United States Office of Personnel Management

Agency Financial Report

Fiscal Year 2017

OPM.GOV

NOVEMBER 2017

Table of Contents

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 Pennsylvania, Maryland, and Georgia. OPM's FY 2017 gross budget, including appropriated, mandatory administrative authorities and revolving fund activities, totaled $2,099,873,211. In FY 2017, the agency had approximately 5,539 full-time equivalent employees. OPM's discretionary budget authority, excluding the Office of the Inspector General, was $259,000,000. For more information about OPM, please refer to the agency's website, **www.opm.gov**.

ABOUT THIS REPORT

The FY 2017 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 February 2018, OPM will publish its FY 2017 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 2017, 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 Strategic Plan is the starting point for performance and accountability. The FY 2014-2018 plan details ten 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 is developing a new strategic plan for FY 2018-FY 2022 that will be released in February 2018, concurrent with OPM's 2019 budget request.

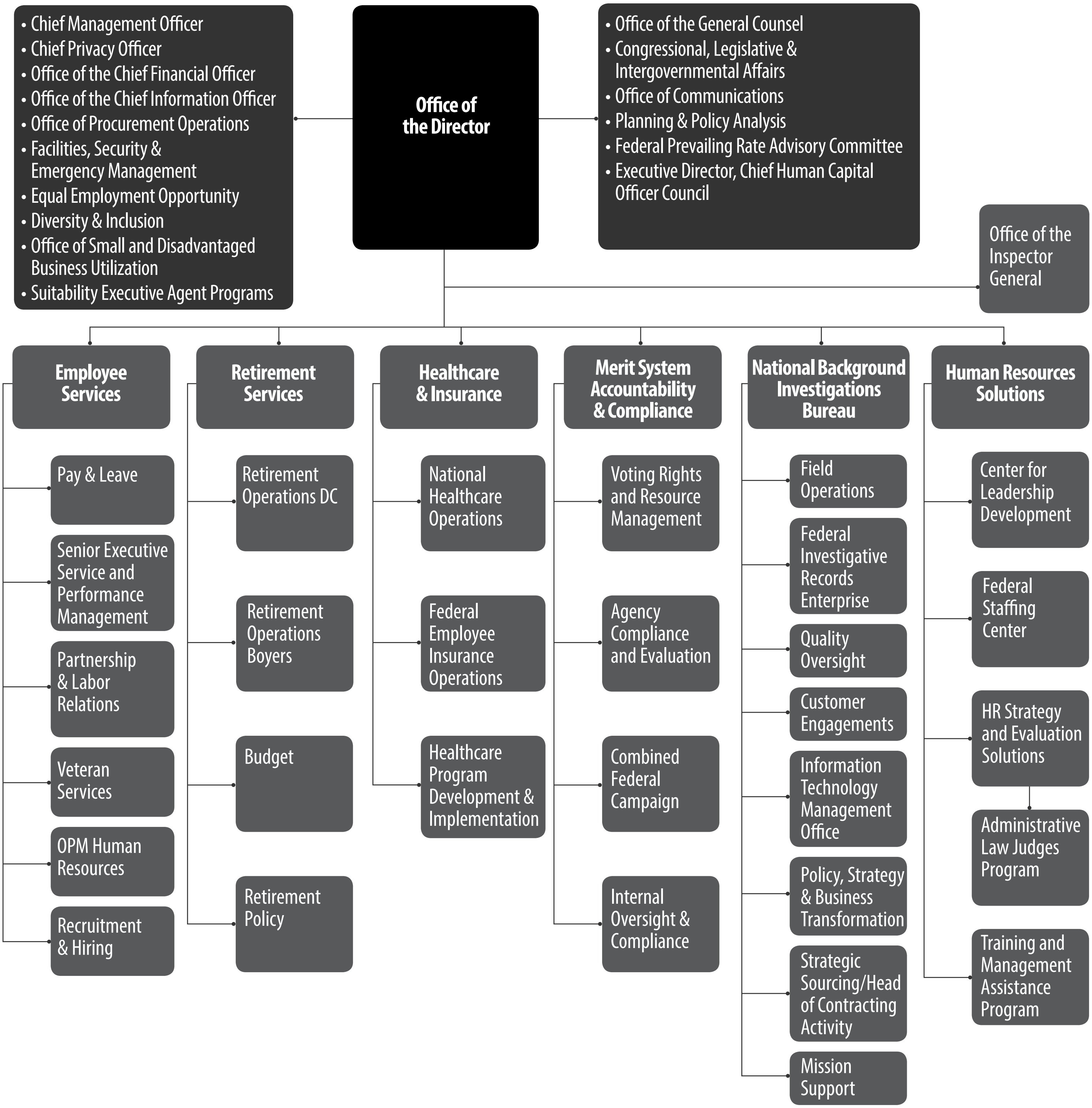
TABLE 1 - OPM's Mission Statement: Recruit, Retain and Honor a World-Class Workforce to Serve the American People

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 Technology 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 Services	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
GOAL 10 Increase the Efficiency and Effectiveness of Human Capital Management Across the Federal Government Total	Increase the efficiency and effectiveness of human capital management across the Federal Government by providing procedures and services that increase accountability, and provide greater organizational and management flexibility

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 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 the agency's mission.



OPM's organizations are categorized into five different types of offices: Executive, Program, Mission Support, Others, and the Office of the Inspector General, which are detailed below:

EXECUTIVE OFFICES

- **The Office of the Director (OD)** provides guidance, leadership and direction necessary to lead and serve the Federal Government by delivering policies and services to achieve a trusted effective civilian workforce. The Suitability and Security Clearance Reform Performance and Accountability Council's Program Management Office (PAC PMO) is also housed within the OD. Also included within OD is the Executive Secretariat (ExecSec) function which is responsible for coordination and review of agency correspondence, policy and program proposals, regulations and legislation. ExecSec serves as the agency's regulatory interface with the Office of Management and Budget and the Federal Register. The office is also responsible for the administrative and resource management support for the OD and other executive offices. And finally, ExecSec coordinates OPM's international affairs activities and contacts.
- **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 and trusted 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 office 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 advise OPM leadership and liaise with other Federal agencies, Congress, and State and Local 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 and other OPM officials 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.
- **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.

