods that must be paid back by the recipients. OPM classifies all of its incurred obligations as direct, except those of the Revolving Fund Programs, against which only reimbursable obligations may be incurred.

E. NET COST OF OPERATIONS

To derive its net cost of operations, OPM deducts the earned revenues associated with its gross cost of providing benefits and services on the accompanying Consolidated Statements of Net Cost.

Gross Cost of Providing Benefits and Services. OPM's gross cost of providing benefits and services is classified by responsibility segment. All Program costs (including Salaries and Expenses) are directly traced, assigned, or allocated on a reasonable and consistent basis to one of four responsibility segments. The following table associates OPM's gross cost by Program to its responsibility segments:

Program	Responsibility Segment
Retirement Program	Provide CSRS Benefits Provide FERS Benefits
Health Benefits Program	Provide Health Benefits
Life Insurance Program	Provide Life Insurance Benefits
Revolving Fund Programs Salaries and Expenses	Provide HR Services

Earned Revenue. OPM has two major sources of earned revenues: Earnings on its investments, and the Contributions to the Retirement, Health Benefits and Life Insurance Programs by and for participants.

F. PROGRAM FUNDING

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. OPM's Office of Actuaries has determined that the service-cost for most or "regular" CSRS participants is 32.8 percent and 33.4 percent of basic pay for FY 2016 and FY 2015, respectively. For FERS, the service cost for most or "regular" FERS participants is 14.7 percent and 14.8 percent of basic pay for FY 2016 and FY 2015, respectively.

CSRS. Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both FY 2016 and 2015. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the U.S. Department of Treasury (Treasury) was required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for FY 2016 and 2015, this amount was $33.4 billion and $32.9 billion, respectively, for the CSRS.

FERS. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. In addition, Treasury was required by statute to transfer an amount from the General Fund of the United States to the CSRDF for the FERS Supplemental Liability; for FY 2016 and 2015, this amount was $3.2 billion and $3.2 billion, respectively. There are currently three FERS participant contribution rates:

1) When FERS started: the FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate (0.8 percent for most participants for FY 2016 and 2015).

2) For participants, the Middle Class Tax Relief and Job Creation Job Act of 2012, P.L. 112-96, Section 5001 – Federal Employees Retirement, increased by 2.3 percent the employee pension contribution for Federal employees entering service during calendar year 2013. The employees applicable under P.L. 112-96 are referred to as "FERS-Revised Annuity Employees (FERS-RAE)." As noted above, due to P.L. 112-96, for most FERS-RAE participants, the participant contribution rate is 3.1 percent of pay.

3) Section 401 of the "Bipartisan Budget Act of 2013," signed into law by the President on December 26, 2013, P.L. 113-67, Sec. 401, made another change to the FERS and added another group to FERS coverage, "FERS-Further Revised Annuity Employees (FERS-FRAE). Beginning January 1, 2014, new employees (as designated in the statute) are required to pay an even higher employee contribution rate, an increase of 1.3 percent of salary above the percentage set for the FERS-RAE.

Note: There is no difference in the FERS basic benefit paid to FERS Regular, FERS-RAE, and FERS-FRAE employees. However, the basic benefit for congressional employees and Members of Congress under FERS-RAE and FERS-FRAE is different than the basic benefit paid to those groups under FERS.

Health Benefits Program. The Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis; OPM contributes the "employer" share for Retirement Program annuitants via an appropriation. The Program continues to provide benefits to active employees, or their survivors, after they retire (post-Retirement benefits). With the exception of the USPS, agencies are not required to make contributions for the post-Retirement coverage of their active employees.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis; OPM contributes the "employer" share for Retirement Program annuitants via an appropriation. The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A small portion, 0.02 percent of the pay of participating employees in FY 2016 and 2015, of post-retirement life insurance coverage is not funded.

Revolving Fund Programs. OPM's Revolving Fund Programs provide for a continuing cycle of HR services primarily to Federal agencies on a reimbursable basis. Each program is operated at rates established by OPM to be adequate to recover costs over a reasonable period of time. Receipts derived from operations are, by law, available in their entirety for use of the fund without further action by Congress. Since the Revolving Fund's Programs charge full cost, customer-agencies, do not recognize imputed costs. OPM provides receiving entities of such services with full cost information through billings based on reimbursable agreements for services rendered. Examples of OPM Revolving Fund Programs include Investigative Services, USAJOBS, and Human Resource Solutions.

Salaries and Expenses. The S&E account and the OIG S&E account finance most of OPM's operating expenses and have three funding sources: 1) salaries and expenses appropriation, 2) transfers from the trust fund accounts, and 3) advances and reimbursements. Funds to administer these programs are transferred from the trust fund accounts to the respective administrative S&E account as costs are incurred.

G. FINANCING SOURCES OTHER THAN EARNED REVENUE

OPM receives inflows of assets from financing sources other than earned revenue. These financing sources are not deducted from OPM's gross cost of providing benefits and services on the Consolidated Statements of Net Cost, but added to its net position on the Consolidated Statements of Changes in Net Position. OPM's major financing sources other than earned revenue are:

Transfer-in from the General Fund. The U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part the under-funding of the CSRS. The amount is presented as a transfer-in from the Treasury General Fund, obligation, and disbursement to the CSRDF on the Statement of Budgetary Resources.

Appropriations Used. By an act of Congress, OPM receives appropriated authority allowing it to incur obligations and make expenditures to cover the operating costs of the Agency ("Salaries and Expenses") and the Government's share of the cost of health and life insurance benefits for Retirement Program annuitants. OPM recognizes appropriations as "used" at the time it incurs these obligations against its appropriated authority.

H. BUDGETARY RESOURCES

Budgetary resources reflect OPM's authority to incur obligations that will result in the outlay of monies. OPM receives new budgetary resources each fiscal year in the form of appropriations, trust fund receipts, and spending authority from offsetting collections. In addition, OPM normally carries-over a balance of unobligated budgetary resources from the prior fiscal year, which is generally unavailable for obligation, but may be drawn-upon should new budgetary resources be insufficient to cover obligations incurred.

Appropriations. By an act of Congress, OPM receives budgetary resources in the form of appropriations that allow it to incur obligations to pay (1) the Government's share of the cost of health and life insurance benefits for Retirement Program annuitants and (2) in part, the administrative and operating expenses of OPM. In addition, the U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part, the under-funding of the CSRDF. OPM's appropriations are "definite," in that the amount of the authority is stated at the time it is granted, and "annual," in that the authority is available for obligation only during the current fiscal year. At fiscal year-end, any unobligated balances in the appropriations that fund the Government's share of the cost of health and life insurance benefits are expired.

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance. The amounts collected by OPM in the PSRHB Fund are precluded from obligation until 2017 when the funds will be available to pay annual premium costs for the USPS post-1971 current annuitants [See Note 10].

Spending Authority from Offsetting Collections. The amount collected by OPM and credited to the Health Benefits, Life Insurance and Revolving Fund Programs generates budgetary resources in the form of "spending authority from offsetting collections" (SAOC). During the fiscal year, the obligations incurred by OPM for these Programs may not exceed their SAOC or the amounts apportioned by OMB, whichever is less. At year-end, the balance of SAOC in excess of obligations incurred is brought forward into the subsequent fiscal year, but is generally unavailable for obligation.

I. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) comprises the aggregate total of OPM's unexpended, uninvested balances in its appropriation, trust, revolving, and trust revolving accounts. All of OPM's collections are deposited into and its expenditures paid from one of its FBWT accounts. OPM invests FBWT balances associated with the Retirement, Health Benefits, and Life Insurance Programs that are not immediately needed to cover expenditures.

J. INVESTMENTS

The Federal Government does not set aside assets to pay future benefits or other expenditures. OPM invests the excess FBWT for the funds associated with the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement and the PSRHB Fund portion of the Health Benefits Program monies are invested initially in Certificates of Indebtedness ("Certificates"), which are issued by the Treasury at par value and mature on the following September 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each September 30, all outstanding Certificates are "rolled over" into special Government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity.

The Retirement Program also carries securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

Health Benefits and Life Insurance Programs' monies also are invested, some in "market-based" securities that mirror the terms of marketable Treasury securities; monies that are immediately needed for expenditure are invested in "overnight" market-based securities. These market-based securities have some market value risk.

Investments are stated at original acquisition cost, net of amortized premium and discount. Premiums and discounts are amortized into interest income over the term of the investment, using the interest method.

Debt Exchange. The Federal Financing Bank Act of 1973 (FFB Act), P.L. 93-224, authorizes the FFB to make commitments to purchase and sell any obligation that is issued, sold, or guaranteed by a federal agency. Under the FFB Act, the FFB has authority to publicly issue up to $15 billion of its own debt securities. Debt issued by the FFB does not count against the debt limit. In addition, FFB debt is an eligible investment for all government trust funds, including the CSRDF. On October 15, 2015, the Secretary of the Treasury (the Secretary) authorized the exchange of the CSRDF's Treasury Special Investments with the Federal Financing Bank (FFB) 9(a) obligations.

Debt Issuance Suspension Period (DISP). Section 8348 of Title 5, U.S. Code, authorizes the Secretary of the Treasury to suspend additional investments of Treasury securities in the CSRDF if such additional investment could not be made without causing the public debt of the United States to exceed the public debt limit. In addition, the Secretary may sell or redeem securities, obligations, and other invested assets of the CSRDF before maturity in order to prevent the public debt from exceeding the public debt limit. The Secretary may redeem such investments only during a DISP and only to the extent necessary to obtain an amount of payments authorized to be made from the CSRDF during such period. Further, the Postal Accountability and Enhancement Act of 2006 requires that investments of the PSRHBF be made in the same manner as investments of the CSRDF.

A letter to former House Speaker John Boehner, the Secretary of the Treasury, stated that the U.S. had reached its statutory debt limit on March 16, 2015 necessitating Treasury's taking extraordinary measures to avoid exceeding the statutory debt limit, including a suspension period for investments in the CSRDF until July 30, 2015, extended to November 2, 2015. In accordance with Section 8348 (j)(4), at the conclusion of the DISP, the Federal Government is required to pay the CSRDF the amount of the "foregone principal" and "foregone interest" and pay the PSRHBF the amount of "foregone interest" the funds would have otherwise earned had such extraordinary measures not been taken.

K. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of amounts owed to OPM by Federal entities ("intragovernmental") and amounts owed by the public ("from the public"). The balance of accounts receivable from the public is stated net of an allowance for uncollectible amounts, which is based on past collection experience and an analysis of outstanding amounts. OPM regards its intragovernmental accounts receivable balance as fully collectible.

L. OTHER ASSETS

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM. As of September 30, 2016, Other Assets - Non-intragovernmental for the Health Program and Life Programs were $129 million and $652 million, respectively.

M. GENERAL PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over $500,000 is capitalized at the cost of either purchase or development, and is amortized using a straight-line method over a useful life of five years. Equipment costing over $25,000 is capitalized at purchase cost and depreciated using the straight-line method over five years. The cost of minor purchases, repairs and maintenance is expensed as incurred.

N. BENEFITS DUE AND PAYABLE

Benefits due and payable is comprised of two categories of accrued expenses. The first reflects claims filed by participants of the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period and includes an estimate of health benefits and life insurance claims incurred but not yet reported. The second is a liability for premiums payable to community-rated carriers participating in the Health Benefits Program that is unpaid in the current reporting period.

O. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

Actuarial Liabilities. OPM records actuarial liabilities [the Pension Liability, post-Retirement Health Benefits Liability, and the Actuarial Life Insurance Liability] and associated expenses. These liabilities are measured as of the first day of the year, with a "roll-forward," or projection, to the end of the year. The "roll-forward" considers all major factors that affect the measurement that occurred during the reporting year, including pay raises, cost of living allowances, and material changes in the number of participants.

Consistency in historical rates used to calculate the average historical Treasury rates from one reporting period to the next. For CSRS and for FERS, OPM's actuaries determine a single interest rate that produces an actuarial liability equivalent to that produced under the 10-year average historical yield curve. OPM's actuaries round the single equivalent interest rate to the nearest 0.1%.

OPM's actuaries use a 10-year measuring period for determining the yield curve, taking the 40-quarter arithmetical average of spot rates for zero-coupon Treasuries measured through March 31 of the current fiscal year. OPM's measuring period methodology has been in place under SFFAS 33 since FY 2010. The March 31 ending date was selected based on the publication dates of source material in order to meet OPM's financial reporting deadlines. Zero-coupon rates were published by the Department of Treasury's Office of Thrift Supervision through December 31, 2011. The Department of Treasury Office of Economic Policy continued publication of zero-coupon rates according to this methodology for the subsequent quarters in 2012 and 2013.

Beginning in 2014, the Department of Treasury began publishing rates according a revised zero-coupon yield curve methodology (with historical rates published according to this revised methodology for year 2003 forward). The curve provides yields at semi-annual increments for 100 years. The previously published yield curves had extended only to year 30, and for valuations performed prior to 2014 OPM's actuaries had applied the 30-year rate for discounting cash flows beyond 30 years.

P. CUMULATIVE RESULTS OF OPERATIONS

The balance of OPM's Cumulative Results of Operations is negative primarily because of the recognition of actuarial liabilities that will be liquidated in future periods.

Q. TAX STATUS

As an agency of the Federal Government, OPM is generally exempt from all income taxes imposed by any governing body, whether it be a Federal, state, commonwealth, local, or foreign Government.

R. PARENT-CHILD REPORTING ALLOCATION TRANSFER

OPM is a party to an allocation transfer with another federal agency, the Department of Health and Human Services (HHS), which is the parent. OPM is the receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate "Health Insurance Reform Implementation Fund," account 024075X0119, was created in the U.S. Treasury as a subset of the HHS fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the OPM are charged to this allocation account as OPM executes the delegated activity on behalf of the HHS. The financial activity related to this allocation transfer is reported in the financial statements of the parent entity, HHS, from which the underlying legislative budget authority, appropriations, and apportionments are derived.

NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balances. OPM's FBWT balances by account type for September 30, 2016 and 2015 are:

September 30, 2016 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$12	-	-	-	$12
Revolving Fund	-	-	-	$1,219	1,219
General Funds	-	$1,351	$5	69	1,425
Trust Revolving Funds	-	74	6	-	80
Total	**$12**	**$1,425**	**$11**	**$1,288**	**$2,736**
September 30, 2015 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Trust Fund	$140,620	-	-	-	$140,620
Revolving Fund	-	-	-	$626	626
General Funds	-	$1,273	$6	68	1,347
Trust Revolving Funds	-	4,841	6	-	4,847
Total	**$140,620**	**$6,114**	**$12**	**$694**	**$147,440**

Status of Fund Balance with Treasury. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at September 30, 2016 and 2015:

September 30, 2016 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$12	$1,425	$11	$1,288	$2,736
Investments	887,161	75,180	45,051	-	1,007,392
Total, Unexpended Balance	**$887,173**	**$76,605**	**$45,062**	**$1,288**	**$1,010,128**
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$795	$795
Unavailable	-	$21,340	$44,168	171	65,679
Obligated not yet Disbursed	$7,348	3,763	894	322	12,327
Precluded (See Note 10)	879,821	51,495	-	-	931,316
Temporary Reduction	4	7	-	-	11
Total, Status of Fund Balances	**$887,173**	**$76,605**	**$45,062**	**$1,288**	**$1,010,128**

September 30, 2015 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$140,620	$6,114	$12	$694	$147,440
Investments	731,267	68,253	43,936	-	843,456
Total, Unexpended Balance	**$871,887**	**$74,367**	**$43,948**	**$694**	**$990,896**
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$321	$321
Unavailable	-	$20,845	$43,254	112	64,211
Obligated not yet Disbursed	$7,371	3,525	693	261	11,850
Precluded (See Note 10)	864,512	49,993	-	-	914,505
Temporary Reduction	4	4	1	-	9
Total, Status of Fund Balances	**$871,887**	**$74,367**	**$43,948**	**$694**	**$990,896**

NOTE 3 - INVESTMENTS

All of OPM investments are in securities issued by other Federal entities and are therefore classified as intragovernmental. See Note 1J for further explanation, including the amortization method. All of OPM's investments are in U.S. Treasury and Federal Financing Bank securities held by trust funds - the Retirement, Health Insurance, and Life Insurance Programs. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the trust funds.

The cash receipts collected from the public for the trust funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to OPM as evidence of its receipts. Treasury securities are an asset to OPM and a liability to the U.S. Treasury. Because OPM and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. They are eliminated in consolidation for the Government-wide financial statements of the United States.

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $120 billion invested as of September 30, 2016. The majority of these securities are market-based and have market value risk.

During the DISP, OPM was restricted in the amounts to invest in Government securities. The amounts suspended for the CSRDF and for the PSRHBF, were recorded in FBWT instead of Investments in Government Securities. The DISP ended November 2, 2015. See Note 1J for further information.

The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2016 and 2015.

As of September 30, 2016 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$13,024		$101	$13,125		$13,024
Non-Marketable: (PAR)						
Par-value GAS securities	834,997		6,456	841,453		834,997
Certificates of Indebtedness	39,140		1	39,141		39,140
Total Retirement Program	**$887,161**		**$6,558**	**$893,719**		**$887,161**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$23,686	8	$22	$23,716	($34)	$23,725
Non-Marketable: (PAR)						
Par-value GAS securities	51,495		366	51,861		51,495
Certificates of Indebtedness						
Total Health Benefits Program	**$75,181**	**8**	**$388**	**$75,577**	**($34)**	**$75,220**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$45,060	$16	$48	$45,124	($91)	$45,242
Total Life Insurance Program	**$45,060**	**$16**	**$48**	**$45,124**	**($91)**	**$45,242**
Total Investments	**$1,007,402**	**$24**	**$6,994**	**$1,014,420**	**($125)**	**$1,007,623**

As of September 30, 2015 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$12,315		$106	$12,421		$12,315
Non-Marketable: (PAR)						
Par-value GAS securities	718,952		6,361	725,313		718,952
Certificates of Indebtedness						
Total Retirement Program	**$731,267**		**$6,467**	**$737,734**		**$731,267**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$23,660	($471)	$179	$23,368	$168	$23,207
Non-Marketable: (PAR)						
Par-value GAS securities	45,237		351	45,588		45,237
Certificates of Indebtedness						
Total Health Benefits Program	**$68,897**	**($471)**	**$530**	**$68,956**	**$168**	**$68,444**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$44,552	($296)	$233	$44,489	$299	$44,455
Total Life Insurance Program	**$44,552**	**($296)**	**$233**	**$44,489**	**$299**	**$44,455**
Total Investments	**$844,716**	**($767)**	**$7,230**	**$851,179**	**$467**	**$844,166**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2016 and 2015 are:

September 30, 2016 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,529	$34,743	$22	-	$36,294
Other			-	$110	110
Total	**$1,529**	**$34,743**	**$22**	**$110**	**$36,404**
September 30, 2015 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Employer contributions receivable	$1,248	$28,791	$18	-	$30,057
Other	683	24	-	$166	873
Total	**$1,931**	**$28,815**	**$18**	**$166**	**$30,930**

P.L. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from approximately $5.4 to $5.8 billion no later than September 30th per year from FY 2007 through FY 2016 according to the legislation. The last payment received from the Postal Service was $5.5 billion in FY 2010. We have not received annual payments from FY 2011 through 2016. As of September 30, 2016, a total of $33.9 billion is due from the Postal Service.

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2016 and 2015 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2016 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$148	$951	$163	-	$1,262
Overpayment of benefits [net of allowance of $116]	324	-	-	-	324
Due from carriers [net of allowance of $0]	-	131	-	-	131
Other	-	-	-	12	12
Total	**$472**	**$1,082**	**$163**	**12**	**$1,729**
September 30, 2015 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Participant contributions receivable	$113	$841	$154	-	$1,108
Overpayment of benefits [net of allowance of $108]	308	-	-	-	308
Due from carriers [net of allowance of $0]	-	70	-	-	70
Other	-	-	-	-	-
Total	**$421**	**$911**	**$154**	**-**	**$1,486**

NOTE 5 - FEDERAL EMPLOYEE BENEFITS

A. PENSIONS

OPM's Actuary, in computing the Pension Liability and associated Pension Expense, applies economic assumptions to historical cost information to estimate the Government's future cost to provide CSRS and FERS benefits to current and future retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. Actuarial gains or losses occur to the extent that actual experience differs from these assumptions used to compute the Pension Liability and associated Pension Expense.

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related Pension Expense under Statement of Federal Financial Accounting Standards (SFFAS) No. 33 are based on 10-year historical averages. See Note 1. O. for further information. These economic assumptions differ from those established by OPM under guidance from the CSRS Board of Actuaries for the determination of certain statutory funding payments for CSRS and FERS. The following presents the significant economic assumptions used under SFFAS No. 33 to compute the Pension Liability in FY 2016 and 2015:

Economic Assumptions	FY 2016		FY 2015	
	CSRS	FERS	CSRS	FERS
Interest rate	3.5%	4.0%	3.7%	4.1%
Cost of Living Adjustment*	1.9%	1.6%	2.3%	1.8%
Rate of increases in salary	1.5%	1.5%	1.7%	1.7%

*Note: The actuarial liability for CSRS and FERS is determined based on an assumed rate of retiree COLA, an assumption that is related to the general rate of inflation.