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, strategic workforce planning, pay and 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-R, 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 Federal Employees Health Benefits (FEHB) Program, Federal Employees' Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employees Dental and Vision Insurance Program (FEDVIP), Flexible Spending Accounts for Federal Employees (FSAFEDS), and OPM's responsibilities to administer the Multi-State Plan Program.
- **Merit System Accountability & Compliance (MSAC)** ensures through rigorous oversight that Federal agency human resources programs are effective and efficient, and comply with merit system principles and related civil service requirements. MSAC evaluates agencies' programs through a combination of OPM-led evaluations and participating in agency-led reviews. The evaluations may focus on all or some of the four systems of the Human Capital Framework: strategic planning and alignment of human resources to mission, performance culture, talent management, and evaluation systems. MSAC reports may identify required corrective actions, which agencies must show evidence of implementing, as well as recommendations for agencies to improve their systems and procedures. MSAC also conducts special cross-cutting studies to assess the use of HR authorities and flexibilities across the Government. Moreover, MSAC reviews and renders decisions on agencies' requests to appoint political appointees to competitive or non-political excepted service positions to ensure such appointments are free of political influence. MSAC also adjudicates classification appeals, job grading appeals, Fair Labor Standards Act claims, compensation and leave claims, and declination of reasonable appeals, all of which provides Federal employees with administrative due process rights to challenge compensation and related agency decisions

without having to resort to seeking redress in Federal courts.

MSAC has Government-wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights 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 deploys Federal observers to monitor polling sites (as determined by the Attorney General) and provides written reports to the Department of Justice. Finally, MSAC manages OPM's Office of Internal Oversight and Compliance (IOC). IOC drives the resolution of audit recommendations and conducts program evaluations 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.
- **National Background Investigations Bureau (NBIB)** 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. It focuses on continual process improvements through innovation, stakeholder engagement, agile acquisition strategy, and a focus on national security. NBIB absorbed the roles, responsibilities, and staff of Federal Investigative Services (FIS) starting in FY 2017.
- **Suitability Executive Agent (SuitEA)** was established as a distinct program office within OPM in December 2016 to strengthen the effectiveness of suitability vetting across the Government. SuitEA prescribes suitability standards and conducts oversight of functions delegated to the heads of agencies while retaining jurisdiction for certain suitability determinations and taking Government-wide suitability actions when appropriate. SuitEA also issues guidelines and instructions to the heads of agencies to promote appropriate uniformity, centralization, efficiency, effectiveness, reciprocity, timeliness, and security in suitability/fitness/credentialing processes.

MISSION SUPPORT SERVICES

- **Chief Financial Officer (CFO)** provides leadership and coordination of OPM financial management services, accounting, financial systems, budget, performance, enterprise risk management and internal controls programs which enable the agency to achieve strategic objectives and mission. Additionally, the OCFO ensures the completion of timely and accurate financial reports that support decision making to 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. The CIO manages the IT infrastructure that supports OPM business applications and operations. The CIO shapes the application of technology in support of the agency's strategic plan including information technology that outlines

the long term strategic architecture and systems plans for agency information technology capital planning. The 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. The CIO provides review and oversight of major information technology acquisitions for consistency with the agency's architecture and the information technology budget, and is responsible for the development of the agency's information technology security policies. The CIO leads the agency's information technology architecture engineering to further architecture integration, design consistency, and compliance with Federal standards. The CIO also works with other agencies on Government-wide projects such as E-Government, and developing long-term plans 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, safety, physical security and occupational health programs. FSEM provides personnel security, suitability, and national security adjudicative determinations for OPM personnel. FSEM directs the operations and oversees OPM's preparedness and emergency response programs. In addition, it oversees publishing and printing management for internal and external design and reproduction.

- **Office of Procurement Operations (OPO)** awards and administers several thousand contract actions and interagency agreements annually, with an estimated value of $1 billion. OPO provides acquisition support to OPM programs and also provides assisted acquisition services in support of other Federal agencies that require support under OPM contracts. OPO manages the agency suspension and debarment program, as well as supports the Small Business efforts for OPM in conjunction with public law, Federal regulations, and OPM contracting policies. The Acquisition Policy and Innovation function within OPO provides acquisition policy development and guidance agency-wide, as well as provides compliance and oversight over OPM's procurement program. OPO provides acquisition support and oversight for all Contracting Officers and Contracting Officer Representatives, and also manages and provides oversight of the Procurement Card Program. OPO serves as OPM's liaison to the Office of Federal Procurement Policy, Chief Acquisition Officers Council, and other key external agency partnerships.

- **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.

- **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).

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 to promote security, 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 sanctionable 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 and progress of corrective action.

FY 2017 PERFORMANCE HIGHLIGHTS

This section contains a summary of OPM's key performance results for FY 2017. OPM's complete performance results will be published in the agency's FY 2017 Annual Performance Report, which is scheduled for publication on the agency's website at **www.opm.gov** in February 2018, concurrent with OPM's FY 2019 Congressional Budget Justification.

BACKGROUND INVESTIGATIONS CASE PROCESSING TIMELINESS AND QUALITY[1]

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:

OPM did not meet this goal. Timeliness has continued to be impacted by OPM's decision in September 2014 to not exercise the agency's options to renew contracts with the contractor that performed the majority of background investigations, resulting in a growing inventory of cases. Recognizing the need for additional investigative resources to reduce inventory, in FY 2017, NBIB increased the investigator workforce by awarding two additional investigative fieldwork contracts, increasing the total number of investigative fieldwork contractors from 2 to 4, and providing the four fieldwork investigative contractors with incentives to build capacity, increase production, and reduce the inventory of aged investigations. NBIB also hired more than 200 additional Federal investigators while backfilling existing and new vacancies (due to investigator attrition), and concentrated the investigative workforce in the highest workload locations. NBIB has realized a steady reduction in case inventory over the past 15 weeks, closing out more cases than it receives each of those weeks.

NBIB began work with a cross-agency Backlog Reduction & Mitigation Initiative working group to identify potential initiatives and recommendations that will lead to the reduction of the investigative backlog and/or mitigate the impact to mission readiness. NBIB improved business processes through the development of enterprise measures in collaboration with the Performance Accountability Council Project Management Office.

NBIB further secured and modernized information technology through the development of an Adjudication prototype, and continued to partner with the DoD Defense Information Systems Agency to build a new, secure, and flexible case management system - the National Background Investigation System - to allow more efficient and effective case processes across the Government as a shared service.

OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

[1] Under the previous administration this was an Agency Priority Goal.