Pension Expense. The following tables present Pension Expense by cost component for September 30, 2016 and 2015:

FY 2016 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$4,042	$32,582	$36,624
Interest cost	42,606	27,427	70,033
Actuarial (Gain)/Loss - Experience	(22,241)	(5,393)	(27,634)
Actuarial (Gain)/Loss - Assumptions	(25,083)	(8,929)	(34,012)
Pension Expense	**($676)**	**$45,687**	**$45,011**

FY 2015 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$4,724	$30,679	$35,403
Interest cost	45,957	26,200	72,157
Actuarial (Gain)/Loss - Experience	(6,718)	5,559	(1,159)
Actuarial (Gain)/Loss - Assumptions	(369)	8,238	7,869
Pension Expense	**$43,594**	**$70,676**	**$114,270**

Pension Liability. The following tables present the Pension Liability at September 30:

FY 2016 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2015	**$1,184,100**	**$659,100**	**$1,843,200**
Plus: Pension Expense			
Normal Cost	4,042	32,582	36,624
Interest on the Liability Balance	42,606	27,427	70,033
Actuarial (Gain)/Loss:			
From experience:	(22,241)	(5,393)	(27,634)
From changes in actuarial assumptions:	(25,083)	(8,929)	(34,012)
Net Loss	(47,324)	(14,322)	(61,646)
Total Expense:	**(676)**	**45,687**	**45,011**
Less: Costs applied to Pension Liability	(69,824)	(12,687)	(82,511)
Pension Liability at September 30, 2016	**$1,113,600**	**$692,100**	**$1,805,700**
FY 2015 ($ in millions)	**CSRS**	**FERS**	**TOTAL**
Pension Liability at October 1, 2014	**$1,210,900**	**$599,700**	**$1,810,600**
Plus: Pension Expense			
Normal Cost	4,724	30,679	35,403
Interest on the Liability Balance	45,957	26,200	72,157
Actuarial (Gain)/Loss:			
From experience:	(6,718)	5,559	(1,159)
From changes in actuarial assumptions:	(369)	8,238	7,869
Net Loss	(7,087)	13,797	6,710
Total Expense:	**43,594**	**70,676**	**114,270**
Less: Costs applied to Pension Liability	(70,394)	(11,276)	(81,670)
Pension Liability at September 30, 2015	**$1,184,100**	**$659,100**	**$1,843,200**

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in FY 2016 and 2015:

FY 2016 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$69,499	$12,514	$82,013
Refunds of contributions	202	130	332
Administrative and other expenses	123	43	166
Costs applied to the Pension Liability	**$69,824**	**$12,687**	**$82,511**
FY 2015 ($ in millions)	**CSRS**	**FERS**	**TOTAL**
Annuities	$69,985	$11,083	$81,068
Refunds of contributions	287	149	436
Administrative and other expenses	122	44	166
Costs applied to the Pension Liability	**$70,394**	**$11,276**	**$81,670**

B. POST-RETIREMENT HEALTH BENEFITS

OPM's actuary, in computing the post-Retirement Health Benefits (PRHB) Liability and associated expense, applies economic assumptions to historical cost information to estimate the Government's future cost of providing post-Retirement health benefits to current employees and retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity and terminations. Actuarial gains or losses will occur to the extent that actual experience differs from the assumptions used to compute the PRHB Liability and associated expense.

Economic Assumptions. The following presents the significant economic assumptions used to compute the PRHB Liability and related expense as of the September 30 measurement date:

Economic Assumptions	FY 2016	FY 2015
Interest rate(1)	4.0%	4.1%
Increase in per capita cost of covered benefits(2)	5.5%	6.0%
Ultimate medical trend rate	3.5%	3.9%

1 The single equivalent annual interest rate for FY 2016 is derived from a yield curve based on the average of the last 40 quarters through March 2016. The single equivalent annual interest rate for FY 2015 is derived from a yield curve based on the average of the last 40 quarters through March 2015.

2 The increase in per capita cost of covered benefits for FY 2016 represents a variable trend which begins at 5.5% and then declines to 3.5% by FY 2075. Last year, the increase in per capita cost of covered benefits represented a variable trend that began at 6.0%, and ultimately declined to 3.9%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2016 and 2015:

($ in millions)	FY 2016	FY 2015
Service cost	$13,396	$11,655
Interest cost	14,466	13,995
Actuarial (Gain)/Loss - Experience	(11,164)	7,575
Actuarial (Gain)/Loss - Assumptions	(13,449)	8,834
PRHB Expense	**$3,249**	**$42,059**

PRHB Liability. The following table presents the PRHB Liability at the September 30 measurement date:

($ in millions)	FY 2016	FY 2015
PRHB Liability at the beginning of the year	$352,819	$325,456
Plus: PRHB Expense		
Normal Cost	13,396	11,655
Interest on the Liability Balance	14,466	13,995
Actuarial (Gain)/Loss:		
From experience:	(11,164)	7,575
From assumption changes:	(13,449)	8,834
Net (Gain)/Loss	**(24,613)**	**16,409**
Total Expense:	**3,249**	**42,059**
Less: Costs applied to PRHB Liability	(14,991)	(14,696)
PRHB Liability at the end of the year[3]	**$341,077**	**$352,819**

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in FY 2016 and 2015:

($ in millions)	FY 2016	FY 2015
Current benefits	$11,371	$11,013
Premiums	2,140	2,289
Administrative and other expenses	1,480	1,394
Total costs applied to the PRHB Liability	**$14,991**	**$14,696**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in FY 2016 and 2015:

($ in millions)	FY 2016		FY 2015	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$389,491	$300,717	$404,235	$310,059

(In $)	FY 2016			FY 2015		
	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease
	$5,517	$6,988	$4,346	$5,755	$7,307	$4,523

C. LIFE INSURANCE

Actuarial Life Insurance Liability. The Actuarial Life Insurance Liability (ALIL) is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the EPV of future contributions to be collected from those participants. In applying SFFAS No. 33 for calculating the ALIL, OPM's actuary uses salary increase and interest rate yield curve assumptions that are consistent with those used for computing the CSRS and FERS Pension Liability in FY 2016 and 2015. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

ALIL Interest Rate	FY 2016	FY 2015
Interest rate	3.8%	4.0%
Rate of increases in salary	1.5%	1.7%

The following presents the ALIL as of the June 30 measurement date:

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for FY 2016 and 2015:

($ in millions)	FY 2016	FY 2015
New Entrant Expense	$342	$334
Interest Cost	1,943	1,988
Actuarial (Gain)/Loss - Experience	(810)	(910)
Actuarial (Gain)/Loss - Assumptions	386	361
Life Insurance Expense	**$1,861**	**$1,773**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2016 and 2015 is:

($ in millions)	FY 2016	FY 2015
Life Insurance Expense	$1,861	$1,773
Less: Net Costs applied to Life Insurance liability	(558)	(549)
Future Life Insurance Benefits Expense	**$1,303**	**$1,224**

Actuarial Life Insurance Liability. The following table presents the ALIL at the September 30 measurement date:

($ in millions)	FY 2016	FY 2015
Actuarial LI Liability at the beginning of the period	$48,673	$47,449
Plus: Expense		
New Entrant Expense	342	334
Interest on the Liability Balance	1,943	1,988
Actuarial (Gain)/Loss:		
From experience:	(810)	(910)
From assumption changes:	386	361
Net (Gain)/Loss:	**(424)**	**(549)**
Total LI Expense:	**1,861**	**1,773**
Less: Costs applied to Life Insurance Liability	(558)	(549)
Actuarial LI Liability at the end of the period	**$49,976**	**$48,673**

NOTE 6 - INTRAGOVERNMENTAL AND OTHER LIABILITIES

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2016 and 2015:

September 30, 2016 ($ in millions)	Accounts Payable	Other	Total
Retirement	$45	-	$45
Health Benefits	316	-	316
Life Insurance	10	-	10
Revolving Fund	-	1,128	1,128
Salaries and Expenses	-	3	3
Eliminations	(111)	(4)	(115)
Total Intragovernmental Liabilities	**$260**	**$1,127**	**$1,387**
September 30, 2015 ($ in millions)	**Accounts Payable**	**Other**	**Total**
Retirement	$53	-	$53
Health Benefits	304	-	304
Life Insurance	10	-	10
Revolving Fund	-	610	610
Salaries and Expenses	-	3	3
Eliminations	(107)	(3)	(110)
Total Intragovernmental Liabilities	**$260**	**$610**	**$870**

Health Benefits Program. In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements. In FY 2012 OPM disputed Treasury's position in accordance with the Intragovernmental Dispute Resolution process. In the interim, OPM has accrued $260 million as of September 30, 2016 and September 30, 2015 in Intragovernmental and other Liabilities.

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2016 and 2015:

September 30, 2016 ($ in millions)	Withheld from Benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative Expenses	Contingencies	Total
Retirement Program	$895	-	-	$10	$905
Health Benefits Program	-	$245	-	-	245
Life Insurance Program	-	39	-	-	39
Revolving Fund Program	-	-	$179	-	179
Salaries and Expenses	-	-	28	-	28
Total Other Liabilities	**$895**	**$284**	**$207**	**$10**	**$1,396**
September 30, 2015 ($ in millions)	**Withheld from Benefits**	**Accrued Carrier Liabilities Other Than Benefits**	**Accrued Administrative Expenses**	**Contingencies**	**Total**
Retirement Program	$936	-	-	$10	$946
Health Benefits Program	-	$261	-	-	261
Life Insurance Program	-	43	-	-	43
Revolving Fund Program	-	-	$254	-	254
Salaries and Expenses	-	-	35	1	36
Total Other Liabilities	**$936**	**$304**	**$289**	**$11**	**$1,540**

The FY 2015 reimbursable billing rates published in FIN 14-06, Special Agreement Check and Reimbursable Suitability/Security Investigation Billing Rates Effective October 1, 2014 and FIN 14-07 reflected the results of our detailed cost allocation budget for delivering background investigations. Changes to our contracted workforce that occurred following publication of the FY 2015 prices resulted in approximately $97m in additional costs, as well as operational impacts on the background investigations programs. OPM along with the Office of Management and Budget assessed the OPM NBIB (aka FIS) financial situation. OMB validated the need for an immediate FY 2015 pricing increase applicable to work already performed and to be performed in FY 2015 to address funding shortfalls and sustain the critical government-wide background investigation program.

Due to the fact that OPM's customers pay for the background investigations when they are initiated, the increase in prices resulted in a corresponding increase in cash and unearned revenue.

NOTE 7 - CONTINGENCIES

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. For FY 2016, OPM has recorded a total liability of $10.5 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $0.4 million and for the Retirement Fund the estimated amount of probable losses is $10.1 million. There are no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund.

For FY 2015, OPM recorded a total liability of $10.8 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $0.6 million. For the Revolving Fund, the estimated amount of probable losses was $0.1 million. Lastly, for the Retirement Fund, the estimated amount of probable losses was $10.1 million. There were no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund for FY 2015.

In addition, OPM has determined, at September 30, 2016, it is reasonably possible that losses ranging from an additional $101.7 million to $683.0 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $1.5 million to $65.5 million, for the Revolving Fund the total of all reasonably possible losses ranges from $15.2 million to $27.5 million, for the Retirement Fund, the total of all reasonably possible losses ranges from $85.0 million to $590.0 million. For FY 2016, the Health Benefits Fund and the Life Insurance Fund did not have any reasonably possible losses. OPM is also involved in other legal and administrative proceedings arising from the cyber intrusions involving OPM employment and background investigation records in the prior FY 2015. Based upon the opinion of its General Counsel, OPM management believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations. Unasserted claims are possible from the cyber intrusions, however at this time, OPM cannot reasonably estimate such claims.

NOTE 8 - INTRAGOVERNMENTAL GROSS COSTS AND EARNED REVENUE

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" for September 30, 2016 and 2015:

FY 2016 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra - governmental	With the Public	Total	Intra - governmental	With the Public	Total
Provide CSRS Benefits	-	$24,407	$24,407	$11,993	$934	$12,927
Provide FERS Benefits	-	54,616	54,616	45,374	2,600	47,974
Provide Health Benefits	-	52,026	52,026	30,869	15,021	45,890
Provide Life Insurance Benefits	-	3,917	3,917	841	2,743	3,584
Provide Human Resources Services	$501	1,221	1,722	1,670	20	1,690
Eliminations	(411)	-	(411)	(411)	-	(411)
Total	**$90**	**$136,187**	**$136,277**	**$90,336**	**$21,318**	**$111,654**
FY 2015 ($ in millions)	**Intra - governmental**	**With the Public**	**Total**	**Intra - governmental**	**With the Public**	**Total**
Provide CSRS Benefits	-	$43,963	$43,963	$13,507	$1,089	$14,596
Provide FERS Benefits	-	62,438	62,438	43,564	2,167	45,731
Provide Health Benefits	-	66,509	66,509	29,409	14,007	43,416
Provide Life Insurance Benefits	-	3,841	3,841	793	2,788	3,581
Provide Human Resources Services	$661	1,483	2,144	1,805	2	1,807
Eliminations	(396)	-	(396)	(396)	-	(396)
Total	**$265**	**$178,234**	**$178,499**	**$88,682**	**$20,053**	**$108,735**

NOTE 9 - NET COST BY STRATEGIC GOALS

OPM's FY 2014-2018 Strategic Plan features nine Strategic Goals that define OPM's direction, and are summarized in the following chart:

TABLE 1 - OPM's Mission Statement: Recruit, Retain and Honor a World-Class Workforce to Serve the American People	
Strategic Goal	**Goal Statement**
GOAL 1 Diverse and Effective OPM Workforce	Attract and engage a diverse and effective workforce
GOAL 2 Timely, Accurate, and Responsive Customer Service	Provide timely, accurate, and responsive service that addresses the diverse needs of our customers
GOAL 3 Evidence-Based Policy and Practices	Serve as the thought leader in research and data-driven human resource management and policy decision-making
GOAL 4 Efficient and Effective Information Systems	Manage information technology systems efficiently and effectively in support of OPM's mission
GOAL 5 Transparent and Responsive Budgets	Establish responsive, transparent budgeting and costing processes
GOAL 6 Engaged Federal Workforce	Provide leadership in helping agencies create inclusive work environments where a diverse federal workforce is fully engaged and energized to put forth its best effort, achieve their agency's mission, and remain committed to public service
GOAL 7 Improved Retirement Benefit Service	Ensure that Federal retirees receive timely, appropriate, transparent, seamless, and accurate retirement benefits
GOAL 8 Enhanced Federal Workforce Integrity	Enhance the integrity of the Federal workforce
GOAL 9 Healthier Americans	Provide high quality health benefits and improve the health status of Federal employees, Federal retirees, their families, and populations newly eligible for OPM-sponsored health insurance products

FY 2016 Strategic Goals ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	1	1	1	-	13	**16**
	Less earned revenue	-	-	-	-	13	**13**
	Net program cost	1	1	1	-	0	**3**
Goal 2	Total program cost	-	-	-	-	2	**2**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	2	**2**
Goal 3	Total program cost	-	-	-	-	2	**2**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	2	**2**
Goal 4	Total program cost	12	6	12	-	219	**249**
	Less earned revenue	-	-	-	-	215	**215**
	Net program cost	12	6	12	-	4	**34**
Goal 5	Total program cost	-	-	-	-	6	**6**
	Less earned revenue	-	-	-	-	-	-
	Net program cost	-	-	-	-	6	**6**
Goal 6	Total program cost	-	-	-	-	86	**86**
	Less earned revenue	-	-	-	-	85	**85**
	Net program cost	-	-	-	-	1	**1**
Goal 7	Total program cost	24,385	54,604	34	2	-	**79,025**
	Less earned revenue	12,927	47,974	-	-	-	**60,901**
	Actuarial (Gain)/Loss	(25,083)	(8,929)	-	-	-	**(34,012)**
	Net program cost	(13,625)	(2,299)	34	2	-	**(15,888)**
Goal 8	Total program cost	-	-	-	-	973	**973**
	Less earned revenue	-	-	-	-	957	**957**
	Net program cost	-	-	-	-	16	**16**
Goal 9	Total program cost	9	5	51,979	3,915	10	**55,918**
	Less earned revenue	-	-	45,890	3,584	10	**49,484**
	Actuarial (Gain)/Loss	-	-	(13,449)	386	-	**(13,063)**
	Net program cost	9	5	(7,360)	717	0	**(6,629)**
Total	**Total program cost**	**$24,407**	**$54,616**	**$52,026**	**$3,917**	**$1,311**	**$136,277**
	Less earned revenue	**12,927**	**47,974**	**45,890**	**3,584**	**1,279**	**111,654**
	Actuarial (Gain)/Loss	**(25,083)**	**(8,929)**	**(13,449)**	**386**	**-**	**(47,075)**
	Net program cost	**($13,603)**	**($2,287)**	**($7,313)**	**$719**	**$32**	**($22,452)**

NOTE: The total program cost includes any loss on pension, ORB, or OPEB assumption changes (see Notes 5A, 5B, and 5C).

FY 2015 Strategic Goals ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	-	-	-	-	1	**1**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	1	**1**
Goal 2	Total program cost	-	-	-	-	5	**5**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	5	**5**
Goal 3	Total program cost	-	-	-	-	8	**8**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	8	**8**
Goal 4	Total program cost	9	4	6	-	214	**233**
	Less earned revenue	-	-	-	-	197	**197**
	Net program cost	9	4	6	-	17	**36**
Goal 5	Total program cost	-	1	1	-	5	**7**
	Less earned revenue	-	-	-	-	-	-
	Net program cost	-	1	1	-	5	**7**
Goal 6	Total program cost	-	-	-	-	118	**118**
	Less earned revenue	-	-	-	-	109	**109**
	Net program cost	-	-	-	-	9	**9**
Goal 7	Total program cost	43,945	62,429	34	3	-	**106,411**
	Less earned revenue	14,596	45,731	-	-	-	**60,327**
	Actuarial (Gain)/Loss	(369)	8,238	-	-	-	**7,869**
	Net program cost	28,980	24,936	34	3	-	**53,953**
Goal 8	Total program cost	-	-	-	-	1,383	**1,383**
	Less earned revenue	-	-	-	-	1,105	**1,105**
	Net program cost	-	-	-	-	278	**278**
Goal 9	Total program cost	9	4	66,468	3,838	14	**70,333**
	Less earned revenue	-	-	43,416	3,581	-	**46,997**
	Actuarial (Gain)/Loss	-	-	8,834	361	-	**9,195**
	Net program cost	9	4	31,886	618	14	**32,531**
Total	**Total program cost**	**$43,963**	**$62,438**	**$66,509**	**$3,841**	**$1,748**	**$178,499**
	Less earned revenue	**14,596**	**45,731**	**43,416**	**3,581**	**1,411**	**108,735**
	Actuarial (Gain)/Loss	**(369)**	**8,238**	**8,834**	**361**	**-**	**17,064**
	Net program cost	**$28,998**	**$24,945**	**$31,927**	**$621**	**$337**	**$86,828**

NOTE: FY 2015 program cost have been reclassified to be consistent with FY 2016 presentation.

NOTE 10 - AVAILABILITY OF UNOBLIGATED BALANCES

Retirement Program. Historically, OPM's trust fund receipts have exceeded the amount needed to cover the Retirement Program's obligations. The excess of trust fund receipts over incurred obligations is classified as being temporarily precluded from obligation. These receipts, however, remain assets of the CSRDF and will become immediately available, if circumstances dictate, to meet obligations to be incurred in the future.

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2016 and 2015 (rounding may appear):

September 30 ($ in millions)	2016	2015
Temporarily precluded from obligation at the beginning of the year	$864,512	$850,022
Plus: Trust fund receipts during the year	98,243	96,588
Plus: Appropriations Received	36,664	36,115
Less: Obligations incurred during the year	119,598	118,213
Excess of trust fund receipts over obligations incurred during the year	15,309	14,490
Temporarily Precluded from Obligation at the End of the Year	**$879,821**	**$864,512**

Health Benefits and Life Insurance Programs. OPM administers the Health Benefits and Life Insurance Programs through three trust revolving funds. A trust revolving fund is a single account that is authorized to be credited with receipts and incur obligations and expenditures in support of a continuing cycle of business-type operations in accordance with the provisions of statute. The unobligated balance in OPM's trust revolving funds is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

Additionally, FY 2016 and FY 2015 receipts included interest income. The following table presents the unobligated balance of the PSRHB Fund included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2016 and 2015:

September 30 ($ in millions)	2016	2015
Temporarily precluded from obligation at the beginning of the year	$49,993	$48,468
Plus: Special Fund receipts during the year	1,502	1,525
Excess of Special Fund receipts over obligations incurred during the year	1,502	1,525
Temporarily Precluded from Obligation at the End of the Year	**$51,495**	**$49,993**

Revolving Fund Programs. OPM's Revolving Fund Programs are administered through an intragovernmental revolving fund. An intragovernmental revolving fund is designed to carry-out a cycle of business-type operations with other Federal agencies or separately funded components of the same agency. The unobligated balance in OPM's intragovernmental revolving fund is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

Salaries and Expenses. OPM funds its administrative costs through annual, multiple-year, and "no-year" appropriations. For its annual appropriations, the unobligated balance expires at the end of the applicable fiscal year. For OPM's multiple-year appropriations, the unobligated balance remains available for obligation and expenditure for a specified period in excess of a fiscal year. For its no-year appropriations, the unobligated balance is carried forward and is available for obligation and expenditure indefinitely until the objectives for which it was intended have been accomplished.

NOTE 11 - APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions the Revolving Fund and Salaries and Expense account on a quarterly basis [Category A]. Most other accounts under OPM's control are apportioned annually [Category B], with the exception being the transfer-in from the U.S. Treasury General Fund to the Retirement Fund, which is not subject to, or exempt from apportionment [Category E].

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category as of September 30, during FY 2016 and 2015:

FY 2016 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$82,934	-	**$82,934**
Retirement Program	E	36,664	-	**36,664**
Subtotal		**$119,598**	**-**	**$119,598**
Health Benefits Program	B	50,333	-	**50,333**
Health Benefits Program	E	12,195	-	**12,195**
Life Insurance Program	B	2,999	-	**2,999**
Life Insurance Program	E	44	-	**44**
Revolving Fund Program	B	-	$1,498	**1,498**
Salaries and Expenses	A and B	366	87	**453**
Total		**$185,535**	**$1,585**	**$187,120**
FY 2015 Program/Fund ($ in millions)	**Category**	**Direct**	**Reimbursable**	**Total**
Retirement Program	B	$82,098	-	**$82,098**
Retirement Program	E	36,115	-	**36,115**
Subtotal		**$118,213**	**-**	**$118,213**
Health Benefits Program	B	48,013	-	**48,013**
Health Benefits Program	E	11,695	-	**11,695**
Life Insurance Program	B	2,973	-	**2,973**
Life Insurance Program	E	44	-	**44**
Revolving Fund Program	B	-	$1,654	**1,654**
Salaries and Expenses	A and B	342	79	**421**
Total		**$181,280**	**$1,733**	**$183,013**

NOTE 12 - COMPARISON OF COMBINED STATEMENTS OF BUDGETARY RESOURCES TO THE PRESIDENT'S BUDGET

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources (SBR) and for presentation in the "President's Budget." The President's Budget for FY 2018, which will contain the actual budgetary resources information for FY 2016, will be published in February 2017 and will be available on the OMB website. The President's Budget for FY 2017, which contains actual budgetary resource information for FY 2015, was released on February 9, 2016.