Performance Measures:

Percent of investigations determined to be quality complete						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
99.8%	99.9%	99.9%	99.8%	99.9%	≥99%	Met

Explanation of Actual: In FY 2017, OPM determined that 2,427,989 of 2,431,008 investigations were quality complete. While the agency works to improve timeliness and reduce the inventory, OPM continued to focus on the quality of investigations. During FY 2017, NBIB worked with the Office of the Director of National Intelligence and Department of Defense to develop and launch a Quality Assessment Rating Tool. The feedback collected is used to evaluate policies and procedures, and enhance employee training and resources.

Average number of days to complete the fastest 90 percent of all initial national security investigations						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
35	35	67	123	161	≤40	Not Met

Explanation of Actual: OPM completed 365,891 initial national security investigations in FY 2017. Timeliness was impacted by OPM's decision in September 2014 to not exercise the agency's options to renew contracts with the contractor that performed the majority of background investigations. During FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

Average number of days to complete the fastest 90 percent of initial Secret national security investigations						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
28	30	58	108	134	≤40	Not Met

Explanation of Actual: OPM completed 305,189 initial Secret investigations in FY 2017. Timeliness was impacted by OPM's decision in September 2014 to not exercise its options to renew its contracts with the contractor that performed the majority of its background investigations. During FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
80	75	147	220	331	≤80	Not Met

Explanation of Actual: OPM completed 60,702 initial Top Secret investigations in FY 2017. On October 1, 2016, OPM implemented the Tier 5 investigation for Top Secret security clearance determinations, replacing the Single Scope Background Investigation. Timeliness has continued to be impacted by OPM's decision in September 2014 to not exercise the agency's options to renew contracts with the contractor that performed the majority of background investigations, resulting in a growing inventory of cases. Recognizing the need for investigative resources, during FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers. NBIB has realized a steady reduction in case inventory over the past 15 weeks, closing out more cases than it receives each of those weeks.

RETIREMENT SERVICES CASE PROCESSING[2]

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 processed 52,811 of 92,125 claims (57.3 percent) within 60 days during FY 2017. The 57.3 percent of claims OPM processed in less than 60 days were processed in an average of 47 days, while the remainder were processed in an average of 93 days. The average number of days to process all claims was 67 days.

When agencies make Voluntary Early Retirement Authority and Voluntary Separation Incentive Program offers, OPM may experience a significant increase in retirement applications. OPM worked closely with agencies to understand upcoming retirement offers; however, surges in retirement applications can occur outside of OPM's control and predictions.

OPM did not meet the case processing timeliness target due, in part, to delayed staffing actions stemming from the hiring freeze. Additionally, the case preparation time increased, causing the cases to age. Consequently, OPM processed more cases that were over 60 days old. To mitigate this issue, OPM will develop additional customer service specialists and legal administrative specialists, improve training, and promote continuous development.

[2] Under the previous administration this was an Agency Priority Goal.

In FY 2017, 91.1 percent of retirement submissions received from agencies were complete, exceeding the target of 90 percent. This was an improvement over the 89.2 percent receive by OPM in FY 2016. OPM continued to collaborate with agency Chief Human Capital Officers to improve the accuracy and completeness of incoming claims. The agency provided educational opportunities and monthly feedback to agencies on errors, which the OPM expects to minimize errors on retirement claim submissions.

By the end of FY 2017, OPM finalized and tested a reporting mechanism to track court-ordered benefits. OPM was able to finalize the calculation method for the measure of the average number of days to process court-ordered benefit cases. It is currently in beta testing and will be in production for FY 2018.

Performance Measures:

Relative ratio of complete retirement submissions versus incomplete cases

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
92%	84%	87.7%	89.2%	91.9%	≥90%	Met

Explanation of Actual: In FY 2017, 35,912 of 39,070 retirement submissions were complete. OPM continued to collaborate with agency Chief Human Capital Officers to improve the accuracy and completeness of incoming claims. The agency provided educational opportunities and monthly feedback to agencies on errors, which the agency expects to minimize errors on retirement claim submissions. The results for this measure continued their upward trend since October 1, 2013, when the error definitions were expanded to include 19 additional error conditions that had not previously been included.

Percent of retirement claims processed within 60 days

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	79%	70.1%	77.1%	57.3%	≥90%	Not Met

Explanation of Actual: OPM processed 52,811 of 92,125 claims within 60 days. OPM did not meet the case processing timeliness target due to staffing issues stemming from the hiring freeze. The case preparation time increased, causing the cases to age. Consequently, OPM processed more cases that were more than 60 days old.

–* No historical data available for this period.

FEHB PLAN PERFORMANCE[3]

Goal Statement: Improve health outcomes for the approximately 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 accomplished its goal of improving health outcomes for the 8.2 million Federal employees, retirees, and their dependents enrolled in health plans participating in the FEHB program. OPM met or exceeded all three of its performance targets for FY 2017. OPM exceeded the industry trend for plans providing timely prenatal care above the 50th percentile by nearly 19 percent. The agency exceeded the industry trend for percent of plans with all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50th percentile by more than 20 percent. Further, the agency met its performance target percent of plans controlling blood pressure above the national commercial 50th percentile.

During FY 2017, OPM successfully completed the first year of the FEHB Health Plan Performance Assessment cycle to measure and reward FEHB plan performance through the use of common, objective, and quantifiable performance measures. The performance assessment framework uses 19 measures to assess key aspects of clinical quality, customer service, and resource use performance, as well as a separate evaluation of contract oversight. The performance assessment is linked to health plan profit, with the overall performance score impacting the service charge or performance adjustment. All FEHB Carriers were able to report required measures and OPM published an overview of the first year. OPM continued to conduct the FEHB Performance Assessment Best Practices Workgroup to help carriers identify and share best practices. OPM presented de-identified aggregate data to FEHB carriers on how health plans performed overall on targeted measures. OPM held best practices working groups to improve performance on the quality measure tracking hospital readmissions and to calculate and utilize cost of care measures. OPM added an additional measure for tracking diabetes control. Additionally, OPM focused on communication to FEHB Carriers by redesigning the website listing performance assessment resources and released **FEHB Plan Performance Assessment educational videos** on the OPM YouTube Channel.

OPM is keenly aware of the health challenges associated with the opioid epidemic and is working with industry leading measure stewards to select and adopt a relevant performance measure as soon as preliminary testing on such a measure is completed.

[3] Under the previous administration this was an Agency Priority Goal.

Performance Measures:

Percent of plans with timely prenatal care above the national commercial 50th percentile						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
43.4%	39.8%	41%	46.0%	54.6%	2016 Result	Met

Explanation of Actual: In FY 2017, 65 of 119 FEHB plans performed above the national commercial 50th percentile. OPM exceeded the target by nearly 19 percent. In FY 2017, OPM assigned this measure the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit.

Percent of plans with all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50th percentile						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
–*	49%	51%	44.5%	53.6%	2016 Result	Met

Explanation of Actual: In FY 2017, 67 of 125 FEHB plans performed above the national commercial 50th percentile. OPM exceeded the target by more than 20 percent. The agency targeted this area for improvement, holding a best practices working group session on improving performance. There was a change in methodology in FY 2016, limiting comparability of trends before and after that change.

–* No historical data available for this period.

Percent of plans controlling blood pressure above the national commercial 50th percentile						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
43.5%	49%~	43%	49.2%	50.8	2016 Result	Met

Explanation of Actual: In FY 2017, 63 of 124 FEHB plans performed above the national commercial 50th percentile. In FY 2017, OPM assigned this measure the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit.

~ Previously reported results revised in October 2016 following a National Committee for Quality Assurance revision to the methodology in 2015.

Percent of adults receiving flu shots based on Consumer Assessment of Healthcare Providers and Systems Effectiveness of Care measures						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
53%	50%	49%	50.9%	52.2%	Contextual	Contextual

Explanation of Actual: Of 69,758 adults surveyed, 36,393 received flu shots in FY 2017. The percentage increased 2.6 percent over FY 2016. The CDC target for the Healthy People 2020 initiative was originally set at 80 percent of adults receiving flu shots, but was revised to 70 percent in 2013. Overall uptake of the flu vaccination remains below the CDC target. The CDC reported 43.3 percent of adults received seasonal flu vaccinations for the 2016-2017 season. OPM continues to emphasize the importance of flu shots, including through a joint memo with the Department of Health and Human Services.

HUMAN RESOURCE WORKFORCE CAPABILITY[4]

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:

The Federal Human Resources Institute (formerly HR University) is a key part of the Government-wide initiative to grow the Federal HR workforce's capability. Human resources is a designated Government-wide mission critical occupation. The Institute curriculum will lead the development of a standardized framework that will be a comprehensive Federal development program for Federal HR practitioners.

OPM envisions that, as the incumbent workforce attends the classes developed specifically for them, development of necessary competencies and increased individual performance will follow to contribute to and support mission accomplishment within the agencies. The curriculum is in early design and development, with the 22 course staffing specialist curricula due to be fully launched in FY 2018. This is the first of eight specialty functions that will be addressed in the curricula. Completed design, development, and launch is planned for 2019.

The successful outcomes of both OPM's competency model development and the design of the curriculum that is being informed by the models are highly dependent on the ongoing, active involvement of the networks of subject matter experts in the agencies. While schedule adherence is more challenging where all assets are not under direct control by OPM, the quality of the final products is superior and thus worth the extra time. Further, the "networked" approach creates a higher probability of early adoption by the participants and their agencies. OPM developed, launched, and proved this concept of operation with the staffing specialist function, and will carry it through in all remaining functions.

Delays to the design, development and implementation of the HR curricula were due to an unexpected and prolonged period of time to acquire the contractor to support OPM's efforts. Additionally, based on the priority needs of the HR community in the staffing domain and the curriculum design appropriate to fill those needs, OPM made a strategic decision to expand initial investment in that domain, significantly increasing the number of courses developed.

[4] Under the previous administration this was an Agency Priority Goal.

Performance Measures:

Percent of HR specialists who complete at least one course on HRU						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	–*	–*	66.6%	–*	≥70%	–*

Explanation of Actual: OPM transitioned HR University to a new platform, the Federal HR Institute, in June 2017. Because the new platform does not require users to register, OPM is no longer able to track the percent of HR specialists who completed at least one course. As of June 2017, 42 percent of HR specialists (4,478) had completed at least one course on HRU.

The Institute will deliver a comprehensive curriculum to promote continued improvement of the Federal HR workforce continues so it is agile, strategic, and competent. The curriculum is based on new career mapping in each function for HR practitioners and analyses of requisite competencies developed by a multi- agency cross-section of Federal HR experts. The curriculum is in early development, with the 22 course staffing specialist curricula fully launching by end of CY 2017.

–* No historical data available for this period.

Percent of course participants demonstrating successful achievement/mastery of learning objectives						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	–*	–*	–*	64.2%	≥80%	Not Met

Explanation of Actual: The Federal HR Institute data here represents the FY 2017 course pilot outcomes, with 201 participants, 129 of whom achieved full grasp of learning objectives. Ninety-one of the 129 participants began below the fully successful threshold prior to the course. Ninety-two percent of the 210 participants demonstrated improvements in subject knowledge as shown in pre- and post- course testing.

–* No historical data available for this period.

CYBERSECURITY MONITORING[5]

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

OPM has undertaken effort to 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 were required to authenticate to OPM applications using their PIV cards. By the end of FY 2017, OPM planned to enforce two-factor authentication for 100 percent of all PIV-enabled users and 80 percent of non-PIV-enabled users. OPM will continue to 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,

[5] Under the previous administration this was an Agency Priority Goal.

OPM acquired and implemented four CDM controls including vulnerability assessment, continuous monitoring, hardware asset management, and software asset management. These tools are designed to increase OPM's ability to identify and respond to security issues. By the end of FY 2016, OPM implemented dashboard capabilities allowing OPM to benchmark its CDM program with other Federal agencies. In FY 2017, OPM used 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.

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 made significant progress in enhancing the security of OPM's information systems by strengthening authentication and expanding the implementation of continuous monitoring. While OPM did not meet its FY 2017 targets with respect to CDM phase two implementation, the agency did make significant strides in other areas.

In FY 2017, OPM added information system security officers to support all of OPM's major information systems. OPM also completed Authorization to Operate Sprint and Authorization to Operate Relay initiatives, resulting in a current Authority to Operate for all OPM major information systems. This resolved the outstanding material weakness in the program that had been identified by OPM's OIG. As of FY 2017, all Authorities to Operate remained current.

In addition, in FY 2017 the Security Operations Center implemented capabilities to strengthen the security of the overall environment in support of the OPM defense-in-depth architecture. In the FY 2017 OIG Federal Information Security Management Act (FISMA) Audit Report, the Incident Response domain was reported as operating at Level 4, Managed and Measurable. As a result, the OIG did not issue any recommendations in this domain. Further reflecting these improvements, the Department of Homeland Security's Trusted Internet Connection audit score improved from 77 percent to 92 percent. The security capabilities implemented in FY 2017 include:

- a zero trust model for network resource access;
- tightened encryption standards to include network encryption (data in transit, data at rest, data in use);
- upgraded email security gateways to provide additional security functionality;
- full deployment of encrypted communications for all agency public websites;
- improved anti-malware solutions to detect malicious processes in real time; and
- phishing training to improve use click rate, user response time and remediation time.