There are no material differences between the SBR and the SF-133s - "Reports on Budget Execution," for each of the FY 2016 and FY 2015. Additionally, there are no material differences between the actual amounts for FY 2015 published in the President's Budget and those reported in the accompanying prior FY 2015 Combined SBR.

NOTE 13 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amounts of budgetary resources obligated for undelivered orders at the end of September 2016 and 2015 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries and Expenses	Total
FY 2016	$1,045	$82	$1,127
FY 2015	$1,008	$87	$1,095

NOTE 14 - CONSOLIDATING RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

SFFAS No. 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2016 reconciliation and comparative FY 2015 reconciliation are as follows:

FY 2016 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2016
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$119,598	$62,528	$3,043	$1,498	$453	$187,120
Less: Spending Authority from Offsetting Collections and Recoveries	-	50,831	3,914	2,024	341	57,110
Less: Appropriated Trust Fund Receipts	98,243	1,501	-	-	-	99,744
Obligations Net of Offsetting Collections and Recoveries	21,355	10,196	(871)	(526)	112	30,266
Less: Offsetting Receipts	36,714	1,501	-	-	-	38,215
Net Obligations	**($15,359)**	**$8,695**	**($871)**	**($526)**	**$112**	**($7,949)**
Other Resources	-	-	-	17	12	29
Total Resources Used to Finance/ Generated From Activities	**($15,359)**	**$8,695**	**($871)**	**($509)**	**$124**	**($7,920)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$36,664	-	-	-	-	$36,664
Other	50	1,681	296	496	(3)	2,520
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**36,714**	**1,681**	**296**	**496**	**(3)**	**39,184**
Total Resources Used to Finance/ Generated from the Net Cost of Operations	**$21,355**	**$10,376**	**($575)**	**($13)**	**$121**	**$31,264**
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	($37,500)	($11,742)	$1,303	-	-	($47,939)
Exchange Revenue Not in the Budget	270	(5,886)	(9)	-	-	(5,625)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**(37,230)**	**(17,628)**	**1,294**	**-**	**-**	**(53,564)**
Components Not Requiring or Generating Resources						
Other	(15)	(61)	-	(61)	(15)	(152)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**(15)**	**(61)**	**-**	**(61)**	**(15)**	**(152)**
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**($37,245)**	**($17,689)**	**$1,294**	**($61)**	**($15)**	**($53,716)**
NET COST OF OPERATIONS	**($15,890)**	**($7,313)**	**$719**	**($74)**	**$106**	**($22,452)**

FY 2015 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2015
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$118,213	$59,708	$3,017	$1,654	$421	$183,013
Less: Spending Authority from Offsetting Collections and Recoveries	-	48,022	3,605	1,740	335	53,702
Less: Appropriated Trust Fund Receipts	96,588	1,525	-	-	-	98,113
Obligations Net of Offsetting Collections and Recoveries	21,625	10,161	(588)	(86)	86	31,198
Less: Offsetting Receipts	36,169	1,525	-	-	-	37,694
Net Obligations	**($14,544)**	**$8,636**	**($588)**	**($86)**	**$86**	**($6,496)**
Other Resources	-	-	-	18	14	32
Total Resources Used to Finance/ Generated From Activities	**($14,544)**	**$8,636**	**($588)**	**($68)**	**$100**	**($6,464)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$36,115	-	-	-	-	$36,115
Other	54	1,737	(5)	124	8	1,918
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**36,169**	**1,737**	**(5)**	**124**	**8**	**38,033**
Total Resources Used to Finance/ Generated from the Net Cost of Operations	**$21,625**	**$10,373**	**($593)**	**$56**	**$108**	**$31,569**
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$32,600	$27,363	$1,224	-	-	$61,187
Exchange Revenue Not in the Budget	(270)	(5,775)	(10)	-	-	(6,055)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**32,330**	**21,588**	**1,214**	**-**	**-**	**55,132**
Components Not Requiring or Generating Resources						
Other	(12)	(34)	-	178	(5)	127
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**(12)**	**(34)**	**-**	**178**	**(5)**	**127**
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$32,318**	**$21,554**	**$1,214**	**$178**	**($5)**	**$55,259**
NET COST OF OPERATIONS	**$53,943**	**$31,927**	**$621**	**$234**	**$103**	**$86,828**

NOTE 15 - HEALTH BENEFITS/LIFE INSURANCE PROGRAM CONCENTRATIONS

During FY 2016 and 2015, over three-fourths of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits.

For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company in each of the fiscal years.

CONSOLIDATING FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2016
(In Millions)

Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2016
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$12	$1,425	$11	$1,219	$69	-	$2,736
Investments [Note 3]	893,719	75,577	45,124	-	-	-	1,014,420
Accounts Receivable [Note 4]	1,529	34,743	22	113	112	($115)	36,404
Total Intragovernmental	**895,260**	**111,745**	**45,157**	**1,332**	**181**	**(115)**	**1,053,560**
Accounts Receivable from the Public, Net [Note 4]	472	1,082	163	-	12	-	1,729
General Property and Equipment, Net	-	-	-	5	-	-	5
Other [Note 1L]	-	129	652	-	1	-	782
Total Assets	**$895,732**	**$112,956**	**$45,972**	**$1,337**	**$194**	**($115)**	**$1,056,076**
LIABILITIES							
Intragovernmental [Note 6]	$45	$316	$10	$1,128	$3	($115)	$1,387
Federal Employee Benefits:							
Benefits Due and Payable	6,413	4,425	910	-	-	-	11,748
Pension Liability [Note 5A]	1,805,700	-	-	-	-	-	1,805,700
Postretirement Health Benefits Liability [Note 5B]	-	341,077	-	-	-	-	341,077
Actuarial Life Insurance Liability [Note 5C]	-	-	49,976	-	-	-	49,976
Total Federal Employee Benefits	**1,812,113**	**345,502**	**50,886**	-	-	-	**2,208,501**
Other [Notes 6 and 7]	905	245	39	179	28	-	1,396
Total Liabilities	**1,813,063**	**346,063**	**50,935**	**1,307**	**31**	**(115)**	**2,211,284**
NET POSITION							
Unexpended Appropriations	-	-	-	3	39	-	42
Cumulative Results of Operations	(917,331)	(233,107)	(4,963)	27	124	-	(1,155,250)
Total Net Position - All Other Funds	**(917,331)**	**(233,107)**	**(4,963)**	**30**	**163**	**-**	**(1,155,208)**
Total Liabilities and Net Position	**$895,732**	**$112,956**	**$45,972**	**$1,337**	**$194**	**($115)**	**$1,056,076**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2015
(In Millions)

Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2015
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$140,620	$6,114	$12	$626	$68	-	$147,440
Investments [Note 3]	737,734	68,956	44,489	-	-	-	851,179
Accounts Receivable [Note 4]	1,931	28,815	18	167	109	($110)	30,930
Total Intragovernmental	**880,285**	**103,885**	**44,519**	**793**	**177**	**(110)**	**1,029,549**
Accounts Receivable from the Public, Net [Note 4]	421	911	154	-	-	-	1,486
General Property and Equipment, Net	-	-	-	10	-	-	10
Other [Note 1L]	-	171	652	-	-	-	823
Total Assets	**$880,706**	**$104,967**	**$45,325**	**$803**	**$177**	**($110)**	**$1,031,868**
LIABILITIES							
Intragovernmental [Note 6]	$53	$304	$10	$610	$3	($110)	$870
Federal Employee Benefits:							
Benefits Due and Payable	6,385	4,198	887	-	-	-	11,470
Pension Liability [Note 5A]	1,843,200	-	-	-	-	-	1,843,200
Postretirement Health Benefits Liability [Note 5B]	-	352,819	-	-	-	-	352,819
Actuarial Life Insurance Liability [Note 5C]	-	-	48,673	-	-	-	48,673
Total Federal Employee Benefits	**1,849,585**	**357,017**	**49,560**	-	-	-	**2,256,162**
Other [Notes 6 and 7]	946	261	43	254	36	-	1,540
Total Liabilities	**1,850,584**	**357,582**	**49,613**	**864**	**39**	**(110)**	**2,258,572**
NET POSITION							
Unexpended Appropriations	-	-	-	3	46	-	49
Cumulative Results of Operations	(969,878)	(252,615)	(4,288)	(64)	92	-	(1,226,753)
Total Net Position - All Other Funds	**(969,878)**	**(252,615)**	**(4,288)**	**(61)**	**138**	**-**	**(1,226,704)**
Total Liabilities and Net Position	**$880,706**	**$104,967**	**$45,325**	**$803**	**$177**	**($110)**	**$1,031,868**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2016
(In Millions)

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2016
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$218	$283	($411)	$90
With the Public:									
Pension Expense [Note 5A]	24,407	54,616	79,023	-	-	-	-	-	79,023
Postretirement Health Benefits [Note 5B]	-	-	-	16,698	-	-	-	-	16,698
Future Life Insurance Benefits [Note 5C]	-	-	-	-	917	-	-	-	917
Current Benefits and Premiums	-	-	-	33,268	2,979	-	-	-	36,247
Other	-	-	-	2,060	21	1,062	159	-	3,302
Total Gross Costs with the Public	**24,407**	**54,616**	**79,023**	**52,026**	**3,917**	**1,062**	**159**	**-**	**136,187**
Total Gross Costs [Notes 8 and 9]	**24,407**	**54,616**	**79,023**	**52,026**	**3,917**	**1,280**	**442**	**(411)**	**136,277**
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	722	29,049	29,771	29,250	516	-	-	(93)	59,444
Earnings on Investments	11,572	16,708	28,280	1,643	325	-	-	-	30,248
Other	(301)	(383)	(684)	(24)	-	1,354	316	(318)	644
Total Intragovernmental Earned Revenue	**11,993**	**45,374**	**57,367**	**30,869**	**841**	**1,354**	**316**	**(411)**	**90,336**
With the Public:									
Participant Contributions	934	2,600	3,534	15,012	2,740	-	-	-	21,286
Other	-	-	-	9	3	-	20	-	32
Total Earned Revenue with the Public	**934**	**2,600**	**3,534**	**15,021**	**2,743**	**-**	**20**	**-**	**21,318**
Total Earned Revenue [Notes 8 and 9]	**12,927**	**47,974**	**60,901**	**45,890**	**3,584**	**1,354**	**336**	**(411)**	**111,654**
Net Cost	**11,480**	**6,642**	**18,122**	**6,136**	**333**	**(74)**	**106**	**-**	**24,623**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	(25,083)	(8,929)	(34,012)	(13,449)	386	-	-	-	(47,075)
Net Cost of Operations	**($13,603)**	**($2,287)**	**($15,890)**	**($7,313)**	**$719**	**($74)**	**$106**	**-**	**($22,452)**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2015
(In Millions)

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2015
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$383	$278	($396)	$265
With the Public:									
Pension Expense [Note 5A]	$43,963	$62,438	$106,401	-	-	-	-	-	106,401
Postretirement Health Benefits [Note 5B]	-	-	-	$33,225	-	-	-	-	33,225
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$863	-	-	-	863
Current Benefits and Premiums	-	-	-	31,409	2,951	-	-	-	34,360
Other	-	-	-	1,875	27	1,340	143	-	3,385
Total Gross Costs with the Public	**43,963**	**62,438**	**106,401**	**66,509**	**3,841**	**1,340**	**143**	**-**	**178,234**
Total Gross Costs [Notes 8 and 9]	**43,963**	**62,438**	**106,401**	**66,509**	**3,841**	**1,723**	**421**	**(396)**	**178,499**
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	866	27,139	28,005	27,827	503	-	-	(87)	56,248
Earnings on Investments	12,340	16,042	28,382	1,558	290	-	-	-	30,230
Other	301	383	684	24	-	1,489	316	(309)	2,204
Total Intragovernmental Earned Revenue	**13,507**	**43,564**	**57,071**	**29,409**	**793**	**1,489**	**316**	**(396)**	**88,682**
With the Public:									
Participant Contributions	1,089	2,167	3,256	14,003	2,782	-	-	-	20,041
Other	-	-	-	4	6	-	2	-	12
Total Earned Revenue with the Public	**1,089**	**2,167**	**3,256**	**14,007**	**2,788**	**-**	**2**	**-**	**20,053**
Total Earned Revenue [Notes 8 and 9]	**14,596**	**45,731**	**60,327**	**43,416**	**3,581**	**1,489**	**318**	**(396)**	**108,735**
Net Cost	**29,367**	**16,707**	**46,074**	**23,093**	**260**	**234**	**103**	**-**	**69,764**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	(369)	8,238	7,869	8,834	361	-	-	-	17,064
Net Cost of Operations	**$28,998**	**$24,945**	**$53,943**	**$31,927**	**$621**	**$234**	**$103**	**-**	**$86,828**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2016
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2016
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	**($969,878)**	**($252,615)**	**($4,288)**	**($64)**	**$92**	**($1,226,753)**
Budgetary Financing Sources:						
Appropriations Used	36,664	12,195	44	-	125	49,028
Transfer-In/Out Without Reimbursement	-	-	-	-	-	-
Other Financing Sources	(7)	-	-	17	13	23
Total Financing Sources	**36,657**	**12,195**	**44**	**17**	**138**	**49,051**
Net Cost of Operations	(15,890)	(7,313)	719	(74)	106	(22,452)
Net Change	**52,547**	**19,508**	**(675)**	**91**	**32**	**71,503**
Cumulative Results of Operations - Ending Balance	**($917,331)**	**($233,107)**	**($4,963)**	**$27**	**$124**	**($1,155,250)**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	**-**	**-**	**-**	**$3**	**$46**	**$49**
Budgetary Financing Sources:						
Appropriations Received	36,664	$12,242	$47	-	125	49,078
Other Adjustments	-	(47)	(3)	-	(7)	(57)
Appropriations Used	(36,664)	(12,195)	(44)	-	(125)	(49,028)
Total Budgetary Financing Sources	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Total Unexpended Appropriations - Ending Balance	**-**	**-**	**-**	**3**	**39**	**42**
Net Position - All Other Funds	**($917,331)**	**($233,107)**	**($4,963)**	**$30**	**$163**	**($1,155,208)**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2015
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2015
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	**($952,043)**	**($232,383)**	**($3,711)**	**$152**	**$87**	**($1,187,898)**
Budgetary Financing Sources:						
Appropriations Used	36,115	11,695	44	-	96	47,950
Transfer-In/Out Without Reimbursement	-	-	-	-	-	-
Other Financing Sources	(7)	-	-	18	12	23
Total Financing Sources	**36,108**	**11,695**	**44**	**18**	**108**	**47,973**
Net Cost of Operations	53,943	31,927	621	234	103	86,828
Net Change	**(17,835)**	**(20,232)**	**(577)**	**(216)**	**5**	**(38,855)**
Cumulative Results of Operations - Ending Balance	**($969,878)**	**($252,615)**	**($4,288)**	**($64)**	**$92**	**($1,226,753)**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	**-**	**-**	**-**	**$3**	**$57**	**$60**
Budgetary Financing Sources:						
Appropriations Received	36,115	$11,957	$48	-	100	48,220
Other Adjustments	-	(262)	(4)	-	(15)	(281)
Appropriations Used	(36,115)	(11,695)	(44)	-	(96)	(47,950)
Total Budgetary Financing Sources	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Total Unexpended Appropriations - Ending Balance	**-**	**-**	**-**	**3**	**46**	**49**
Net Position - All Other Funds	**($969,878)**	**($252,615)**	**($4,288)**	**($61)**	**$138**	**($1,226,704)**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2016
(In Millions)
Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2016
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	-	$20,845	$43,254	$337	$96	$64,532
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	1	1
Unobligated Balance Brought Forward, Oct. 1, as adjusted	-	20,845	43,254	337	97	64,533
Recoveries of Unpaid Prior Year Obligations	-	-	-	100	13	113
Other Changes in Unobligated Balance	-	-	-	-	(6)	(6)
Unobligated Balance, from Prior Year Budget Authority, Net	-	20,845	43,254	437	104	64,640
Appropriations	$119,598	12,195	44	-	125	131,962
Spending Authority from Offsetting Collections	-	50,828	3,913	1,924	328	56,993
Total Budgetary Resources	**$119,598**	**$83,868**	**$47,211**	**$2,361**	**$557**	**$253,595**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments [Note 11]	$119,598	$62,528	$3,043	$1,498	$453	$187,120
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	-	-	-	$763	32	795
Unapportioned, Unexpired Accounts	-	21,340	44,168	100	7	65,615
Unexpired, Unobligated Balance, End of Year	-	21,340	44,168	863	39	66,410
Expired, Unobligated Balance, End of Year	-	-	-	-	65	65
Total Unobligated Balance, End of Year	-	21,340	44,168	863	104	66,475
Total Budgetary Resources	**$119,598**	**$83,868**	**$47,211**	**$2,361**	**$557**	**$253,595**
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations Brought Forward, October 1	$7,371	$5,668	$945	$941	$97	$15,022
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	4	4
New Obligations and Upward Adjustments	119,598	62,528	3,043	1,498	453	187,120
Less: Outlays, Gross	119,620	62,217	3,023	1,366	450	186,676
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	100	13	113
Unpaid Obligations, End of Year	**$7,349**	**$5,979**	**$965**	**$973**	**$91**	**$15,357**
Uncollected Payments:						
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	-	$2,143	$252	$652	$125	$3,172
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	5	5
Change in Uncollected Payments, Federal Sources	-	73	(181)	(36)	(5)	(149)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,216**	**$71**	**$616**	**$125**	**$3,028**
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$7,371	$3,525	$693	$289	($29)	$11,849
Obligated Balance, End of Year	$7,349	$3,763	$894	$357	($34)	$12,329
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$119,598	$63,023	$3,957	$1,924	$453	$188,955
Less: Actual Offsetting Collections	-	50,757	4,094	1,960	333	57,144
Less: Change in Uncollected Payments, Federal Sources	-	73	(181)	(36)	(5)	(149)
Recoveries of Prior Year Paid Obligations	-	-	-	-	-	-
Budget Authority, Net	**$119,598**	**$12,193**	**$44**	**-**	**$125**	**$131,960**
Outlays, Gross	$119,620	$62,217	$3,023	$1,366	$450	$186,676
Less: Actual Offsetting Collections	-	50,757	4,094	1,960	333	57,144
Outlays, Net	**119,620**	**11,460**	**(1,071)**	**(594)**	**117**	**129,532**
Less: Distributed Offsetting Receipts	36,714	1,501	-	-	-	38,215
Agency Outlays, Net	**$82,906**	**$9,959**	**($1,071)**	**($594)**	**$117**	**$91,317**

The accompanying notes are an integral part of the financial statements.

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2015
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2015
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	-	$20,839	$42,622	$251	$97	$63,809
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-
Unobligated Balance Brought Forward, Oct. 1, as adjusted	-	20,839	42,622	251	97	63,809
Recoveries of Unpaid Prior Year Obligations	-	-	-	106	12	118
Other Changes in Unobligated Balance	-	-	-	-	(15)	(15)
Unobligated Balance, from Prior Year Budget Authority, Net	-	20,839	42,622	357	94	63,912
Appropriations	$118,213	11,695	44	-	100	130,052
Spending Authority from Offsetting Collections	-	48,019	3,605	1,634	323	53,581
Total Budgetary Resources	**$118,213**	**$80,553**	**$46,271**	**$1,991**	**$517**	**$247,545**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments [Note 11]	$118,213	$59,708	$3,017	$1,654	$421	$183,013
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	-	-	-	296	25	321
Unapportioned, Unexpired Accounts	-	20,845	43,254	41	3	64,143
Unexpired, Unobligated Balance, End of Year	-	20,845	43,254	337	28	64,464
Expired, Unobligated Balance, End of Year	-	-	-	-	68	68
Total Unobligated Balance, End of Year	-	20,845	43,254	337	96	64,532
Total Budgetary Resources	**$118,213**	**$80,553**	**$46,271**	**$1,991**	**$517**	**$247,545**
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations Brought Forward, October 1	$7,171	$5,996	$925	$957	$96	$15,145
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-
New Obligations and Upward Adjustments	118,213	59,708	3,017	1,654	421	183,013
Less: Outlays, Gross	118,013	60,036	2,997	1,564	408	183,018
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	118
Unpaid Obligations, End of Year	**$7,371**	**$5,668**	**$945**	**$941**	**$97**	**$15,022**
Uncollected Payments:						
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	-	$1,990	$360	$705	$123	$3,178
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	-	-
Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	(6)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,143**	**$252**	**$652**	**$125**	**$3,172**
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$7,171	$4,006	$565	$252	($27)	$11,967
Obligated Balance, End of Year	$7,371	$3,525	$693	$289	($28)	$11,850
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$118,213	$59,714	$3,649	$1,634	$423	$183,633
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	53,589
Less: Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	(6)
Recoveries of Prior Year Paid Obligations	-	-	-	-	-	-
Budget Authority, Net	**$118,213**	**$11,693**	**$44**	**-**	**$100**	**$130,050**
Outlays, Gross	$118,013	$60,036	$2,997	$1,564	$408	$183,018
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	53,589
Outlays, Net	**118,013**	**12,168**	**(716)**	**(123)**	**87**	**129,429**
Less: Distributed Offsetting Receipts	36,169	1,525	-	-	-	37,694
Agency Outlays, Net	**$81,844**	**$10,643**	**($716)**	**($123)**	**$87**	**$91,735**