The agency made significant improvements to security training in FY 2017. The agency is now operating at Information Security Continuous Monitoring Maturity Model Level 3. The agency-wide IT security training program is now tailored for employees with significant security responsibilities. These improvements close out two FY 2016 OIG FISMA recommendation.

By the end of FY 2017, OPM enabled multi-factor authentication for 51 percent of FISMA systems. OPM was unable to track multi-factor authentication at the user level, as originally planned.

One hundred percent of OPM's network was covered by phase one Continuous Diagnostics and Mitigation capabilities by the end of FY 2016, and OPM's implementation of phase two capabilities in FY 2017 followed the Department of Homeland Security's timeline. At the conclusion of FY 2017, OPM was testing the following capabilities: TRUST – Access Control Management (Trust in People Granted Access), BEHV – Security-Related Behavior Management, CRED – Credentials and Authentication Management, and PRIV – Privileges.

Performance Measures:

Percent of network covered by phase two Continuous Diagnostics and Mitigation (CDM) capabilities						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	–*	–*	–*	0%	≥95%	Not Met

Explanation of Actual: The implementation of four CDM phase two capabilities followed the Department of Homeland Security's timeline. OPM dedicated the first half of FY 2017 to the finalization of requirements. As of the end of FY 2017, OPM was testing the following capabilities: TRUST–Access Control Management (Trust in People Granted Access), BEHV–Security-Related Behavior Management, CRED–Credentials and Authentication Management, and PRIV–Privileges.

–* No historical data available for this period.

Percent of OPM systems with multi-factor authentication enabled						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	–*	–*	–*	51.1%	New Measure	New Measure

Explanation of Actual: Of 47 systems, 24 have multi-factor authentication enabled.

–* No historical data available for this period.

Percent of High Value Asset (HVA) databases encrypted						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
–*	–*	–*	63.6%	89.5%	≥90%	Met

Explanation of Actual: Seventeen of 19 OPM-developed High Value Asset systems have databases where data are encrypted at rest.

–* No historical data available for this period.

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely represent the absolute figures.

Percent of OPM Business Systems migrated to new network infrastructure environment						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
–*	–*	–*	0%	100%	≥80%	Met

Explanation of Actual: Twenty-five of 25 OPM hosted business systems reside on network and security infrastructures that have greatly improved as compared to the legacy infrastructure in place when this measure was initially developed. OPM has reinforced computing capability at its Boyers, PA and Macon, GA data centers, migrated from unsupported software, and deployed new or improved network security capabilities, including Personal Identity Verification requirements, data encryption, network monitoring, and intrusion detection.

–* No historical data available for this period.

Percent of OPM IT Systems compliant with FISMA required documentation						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
–*	–*	–*	67.4%	100%	≥80%	Met

Explanation of Actual: Forty-seven of 47 systems have FISMA required documentation. In FY 2017, OPM utilized the best practices and lessons learned from a 2016 Cyber Sprint to achieve Authorizations to Operate for all of its systems by January 2017.

–* No historical data available for this period.

Percent of FISMA audit findings mitigated						
FY 2013 Results	**FY 2014 Results**	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2017 Target**	**Met/ Not Met**
–*	–*	–*	75.7%	70.9%	≥90%	Not Met

Explanation of Actual: OPM worked with oversight entities to address 173 of 244 FISMA audit findings. OPM will review and update its policies and procedures, as needed, to align with current Federal laws, regulations, policies, and guidance. The agency will continue leveraging the Plan of Actions and Milestones Management Review Board to help manage and improve its processes and work with the OIG to improve collaboration and to ensure the effective remediation of audit findings in a timely manner.

–* 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 performance information in its AFR and APR 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 2017 APR in February 2018.

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 Eighteenth consecutive year, OPM has earned an unmodified audit opinion on its consolidated financial statements and the consolidating financial statements including the Retirement, Health Benefits, and Life Insurance Programs. These consolidated and consolidating financial statements are:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

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 2017, OPM held $1,082.3 billion in assets, an increase of 2.5 percent from $1,056.1 billion at the end of FY 2016. 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 $1,032.6 billion, which represents 95.3 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.

There was a Debt Issuance Suspension Period (DISP) instated by the Treasury Department that began on March 16, 2017 and ended on September 8, 2017 for the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree and Health Benefit Fund (PSRHBF). As such, Treasury is required to pay the CSRDF and PSRHBF the amount of "foregone principal" and "foregone interest", the Funds would have otherwise earned had such extraordinary measures not been taken.

In FY 2017, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $20.3 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 $33.9 billion for FY 2017.

Liabilities

At the end of FY 2017, OPM's total liabilities were $2,339 billion, a increase of 5.8 percent from $2,211 billion at the end of FY 2016. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.4 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

$1,908 billion at the end of FY 2017, a increase of $103 billion, or 5.7 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 $363 billion at the end of FY 2017. This reflects a increase of approximately $22.3 billion from the amount at the end of FY 2016, or 6.6 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 $2.2 billion in FY 2017 to $52.2 billion, or 4.5 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, Funds from 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 2017 by $1,257 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 $25.6 billion in FY 2017 to $1,067.2 billion.

TABLE 3 - Net Assets Available for Benefits

($ in Billions)	FY 2017	FY 2016	Change
Total Assets	$1,082.3	$1,056.1	$26.2
Less "Non-Actuarial" Liabilities	15.1	14.5	0.6
Net Assets Available to Pay Benefits	$1,067.2	$1,041.6	$25.6

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 2017 Net Cost of Operations was a Loss of $155.1 billion, as compared with a Gain of $22.5 billion in FY 2016. The primary reasons for the increase in net cost are due to changes in the actuarial assumptions.

Net Cost to Provide CSRS Benefits

As indicated in Table 4, OPM incurred a loss for the CSRS Benefits of $90 billion in FY 2017, an increase of 90.7 billion from FY 2016. As reported on the SNC, there was a current year loss of $61.2 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 increase in FY 2017 by $1,467 million from FY 2016 and OPM's earnings on CSRS investments declined by approximately $3,938 million from the prior fiscal year.

TABLE 4 - Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2017	FY 2016	Change
Gross Cost	$28.8	$24.4	$4.4
(Net of Assumptions of Gain/Loss)	61.2	(25.1)	86.3
Associated Revenues	10.9	12.9	(2.0)
Net Cost of Operations	$79.1	$(13.6)	$92.7

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, Statement of Federal Financial Accounting Standards 33: Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates (SFFAS 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 $41.1 billion in FY 2017, as compared to the $46.6 billion in FY 2016. 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 2017 increased by $46.2 billion from FY 2016 resulting in a Net Cost of Operations of $43.9 billion for the FY 2017. 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 2017, OPM incurred a Pension Expense for FERS of $96.2 billion, as compared with $45.7 billion in FY 2016. The primary reasons for the increase in FERS pension expense were due to changes in actuarial economic assumptions, and actual salary expense was higher than expected. Due to changes in actuarial assumptions such as the higher long term COLA assumption there was a gain of $8.9 billion in FY 2016, which was followed by a loss of $33.4 billion in FY 2017. This contributed to the increase in pension expense of $50.5 billion from FY 2016 to FY 2017. The FY 2017 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 $2,342 million, or 7.4 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 2017	FY 2016	Change
Gross Cost	$62.8	$54.6	$8.2
(Net of Assumptions of Gain/Loss)	33.4	(8.9)	42.3
Associated Revenues	52.4	48.0	4.4
Net Cost of Operations	$43.9	$(2.3)	$46.2

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 2017, OPM paid FERS benefits of $14.3 billion, compared with $12.7 billion in FY 2016. 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 2017 increased by $38 billion from that in FY 2016, 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 2017	FY 2016	Change
Gross Cost	$66.3	$52.0	$14.3
(Net of Assumptions of Gain/Loss)	6.9	(13.4)	20.3
Associated Revenues	42.5	45.9	(3.4)
Net Cost of Operations	$30.7	$(7.3)	$38.0

The Postal Service Retiree Health Benefits Fund (PSRHBF) is included in the Health Benefits Program. The United States Postal Service (USPS) was required by Public Law (P.L.) 109-435 to make a series of fixed payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) maintained by the Office of Personnel Management (OPM) up to and including FY 2016. The total amount due to the PSRHBF from the USPS is $38.2 billion: $33.9 billion due from FY 2011 – FY 2016 and $4.3 billion for FY 2017. As of September 30, 2017, the Postal Service has indicated payment of the total $38.2 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 2017, OPM incurred a PRHB expense of $37.9 billion, as compared with $3.3 billion in FY 2016, due to an actuarial loss from assumptions in FY 2016 resulting from changes in trend and interest; the actuarial loss from experience also was higher due to higher medical costs in FY 2017 as compared to FY 2016.

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 3.8 percent.

Current Benefits and Premiums stayed level with FY 2016. However, the contributions (for and by participants) decreased by $3.3 billion from FY 2016 to FY 2017. As discussed above, in FY 2017, a total of $38.2 billion in 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 2017	Total FY 2016
Claims	$29.0	$12.1	$41.1	$40.3
Premium Expense	4.6	2.2	6.8	6.3
Administrative Expense and Other	$1.7	$1.2	$2.9	$3.5

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from $0.7 billion in FY 2016 to $1.5 billion in FY 2017. Gross cost increased $0.4 billion due to the smaller actuarial gain in FY 2017 as compared to FY 2016. 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 2017 and 2016. 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 2017 as compared to FY 2016. Associated revenues remained at the same level.

TABLE 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2017	FY 2016	Change
Gross Cost	$4.3	$3.9	$0.4
(Net of Assumptions of Gain/Loss)	0.9	0.3	0.6
Associated Revenues	3.8	3.6	0.2
Net Cost of Operations	$1.5	$0.7	$0.8

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 $265.9 billion in budgetary resources was available to OPM for FY 2017, OPM's budgetary resources in FY 2017 included $66.5 billion (25.1 percent) carried over from FY 2016, plus three major additional sources:

- Appropriations Received = $53.5 billion (20.0 percent)
- Trust Fund receipts of $103.2 billion, less $15.8 billion* not available = $87.4 billion (32.8 percent)
- Spending authority from offsetting collections (SAOC) = $58.6 billion (22.1 percent)

* Total budgetary resources do not include $15.8 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 $49.5 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 2017	FY 2016
Trust Fund Receipts	32.8%	32.7%
Balance Brought Forward from Prior Year	25.1%	25.4%
Spending Authority from Offsetting Collections	22.1%	22.5%
Appropriations	20.0%	19.4%

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 2017	FY 2016
Retirement Benefits	63.3%	63.9%
Health Benefits	34.1%	33.4%
Life Insurance Benefits	1.6%	1.6%
Other	1.0%	1.1%

From the $265.9 billion in budgetary resources OPM had available during FY 2017, it incurred obligations of $196.6 billion less the $40.6 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 $49.5 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 2017 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 was operating effectively as of September 30, 2017.

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, 2017 was operating effectively, with the exception of the material weakness in the agency's information system control environment noted in Exhibit A. 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 substantial 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.

Kathleen M. McGettigan 11-8-2017

Kathleen M. McGettigan — Date
Acting Director

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 oversees the Agency's internal control program. The Risk Management Council is chaired by the Chief Management Officer and includes senior representatives from all major OPM organizations. The Risk Management and Internal Control group (RMIC) within the Office of the Chief Financial Officer (OCFO) 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. RMIC performs the ICOFR assessment under the guidance of the OCFO Senior Assessment Team, which is comprised of the Chief Financial Officer (CFO), Deputy CFO, Associate CFOs, Deputy Chief Information Officer, and other key OCFO personnel.

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 Risk Management Council, RMIC 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. RMIC 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.

COMPLIANCE WITH THE 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.
- The United States Government Standard General Ledger at the transaction level.

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2017, 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 OCFO 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, the OPM Enterprise Managerial Cost Accounting (EMCA) initiative commenced at the end of quarter four of FY 2016. In FY 2017, the modeling of four (4) OPM program offices was successfully piloted. Full system implementation for the agency EMCA project is targeted for completion by the end of FY 2018.

In May 2017, OMB released their FY 2019-FY 2022 Capitalized Planning & Investment Control (CPIC) guidance, which requires agencies to report their Information Technology (IT) Investment Portfolio Summaries using the Taxonomy and Technology Business Management (TBM). TBM is a value management framework that provides best practices for agencies to maximize IT cost transparency, drive demand and customer management, determine Total Cost of Ownership (TCO), and calculate/price out a bill of IT. The Office of Management and Budget (OMB) has adopted TBM as a best practice for IT management in Federal organizations. OPM's Enterprise Cost Accounting System (ECAS) uses the TBM value framework and taxonomy for modeling all of OPM's IT costs. The Taxonomy is incorporated as a key part of the ECAS model, which is used to capture and drive all IT expenditures. This enables OPM to report on the key components of the Taxonomy, including Cost Pools, IT Towers, and IT Applications & Services.