The accompanying notes are an integral part of the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2016
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2016
BUDGETARY RESOURCES							
Unobligated Balance Brought Forward, October 1	-	$20,845	$43,254	$337	$96	-	$64,532
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	1	-	1
Unobligated Balance Brought Forward, October 1, as adjusted		20,845	43,254	337	97	-	64,533
Recoveries of Unpaid Prior Year Obligations	-	-	-	100	13	-	113
Other Changes in Unobligated Balance	-	-	-	-	(6)	-	(6)
Unobligated Balance from Prior Year Budget Authority, Net	**-**	**20,845**	**43,254**	**437**	**104**	**-**	**64,640**
Appropriations	$82,934	-	-	-	125	$48,903	131,962
Spending Authority from Offsetting Collections	-	50,828	3,913	1,924	328	-	56,993
Total Budgetary Resources	**$82,934**	**$71,673**	**$47,167**	**$2,361**	**$557**	**$48,903**	**$253,595**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments [Note 11]	$82,934	$50,333	$2,999	$1,498	$453	$48,903	$187,120
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	-	-	-	763	32	-	795
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	21,340	44,168	100	7	-	65,615
Unexpired, Unobligated Balance, End of Year	-	21,340	44,168	863	39	-	66,410
Expired, Unobligated Balance, End of Year	-	-	-	-	65	-	65
Total Unobligated Balance, End of Year		21,340	44,168	863	104	-	66,475
Total Budgetary Resources	**$82,934**	**$71,673**	**$47,167**	**$2,361**	**$557**	**$48,903**	**$253,595**
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$7,371	$4,395	$940	$941	$97	$1,278	$15,022
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	4	-	4
New Obligations and Upward Adjustments	82,934	50,333	2,999	1,498	453	48,903	187,120
Less: Outlays, Gross	82,956	50,100	2,979	1,366	450	48,825	186,676
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	100	13	-	113
Unpaid Obligations, End of Year	**$7,349**	**$4,628**	**$960**	**$973**	**$91**	**$1,356**	**$15,357**
Uncollected Payments:				-			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$2,143	$252	$652	$125	-	$3,172
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	5	-	5
Change in Uncollected Payments, Fed Sources	-	73	(181)	(36)	(5)	-	(149)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,216**	**$71**	**$616**	**$125**	**-**	**$3,028**
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$7,371	$2,252	$688	$289	($29)	$1,278	$11,849
Obligated Balance, End of Year	$7,349	$2,412	$889	$357	($34)	$1,356	$12,329
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$82,934	$50,828	$3,913	$1,924	$453	$48,903	$188,955
Less: Actual Offsetting Collections	-	50,757	4,094	1,960	333	-	57,144
Less: Change in Uncollected Payments, Federal Sources	-	73	(181)	(36)	(5)	-	(149)
Recoveries of Prior Year Paid Obligations	-	-	-	-	-	-	-
Budget Authority, Net	**$82,934**	**($2)**	**-**	**-**	**$125**	**$48,903**	**$131,960**
Outlays, Gross	$82,956	$50,100	$2,979	$1,366	$450	$48,825	$186,676
Less: Actual Offsetting Collections	-	50,757	4,094	1,960	333	-	57,144
Outlays, Net	**82,956**	**(657)**	**(1,115)**	**(594)**	**117**	**48,825**	**129,532**
Less: Distributed Offsetting Receipts	36,714	1,501	-	-	-	-	38,215
Agency Outlays, Net	**$46,242**	**($2,158)**	**($1,115)**	**($594)**	**$117**	**$48,825**	**$91,317**

LEGEND:

Civil Service Retirement and Disability Fund	**CSRDF**	Employees Group Life Insurance Fund	**LIF**	Salaries and Expenses Account	**S&E**
Employees Health Benefits Fund	**HBF**	Revolving Fund	**RF**	Trust Fund Feeder Accounts	**Feeder**

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2015
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2015
BUDGETARY RESOURCES							
Unobligated Balance Brought Forward, October 1	-	$20,839	$42,622	$251	$97	-	$63,809
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-	-
Unobligated Balance Brought Forward, October 1, as adjusted		20,839	42,622	251	97	-	63,809
Recoveries of Unpaid Prior Year Obligations	-	-	-	106	12	-	118
Other Changes in Unobligated Balance	-	-	-	-	(15)	-	(15)
Unobligated Balance from Prior Year Budget Authority, Net	**-**	**20,839**	**42,622**	**357**	**94**	**-**	**63,912**
Appropriations	$82,098	-	-	-	100	$47,854	130,052
Spending Authority from Offsetting Collections	-	48,019	3,605	1,634	323	-	53,581
Total Budgetary Resources	**$82,098**	**$68,858**	**$46,227**	**$1,991**	**$517**	**$47,854**	**$247,545**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments [Note 11]	$82,098	$48,013	$2,973	$1,654	$421	$47,854	$183,013
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	-	-	-	296	25	-	321
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	20,845	43,254	41	71	-	64,211
Unexpired, Unobligated Balance, End of Year	-	20,845	43,254	337	96	-	64,532
Expired, Unobligated Balance, End of Year	-	-	-	-	-	-	-
Total Unobligated Balance, End of Year	-	20,845	43,254	337	96	-	64,532
Total Budgetary Resources	**$82,098**	**$68,858**	**$46,227**	**$1,991**	**$517**	**$47,854**	**$247,545**
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations Brought Forward, October 1	$7,170	$4,785	$921	$957	$96	$1,216	$15,145
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-	-
New Obligations and Upward Adjustments	82,098	48,013	2,973	1,654	421	47,854	183,013
Less: Outlays, Gross	81,897	48,404	2,953	1,564	408	47,792	183,018
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	-	118
Unpaid Obligations, End of Year	**$7,371**	**$4,394**	**$941**	**$941**	**$97**	**$1,278**	**$15,022**
Uncollected Payments:				-			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$1,990	$360	$705	$123	-	$3,178
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	-	-	-
Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	-	(6)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,143**	**$252**	**$652**	**$125**	**-**	**$3,172**
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$7,170	$2,795	$561	$252	($27)	$1,216	$11,967
Obligated Balance, End of Year	$7,371	$2,251	$689	$289	($28)	$1,278	$11,850
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$82,098	$48,019	$3,605	$1,634	$423	$47,854	$183,633
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	-	53,589
Less: Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	-	(6)
Recoveries of Prior Year Paid Obligations	-	-	-	-	-	-	-
Budget Authority, Net	**$82,098**	**($2)**	**-**	**-**	**$100**	**$47,854**	**$130,050**
Outlays, Gross	$81,897	$48,404	$2,953	$1,564	$408	$47,792	$183,018
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	-	53,589
Outlays, Net	**81,897**	**536**	**(760)**	**(123)**	**87**	**47,792**	**129,429**
Less: Distributed Offsetting Receipts	36,169	1,525	-	-	-	-	37,694
Agency Outlays, Net	**$45,728**	**($989)**	**($760)**	**($123)**	**$87**	**$47,792**	**$91,735**

LEGEND:

Civil Service Retirement and Disability Fund	**CSRDF**	Employees Group Life Insurance Fund	**LIF**	Salaries and Expenses Account	**S&E**
Employees Health Benefits Fund	**HBF**	Revolving Fund	**RF**	Trust Fund Feeder Accounts	**Feeder**

SECTION 3

Other Information (Unaudited)

Schedule of Spending

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF SPENDING (Unaudited)
For the Year Ended September 30, 2016
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2016
What Money is Available to Spend?						
Total Resources	$119,598	$83,868	$47,211	$2,361	$557	$253,595
Less: Amount Available but Not Agreed to be Spent	-	-	-	763	32	795
Less: Amount Not Available to be Spent	-	21,340	44,168	100	72	65,680
Total Amounts Agreed to be Spent	**$119,598**	**$62,528**	**$3,043**	**$1,498**	**$453**	**$187,120**
How was the Money Spent/Issued?						
Personnel Compensation and Benefits	$36,664	$12,195	44	357	$276	$49,536
Contractual Services and Supplies	-	50,333	2,999	1,141	177	54,650
Acquisition of Capital Assets	-	-	-	-	-	-
Grant and Fixed Charges (Insur. Claims and Indemnities)	82,934	-	-	-	-	82,934
Total Amounts Agreed to be Spent	**119,598**	**62,528**	**3,043**	**1,498**	**453**	**187,120**
Who did the Money go to?						
Federal Government	$36,809	$12,257	$49	$255	41	$49,411
Non-Federal Government	82,789	50,271	2,994	1,243	412	137,709
Total Amounts Agreed to be Spent	**$119,598**	**$62,528**	**$3,043**	**$1,498**	**$453**	**$187,120**

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF SPENDING (Unaudited)
For the Year Ended September 30, 2015
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2015
What Money is Available to Spend?						
Total Resources	$118,213	$80,553	$46,271	$1,991	$517	$247,545
Less: Amount Available but Not Agreed to be Spent	-	-	-	296	25	321
Less: Amount Not Available to be Spent	-	20,845	43,254	41	71	64,211
Total Amounts Agreed to be Spent	**$118,213**	**$59,708**	**$3,017**	**$1,654**	**$421**	**$183,013**
How was the Money Spent/Issued?						
Personnel Compensation and Benefits	$36,115	$11,695	45	329	$271	$48,455
Contractual Services and Supplies	-	48,013	2,972	1,325	150	52,460
Acquisition of Capital Assets	-	-	-	-	-	-
Grant and Fixed Charges (Insur. Claims and Indemnities)	82,098	-	-	-	-	82,098
Total Amounts Agreed to be Spent	**118,213**	**59,708**	**3,017**	**1,654**	**421**	**183,013**
Who did the Money go to?						
Federal Government	$36,260	$11,751	$52	$397	39	$48,499
Non-Federal Government	81,953	47,957	2,965	1,257	382	134,514
Total Amounts Agreed to be Spent	**$118,213**	**$59,708**	**$3,017**	**$1,654**	**$421**	**$183,013**

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

October 12, 2016

MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: NORBERT E. VINT
Deputy Inspector General

SUBJECT: Fiscal Year 2016 Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. In meeting this requirement, we have classified the challenges into two key types of issues facing the U.S. Office of Personnel Management (OPM) – environmental challenges, which result mainly from factors external to OPM and may be long-term or even permanent; and internal challenges, which OPM has more control over and once fully addressed, will likely be removed as a management challenge.

The three listed environmental challenges - strategic human capital, Federal health insurance initiatives, and background investigations - facing OPM are due to such things as increased globalization, rapid technological advances, shifting demographics, various quality of life considerations, and national security threats that are prompting fundamental changes in the way the Federal Government operates. Some of these challenges involve core functions of OPM that are affected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency must face.

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

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

The remaining challenges, while not currently considered material weaknesses, are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. There is always the possibility that they could become material weaknesses and have a negative

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impact on OPM's perfom lance if they are not handled appropriately by OPM management. We have categorized the items included on our list this year as follows:

Environmental Challenges

- Strategic Human Capital Management;
- Federal Health Insurance Initiatives; and
- Background Investigations.

Internal Challenges

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

We have identified these issues as top challenges because they meet one or more of the following criteria:

1) The issue involves an operation that is critical to an OPM core mission;
2) There is a significant risk of fraud, waste, or abuse of OPM or other Government assets;
3) The issue involves significant strategic alliances with other agencies, the Office of Management and Budget, the Administration, Congress, or the public;
4) The issue is related to key initiatives of the President; or
5) The issue involves a legal or regulatory requirement not being met.

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These summaries recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete, and accurate characterization of the challenges are presented.

One of the challenges included in last year's memorandum was removed this year:

- Phased Retirement has been removed from the Strategic Human Capital Management challenge due to OPM's fulfillment of its primary role of providing regulations and

The Honorable Beth F. Cobert 3

comprehensive guidance to Federal agencies. While there is continued concern regarding the lack of agency and employee awareness of, as well as interest in, the program, especially considering that 31 percent of the Federal workforce is already or will be retirement-eligible by September 2017,[1] the challenge is now on Federal agencies to determine whether or not to implement a phased retirement program.

In addition, we have added the following challenge:

- Background Investigations, as specifically related to the National Background Investigations Bureau transition and Case Processing challenges, has been added because of the need to meet timeliness expectations and increase resources to improve processes and productivity.

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

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

Attachment

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[1]Government Accountability Office, January 2014, FEDERAL WORKFORCE Recent Trends in Federal Civilian Employment and Compensation report to the ranking member, Committee on the Budget, U.S. Senate, http://www.gao.gov/assets/670/660449.pdf.

Attachment

FISCAL YEAR 2016 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

The following challenges are issues that will in all likelihood permanently be on our list of top challenges for the U.S. Office of Personnel Management (OPM or "the agency") because of their dynamic, ever-evolving nature, and because they are mission-critical programs.

1. STRATEGIC HUMAN CAPITAL MANAGEMENT

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

Improving the Federal Recruitment and Hiring Process

Throughout fiscal year (FY) 2016, OPM continued to lead and support the CHCO Council's formal Executive Steering Committee for skills gaps. The CHCO Council's Executive Steering Committee is co-chaired by the CHCOs from the Department of Treasury and the National Science Foundation. The Executive Steering Committee consists of leadership from a number of Federal agencies and is staffed by subject matter experts from OPM's Employee Services' Strategic Workforce Planning Center. With OPM support, the Executive Steering Committee makes key decisions around the design and execution of the Government-wide and agency-specific skills gaps efforts and brings recommendations and updates to the CHCO Council for review and approval. The Executive Steering Committee meets quarterly to formulate plans, review progress, and make key decisions on the design and implementation of skills gaps efforts across the Federal Government.

Upon identifying the Government-wide and agency-specific Mission Critical Occupations, which was done in FY 2015, work then began to identify and establish the Federal Action Skill Teams responsible for leading the effort to: (1) identify root causes of skills gaps in the occupations; (2) develop strategies to address prioritized root causes; (3) establish goals and outcome-oriented metrics; (4) document action plans to address skills gaps; and (5) submit quarterly updates to OPM to monitor progress on executing action plans and achieving metric targets.

The Government-wide Federal Action Skill Teams are being led by occupational leaders, who are respected senior (technical) subject matter experts representing each of the Government-wide Mission Critical Occupations. The occupational leaders are partnered with a CHCO to serve as a technical Human Resources (HR) lead to provide guidance for how to apply human resources policies and strategies. Additionally, CHCOs are responsible for leading the Federal Action Skill Teams within their respective agencies.

During 2016, OPM conducted four in-person training sessions and one virtual training session for field personnel regarding the root cause analysis and strategy development and implementation process for the Federal Action Skill Teams. Throughout the entire process, OPM, in coordination with the Executive Steering Committee, provides on-going support and technical guidance to agencies and the occupational leaders.

Concurrently, OPM, in coordination with the Office of Management and Budget (OMB), published the proposed rule for revising Title 5, Code of Federal Regulations, Part 250. The regulation promulgates skills gaps and requires agencies to:

- Make progress toward closing any knowledge, skill, and competency gaps;
- Use the OPM designated method to identify skill gaps;
- Monitor and address skill gaps within Government-wide and agency Mission Critical Occupations;
- Describe the skills and human capital information required to achieve agency goals and objectives, within agency strategic plans; and
- Include explicit descriptions of agency skills and competency gaps that must be closed, within annual Human Capital Operation Plans.

OPM has had success in creating an infrastructure and governance structure for closing HR skills gaps across the Federal Government. The agency has built coalitions with professionals across the Federal Government to participate in and collaborate on activities that will assist agencies in developing strategies, over the scope of the five-year strategic plan, for closing HR skills gaps. OPM obtained agency tools and information from data requests to the CHCO Council and Chief Learning Officers Council to complete planned actions leading to the many accomplishments and outcomes for FY 2016. By the end of FY 2016, a proposed Delegated Examining Certification program of competence will be presented to the Executive Steering Committee for closing HR skills gaps.

Federal hiring, specifically closing mission-critical skills gaps, continues to be a concern Government-wide, and while OPM has made progress in working to close the skills gaps within the Federal Government, the implementation of targeted goals is still ongoing.

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2. FEDERAL HEALTH INSURANCE INITIATIVES

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

A. <u>Federal Employees Health Benefits Program</u>

As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to over eight million Federal employees, retirees, and their families. While the ever-increasing cost of health care is a national challenge, cost increases in the FEHBP have been relatively modest in recent years. In 2017, the average FEHBP premium increase for Federal employees and retirees is 4.4 percent, which is down 2 percentage points from the 2016 increase, which was the largest since 2011.

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

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

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

The challenge for OPM is that, while the FEHBP directly bears the cost of health care services, it is in a difficult position to analyze those costs and actively manage the program to ensure the best value for both Federal employees and taxpayers, because OPM has not routinely collected or analyzed program-wide claims data. The Health Claims Data Warehouse (HCDW) project is an initiative to collect, maintain, and

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analyze data on an ongoing basis to better understand and control the drivers of health care costs in the FEHBP.

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

OPM's Planning and Policy Analysis (PPA) group collaborated with OPM's Office of the Chief lnformation Officer (OCIO) to provide expertise in the areas of system administration, database administration, and networking. PPA and the OCIO completed the development of the HCDW system, and it has been authorized by the Chief Information Officer to run in a production environment. OPM implemented various security features to protect claims data, including data encryption, data masking, and secure authentication mechanisms. The OIG reviewed the security controls of this system and did not detect any weaknesses in the system's ability to protect sensitive data.

OPM's challenge going forward is to ensure that the system remains secure as information technology (IT) security threats are constantly evolving. While this is true for any IT system, it will be particularly challenging for OPM, as the HCDW resides in a technical infrastructure that has proven very difficult to manage (see the Information Technology Infrastructure Improvement Project challenge on pages 17-19 of this memo).

2) Prescription Drug Benefits and Costs

The financial cost of health care in the United States (U.S.) continues to rise, with most industry experts agreeing this trend will continue for years to come. It is reported that by the year 2021 health care costs will reach $4.8 trillion in the U.S. alone, up from $2.6 trillion in 2010. Currently, health care represents approximately 20 percent of our country's Gross National Product. Prescription drugs are a significant portion of this cost and will likely continue to become a larger component of health care costs as more pharmaceutical advancements are discovered and new biotechnology/biosimilar agents enter the market. OPM must develop an effective, long-term strategy to mitigate and manage FEHBP prescription drug costs while maintaining overall program value.

One opportunity to lower prescription drug costs that OPM should give serious consideration to is carving out the pharmacy benefit entirely from the health benefits

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currently provided by FEHBP fee-for-service, experience-rated, and community-rated carriers. This would allow OPM to gain more control over its prescription drug program and improve cost and utilization containment efforts. Since the inception of the FEHBP, pharmacy benefits have been offered through participating FEHBP carriers by administering pharmacy benefits internally or by carriers' contracting with pharmacy benefit managers (PBM) on behalf of their enrolled population. Instead of leveraging the purchasing power of over 8 million FEHBP members to negotiate a single the PBM contract with OPM, the FEHBP pharmacy costs vary greatly and are fragmented among the hundreds of participating carriers. Furthermore, since OPM has no involvement in negotiating the contract terms between the individual carrier and the PBM, the fees (which are ultimately borne by the FEHBP) may not provide the best value to FEHBP members and the American taxpayer. A prescription carve-out program would provide OPM with added transparency, more favorable contract terms, customized clinical programs that best fit the FEHBP's health care utilization, and may provide greater rebates and lower pharmacy cost for the FEHBP.

In 2011, "The President's Plan for Economic Growth and Deficit Reduction" called for streamlining FEHBP pharmacy benefit contracting and allowing OPM to contract directly for pharmacy benefit management services on behalf of all FEHBP enrollees and their dependents. Because current FEHBP law precludes OPM from contracting directly with PBMs, OPM has proposed statutory authority language changes, seeking to amend the current FEHBP law to permit OPM to contract directly with PBMs. However, this proposal has languished, and there has not been a concentrated effort by OPM to push this initiative to Congress for approval.

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

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

We recognize and applaud the agency's efforts thus far and we are confident that they will have a positive impact on the program. But, we continue to encourage OPM to work with its Office of Congressional and Legislative Affairs to make the proposed statutory authority language change a priority initiative to advance to Congress for its

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approval. Allowing OPM to have direct contracting authority with PBMs will provide the FEHBP stronger purchasing power, help to ensure that the benefits and fees negotiated are in the best interests of the FEHBP, and will strengthen the controls and oversight of the FEHBP pharmacy program.

We agree with OPM that a detailed study should be undertaken to carefully weigh the positive and negative implications of contracting directly with a PBM. OPM has committed to including such a study in its future plans.

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

3) Health Benefits Carriers' Fraud and Abuse Programs

FEHBP insurance carriers must have programs to prevent fraud and abuse, including policy, procedures, training, fraud hotlines, education, and technology. These fraud, waste, and abuse (FWA) programs must follow industry standards and adhere to mandatory information sharing requirements via written case notifications and referrals to OPM's Office of the Inspector General (OIG). At a minimum, FEHBP carriers are required to implement programs to:

- Proactively identify FWA issues, identify program vulnerabilities, initiate action to deny or suspend payments where there is potential FWA, develop and refer cases to the OIG for consideration of civil and criminal prosecution and/or application of administrative sanctions, and provide outreach to providers and beneficiaries;
- Conduct investigations of FWA allegations referred by internal or external sources;
- Maintain a case tracking system of all FWA cases opened, active, pending, and closed;
- Provide claims data to the OIG upon request;
- Provide liaison and investigative support to the OIG and other law enforcement agencies;
- Track all member, provider, and pharmacy case notifications sent to the OIG; and
- Provide annual FWA reports (medical and pharmacy) to OPM.

Without such programs, there are likely to be increased costs and a greater risk of harm to FEHBP members.

Recent OIG audits have shown that health carriers have not appropriately reported fraud and abuse cases to OPM and the OIG, and some carriers have not implemented procedures to address fraud and abuse issues in their pharmacy programs. Specifically, the rep0liing of quality FWA cases, as well as underreporting or untimely reporting of cases to the OIG, continue to be significant issues with the FEHBP carriers. Furthermore, carriers continue to be challenged with providing accurate and complete data within the required FWA annual report.

Over the past few years, OPM recognized the importance of FEHBP carriers having effective fraud and abuse programs and partnered with the OIG to develop new, comprehensive fraud and abuse guidance. As a result of this collaborative effort, OPM drafted and issued a new Carrier Letter to all FEHBP carriers. Carrier Letter 2014-29 has new definitions, training guidance, and updated reporting requirements. The new Carrier Letter also requires carrier management to certify to the completeness and accuracy of the fraud and abuse information submitted on the annual report.

However, after reviewing the 2015 fraud and abuse reports submitted under the new Cani.er Letter, it is apparent that the carriers still require additional guidance from OPM. We also found that some carriers are still not reporting fraud and abuse cases appropriately. During FY 2016, there has been a significant increase in the number of case notifications (a record number of over 3,000 cases) received from the carriers. This is a direct result of our audit work and the collaboration with OPM. While the quantity of these notifications has increased dramatically, the carriers still require guidance on submitting *quality* referrals. Also, of continued concern, we determined that less than 30 percent of the carriers' FWA cases opened with FEHBP exposure in 2015 were actually reported to the OIG.

As a result of recent OIG audits, OPM has reviewed its practices and procedures and implemented changes to strengthen its existing FWA monitoring and enforcement. During the past year, OPM has continued to:

- Partner with the OIG to resolve open fraud-related audit recommendations.
- Meet with the OIG to review and discuss the annual reports received from the carriers.