To give OPM the ability to achieve its business objectives and requirements relative to managing and administering agency's budgetary resources, OCFO has defined and approved a Budget management system solution that will ultimately integrate with CBIS. OCFO has implemented the Budget Management System (BMS) and used it to develop the agency's FY 2019 budget request.

In FY 2017, OPM completed quarterly submissions of the Digital Accountability and Transparency Act [DATA Act] to the official DATA Broker site for publication on **USASpending.gov**, in accordance with the Department of Treasury's established submission dates. DATA for the Consolidated Business Information System and Federal Financial System were represented. OPM will continue to apply changes to its file submissions as updates are made to the DATA Act requirements by Treasury.

In FY 2017, OPM began the planning phase for implementing a modernized and stable financial platform to replace Trust Funds (TF) systems. The planning phase was focused on establishing the Trust Funds Modernization Program Office and program and project frameworks. OPM also dialoged with industry on new and innovative technological approaches and data management solutions and options available to address existing gaps related to trust funds accounting, management and technology. These efforts will continue throughout FY 2018, as other activities commence: validating the As-Is and developing the To-Be business processes, validating the current FFS infrastructure (including critical interfaces/interfacing systems) and conducting requirements fit-gap assessments.

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 realizing the benefiting from its "blended approach" to shared services through the use of a Shared Services Provider for transaction processing, IT hosting, and application management services. In May 2017, OPM lifted and shifted its Consolidated Business Information System (CBIS) application and platform to a FSSP to assist in upgrade its platform and to reduce overall technology risk and to consolidate cost. In FY 2018, OPM will begin exploring options to further implement OMB's Memorandum 13-08 requiring agencies to transition its business processes and operations to an FSSP's financial management solution beginning sometime in FY 2019.

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 A – NON-CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Information System Control Environment

Since FY 2012, OPM has been working to combat and improve any remaining deficiencies that may exist in its information system control environment and continues efforts to remediate. Areas of focus include testing of information security controls, modernization of enterprise architecture, establishing a baseline configuration for all of its information systems, and developing timely Plans of Action and Milestones (POAMs). To the extent that these challenges remain present they continue to be reported, collectively, as a material weakness in OPM's information system control environment by the Agency's independent auditor. 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.

TABLE 9 - Inspector General Audit Findings

FY 2017	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2016	4	$4.9
New reports requiring management decisions	15[1]	52.1
Management decisions made during the year	15	34.4
Costs disallowed	-	16.7
Costs not disallowed	-	17.7[2]
Reports with no management decision on September 30, 2017	4	22.6

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2016 through March 31, 2017 and April 1, 2017 through September 30, 2017.

Purpose: To provide data to the OCFO to be included in the fiscal year 2017 Management Discussion and Analysis for OPM's Performance and Accountability Report.

[1] The number of new reports requiring a management decision represents reports with monetary recommendations. This year, 43 reports were issued and 15 of them had monetary findings, and 28 reports, which are not reflected in the table, had no monetary findings.

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

FEDERAL INFORMATION SECURITY MODERNIZATION 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 2017.

In FY 2017, the Chief Information Security Officer (CISO) added several new employees, including additional Information System Security Officer (ISSO) positions to support all OPM major information systems. With the support provided by the FY 2016 organizational consolidation of staff under the CISO, the Authorization to Operate (ATO) Sprint and ATO Relay initiatives were completed, resulting in a current ATO for all OPM major information systems. This resolved the outstanding material weakness in the program. By the end of FY 2017, all ATOs remained current.

In addition, in FY 2017 the Security Operations Center (SOC) implemented security capabilities to strengthen the security of the overall environment in support of the OPM defense-in-depth architecture. In the FY 2017 OIG FISMA Audit Report, the Incident Response domain was reported as operating at Level 4, Managed and Measurable. As a result, no recommendations were issued in this domain in the FY 2017 OIG FISMA report. Further reflecting these improvements, the DHS Trusted Internet Connection (TIC) audit score improved from 77% to 92%. These capabilities include:

- A zero trust model for network resource access
- Tightened encryption standards to include network encryption (data in transit, data at rest, data in use)
- Upgraded email security gateways to provide additional security functionality
- Full deployment of encrypted communications for all agency public websites (HTTPS and HSTS)

- Improved anti-malware solutions to detect malicious processes in real time
- Phishing training to improve use click rate, user response time and remediation time

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 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.

The Agency has made significant improvements in Security Training in FY 2017 and will continue to improve the program in FY 2018. The Agency is now operating at CIGIE Information Security Continuous Monitoring Maturity Model Level 3, Consistently Implemented, for the agency-wide IT security awareness training program required by all Government employees and contractors. The program has also significantly improved tailored training for employees with significant security responsibilities. These improvements close out two FY 2016 OIG FISMA recommendations.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

OPM is required to comply with other legal and regulatory financial requirements. Information concerning these regulatory requirements can be found in the Other Information, Section 3, of this report.

OPM continues to work towards compliance 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 Debt Collection Improvement Act (DCIA). In FY 2015, OMB Memorandum M-15-12 was issued for reporting requirements pursuant to the DATA Act.

On July 17, 2015, the Office of Management and Budget introduced guidance to further the goal of accelerating payments to small businesses and small business subcontractors while also reducing the administrative burden and cost to taxpayers by utilizing electronic invoicing. OPM continues to work towards compliance with OMB Memorandum M-15-19 "Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing" which directs agencies to transition to electronic invoicing for appropriate Federal procurements by the end of FY 2018.

GOALS AND STRATEGIES

OPM is firmly committed to improving financial performance and has received an unmodified audit opinion for eighteen 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 2017 Financial Information

A Message from the Chief Financial Officer

This is the tenth 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) 2019 Budget to Congress. This approach offers more transparent conveyance to the public with improved quality and utility for management and stakeholders.

For the Eighteenth consecutive year, OPM has earned an unmodified audit opinion on its consolidated financial statements and the consolidating financial statements including the Retirement, Health Benefits, and Life Insurance Programs. These statements are audited by an independent certified public accounting firm, Grant Thornton LLP.