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

- Analyzing carrier reports to get a better understanding of carriers' fraud and abuse programs, and to determine if carriers need further guidance for the reporting requirements;
- Exploring changes to the annual report and expectations of the carriers; and
- Providing a better understanding of the reporting requirements to the carriers.

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

4) Medical Loss **Ratio Implementation and Oversight**

Each community-rated carrier is held to a specific medical loss ratio (MLR), as determined by OPM. Simply put, community-rated carriers participating in the FEHBP must spend the majority of their FEHBP premiums on medical claims and approved quality health initiatives. If a carrier does not meet or exceed the MLR, it risks returning the excess premiums in the form of a rebate to the FEHBP. The FEHBP MLR methodology is closely monitored by OPM's Office of the Actuaries. For each non-traditional community-rated FEHBP plan, the Office of the Actuaries documents each year's MLR and the associated penalties or credits in a formal letter. The underlying data used in the letter is kept in a secure proprietary database so the following year's letter will reference any remaining credit.

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

As OPM's MLR methodology matures, and unique situations to the FEHBP MLR surface, the need for detailed criteria and carrier instruction is vital. During recent MLR audits, the OIG identified new areas of the MLR methodology that lack clear instructions from OPM. OPM's rate instructions currently refer community-rated carriers to the Department of Health and Human Services' (HHS) MLR guidelines for issues not covered in the OPM instructions. However, in some instances this is not feasible or even applicable. While we understand and agree that overly prescriptive instructions may not be ideal due to the wide variety of FEHBP carriers operating in a changing landscape and, therefore, some flexibility in deriving their MLR percentages should be granted to the carriers, the methodologies used not only have to produce accurate results, but they should also be auditable. In instances where this is not the case and the resulting issues cannot be adequately addressed by HHS guidelines, then it is incumbent upon OPM to develop its own guidance to address these issues.

Specifically, recent audits have identified concerns regarding Federal income tax allocation methods and the use of global capitations as claims cost in the MLR calculation that are in need of FEHBP-specific guidance. Failure to implement clear instructions to address these concerns may result in inaccurate or incomplete subsidization penalties due to OPM or credits that are due to the carriers. Consequently, OPM must stop relying solely on HHS regulations and address these FEHBP-specific problems by providing the necessary guidance via the rate instructions to avoid continued confusion and ambiguity.

Another pressing issue experienced on MLR audits is the large variances between OPM's subscription income reports and the FEHBP premiums carriers track in their systems. The MLR rules state that carriers can choose to use their own premium numbers in the MLR calculation, but the carrier premiums will be subject to audit if used. Therefore, most carriers use OPM's subscription income amounts as the denominator in the MLR formula instead of their own premium numbers. However, carriers have continued to express frustration with OPM's inability to support the accuracy of the subscription income numbers. OPM's subscription income amounts are unsupportable and have been for decades due to the decentralized enrollment and payroll systems. Consequently, OPM's intention is to allow this choice for the foreseeable future. While we understand the complexities that come with a decentralized enrollment and payroll system, OPM still has a fiduciary responsibility to ensure that the subscription income amounts it reports are as precise as they can be. As the methodology currently being used to derive these amounts is unsupportable, it is incumbent upon OPM to consider replacing the current methodology with one that will produce more accurate results. Otherwise, the validity of the MLR calculations will continue to be in question, which will more than likely impact the penalties that are truly owed to OPM and the credits that are truly due to the carriers.

B. Affordable Care Act

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

While implementing any new program represents a host of complex challenges, one continuing challenge is securing sufficient resources for OPM's MSP program function, since the ACA does not specifically fund OPM for this new health care responsibility and prohibits the use of FEHBP resources to manage the MSP program.

An even greater challenge, however, is retaining existing Issuers (health care plans) and attracting new Issuers into the program. Participation in the MSP program is voluntary and the uncertainty about the ACA due to the many lawsuits, regulatory environment, multiple oversight agencies, large premium rate increases, and the ongoing volatility in the small group and individual marketplaces continues to stymie OPM's ability to retain current and attract new Issuers.

Despite the many challenges, OPM continues to work toward meeting the goal of making MSP program health insurance options available for enrollment by:

- Contracting with the Blue Cross Blue Shield Association and two individual Co-Ops (a non-profit organization in which the same people who own the company are insured by the company) to offer MSPs in 33 marketplaces in 2016;
- Continuing to develop relationships with state health care regulators to facilitate the exchange of information on MSP program operations and various state requirements to sell insurance products in that state;
- Sponsoring an MSP Issuer Conference in November 2015;
- Conducting outreach efforts to insurance Issuers and other groups to raise awareness and potential participation in the MSP program;
- Continuing to work with OMB and HHS to develop standard operating procedures for collecting the MSP user fee;
- Compiling and transmitting information on each applicable state-level Issuer to HHS for the Federally Facilitated Marketplace, to states that intend to operate their own exchange but utilize the prescribed HHS templates, and directly to those states who operate their own marketplace; and
- Establishing an MSP Program Advisory Board to exchange information, ideas, and recommendations regarding the administration of the MSP program.

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OPM continues to reach out to insurance companies and is diligently working to grow the MSP program; however, despite all OPM's efforts, only 24 MSPs will be offered in 2017. As discussed and evidenced by the number of MSPs in 2017, the ongoing volatility and current market conditions makes growing the MSP program an increasingly difficult task, which will require OPM to closely monitor the situation, adjust plans as necessary, and keep appropriate parties informed of the ever-evolving situation.

3. BACKGROUND INVESTIGATIONS

The newly established National Background Investigations Bureau (NBIB) and the case processing backlog are two major challenges that may affect the timely completion of background investigations. The following sections highlight these challenges and current initiatives in place to address them.

A. National Background Investigations Bureau

In January 2016, the Administration announced the establishment of the NBIB, which will absorb Federal Investigative Services' (FIS) mission, functions, and personnel. The NBIB is a unique entity in that it is housed in OPM, but the U.S. Department of Defense (DOD) has been tasked with responsibility for the design, development, security, and operation of NBIB's background investigations IT systems. The initial operating capability for NBIB occurred on October 1, 2016, though OPM leadership acknowledged that it will take significantly longer to make the full transition from FIS, which is NBIB's predecessor organization.

The establishment of the NBIB is the most significant institutional reorganization since OPM absorbed DOD's background investigations unit, Defense Security Service, in 2005. The Administration established a Transition Team to spearhead the transfer of FIS's functions to the NBIB. In mid and late September, the agency provided the OIG with some of the necessary institutional establishment documents; however, many of the documents are not yet final. As a result, we are currently unable to assess the quantum of meaningful changes that were made by the target date of October 1, 2016.

The unique partnership with DOD increases the complexity of this task. Although DOD is responsible for the design and operation of the IT systems, OPM is the system owner and OPM employees and contractors are the end users; therefore, OPM must be actively involved in the development and implementation of the systems. Further, this dual agency relationship also requires that the agencies work closely on major administrative issues, such as funding and contracting.

B. Case **Processing Backlog**

FIS was responsible for processing approximately 2.2 million background investigations per year for Federal applicants, employees, and contractor personnel for customer agencies. FIS determined the eligibility of these individuals to hold security clearances, or to be employed in positions with national security sensitivity, eligibility for accession or retention in the Armed Forces, eligibility for an identity credential, or suitability or fitness for employment for or on behalf of the Government.

FIS's total background investigation backlog as of September 5, 2016, was 569,000 cases. This included all open cases currently pending in their inventory. Based on capacity, their target inventory is between 160,000 -180,000 cases. Under the Intelligence Reform and Terrorism Prevention Act of 2004 guidelines and additional guidance issued by The Security Executive Agent, the fastest 90 percent of initial security clearance investigations should be completed in 40 days, and the fastest 90 percent of initial Top Secret investigations should be completed in 80 days. However, for fiscal year 2016, OPM failed to meet its timeliness goals by a significant margin. OPM completed the fastest 90 percent of initial security clearance investigations in 105 days and completed the fastest 90 percent of initial Top Secret investigations in 214 days.

There were two key events that resulted in the backlog of cases:

- The first event was the termination of the US Investigations Services, LLC fieldwork contract that led to several hundred contractor background investigators leaving the industry. KeyPoint and CACI, the remaining two FIS contractors, hired approximately 1,600 new field background investigators and during the same period they lost over 1,200 staff through attrition. Current industry background investigations capacity falls well short of meeting customer demands.
- The second event was funding shortfalls which have significantly impacted FIS's ability to grow the Federal and contractor capacity and work overtime to address the backlog.

A plan of action to reduce the number of cases to a manageable level has been developed. The following capacity growth initiatives and process efficiencies are currently being implemented to help address the growing backlog challenge:

- Increase investigative capacity through the hiring of both additional Federal staff and increased contractor production.

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- Implement process efficiencies to reduce total man-hours to complete ongoing work.

Furthermore, OPM has recently awarded four new fieldwork contracts to companies that will work with NBIB to provide background investigations for Federal agencies. The challenge associated with reduced capacity has been exacerbated by the inaccurate workload projections provided by FIS's customers. In FY 2016, agency workload projections were underestimated by 22 percent, further complicating FIS's ability to accurately predict and address background investigative workloads. For fiscal year 2017, process efficiencies to reduce total man-hours to complete ongoing work will also be put in place.

INTERNAL CHALLENGES

The following challenges relate to current program activities that are critical to OPM's core mission, and while impacted to some extent by outside stakeholders, guidance, or requirements, they are OPM challenges with minimal external influence. They are areas that once fully addressed and functioning will in all likelihood be removed as management challenges. While OPM's management has already expended a great deal of resources to meet these challenges, they will need to continue their current efforts until full success is achieved.

1. INFORMATION SECURITY GOVERNANCE

OPM relies on information technology to manage its core business operations and deliver products and services to many stakeholders. With continually increasing reliance on information systems, growing complexity, and constantly evolving risks and threats, information security continues to be a mission-critical function. Managing an information security program to reduce risk to agency operations is clearly an ongoing internal management challenge.

Information security governance is the overall framework and supporting management structure and processes that are the foundation of a successful information security program. Proper governance requires that agency management is proactively implementing cost-effective controls to protect the critical information systems that support the core mission, while managing the changing risk environment. This includes a variety of activities, challenges, and requirements, but is primarily focused on identifying key roles and responsibilities and managing infolmation security policy development, oversight, and ongoing monitoring activities.

For many years, we reported increasing concerns about the state of OPM's information security governance. Our Federal Information Security Management Act (FISMA) audit reports from FY 2007 through FY 2013 reported this issue as a material weakness, and our recommendation was that the agency recruit a staff of information security professionals to act as Information System Security Officers (ISSO) that reports to the OCIO.

Our FY 2014 FISMA report reduced the severity of the material weakness to a significant deficiency based on OPM's plan to fill enough positions to manage the security for all OPM information systems. In FY 2015, OPM successfully filled the vacant ISSO positions, effectively centralizing IT security responsibility under the Chief Information Officer and fulfilling our audit recommendation. With this new governance structure in place, we closed the audit recommendation related to security management and removed the significant deficiency from our report.

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However, our current FISMA audit work has indicated a significant regression in OPM's compliance with FISMA requirements, as the agency is failing to meet requirements that it had successfully met in prior years. In addition, OPM has only closed 46 percent of the FISMA findings issued in the past two years. We believe that this is a security governance issue, as significant responsibility for implementing many FISMA requirements lies with the ISSO function.

We continue to believe that the existing centralized security governance structure *can* be effective, but the ISSO team was severely understaffed throughout the majority of FY 2016. The OCIO lost over half of the ISSOs that were in place at the time we removed the significant deficiency from our report. The OCIO has recently hired additional ISSOs, but these individuals have not yet had the opportunity to be effective in implementing FISMA requirements and address outstanding audit recommendations. OPM continues to face a significant challenge in recruiting and maintaining a qualified team of security professionals to manage information system security.

2. SECURITY ASSESSMENT AND AUTHORIZATION

Information System Security Assessment and Authorization (Authorization) is a comprehensive assessment that evaluates whether a system's security controls are meeting the security requirements of that system.

Previous FISMA audits identified a material weakness in OPM's Authorization process related to incomplete, inconsistent, and sub-par work products. OPM resolved the issues by implementing new policies and procedures to standardize the Authorization process. However, throughout FY 2014 and FY 2015, the number of OPM systems without a current and valid Authorization significantly increased, and we reinstated the material weakness related to this issue in our FY 2015 FISMA audit.

In April 2015, OPM's OCIO issued a memorandum that granted an extension of the previous Authorizations for all systems whose Authorization had already expired, and for those scheduled to expire through September 2016. The justification was that OPM was in the process of modernizing its IT infrastructure and that once this modernization was completed, all systems would have to receive new Authorizations anyway. We expressed serious concern with this approach, and warned the agency of the extreme risk associated with neglecting the IT security controls of its information systems.

Although the moratorium on Authorizations has since been lifted, the effects of the April 2015 memorandum continue to have a significant negative impact on the agency. The infrastructure modernization project was suspended as the agency re-evaluates its approach, and many of the systems included in the memorandum continue to operate in the same legacy environment without a valid Authorization. An "Authorization Sprint" in FY 2016 was successful in completing new Authorizations for six systems. However, at the end of FY 2016, there were still 16 major information systems operating without a valid Authorization.

The OCIO is working to implement a comprehensive security control continuous monitoring program that will eventually replace the need for periodic system Authorizations. However, OPM's continuous monitoring program has not reached the point of maturity where it can effectively replace the Authorization program. In addition, OPM acknowledges that a current and comprehensive Authorization for each system is a prerequisite for a continuous monitoring program, as the Authorization will provide a baseline of the security controls that need be continuously monitored going forward.

While we acknowledge OPM's intent and efforts to address this issue, we believe that the volume and sensitivity of OPM systems that are currently operating without an active Authorization continues to represent a material weakness in the internal control structure of the agency's IT security program.

3. DATA SECURITY

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

In 2015, OPM was the victim of devastating data breaches in which the personal information of more than 20 million people was compromised.

OPM's technical environment is complex and decentralized, characteristics that make it extremely difficult to secure. Over the past several years, the agency has increased the staffing levels of its network security team, and has procured a variety of tools to help automate efforts to secure the OPM network. However, our FY 2015 FISMA audit determined that not all of these tools were being utilized to their fullest capacity, as the agency was having difficulty implementing and enforcing the new controls in this decentralized infrastructure.

OPM continues to implement additional security tools to further secure its network and data. We agree that these tools add value, but OPM faces the challenge of implementing them into a fragmented environment and fully leveraging their capabilities. OPM has also begun encrypting the databases that support its most sensitive systems. While this control also adds value, encryption in itself does not adequately protect sensitive data, as merely the compromise of a valid user's password would allow an attacker to decrypt the data.

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

OPM's FY 2016 Major Management Challenges progress update states that it has "enabled multifactor authentication for 71.73 percent of applications and enforced the multifactor authentication on 26.08 percent of systems." However, these numbers are not accurate, as they inappropriately include systems that require users to first authenticate to the OPM network using a PIV card, but still accept a username and password to gain access to the application itself. Without the enforcement of PIV authentication at the application level, users of the network (either valid users or unauthorized attackers) could still gain access to applications that they are not authorized to use. Our recent audit work indicates that only one major application (a system owned by the OIG and operated by a cloud service provider) enforces multifactor authentication via PIV card at the application level.

4. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT PROJECT

In the wake of the 2015 data breach, OPM determined that its network infrastructure ultimately needed a complete overhaul and migration into a much more centralized and manageable architecture. While we agree in principle that OPM's outdated technical infrastructure needs to be modernized, we have serious concerns with the way in which this project was initiated and the way it was managed throughout FY 2016 (see our audit reports on this issue).[2]

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[2] Flash Audit Alert - U.S. Office of Personnel Management's Infrastructure Improvement Project, https://www.opm.gov/our-inspector-general/reports/2015/flash-audit-alert-us-office-of-personnel-managements-infrastructure-improvement-project-4a-ci-00-15-055.pdf;
Interim Status Report on OPM's Responses to the Flash Audit Alert – U.S. Office of Personnel Management's (OPM) Infrastructure Improvement Project, https://www.opm.gov/our-inspector-general/special-reports-and-reviews/interim-status-report-on-opm-responses-to-the-flash-audit-alert.pdf; and
Second Interim Status Report on the U.S. Office of Personnel Management's (OPM) Infrastructure Improvement Project - Major IT Business Case, https://www.opm.gov/our-inspector-general/reports/2016/second-interim-status-report-on-the-us-office-of-personnel-managements-opm-infrastructure-improvement-project-major-it-business-case-4a-ci-00-16-037.pdf

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OPM's initial attempt to modernize its infrastructure involved the creation of two new physical data centers designed to house a modem, centralized, and secure logical network environment to host OPM's systems. However, after more than a year of effort and over $45 million paid to the sole-source contractor managing the project, OPM recognized that this model was not sustainable and suspended the entire project before a single application was modernized and migrated.

OPM is now in the early stages of assessing the alternate solutions that could address the agency's long term technical needs. However, OPM faces enormous hurdles in reaching its desired outcome - many of which we do not believe the agency is adequately prepared to address. OPM has a history of troubled information system development projects. Despite multiple attempts and hundreds of millions of dollars invested, OPM has encountered well publicized failures to modernize its retirement claims processing system. OPM has also faced struggles in modernizing its financial systems and its applications supporting the background investigation process. These are just three specific examples of troubled individual system development projects at OPM. The current initiative, however, will be far more complex than anything the agency has attempted in the past. OPM has dozens of major information systems and hundreds of minor applications that must all be migrated into a new technical environment.

The first major challenge is that OPM does not have a mature program in place to maintain a comprehensive, current, and accurate information system inventory. OPM currently has several initiatives underway to improve its hardware and software inventory management program. The agency has recently made progress developing a list of its servers and databases, and uses an inventory management tool to track the software that is installed throughout the network. However, lists of servers, databases, and software are only partial elements of a complete system inventory. The various elements of an inventory must be mapped to each other so that OPM can accurately define the boundaries of its information systems. OPM still has significant work ahead in converting the raw data it has collected into a comprehensive and mature system inventory.

The second challenge is OPM's lack of dedicated funding to support this project. OPM does not have even general estimates of how much this project will ultimately cost. The agency has requested dedicated funding for technology modernization, but does not have a proper business case or adequate plans to support its request.

The third major challenge relates to the complexity of migrating old information systems into a new environment. Many of OPM's systems are supported by legacy technology that will

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not be compatible with a modern technical infrastructure. These systems must be completely redesigned and rebuilt before they can be migrated into a new secure environment. OPM is in the process of developing a digital services team that leverages system development experts throughout government, but simply having development talent available does not resolve the other challenges outlined above.

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

5. STOPPING THE FLOW OF IMPROPER PAYMENTS

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

Despite these changes, the improper payment of retirement benefits, specifically those to deceased annuitants, continues to be a significant problem at OPM. The retirement programs operated by OPM continue to meet OMB's definition of programs susceptible to significant improper payments because their annual improper payments are over $100 million per year. Indeed, the improper payments made to deceased annuitants alone regularly total over $100 million. Between FY 2011, when we first included this issue as a management challenge, and FY 2015, OPM has paid out over $550 million to deceased annuitants.

We acknowledge that OPM's recapture rate for these improper payments has improved and they recover a large amount of these funds through the Department of the Treasury's reclamation process. However, the fact that they continue to make over $100 million of improper payments each year is a serious problem and indicates that there are still significant deficiencies in the internal controls designed to prevent improper payments from being paid in the first place. Moreover, an internal OIG analysis identified hundreds of instances where OPM identified a deceased annuitant, stopped the annuity, but failed to reclaim the millions of dollars it had already improperly paid.

Over the years, OPM has initiated a number of projects designed to help mitigate the problem of improper payments to deceased annuitants. During FY 2016, the agency worked to finalize a new Information Exchange Agreement with the Social Security Administration

(SSA). This agreement will hopefully improve the accuracy of data held by both agencies by authorizing OPM to provide SSA with recurring death information from the annuity roll. OPM is currently in discussions with the U.S. Department of Labor's Office of Workers' Compensation Program to establish a similar, mutually beneficial information sharing agreement. We believe that this focus on improving the quality of the data held not only by OPM but also other Federal agencies is a positive development.

The OIG has consistently maintained that the agency does not utilize data mining as a means to identify and prevent improper payments. In response, the agency recently provided us with a list of approximately 30 different reports that it now runs, asserting that use of those reports constitutes data mining within the meaning of our past recommendations. However, despite requests, the agency has failed to provide descriptions of the reports and how they are used. Effective data mining consists of more than simply compiling data. The purpose of such an exercise is to then analyze and use this data to continually evaluate what prevention and identification tools are effective and efficient.

We continue to believe that a key problem with OPM's identification and prevention efforts is that they rarely require an annuitant to actively engage with the agency. Almost all benefit payments are deposited directly into annuitants' bank accounts through electronic funds transfer. OPM routinely sends mail to annuitants, such as information on new cost of living adjustments or changes in the FEHBP, but these mailings do not require any action by the annuitant. Although OPM does send biannual surveys to certain types of annuitants (such as those with representative payees), large segments of the elderly annuitant population do not receive these surveys. OPM proactively reaches out to older annuitants only through special projects conducted on an intermittent basis or if the agency has a specific reason to suspect an annuitant is deceased.

In response to our concerns, OPM will initiate such a special project during the course of FYs 2017 and 2018. The agency is planning to survey annuitants over the age of 90, something that has not been done since 2010. We are encouraged that the agency leadership is finally committing resources to conducting this exercise again.

Despite these modest improvements, we continue to believe that the agency's improper payments prevention program still contains significant deficiencies. The agency does not have a comprehensive strategy in place and without one, they cannot effectively use the information gathered through their various special projects to build a robust set of internal controls to protect the integrity of the retirement programs.

6. RETIREMENT CLAIMS PROCESSING

OPM is responsible for processing retirement applications for Federal employees and the timely issuance of full annuity payments to annuitants remains a challenge for OPM.

In January 2012, Retirement Services office released and began implementation of its Strategic Plan with the goal of adjudicating 90 percent of retirement cases within 60 days starting in July 2013. A portion of Retirement Services' workload involves retirement benefits provided by other agencies that need to be coordinated with OPM's benefits, such as Federal Employees Retirement System disability benefits and Office of Workers' Compensation Programs claims.

As of August 2016, Retirement Services has not met its strategic plan goal of adjudicating 90 percent of retirement cases within 60 days. Specifically, 78 percent of claims 60 days old or less were processed in an average of 42 days, while claims over 60 days old were processed in an average of 112 days.

OPM is focused on both its internal process improvements and external outreach towards other Federal agencies to meet their goal set in its 2012 strategic plan of processing 90 percent of claims within 60 days, and continues to implement the core components in the Retirement Services Strategic Plan, including people; productivity and process improvements; partnering with agencies; and partial, progressive IT improvements; as well as its ongoing Lean Six Sigma efforts.

However, without proper resources, OPM's ability to meet its goal of processing 90 percent of retirement claims in 60 days is in jeopardy. In addition, if OPM does not receive funding for its IT initiatives, the ability to achieve sustained progress in meeting its processing goals will be severely impacted.

7. PROCUREMENT PROCESS FOR BENEFIT PROGRAMS

On October 14, 2015, the OIG issued a Management Alert memorandum to OPM's Acting Director outlining our continued concerns related to the procurement operations for several OPM benefit programs. Specifically, these benefit program procurements included the BENEFEDS benefits portal, the Federal Long Term Care Insurance Program (FLTCIP), and the Federal Flexible Spending Account Program (FSAFEDS). The memorandum described the continual delays in OPM's benefit program procurements and the failure to properly manage the bid process for these contracts within the allotted timeframes established by the Federal Acquisition Regulations (FAR). These issues were previously identified and

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communicated by our office over several years without a sufficient response or corrective action plan from OPM.

Our primary concern is that the Federal Government, its program participants, and ultimately the American taxpayer may not be receiving the best value in services and benefits because the competitive bidding process has been circumvented or delayed. These delays can be directly associated with a lack of contract oversight by OPM's Office of Procurement Operations (OPO) and the Federal Employee Insurance Operations (FEIO) office's desire for program continuity overriding its responsibility to ensure contracts are re-bid in accordance with the FAR.

Since the issuance of our Management Alert memorandum, OPM has worked to correct the deficiencies in its benefit program procurement process. OPO and FEIO have collaboratively prepared a corrective action plan addressing the OIG's recommendations found in the Management Alert memorandum. The corrective action plan highlights OPM's strategy to:

- Develop and modify existing policies and procedures to improve controls;
- Identify and document roles and responsibilities within OPM offices (including an oversight and compliance process of program offices with delegated procurement authority);
- Assess the feasibility of separating the contracting functions from the administrative functions for FEIO's Healthcare and Insurance group based on overall impact to customers;
- Improve inter-agency procurement communications by conducting monthly meetings with program offices regarding procurement activities;
- Issue quality contracting work file guidance;
- Hire additional operational contract specialists, experienced procurement analysts and cost and pricing analysts;
- Establish a Contract Review Board to ensure oversight and compliance controls of the procurement process; and
- Conduct bi-weekly status update meetings with the OIG to ensure the procurement process for the aforementioned programs remained on target for an award date.

After nearly 13 years, OPM awarded a new FSAFEDS contract on March 1, 2016 to WageWorks. The FSAFEDS program was fully transitioned to WageWorks by the planned date of September 1, 2016. A new FLTCIP contract was also awarded on April 5, 2016. The BENEFEDS procurement is currently in progress with an FY 2017 anticipated award date.

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While we recognize the above actions are a step in the right direction, the question remains if the corrective action plan is adequate in preventing delays in the procurement process. The challenge for OPM will be multifaceted and involve a need to deliver a long-term, consistent procurement strategy that ensures proper independent oversight, compliance with all applicable regulations, and the timely re-bidding of contracts so that the best value for the Federal government is achieved. Resource requirements within OPO and FEIO will need to be assessed on a regular basis so that OPM can manage multiple procurement actions simultaneously. Any extensions of contract periods of performance or contract modifications must be justified, demonstrate compliance with the FAR for the exercise of options, and be documented and approved by OPM's oversight authority (i.e., Contract Review Board). The OIG will continue to monitor the progress of OPM's benefit programs procurement process as it completes this current round and prepares for future procurement actions.

8. PROCUREMENT PROCESS OVERSIGHT

OPM's Office of Procurement Operations is responsible for providing centralized contract management that supports the operations and Government-wide missions of OPM, as well as managing the Government-wide Purchase Card program. Recent internal events, such as the data breaches that affected over 20 million current and former Federal employees, focused a spotlight on the contracts awarded to mitigate the impact of these recent events on current and f0lmer Federal employees.

During FY 2016, OPO began developing and implementing a corrective action plan to address issues with achieving appropriate resource levels, the lack of delegation of authority oversight, improving customer satisfaction, the lack of standardized documentation and outdated policies and procedures, documentation inaccessibility, outdated training policy, and the lack of procurement actions oversight, as identified in an FY 2015 independent strategic assessment, as well as a recent risk assessment and audit by our office of OPO's procurement operations.

Specifically, OPO has taken the following steps during FY 2016 to address the concerns:

- Resource Levels – OPO performed a review of OMB Benchmarking results for similarly situated contracting offices to assess performance and staffing, and the creation and filling of six new senior positions to support procurement policy development and compliance/oversight functions. In addition, OPO requested and received approval for 11 additional hires over previously approved staffing levels, and has been working with a contractor to obtain additional contract file and contract closeout support.

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- Delegation of Authority - OPO developed and issued new policy on Contracting Officer Warrants and has continued ongoing efforts to better understand roles and responsibilities associated with delegated offices' contract administration functions, by collaborating with OPM's Healthcare and Insurance and Employee Services program offices to review Healthcare and Insurance employees' contracts administration functions. In addition, OPO is currently collaborating with Healthcare and Insurance to initiate oversight efforts of delegated procurement actions and commence an initial file review and compliance check process based on existing policy/ guidance.
- Customer Satisfaction - OPO worked to distribute surveys to the contracting office, program offices, and vendors, as part of the OMB/Office of Federal Procurement Policy Acquisition 360 initiative, to increase collaboration, provide data on how OPO is doing, and identify opportunities to improve.
- Lack of Standardized Documentation and Outdated Policies and Procedures – OPO also developed and issued new/updated policy and internal guidance related to proper file documentation and maintenance; interim Review and Approval of Contractual Documents, including the Office of General Counsel's role in the contract lifecycle; Contracting Officer Warrants; Category Management; Contract Review Board; update of the Office of Federal Procurement Policy, Small Business Administration Memorandum; Purchase Card Transaction Review; IT Provisions; Acquisition Circular 05-85 and 05-88; Suspension and Debarnlent; and Ratification of Unauthorized Commitments.
- Documentation Accessibility – OPO's internal policies and guidance are made available to staff through the OPO's internal website.
- Staff Training - OPO held staff training to address the areas of lnterim Review and Approval of Contractual Documents, Small Business Subcontracting (in collaboration with the Office of Small and Disadvantaged Business Utilization), Program Office Source Selection, Contracting Officer Warrants, Contract Review Board and the Procurement Information System for Management, and is currently conducting a training and certification assessment of all acquisition professionals in OPM, to include a refresher of Contracting Officer Warrants through the Federal Acquisition Institute Training Application System tool.
- Lack of Procurement Actions Oversight and Review - OPO has started monthly program reviews with all program offices to review all current and planned procurement actions.

While OPO has begun making strides in improving its internal controls, it will take time to determine if the implementation of their corrective action plan leads to improvements in OPO's resource levels, delegation of authority, customer communication, policy standardization, documentation accessibility, staff training, and procurement actions oversight.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

OCT 3 1 2016

MEMORANDUM FOR NORBERT E. VINT
Deputy Inspector General

FROM: Dennis Coleman
Chief Financial Officer

SUBJECT: Agency Comments on the OIG Report – Top Management Challenges, dated October 12, 2016

Thank you for your annual report on the top management challenges facing OPM. The challenges identified in your report are issues that are not easily resolved. In many cases, they require multi-year investments or additional upgrades to technology, or substantial changes to long-standing policies, procedures, or programs both within and outside of OPM.

We concur with the findings of your report, and OPM is committed to addressing these challenges. Nine of the 11 challenges you identified are aligned to strategies in OPM's current strategic plan. To drive progress in resolving these challenges, the agency is improving its action planning processes in accordance with successful practices identified in the June 2016 GAO report *MANAGING FOR RESULTS: Agencies Need to Fully Identify and Report Major Management Challenges and Actions to Resolve them in their Agency Performance Plans* (GAO-16-510). Going forward, for each challenge, the agency will identify performance information–specifically performance measures and targets, milestones, planned actions, and an agency official responsible– needed to resolve the challenges for its Congressional Budget Justification, which includes the agency's Annual Performance Plan. The agency will use this framework to track its progress in addressing the challenges in FY 2017 and beyond, reporting on progress in the Annual Performance Report. While more work remains, these actions should help facilitate the resolution of these challenges.

Thank you for considering management's perspective as you develop this annual report. We look forward to a continued constructive exchange of ideas and information with you in each of these areas.

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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

OPM's Summary of Financial Statement Audit and Management Assurances are shown in Tables 10 and 11, respectively.

TABLE 10 - Summary of Financial Statement Audit

Financial Statement Audit Opinion and Material Weaknesses					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Systems Control Environment	1	0	0	0	1
Total Material Weaknesses	**1**	**0**	**0**	**0**	**1**

TABLE 11 - Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Modified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Systems Control Environment	1	0	0	0	0	**1**
Total Material Weaknesses	**1**	**0**	**0**	**0**	**0**	**1**

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	**Modified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information System Control Environment	1	0	0	0	0	1
IS Security Assessment and Authorization Process	1	0	0	0	0	1
Information Security Management Structure	0	1	0	0	0	1
OIG Office of Investigations Tracking System CLEAR, Offline	1	0	1	0	0	0
Total Material Weaknesses	**3**	**1**	**1**	**0**	**0**	**3**

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Federal systems conform except for the below non-conformance**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Systems Control Environment	1	0	0	0	0	**1**
Total Non-Conformances	**1**	**0**	**0**	**0**	**0**	**1**

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

IMPROPER PAYMENTS INFORMATION ACT (IPIA AS AMENDED BY IPERA AND IPERIA) REPORTING DETAILS

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Additionally, OMB has specified that improper payments include payments where the agency's review cannot discern whether a payment was proper as a result of insufficient or lack of documentation. In 2002, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities.

In 2010, Congress enacted the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (P.L. 111-204). The Act requires agencies to perform risk assessments on all programs and activities in 2012, and at least once every 3 years thereafter. Additionally, agencies must perform Payment Recapture Audits (PRAs) on all agency programs and activities that expend at least $1 million annually so long as the PRA is cost effective. The agency must report improper payments in its annual PAR or the AFR, which the agency's Inspector General will use to determine if the agency is in compliance with IPERA.

OMB M-12-11, *Reducing Improper Payments through the "Do Not Pay (DNP) List"*, required agencies to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur. The Improper Payment Elimination and Recovery Improvement Act (IPERIA) of 2012 (P.L. 112-248) strengthened the requirements for agencies to use Do Not Pay (DNP). The DNP requires agencies to review pre-payment and pre-award procedures and available databases to determine program or award eligibility and prevent improper payments before releasing any federal funds.

In the AFR, OPM is reporting details on improper payments for FY 2016 in two major programs: Federal Retirement and FEHBP. FY 2016 improper payments for those two programs respectively are $304.21 million and $97.05 million, for a total of $401.26 million. IPERA and Appendix C to OMB Circular A-123 define programs as being susceptible to significant improper payments if the program or activity has improper payments that exceed <u>both</u> 1.5 percent and $10 million of program spending, or $100 million. Susceptible programs must be reported annually.

PROGRAM DESCRIPTIONS

OPM is reporting for FY 2016 improper payments for its two largest programs: Federal Retirement and FEHBP.

RETIREMENT PROGRAM

OPM paid $82 billion in defined-benefits to retirees, survivors, representative payees, and families during FY 2016 under the CSRS and FERS. Eligible retirees and survivors generally receive monthly benefits but, in some cases an applicant can also receive a lump-sum payment. Eligible employees who leave Federal service before qualifying for retirement under CSRS or FERS may request that their contributions be returned to them in a lump-sum refund payment.

HEALTH BENEFITS PROGRAM

FEHBP is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, former spouses, eligible tribal employees and their family members. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for their FEHBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. In 2016, ERCs incurred benefit and administrative expenses of over $43.4 billion on behalf of the FEHBP, and the FEHBP paid over $6.3 billion in premiums to CRCs.

I. RISK ASSESSMENT

OMB Circular A-123, Appendix C, requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. As a result of weaknesses identified in OPM's risk assessment process for FY 2015, OPM revised its risk assessment methodology in incorporate all of the risk factors required by OMB in Appendix C. Based on this revised methodology, OPM conducted risk assessments of FEGLI and the six-sub-processes within its Administrative Support Program, as follows: Vendor Payments, Travel Card, Travel Reimbursements, Federal Investigative Services, Payroll, and Purchase Cards. As a result of the risk assessments, FEGLI and the six sub-processes within its Administrative Support Program were not identified as programs susceptible to significant improper payments.

- The following risk factors were considered in each risk assessment:
- Whether the program is new to the agency
- The complexity of the program or activity reviewed with respect to determining correct payment amounts
- The volume of payments made annually
- The number of contracts awarded in the most recent year
- Total program budget in the most recent year
- Whether payments or payment eligibility decisions are made outside of the agency, such as by a state or local government
- Recent major changes in program funding and/or program operations
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate
- Significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification
- Extent of audit coverage
- Employee turnover
- Payment system issues
- Issues related to coverage of the program in the news media
- Inherent risk of improper payments due to the nature of agency programs or operations
- Results from prior improper payment work

II. SAMPLING AND ESTIMATION

RETIREMENT SERVICES PROGRAM

RS has procedures for identifying and recapturing improper payments, preventing erroneous payments and protecting taxpayer resources. Improper payments can be caused by issues as varied as delays in survivors reporting the death of an annuitant to outright fraud.

The improper payment rate for retirement payments combines both underpayments (monies that OPM owes to the annuitant) and overpayments (monies that OPM has paid out to the annuitant erroneously or in excess of entitlement). Improper retirement payments are calculated by dividing the underpayments (determined by statistical sampling) and the overpayments (the actual value) by total outlays. Overpayments for the fiscal year are reported by OPM's OCFO using the actual overpayments determined by RS throughout the year. For underpayments, OPM uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases under the two retirement systems to determine the value. The full process for measuring and calculating the improper payment rate is detailed in the OCFO Work Instruction on *Reporting Improper Payments for the AFR*.

HEALTH BENEFITS PROGRAM

OPM uses the results of audits of CRCs Medical Loss Ratio and Similarly Sized Subscriber Groups, as well as claims payments and expenses paid on behalf of the FEHBP by ERCs to estimate FEHBP improper payments. One hundred percent of FEHBP premium payments are subject to audit which exceeds the sample size required by OMB in Appendix C to OMB Circular No. A-123. These samples are generally judgmental, not random, targeting areas most likely to contain improper payments. Recent sampling of some ERC's has included projected findings, which the contracting office continues to evaluate. The samples also include Carriers which have not been audited recently as well as those Carriers and processes requested by agency management and contracting officers.

OPM's Healthcare and Insurance (HI) organization assesses OIG audit reports, comments and clarifications from the FEHB Carriers, the OIG, OPM's Actuaries, and Office of the General Counsel (OGC). HI makes a preliminary determination on each recommendation concerning whether, and to what extent, it constitutes an improper payment. HI's determinations are the basis for improper payment amounts routinely reported to OMB although provisional improper payments are known as "questioned amounts", in the respective OIG audit report. Determined amounts and improper payments can fluctuate from year-to-year based on several factors including: the number of final audit reports received by HI for review, audit type and scope, the size of the health plans under examination, the nature of the overpayments, the amounts questioned in OIG audit reports, and the disparities between OIG findings, HI determinations and the receivables set up reflecting those determinations.

A Carrier's response to an adverse monetary audit finding may indicate their agreement or disagreement with the finding. A Carrier's agreement with a finding does not necessarily mean that monies will be fully recovered. Carriers are contractually required to exercise due diligence in recovering overpayments, and they must provide reports on their progress toward remediating audit findings. Factors contributing to timely, successful closure of an audit recommendation include: the age of an overpayment when identified, whether due diligence was demonstrated by the plan, sampling methodology, actions required to validate an audit finding and the level of ambiguity or interpretation of contract provisions and other related laws or agreements in place, if any. For example, a Carrier may agree that an overpayment was made, but after exhausting its recovery efforts declare it to be uncollectible. A Carrier may also contest the audit's findings by documenting its position with sound evidence or by asserting differences in the interpretation of contract language, law, precedent or on other grounds. Generally, most findings the Carrier agrees with result in full or partial recoveries. FEHB improper payments also include recoveries from OIG's investigations of reported fraud and abuse. This category of improper payments is subject to wide fluctuations based on factors including the number, size, age, and timing of legal proceedings and settlements, which are often negotiated by the Department of Justice on behalf of the Federal government. More information pertaining to measuring and calculating the FEHBP improper payment rate can be found in the OCFO Work Instruction *Reporting Improper Payments for the Agency Financial Report*.

III. IMPROPER PAYMENT REPORTING

OPM improper payments for FYs 2015 – 2016 and its targets for 2017 – 2019 are reported in Table 1.

RETIREMENT SERVICES PROGRAM

Overpayments represented 78 percent of total improper payments in the Retirement Program during FY 2016. As a percentage of total outlays, the overpayment rate was .29 percent. Although OPM's overall improper payments rate for the Retirement program continues to be very low considering its size and complexity (.37 percent in FY 2016, based on Table 1), RS will continue working towards reducing improper payments in FY 2017 and beyond.

HEALTH BENEFITS PROGRAM

The FEHBP improper payments were $97.05 million in FY 2016, which is .19% of the total outlays for All Carriers including both Over and Underpayments from audit determinations as well as Investigative recoveries. FEHBP's improper payment amounts are subject to substantial fluctuation from one year to the next. Audit findings and investigative recoveries reported in any given year typically represent an audit scope or investigative activity that may span several years, but are reported in the year in which the final audit report is issued, settled, or recovered (investigative). The increase in improper payments from FY 2015 to FY 2016 is largely due to the determination of questioned costs related to audit issues still under consideration by the Contracting Officer.

As previously noted, improper payments in the FEHBP, as measured by a comprehensive group of audit determinations, plus fraud, waste and abuse recoveries, represent a small percentage of the program's total premium payments. However, OPM dedicates substantial resources to mitigate, resolve and recover improper payments and to address procedural audit findings. That unwavering commitment is evidenced by OPM's efforts to reduce improper payments and strengthen internal controls.

The following tables reflect the Improper Payment rates, outlook and recapture activity for both Retirement and FEHBP.

TABLE 1 - Improper Payment Reduction Outlook

Improper Payment Reduction Outlook ($ in millions)

Program or Activity	FY 2015 Outlays	FY 2015 IPs	FY 2015 IPs	FY 2016 Outlays	FY 2016 IPs	FY 2016 IPs	FY 2016 Over-payments	FY 2016 Under-payments	FY 2017 Outlays	FY 2017 IPs	FY 2017 IPs	FY 2018 Outlays	FY 2018 IPs	FY 2018 IPs	FY 2019 Outlays	FY 2019 IPs	FY 2019 IPs
	$M	%	$M	$M	%	$M	$M	$M	$M	%	$M	$M	%	$M	$M	%	$M
Total Program Retirement	$81,067.70	0.38	$304.20	$82,013.20	0.37	$304.21	$237.16	$67.05	$82,969.73	0.36	$298.69	$83,937.41	0.35	$293.78	$84,916.38	0.34	288.72
FEHB - ALL carriers	48,099.11	0.14	68.43	49,820.21	0.19	97.05	95.98	1.07	51,015.89	0.25	127.20	52,240.27	0.24	127.20	53,494.04	0.24	127.20
CRCs Total	6,283.30	0.81	50.66	6,336.15	0.21	13.34	13.34	0.00	7,652.38	0.65	49.70	7,836.04	0.63	49.70	8,024.11	0.62	49.70
ERCs Total	41,815.81	0.04	17.77	43,484.06	0.19	83.72	82.65	1.07	43,363.51	0.18	77.50	44,404.23	0.17	77.50	45,469.93	0.17	77.50

Notes:

Totals in this table may not add due to rounding.

Improper payment rates were calculated based on total numbers and therefore calculations based on the rounded numbers in this table may not match actual rates.

IV. IMPROPER PAYMENT ROOT CAUSE CATEGORIES

TABLE 2 - Improper Payment Root Cause Category Matrix ($ in millions)

Reason for Improper Payment		Retirement Services[1]		Federal Health Benefits		
		Over-payments	Under-payments	Over-payments	Under-payments	
Program Design or Structural Issue		-	-	-	-	1
Inability to Authenticate Eligibility		-	-	-	-	2
Failure to Verify	Death Data	115.53	-	-	-	3
	Financial Data	-	-	-	-	4
	Excluded Party Data	-	-	-	-	5
	Prisoner Data	-	-	-	-	6
	Other Eligibility Data (explain)	-	-	-	-	7
Administrative or Process Error Made by	Federal Agency	-	67.05	-	-	8
	State or Local Agency		-	-	-	9
	Other Party (e.g., participating lender, healthcare provider, or any other organization administering Federal dollars)	-	-	84.33	1.07	10
Medical Necessity		-	-	-	-	11
Insufficient Documentation to Determine		-		-		12
Other Reason (A) (explain) - Investigative (FWA) Recoveries		-	-	11.65	0.00	13
Other Reason (B) (explain)		121.63[1]	-	-	-	13
TOTAL		**237.16**	**67.05**	**95.98**	**1.07**	
		A	B	A	B	

[1] OPM is aware of the major contributors of improper payments but currently is unable to provide the level of granularity needed to fully fulfill OMB Circular A-136 requirements. As a result, the remaining balance of these improper payments are being placed in "Other Reason" to include the FERS Disability Offset for Social Security Disability, Delayed reporting of Eligibility, Unauthorized dual benefits or overlapping payments between benefit paying agencies, and fraud. However, OPM is fully committed of identifying the root causes of improper payments and has actively engaged the Information Technology group to assist with achieving this commitment and anticipate substantial progress in FY 2017.

V. IMPROPER PAYMENT CORRECTIVE ACTIONS

RETIREMENT SERVICES PROGRAM

Improper payments remain a marginal percentage of both the number and value of total retirement benefit payments. OPM is committed to reducing improper payments by implementing internal controls and corrective actions.

OPM has identified the following as the principal causes for improper payments in the Retirement Program and the corrective actions that RS performs to reduce their occurrence in the Retirement Program.

1. Failure to Verify-Death Data

ISSUE

While we are using the category Failure to Verify: Death Data this aligns to OMB's definition but not the literal interpretation. OPM verifies entitlement to survivor benefits but does not verify each individual recurring monthly payment to 2.6 million annuitants. These payments are processed in collaboration with U.S. Department of Treasury to ensure that no one endures financial hardship. These payments are due the first business day of each month.

CORRECTIVE ACTIONS

Consolidated Death Match (CDM)
OPM compares the CDM with OPM's annuity roll weekly to identify annuitants who SSA reports as deceased. The Validated Agency Match System (VAMS) processes the death information for the purpose of terminating Federal benefits and subsequently preventing improper payments. Collection actions are initiated for any overpayments that are discovered.

SSA Death Master File (DMF)
OPM conducts yearly data matches between our annuity roll and the SSA DMF. These matches compare annuitant identifiers with current SSA death records. These matches supplement the weekly CDM and help identify reported deaths that might be missed in the CDMs due to timing differences. The CDM identified and documented $68,527,744 in overpayments during FY 2016. Specific information on 2016 results from the DMF based on death reporting data from SSA will be available by the close of calendar year 2016.

2. Administrative or Process Error-Made by Federal Agency

ISSUE

OPM's annuity calculations have automated and manual components. The manual components are subject to human error. Errors can include incorrect effective dates, salary rates, and tours of duty which all impact annuity calculations. These errors may occur because OPM incorrectly entered the information or the annuitant or separating agency provided incorrect information. Administrative errors may occur with both underpayments and overpayments.

CORRECTIVE ACTIONS

Audits
Quality Assurance (QA) performs continuous audits of newly adjudicated retiree and survivor claims under both CSRS and FERS to calculate accuracy rates and the corresponding value of improper payments, as well as to identify any training or systemic deficiencies.

QA provides feedback through monthly and formal quarterly reports with recommendations, if applicable. These reports provide specific analysis meant to discover trends that may not be discernible in any given month. The information gained through these audits is used to make informed decisions regarding resources and to ensure compliance with policies and procedures governing the determination and payment of benefits. This activity is also leveraged for testing as part of the annual independent audit of the agency's consolidated financial statement. As such, these statistically valid audits are a critical component of our internal control activities.

RS conducts audits on all Agency retirement packages during the screening and development stage of processing. Results are entered into the Agency Audit Tracking System and reports are generated that calculate the government wide and individual agency accuracy rates. The percentage of new claims with errors is reported monthly on the OPM web site and a detailed report is provided to the agency headquarters' benefits officers. Each month, a message is sent to the headquarter benefits officers, transmitting their results and highlighting the most common errors and tips to avoid these errors. RS issued a Benefits Administration Letter in January 2014 that addressed the most frequent errors, and provided guidance to agencies on how to document a retiree's eligibility to continue health insurance coverage. It is expected that this guidance will reduce the number of new claims with these errors.

The current combined weighted accuracy average for CSRS and FERS annuity and survivor claims from October 1, 2015 through July 31, 2016 was 96 percent.

Benefits Officer Training
OPM trains and provides guidance to agency benefits officers to ensure that employees understand all of the benefit options available to them. A highly trained cadre of human resource benefits officers assists OPM by producing fully developed retirement cases with accurate information, leading to fewer errors or omissions and thus fewer improper payments.

In FY 2016, RS provided regular feedback to agencies on claims deficiencies. When agencies submit incomplete or inaccurate retirement packages, OPM is required to spend additional time and resources developing the claim before it can be processed. Working with agency Chief Human Capital Officers is fundamental to improving the accuracy and completeness of incoming claims. The agency accuracy rate for retirement application submissions for FY 2016 through September 30 was 89.2% percent.

3. Other Reason(s) (B)

There are number of reasons for improper payments: currently RS can identify the major contributors and the corrective actions to remedy them:

FERS Disability Offset for Social Security Disability
In order to prevent financial hardship to an annuitant, OPM is obligated to finalize adjudication for a FERS disability claim as soon as it has all the necessary retirement documentation. Frequently, OPM begins payment of a FERS disability before SSA completes processing of the SSA disability claim. In the absence of a decision on the SSA disability claim, OPM commences payment of the FERS disability without any reduction for SSA disability. If later approved, the accrued SSA disability award is paid retroactively. As a result, OPM must re-compute the FERS disability annuity to apply the reduction for the retroactive SSA disability award. RS is required to notify the annuitant of the overpayment and provide due process. These overpayments are sometimes uncollectible by OPM because some debtors are simply financially incapable of repaying OPM. As such, OPM must terminate collection in accordance with the provisions of Title 5 and Title 31, United States Code.

SSA Retroactive Awards
SSA issues a retroactive lump sum payment directly to a newly eligible disabled individual, less any required attorney fees. Social Security does not offset its benefit award by the amount of disability benefits/annuity paid by OPM (and has no legal requirement to do so). SSA provides OPM with query access to its disability award database, but does not specifically notify OPM that a Federal annuitant has been awarded SSA disability (and has no legal requirement to do so). At the time the FERS disability annuity is finalized, OPM instructs FERS disability annuitants to immediately notify this agency if SSA awards them a disability award, and to set aside the sum total of SSA's retroactive award in anticipation of recovery by OPM. OPM only sporadically receives notification, however, from annuitants about retroactive SSA awards. In many cases, the disability annuitants spend the retroactive sum before recovery by OPM can begin.

Overpayment Recovery
Currently, after due process, OPM recovers overpayments through installment deductions directly from annuities (on-roll collections), or, in certain cases, such as very small recurring annuities, OPM must seek direct payments from debtors

through its "off-roll" collection processes. Although the FERS disability annuitants are notified of their obligation to repay a FERS overpayment debt to the government, some debtors are simply financially incapable of repaying OPM, and debt must be written off in accordance with Title 5 and Title 31, United States Code.

CORRECTIVE ACTIONS

To remedy the problems with the coordination for payment of these benefits Congress included in the Bipartisan Budget Act of 2015 a provision which requires SSA and OPM to create an administrative process by which a FERS disability annuitant may authorize SSA to transfer a portion of the past-due Social Security benefit payable to the annuitant to OPM for the purpose of applying the past-due Social Security benefit to the FERS disability annuity overpayment.

SSA and OPM have created a working group that has been meeting over the past six months to discuss and resolve legal, administrative and technical issues related to implementing the law. Both parties are now working on writing an Information Exchange Agreement between the two agencies that spells out the roles and responsibilities of both parties to the agreement. The goal is to reach consensus and sign the agreement in FY 2017.

DELAYED REPORTING OF ELIGIBILITY

The status of an annuitant may periodically change and can result in a change to the benefits due. These changes may be due to a life event such as a death, marriage, termination of a marriage, child eligibility, or earnings limitations. The status can also change when the annuitant is restored to earning capacity, or reemployed for other reasons. OPM relies on annuitants and other sources to learn of some of these status changes. Delayed reporting of the status changes, or sometimes no reporting by the annuitants or other sources, can result in an improper payment.

Surveys

To identify annuitant status changes and mitigate improper payments, OPM conducts several surveys described below. Anomalies identified in these surveys are researched by OPM and, if needed, referred to the OIG.

Marital Survey

OPM conducts the marital survey annually to determine if a surviving spouse is still eligible for benefits. The survivor annuity is terminated if the surviving spouse was married to the employee for less than 30 years and remarries before age 55.

Representative Payee Survey

OPM conducts the representative payee survey to ensure that the person receiving benefits on behalf of an annuitant is the payee on record. The payee also certifies that he or she is using and managing the annuity payments in the best interest of the annuitant.

Student Survey

OPM conducts the student survey to ensure that the surviving child meets basic eligibility requirements for monthly survivor benefits and is a full time student at an accredited educational institution.

Disability Survey

OPM conducts the disability earnings survey because there is a limit on the amount certain disabled retirees can earn in the calendar year. In addition, the disability survey is mandated by law. The annuitant cannot exceed the 80 percent earning capacity limit.

FERS Annuity Supplement Survey

OPM conducts the FERS annuity supplement survey annually. OPM sends the survey to all annuitants who receive the FERS supplement. If over the annual earnings limitation in a prior year, the annuity supplement is reduced or terminated.

The Retirement & Eligibility Service's mission is to protect the integrity of the annuity roll by conducting surveys and matches that allow OPM to discover and terminate improper payments. Annuity benefits were terminated based on earned income information from SSA. The Retirement Surveys and Students Branch's Disability Earnings Survey identified and documented $388,707 in cost savings. Regulations governing the Disability Earnings Survey require OPM to terminate disability benefits effective June 30th, each year. Because benefits are terminated timely, the Disability Earnings Survey does not report overpayments. The Retirement Inspections Branch's Disability Earning Match identified and documented $1,803,429 in overpayments. The statistical data represents FY 2016. The Marital Certification Survey identified and documented $103,111 in overpayments and a savings of $57,604 due to remarriage of the survivor annuitant prior to age 55. The statistical data represents FY 2016.

Improved Communications
OPM strives to reduce delayed reporting of status changes by communicating important information on the OPM website and preparing and distributing videos about common life events and their impacts to annuity payments. OPM also makes use of social media to communicate important messages about these important life events. The videos and messages include the following topics:

- Death of a Retiree
- Remarriage after Retirement
- Divorce after Retirement
- Change of Address

RS communicates with annuitants through various media, such as the annual annuity mailer, email blasts, the benefits booklet, the Retirement Information Center portion of OPM's website, and Twitter. Topics in FY 2016 included tips on the availability of Services Online (the web portal for annuitants), information on annual surveys, and life events for which annuitants may need to contact OPM.

Proof of Life
With the ever increasing costs, government-wide travel safety concerns and restrictions on international travel, OPM has decided that Proof of Life exercises will no longer be one of OPM's priorities. However, we have continued to work with our partners at SSA and Department of State (State) to improve the overseas payment processes. OPM, SSA and State are reliant upon each other to make the overseas payment process as efficient as possible. OPM has updated the Foreign Affairs Manual (FAMS) issued by State to its overseas posts on how to most efficiently conduct business with OPM. OPM has done training for the Foreign Benefits Units in Latin America using teleconferencing. While this is not ideal, we were able to exchange information and discuss areas of concern. Also, OPM has done a presentation at the Foreign Benefits Officers' (FBO) annual conference held at Social Security Administration. This has allowed the FBO's, State and OPM to discuss the problems we face and ways to resolve them. This open communication has been crucial for sharing information about our joint customers. This includes reports of deaths, change of address/ITS, changes in financial situations in country as well as changes to International Treasury Services in various countries.

Over 90 Project
OPM periodically investigates the status of retirees and survivors over the age of 90 to ensure their monthly annuity benefits are accurate and to identify unreported deaths. OPM initially conducted an "Over 90 Project" in October 2010 in response to the OIG recommendation that (in part) stated, "OPM perform a periodic analysis of all annuitants/survivors on the active annuity roll who are 90 years of age and older to validate whether they are alive or dead…." No further action was taken in FY 2016.

UNAUTHORIZED DUAL BENEFITS OR OVERLAPPING PAYMENTS BETWEEN BENEFIT PAYING AGENCIES

Governing statutes and legislation on benefit programs may prohibit dual benefits from being paid by two agencies at the same time, or limit the benefit amounts that can be paid by the respective agencies. OPM, similar to other benefit-paying agencies, establishes mutual agreements so that benefits are coordinated, either before the payment or retroactively.

For instance, an example of a prohibited dual benefit is when an annuitant receives benefits simultaneously from both the U.S. Department of Labor, Office of Workers' Compensation Program (OWCP) and the Retirement Program. Retirees often have a choice between accepting the benefits of either program, and can make changes in that choice, but typically cannot receive dual benefits at the same time.

CORRECTIVE ACTIONS

OPM conducts data matches to identify accounts that may be receiving improper payments. These matches monitor information from annuitants and survivors. OPM conducts the following data matches to reveal unreported deaths and other unreported events:

Disability Earnings Match (DEM)
OPM uses the DEM to audit all individuals under age of 60 who are in receipt of a disability annuity and whose earnings have been identified as near or exceeding the allowable 80 percent limit. This annual match follows a survey of the entire disabled annuitant population under the age of 60. If a person meets or exceeds the 80 percent earnings limit, earning capacity is considered restored and the disability annuity is terminated.

FERS Annuity Supplement Match
OPM uses the annual FERS Annuity Supplement Match to identify annuitants whose income, while receiving the FERS annuity supplement, has exceeded the minimum level of earnings (MLE) set by the SSA. Once earnings reach the MLE, the annuity supplement is reduced $1 for every $2 in earnings exceeding the MLE, or is terminated.

Other Matches with SSA
OPM uses SSA benefit information to recalculate the benefits of certain annuitants and survivors whose computations are based, in part, on military service performed after December 1956 under the CSRS, and of certain annuitants and survivors whose annuity computation under the FERS have a CSRS component.

OPM uses SSA benefit data for the administration of certain programs by OPM's RS. OPM is legally required to offset specific benefits by a percentage of benefits payable to disability annuitants, children survivor annuitants, and spousal survivor annuitants, under Title II of the Social Security Act. This matching activity will enable OPM to compute benefits at the correct rate and determine eligibility for these benefits.

Office of Workers' Compensation Program Match
RS is working to renew an agreement with OWCP. The purpose of this agreement will be to establish the conditions, safeguards and procedures under which OWCP will disclose Federal employee compensation benefit data to OPM. OPM will compare entitlement to payment data and make the necessary adjustments to the annuity to ensure that they are in tandem with each other.

Post 56 Matching Agreement with SSA
A small number of CSRS civil service annuitants have post-1956 military service for which they did not pay a military deposit to credit the time. This military service is used in the SSA computation and is not creditable for CSRS if unpaid. Once confirmed as eligible for SSA benefits via the match, these annuitants have their civil service annuity recomputed to eliminate their military service. We conduct this match with SSA on a regular basis to identify those individuals and take corrective action.

In FY 2013, RS implemented FERS 60/40 automation. By law, FERS disability annuitants are entitled to 60 percent of their average salary less 100 percent of their Social Security Benefit for the first year. After the first year, they are entitled to 40 percent of average salary less 60 percent of their Social Security Benefit for subsequent years. If an annuitant is in interim pay after one year while his or her disability case is being adjudicated, the benefit is now automatically reduced to 40 percent of average salary to prevent overpayment.

FRAUD

Although actual cases of intentional fraud are rare, some annuitants, survivors, or representative payees knowingly receive payments for which they are not entitled. Examples of potential fraud include: unreported deaths, forged documents, disability cases (when reports and tips indicate that the annuitant is found to have been recovered from his/her disability or whose behavior does not indicate the presence or continuation of the disability for which he/she was approved), or representative payees who do not appear to be using money in a specified and appropriate manner when caring for the annuitant or survivor.

CORRECTIVE ACTIONS

OPM reviews potential fraud based on statements from individuals who come forward to provide information to OPM. OPM uses online resources to corroborate the information and build a fraud case. Public records and databases, as well as available medical records, are reviewed and suspected fraud is referred to the OIG for investigation.

OPM continues monitoring accounts that receive more than two recurring payments from the agency each month. Any account that receives three or more annuity payments deposited in a single month is investigated for fraudulent activity.

In addition, OPM emphasizes electronic funds transfer (EFT) for its annuitants. The enrollment rate increased slightly in FY 2016 (through June 30) from 99.3 percent in FY 2015 to 99.4 percent in FY 2016. OPM continues to work to increase the percentage of annuitants who receive their annuity payments through EFT. This helps OPM monitor accounts, recover payments from deceased annuitants, and prevent fraud.

Monitor Reclamations to Recover Funds
OPM monitors reclamation requests that are more than 60 days old for which Treasury did not perform a collection action for the agency. Independent actions are performed to identify debtors and recover improper payments.

HEALTH BENEFITS PROGRAM

OPM recognizes several types of improper payments across the FEHBP. These improper payments are generally administrative in nature. Addressing administrative improper payment's requires a multi-pronged approach, with some newer audit findings presenting even greater complexity, requiring additional research, counsel and the development of new procedures to reach resolution. Additionally, OPM is working with OIG to further update and clarify its Fraud, Waste, and Abuse (FWA) guidance to improve Carriers' efforts to prevent, detect, investigate, and report FEHBP-related fraud, waste, and abuse. The updated guidance is expected to be issued in FY 2017.

1. Administrative or Process Error Made by Healthcare Provider

ISSUE

Carriers sometimes make claim payments that are not properly coordinated with Medicare, paid for ineligible patients, duplicate of previously paid claims, or deemed to be unreasonable. Additionally, audits of community-rated carriers' Medical Loss Ratio are revealing unique situations and generating complex findings requiring extensive coordination and validation to resolve.

CORRECTIVE ACTIONS

Routine global claims audit findings are the result of audits of the Blue Cross Blue Shield network, where the existence of a specific finding such as Claims to Enrollment, Coordination of Benefits or Duplicate Payments is reviewed. We intend to leverage the Federal Employee Program's enhanced ability to identify and mine claims through its Claims Audit Monitoring Tool (CAMT). Our objective is to improve data analysis, increase cross-training between BCBS and Audit Resolution and perform deeper trend analysis of claims types that are or have been contested. Improper payments from these audits are generally caused by internal control weaknesses found in systems or procedures, or human errors that have often been highlighted by procedural recommendations in final audit reports or identified by BCBS' own quality control reviews. HI has incorporated work plans into its resolution of these non-monetary findings and will integrate corrective actions taken by carriers with actions taken in response to similar, prior audit findings to maximize the impact of resolution efforts. Findings that question whether claims were paid at a reasonable rate or in good faith necessitate a greater degree of validation.

FEHBP has incorporated the Medical Loss Ratio (MLR) for most HMOs, in conjunction with reviewing for compliance with community rating methodology. The MLR for each Carrier is calculated by dividing the amount of dollars spent for FEHBP members on clinical services and health care quality improvements by the total amount of FEHBP premiums collected in a calendar year. OPM requires Carrier's to meet a specific MLR threshold, or provide a rebate. Audits of Carrier's MLR calculation have identified unique situations with carriers in the FEHBP, highlighting the need for global review, more detailed criteria and updates to carrier instructions. They require substantial research and coordination with OIG, carriers, the Office of the Actuary, HHS, OGC, and agency audit follow-up officials. Before recovery can be sought or corrective actions taken, these new categories of findings often must first be validated, including reviewing the sourced documents, comparison of plan actions against contract requirements, possible verification by HHS, soliciting an opinion by OPM counsel, and making a final determination by the contracting office. In situations where that decision is not consistent with the audit finding, these steps may lead to final resolution in conjunction with the OPM audit follow-up official. Where needed, the contracting office will coordinate with OA and OIG develop or clarify FEHBP-specific guidance that addresses these unique circumstances in a manner that is auditable.

2. Other Reason(s) (A) – Investigative (FWA) Recoveries

ISSUE

Improper payments may result when FEHB carriers do not have robust Fraud, Waste, and Abuse (FWA) Programs.

CORRECTIVE ACTIONS

OPM provided updated and consolidated FWA guidance to FEHB carriers in December 2014. The guidance addressed the need for Carriers to improve efforts to prevent, detect, investigate, and report FEHBP-related FWA. The Carrier letter established a new format for the FWA reports that Carriers submit to OPM annually. The updated report gathers more information, which can be used to develop a better picture of FWA activity for individual Carriers and across the FEHBP as a whole.

OPM worked closely with the OIG to analyze the 2014 and 2015 FWA Carrier reports and determined that additional updates and clarifications would improve the quality and usefulness of the reports. At the November 2016 FWA Task Force Meeting, OPM presented proposed report improvements and a summary of the data gathered in the 2015 reports. OPM has also issued a draft carrier letter with updated definitions and guidance to the carriers for review and comment. The updated final guidance is expected to be issued in FY 2017.

VI. INTERNAL CONTROL OVER PAYMENTS

OPM's Policy and Internal Control group (PIC) utilized the below Internal Control Standards to assess the effectiveness of RS and FEHB programs' internal control over payments. It was determined in the assessment that RS and FEHB programs foster an atmosphere in which the identification, reduction and recovery of improper payments is a priority for each Program. The programs have developed risk assessments which identify, evaluate, and estimate the levels of risks involved in payments. Each program also has oversight mechanisms to carry out its commitment to reduce and prevent improper payments. OPM has an Improper Payment Working Group that meets regularly to discuss and coordinate major improper payment issues and tasks. PIC concluded that internal controls are in place to prevent improper payments but found some room for improvement. Table 3 includes PIC's assessment of the status of the RS and FEHBP internal controls.

TABLE 3 - Example of the Status of Internal Controls

Internal Control Standards	Retirement Services	Federal Health Benefits
Control Environment	4	4
Risk Assessment	4	3
Control Activities	4	4
Information and Communication	4	4
Monitoring	4	3

Legend:

4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

VII. ACCOUNTABILITY

OPM's improper payment rates for Retirement and FEHBP are well below the OMB threshold of 1.5 percent and recoveries are also high. Therefore, it is difficult to implement ever-increasing cost-effective measures to continuously reduce improper payments or to increase recoveries significantly while maintaining cost-efficiency.

In May 2016, OIG reported that OPM's annual reporting for improper payments was not in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERIA) because OPM a) did not properly categorize the root causes of the retirement benefits program's improper payments in Table 13 of OPM's FY 2015 AFR, and b) due to weaknesses in our risk assessment process, we were non-compliant with the risk assessment criteria, and hence, not compliant with the IPERIA requirements.

OPM issued its corrective action plan to Congress within the required deadlines. In terms of accountability, the Associate Director for Retirement Services has been designated as the senior agency official for the issue related to the root cause categorization. The Chief Financial Officer has been designated as the senior agency official for the issue related to the risk assessments. OPM will track the progress of the actions planned to bring the agency into compliance with IPERIA through its regular Risk Management Council meetings.

RETIREMENT SERVICES PROGRAM

The Associate Director of RS is held responsible by OPM's Director for reducing improper payments through the performance standards. RS has many internal controls and tools in place such as internal audits, surveys, and matches used to reduce improper payments. All of these tools and others are described throughout the document. All of our managers are cognizant of the importance of preventing and reducing improper payments, and many of our offices are directly involved in this multi-task effort. In addition, during FY 2015, RS established a monthly meeting for senior corporate managers to meet and discuss how to reduce improper payments and the status of current activities. These meetings have continued during FY 2016. As noted above, RS is also a major participant in the task force to reduce improper payments to deceased annuitants.

HEALTH BENEFITS PROGRAM

HI contracting officers and management are fully dedicated to the effective administration and oversight of the FEHBP, including accountability for improper payments. Both Standard and Information Systems timelines have been developed to expedite and facilitate the audit resolution process. Managers' performance standards reflect resolution priorities, and timelines focus on increased participation by contracting staff in their oversight responsibilities through continuous involvement across the entire audit and resolution process. OPM issued a Carrier Letter in March 2016 to provide guidance to carriers on adhering to timelines, providing adequate supporting documentation to resolve findings and completing work plans/corrective actions for certain procedural findings. The Carrier Letter also stressed the need for Carriers to work more closely with the OIG during the draft audit phase to identify and resolve potential findings before the report is final. HI management leverages the use of incentive-based service charge agreements, penalty clauses and QA Surveillance Plans. These tools tie plan profits to performance and enable contracting officers (COs) to incentivize or penalize performance. This is being expanded with the implementation of the Plan Performance Assessment, which uses a discrete set of quantifiable measures to examine key aspects of contract performance. The Performance Assessment will be linked to health plan profit and adjustment factors and was developed to establish a consistent assessment system, create a more objective performance standard, and provide more transparency for enrollees.

FEHBP takes accountability for improper payments earnestly, and COs' discretion is a key aspect of HI's oversight of the FEHBP. Improper payments are one of several factors considered. Collaborating with all stakeholders, including OIG, the Office of the Actuary and General

Counsel, COs must consider many technical, cost, and performance issues when resolving audit findings and making decisions on the allowability of monetary recommendations, including the closure of audit recommendations. The CO weighs not only the nature and severity of audit findings, but also costs to the program and reasonable timeframes for remediation. Furthermore, the size and reach of a benefit plan and the possible impact of a audit finding on participants, some of whom reside in areas underrepresented by health care providers and options, must be weighed as well. In this context, service availability and pragmatic considerations may prove pivotal in a CO's decision regarding full or partial recovery of improper payments.

HI works closely with the OIG to ensure and strengthen Plans' internal controls, and holds our COs accountable to provide effective oversight and administration of the FEHBP.

CHIEF FINANCIAL OFFICER

OPM has established the OCFO as the Senior Accountable Official for Improper Payments. OCFO chairs the IPWG which includes staff and management from OPM program offices and meets regularly to address improper payments at OPM.

VIII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

OPM generally believes that it has resources in place and can work with current information systems and other infrastructure to reduce improper payments and increase recoveries. Specific instances where OPM has been increasing or shifting resources or enhancing current systems and processes are described in the corrective actions described earlier in this report.

IX. BARRIERS

RETIREMENT SERVICES PROGRAM

RS continues to experience systemic improper payments when a FERS disability annuitant is awarded Social Security Disability Insurance benefits (see above explanation on root causes of improper payments).

HEALTH BENEFITS PROGRAM

While enhanced FEHBP Carrier oversight and implementation of audit resolution timelines are positive steps HI has taken to strengthen internal controls, there is not always a direct correlation between root causes and remedial actions resulting in lower improper payments. This is largely due to the nature of the audit process. Although the audits are vital and effective as a compliance and oversight tool, their results are subject to substantial variability and some newer findings require significant efforts to validate. Together, this presents challenges in meeting IPERA reporting requirements for projecting out-year improper payments, demonstrating mandatory reductions in improper payments, as well as out-year improper payment recovery targets. This may result in annual variances of tens of millions of dollars in improper payments reported from year-to-year.

Since the OIG's audit agenda encompasses a core of large plans, supplemented by rotational audits of different Carriers from year to year, amounts questioned can be significantly influenced by different types of audits, an audit's scope, the sampling methodology (e.g. the use of actual versus projected findings), and improper payments that are determined (e.g., receivable is set up) but later successfully contested by Plans.

OIG investigative recoveries due to fraud also vary widely from year to year based on the number of cases opened, FEHBP impact, successful prosecution, settlement terms, and recovery. These variables challenge our ability to project linear improper payment amounts and targets and can result in obscuring or magnifying the effects of corrective actions.

X. PAYMENT RECAPTURE AUDIT REPORTING

OPM has generally determined that it is not cost-effective to hire payment recovery auditors for either of its reported programs. Nevertheless, OPM has extensive internal recapture efforts for the Retirement program and FEHBP and has a high rate of recovery for improper payments as noted in Table 4.

TABLE 4 - Overpayment Payment Recapture with and without Recapture Audit Programs ($ in millions)

Program or Activity	Overpayments Recaptured through Payment Recapture Audits																											Over-payments Recaptured outside of Payment Recapture Audits	
	Contracts					Grants					Benefits					Loans					Other					Total			
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Retirement Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	224.22	203.60
Federal Health Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	95.98	39.64
TOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	320.20	243.24

Table 5: Disposition of Funds Recaptured through Payment Recapture Audits Programs
This table is not applicable as OPM does not have a Payment Recapture Audit Program.

Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
This table is not applicable as OPM does not have a Payment Recapture Audit Program.

XI. ADDITIONAL COMMENTS

OTHER SOURCES FOR IDENTIFYING AND CORRECTING IMPROPER PAYMENTS

Data Mining
Retirement Services (RS) has dedicated staff to generate, review and take action on numerous data pulls to maintain and promote the integrity of the Annuity Roll. We are continuously on the lookout for other opportunities to detect anomalies or other indicators in our data that may require further analysis through an ad hoc query.

In our efforts to combat improper payments, our data pull is not limited to deceased annuitants but also includes the age of annuitants to support the periodic mailings of congratulatory letters, cleanup of Social Security Number(s), and names and dates of birth to improve our Internal Revenue Service reporting (1099-R). We also use data mining to show, for example, cases where payments to more than one payee are out of balance, where amounts of benefits exceed a threshold, and when multiple payments are returned. Among the data mining projects done on a recurring basis are cases in suspend for over six months, the duplicate SSN report, cases with no SSNs, multiple claim numbers report for annuity or survivor claims, FERS cases under age 62 receiving SSA benefits and many others.

Returned 1099-Rs
The reasons for most returned 1099-Rs are innocuous in nature, such as an annuitant moving without notifying us of their change of address. However, Retirement Services has been analyzing returned 1099-Rs for several years as part of our efforts to reduce improper payments.

RS reviewed over 32,000 2015 tax year 1099-Rs. The 1099-Rs were returned and classified into groups based on status. OPM determined that since the time the 1099-Rs were prepared and mailed, some annuitants died. Therefore, these cases were suspended for verification.

RS determined over 18,200 1099-Rs need further investigation to determine whether the address is still valid, the annuitant moved, or if the annuitant died. With a new LexisNexis contract in place, RS works to validate annuitant information.

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

In the initial process, OPM and Treasury had a data-matching software challenge that did not result in reducing improper payments. This is due to the nature of OPM's programs and also due to some technical issues with legacy payment files. However, OPM has been working with Treasury to improve the Do Not Pay (DNP) process.

Nonetheless, OPM has reported data to OMB based on the matching that RS does on a weekly basis against the Death Master File that OPM receives directly from the SSA based on the existing memorandum of understanding.

Table 7 Results of the Do Not Pay Initiative in Preventing Improper Payments
This table is not applicable.

RETIREMENT PROGRAM

OPM's Annuity Roll is checked weekly by RS against the Social Security death record and annually against the full DMF received from SSA to identify deceased annuitants. RS is also informed of deaths or potential disability fraud from outside individuals (e.g. family, friends, co-workers) and investigates these reports using online public databases such as LexisNexis and also by requesting medical records. Additionally, OPM's OIG uses a variety of approaches to identify potential cases for further investigation, including proactive reviews of on-line records to verify annuitant pay. RS routinely refers potential cases to OIG for further review and the two offices work collaboratively to address program vulnerabilities.

In May 2013, the Treasury began sending monthly DNP pre-payment reports to each agency to facilitate compliance with the IPERIA. Each report contains match results of a comparison of OPM's payment files with information about deceased individuals and companies that are suspended or debarred from participating in government contracts and other programs. Depending on the results received the detailed matches are distributed through secure encrypted electronic mail files.

Treasury has provided OPM with two types of monthly reports from DNP that identify payments that may have been improperly paid to excluded parties or deceased individuals. Each report matches OPM's payments as they appear in the Treasury Payments, Claims, and Enhanced Reconciliation file to elements of the public version of the GSA Excluded Parties List System (EPLS-public), now known as System for Award Management /EPLS or to the public version of the SSA and DMF-public. As noted earlier, OPM and Treasury had data matching software challenges that has subsequently been rectified with the latest (Version 3) iteration of the Treasury DNP system.

While the rest of OPM can leverage some of the DNP tools for pre-award and pre-payments, RS is limited to post-payments since simply being on the DNP list does not disqualify an annuitant from being paid. Furthermore, since RS has an agreement with SSA for access to the Death Master File in addition to the weekly CDM, which we use regularly as part of our ongoing work to identify improper payments, we still believe that the long-term value may not be significant. However, we have provisionally added the DNP to our arsenal of tools, working to determine if it can supplement activities to realize further efficiency and savings to our program. To that end, we have spent time and effort simply catching up on the backlog of records that piled up while our access was significantly delayed due to security-related access issues. At one point, there were over 17,000 records in their system, and as of this past spring, we were current, meaning we had investigated each one to determine whether the program had received notification of death and was in the process of validating or had already terminated payment. We remain current and will continue to compare data in the DNP portal to data received from SSA and/or through other means to determine added value vs. redundancy going forward.

The following table represents statistics from the CDM and the DMF. OPM has a written agreement with the SSA to provide us with information from the full SSA file weekly and annually on death data from their files.

FY 2016 Death Match Statistics*

Type	Performed	Total Pop.[1]	Totals Hits[2]	Total Cases Overpaid	Overpayments Identified	% of Total Pop. as stated by hits
CDM[3]	Weekly	4,076,160	60,218	9,820	$68,527,744	1.48%
DMF[4]	Yearly	TBD	TBD	TBD	TBD	TBD

Notes:

[1] Yearly Total Population.

[2] Hits are the cases identified during the matches on OPM's active annuity roll that are reported to OPM as deceased by SSA; totals shown are yearly.

[3] Consolidated Death Match is run on a weekly basis.

[4] Death Master File is run on a yearly basis. The data run was delayed a month later from last year, which has created a delay in the AFR reporting. Information will be available by close of calendar year 2016.

*Statistical data represents October 1, 2015 – September 30, 2016

HEALTH BENEFITS PROGRAM

Under the FEHBP, OPM contracts with carriers to provide health insurance benefits to eligible Federal employees, retirees, employees of federally recognized Indian tribes, tribal organizations, urban Indian organizations, and their eligible family members. OPM collects healthcare premiums and makes regular payments to carriers (community-rated) or holds the funds for carriers to draw from (experience-rated). OPM does not make direct payments to healthcare providers or reimbursements to individuals for healthcare expenses; these payments are made by the carriers. Because of this payment structure, OPM identified one of the DNP databases, the List of Excluded Individuals/Entities (LEIE), as a suitable verification for the application process for new health carriers.

The LEIE database has been used by HI as a pre-award check for carriers applying to contract with the FEHBP. Applications from carriers are due January 31 of the year prior to the start of the benefits period. As part of OPM's evaluation of the applications, the carriers' information is searched in the DNP online search portal. This search is typically performed in February, for all new carriers applying to the FEHBP. For FY 2016, there were no new carriers that completed the FEHBP application process. Therefore, there was no need to use the DNP online search portal.

OPM believes that if FEHBP carriers were able to directly access the DNP data bases, they might be able to identify additional improper or questionable payments by searching payments made directly to providers or individuals who have received payments, with whom HI does not have a direct payment relationship.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

OPM is required to comply with other legal and regulatory financial requirements, such as the Debt Collection Improvement Act (DCIA) of 1996.

COMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT (DCIA)

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the DCIA of 1996, P.L. 104-134. The purpose of the DCIA was to strengthen overall controls over collections due to the Government from private parties, including Federal employees. The DCIA has had a major impact on the way OPM makes its payments and collects the monies owed to it. 8 summarizes OPM's debt management activity for September 2016 and 2015. OPM complies with the DCIA via cross servicing.

Cross-Servicing

Under the DCIA, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to Treasury's Bureau of the Fiscal Service (BFS) for collection through the Treasury Offset Program (TOP). The 180 day timeframe was modified by the DATA Act to 120 days.

OPM has established an agreement with BFS to cross-service its debts, which allows BFS to automatically include the debts in the TOP as part of its collection effort. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action. To date, OPM has collected more than $11.9 million via BFS cross servicing.

TABLE 18 - Debt Management Activity

Retirement Program ($ in Millions)		
Receivables Activity	**September 2016**	**September 2015**
Total receivables at beginning of year	$416.4	$402.7
New receivables and accruals	237.2	240.4
Less collections, adjustments, and amounts written-off	214.4	226.7
Total receivables at end of period	$439.2	$416.4
Total delinquent	$20.4	$21.5
Percent delinquent of total receivables	4.6%	5.2%
Health Benefits Program ($ in Millions)		
Receivables Activity	**September 2016**	**September 2015**
Total receivables at beginning of year	$70.1	$36.1
New receivables and accruals	99.8	68.9
Less collections, adjustments, and amounts written-off	39.7	34.9
Total receivables at end of period	$130.2	$70.1
Total delinquent	122.3	65.9
Percent delinquent of total receivables	93.9%	94.0%

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances that are current (less than 61 days). Tables 19 and 20 compare OPM's percentages that are 61 or more days old to Government-wide percentages.

TABLE 19 - Travel Card Usage

($ in Thousands)	September 2016	September 2015
Outstanding Balance (OPM)	$779.16	$696.1
Outstanding more than 61 days (OPM)	$4.66	$7.6
% Outstanding more than 61 days (OPM)	0.00%	1.09%
% Outstanding more than 61 days (Government-wide)	3.86%	3.91%

TABLE 20 - Purchase Cards

($ in Thousands)	September 2016	September 2015
Outstanding Balance (OPM)	$423.53	$238.4
Outstanding more than 61 days (OPM)	$0.0	$0.0
% Outstanding more than 61 days (OPM)	0.00%	0.00%
% Outstanding more than 61 days (Government-wide)	0.13%	0.19%

Freeze the Footprint

Consistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2015-02, the "Freeze the Footprint" policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline.

TABLE 21 - Annual Changes to Baseline

Year	OA	FRPP	Total	Annual Difference	Baseline Difference
2012	1,296,464	32,717	1,329,181	-	-
2013	1,292,784	26,265	1,319,049	(10,132)	(10,132)
2014	1,272,594	26,265	1,298,859	(20,190)	(30,322)
2015	1,282,947	-	1,282,947	(15,912)	(46,234)
2016	1,252,355	-	1,252,355	(30,592)	(76,826)

In order to simultaneously comply with the Reduce the Footprint policy while continuing to effectively implement the mission of OPM – which is to recruit, retain and honor a world-class workforce to serve the American people – we will utilize a number of options, as detailed below.

- **Improved Utilization of Existing Space.** Space Design Standards, which set an office utilization rate of 135 square feet per person, were adopted by OPM in March 2016. This will apply to all new projects, whether it be a new lease acquisition or a renovation project within existing space. Application of these standards will improve utilization efficiencies and will afford us greater flexibility with accommodating potential staffing increases, thus negating a requirement to acquire additional space.
- **Co-location Opportunities.** To the greatest extent possible, OPM partners with the Department of Defense (DoD) to utilize available space for our Federal Investigative Services (FIS) division. Presently, we have agreements with DoD at 75 military installations whereby we occupy 137,130 square feet of space. This is a mutually beneficial arrangement, as this is a significant amount of space that OPM does not acquire through commercial sources at a considerable cost, and DoD space utilization is further maximized. OPM will continue to explore co-location opportunities with DoD and other Federal Agencies prior to acquisition of new space.
- **Expansion of Telework and Workspace Sharing.** Whenever possible, we will continue to explore telework and workspace sharing options in order to minimize OPM's footprint.

Civil Monetary Penalty Inflation Adjustment

On November 2, 2015, the President signed the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 ("the 2015 Act"), which was included as Section 701 of the Bipartisan Budget Act of 2015. The 2015 Act amended the Federal Civil Penalties Inflation Adjustment of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect. OPM's penalty is below.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
U.S. Office of Personnel Management regulations implementing the Program Fraud Civil Remedies Act of 1986	Civil Penalty for False Claims	2015	2016	$10,781		Federal Register 81 (19 July 2016): 46827. www.federalregister.gov/documents/2016/07/19/2016-17026/program-fraud-civil-remedies-civil-monetary-penalty-inflation-adjustment

Appendix A – Acronyms and Abbreviations

(Unaudited – See accompanying Independent Auditors' Report)

Acronym	Definition
ACA	Affordable Care Act of 2010 (Affordable Care Act or ACA)
AFGE	American Federation of Government Employees
ALIL	Actuarial Life Insurance Liability
AFR	Agency Financial Report
APG	Agency Priority Goal
APR	Annual Performance Report
AR	Audit Resolution
ARPS	Annuity Roll Processing System
ART	Accuracy, Responsiveness, and Timeliness
ATO	Authority to Operate
BPD	Bureau of Public Debt
BFS	Bureau of the Fiscal Service
CALPERS	California Public Employees Retirement System
C&A	Certification and Accreditation
CBJ	Congressional Budget Justification
CDM	Consolidated Death Match
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer

Acronym	Definition
CIC	Capital Investment Committee
CLEAR	Case Logging, Enforcement & Activity Reporting
CLER	Centralized Enrollment Clearinghouse System
CLIA	Congressional, Legislative, and Intergovernmental Affairs
CLCS	Center for Leadership Capacity Services
COB	Coordination of benefits
COLA	Cost of Living Adjustment factor
COOP	Continuity of Operations Plan
COTS	Commercial Off-The-Shelf
CPL	Communications and Public Liaison
CRC	Community-Rated Carrier
CBIS	Consolidated Business Information System
CO	Contracting Officer
CSA	Civil Service Annuitant
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
CY	Calendar Year
D&I	Diversity and Inclusion
DAD	Deputy Associate Director
DATA Act	Act Digital Accountability and Transparency Act

Acronym	Definition
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEM	Disability Earnings Match
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DISP	Debt Issuance Suspension Period
DNP	Do Not Pay
DoD	Department of Defense
DSS	Defense Security Service
EBS	Employee Benefits System
ECTS	Executive Correspondence Tracking System
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
EHRI	Enterprise Human Resources Integration
EHRI-SDM	Enterprise Human Resources Integration-Statistical Data Mart
eOPF	Electronic Official Personnel Folder
EPLS	Excluded Parties List System
EPV	Expected Present Value
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
ES	Employee Services
EVMS	Earned Value Management System
FASAB	Federal Accounting Standards Advisory Board

Acronym	Definition
FBU	Foreign Benefit Unit
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FERS-FRAE	Federal Employee Retirement System - Further Revised Annuity Employees
FERS-RAE	Federal Employee Retirement System - Revised Annuity Employees
FITARA	Federal Information Technology Acquisition Reform Act
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FIS	Federal Investigative Services
FISMA	Federal Information Security Management Act
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FLTCIP	Federal Long Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FPRAC	Federal Prevailing Rate Advisory Committee
FS	Financial Services

Acronym	Definition
FSA	Flexible Spending Account
FSC	Facilities, Security, & Contracting
FSM	Financial Systems Modernization
FSSP	Federal Shared Service Providers
FTE	Full-time Equivalent
FWA	Fraud, Waste, and Abuse
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAS	Government Account Series
GFIS	Government Financial Information System
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
GPRAMA	Government Performance and Results Act Modernization Act of 2010
GS	General Schedule
GSA	General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
GWA	Government-wide Accounting
HB	Health Benefits
HC	Human Capital
HCDW	Health Claims Data Warehouse
HDHP	High Deductible Health Plan

Acronym	Definition
HI	Health and Insurance
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRD	Human Resources Development
HRIT	Human Resources Information Technology
HR LOB	Human Resources Line of Business
HRS	Human Resources Solutions
HRSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IO	International Operations
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
ISPP	Information Security and Privacy Policy
IT	Information Technology
IV&V	Independent Verification and Validation
LAIRS	Labor Agreement Information Retrieval System
LEIE	List of Excluded Individuals/Entities
LI	Life Insurance
MD&A	Management Discussion and Analysis

Acronym	Definition
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MLE	Minimum Level of Earnings
MSP	Multi-State Plan
MSPB	Merit Systems Protection Board
NBIB	National Background Investigations Bureau
N/A	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OC	Office of Communications
OCIO	Office of the Chief Information Officer
OD	Office of the Director
ODI	Office of Diversity and Inclusion
OES	Office of the Executive Secretariat
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OI	Office of Investigations
OMB	U.S. Office of Management and Budget
O/P	Overpayment
OPM	U.S. Office of Personnel Management
OPO	Office of Procurement Operations

Acronym	Definition
ORB	Other Retirement Benefits
OSDBU	Office of Small and Disadvantaged Business Utilization
OWCP	Office of Workers' Compensation Program
PAAT	Performance Appraisal Assessment Tool
PACER	Payments, Claims, and Enhanced Reconciliation
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PIC	Policy and Internal Control
POA&M	Plan of Action & Milestones
PPA	Planning and Policy Analysis
PRHB	Postretirement Health Benefits
PSRHB	Postal Service Retirees Health Benefits
PY	Prior Year
QA	Quality Assurance
RBO	Reimbursable Business Operations
RF	Revolving Fund
RS	Retirement Services
RSM	Retirement Systems Modernization
SAM	System for Award Management
SAOC	Spending Authority from Offset Collections
SBR	Statement of Budgetary Resources

Acronym	Definition
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SOS	Schedule of Spending
SPFI	Summary of Performance and Financial Information
SSA	Social Security Administration
TBD	To Be Determined
THEO	OPM's Intranet
TJF	Treasury Judgment Fund
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VA	Department of Veterans Affairs
VAMS	Validated Agency Match System

"...Nobody cares how much you know until they know how much you care."

Theodore Roosevelt

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