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 previously identified 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 in the Inspector General's annual FISMA report for 2017. 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 2017, OPM further developed its Enterprise Risk Management (ERM) program, which it implemented in response to OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. This effort included development and execution of an implementation plan, establishment of a risk appetite statement, and preparation of its first enterprise risk profile. OPM's risk appetite statement provides a framework to assist management in making risk-informed decisions with regard to allocation of resources, management controls, and potential consequences or impacts to other parts of the organization. OPM's risk profile is a tool used by management to identify the most significant risks facing the agency, the controls established to manage those risks, and additional mitigation strategies that may be required. A key aspect of the implementation of OPM's ERM Program has been the integration with OPM's strategic planning and strategic review process established by the Government Performance and Results Act Modernization Act (GPRAMA), and with the internal control processes required by the Federal Managers' Financial Integrity Act (FMFIA), and the Government Accountability Office's Green Book. OPM linked its ERM efforts with the agency's strategic planning process as we developed our draft FY 2018 – FY 2022 Strategic Plan. Consistent with the enterprise risk profile, a risk profile will be developed and monitored for each of the strategic objectives in the new strategic plan. This will help to keep us focused on the key risks to our objectives as we roll out the new strategic plan in FY 2018.

This year's AFR includes OPM's first Fraud Reduction Report. The Fraud Reduction and Data Analytics Act of 2015 requires that agencies report to Congress annually on the progress of the agency in implementing (1) financial and administrative controls established pursuant to the Act, (2) the fraud risk principle in the Standards for Internal Control in the Government, and (3) OMB Circular A-123 with respect to leading practices for managing fraud risk. This report describes some of the controls OPM has in place to prevent and detect fraud, as well as OPM's efforts to identify and mitigate potential fraud risks.

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-half of one percent and small when compared to major programs at other Federal agencies. OPM will continue to strive to reduce improper payments even further for these two major programs.

For the FY 2018 Congressional Budget Justification (CBJ), OPM continued to clearly align financial resources with the agency's strategic plan and have made plans for the FY 2019 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 Reimbursable Activity Programs continues to provide valuable services to various stakeholders across a broad spectrum of Government-wide initiatives. Our Revolving Fund (RF) Programs have continued to provide support to agencies as they respond to new administration directives to reform the Federal Government. The National Background Investigations Bureau (NBIB) was established approximately one year ago and continues to implement policies and procedures that provide effective, efficient, and secure background investigations for the Federal Government. NBIB has implemented process improvements and capacity growth initiatives to increase capacity and mitigate impacts to mission readiness. The Human Resources Solution (HRS) program continues to provide customer agencies with innovative and competitive, high-quality solutions designed to assist in attracting a high-quality workforce, developing leaders, and achieving sustainable results. Including supporting agencies in their right-sizing decisions and overall agency reform plans that will drive agency improved efficiency and effectiveness for years to come. These are just two of the many quality reimbursable programs and services OPM operates.

To continue superior financial stewardship over our reimbursable programs, we are continuing to implement an enterprise-wide cost accounting model that we are now piloting with full implementation planned by the end of FY 2019. This will achieve our goal of developing more transparency and alignment of costs with activities that will ultimately be used to justify our pricing structure to efficiently operate these programs and achieve full-cost recovery.

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 has implemented the new reporting requirements under the Digital Accountability and Transparency Act of 2014 (DATA Act) to transform its spending information into open data and meet the expansion of the reporting requirements pursuant to the Federal Funding Accountability and Transparency Act (FFATA). To date, OPM submitted FY 2017 submissions for Quarter 2 and 3, and anticipates the same for Quarter 4. OPM will continue to work towards compliance with the DATA Act requirements as major releases that promote additional data standardization are made available.

Finally, we continue to carry out our fiduciary responsibilities over the $1,082.3 billion in assets in the Federal employees' earned-benefit trust and other funds with pride. In FY 2017, we disbursed approximately $137.3 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 2017 AFR documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds.

Sincerely,

Dennis D. Coleman
Chief Financial Officer
October 20, 2017

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 13, 2017

Report No. 4A-CF-00-17-028

MEMORANDUM FOR KATHLEEN M. McGETTIGAN
Acting Director

FROM: for NORBERT E. VINT
Acting Inspector General

SUBJECT: Audit of the U.S. Office of Personnel Management's Fiscal Year 2017 Consolidated Financial Statements

This memorandum transmits Grant Thornton LLP's (Grant Thornton) report on its financial statement audit of the U.S. Office of Personnel Management's (OPM) Fiscal Year 2017 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, 2017, 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. 17-03, *Audit Requirements for Federal Financial Statements*.

Grant Thornton's audit report for Fiscal Year 2017 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:

www.opm.gov www.usajobs.gov

- 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 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 did not identify any significant deficiencies.

  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 report 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 2017 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 17-03, and other applicable professional auditing standards;

- documented oversight activities and monitored audit status;

- reviewed responses to audit reports and reported significant disagreements, if any, 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 report dated November 13, 2017, 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

Kathleen M. McGettigan 4

David A. Garcia
Chief Information Officer

Janet L. Barnes
Director, Internal Oversight and Compliance

Thomas A. Moschetto
Chief, Policy and Internal Control

Grant Thornton LLP
1000 Wilson Boulevard., 14th Floor
Arlington, VA 22209
T 703.847.7500
F 703.848.9580
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Kathleen M. McGettigan, Acting Director
United States Office of Personnel Management

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

Report on the financial statements

We have audited the accompanying consolidated and consolidating financial statements of the United States Office of Personnel Management (OPM) (the "Agency"), which comprise the consolidated and consolidating balance sheets as of September 30, 2017 and 2016, and the related consolidated and consolidating statements of net cost and changes in net position, and the combined and combining statements of budgetary resources for the years then ended, and the related notes to the consolidated and consolidating financial statements (collectively, the "financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial 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 these financial statements based on our audits. We conducted our audits 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Grant Thornton

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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's preparation 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's internal 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OPM as of September 30, 2017 and 2016, and its net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

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 account be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*, who consider 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. 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.

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Information (Section 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to

Grant Thornton

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 13, 2017, 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, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's 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

Arlington, VA
November 13, 2017

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

Grant Thornton LLP
1000 Wilson Boulevard., 14th Floor
Arlington, VA 22209

T 703.847.7500
F 703.848.9580
www.GrantThornton.com

Kathleen M. McGettigan, Acting Director
United States Office of Personnel Management

Norbert E. Vint, Acting 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 Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the consolidated and consolidating financial statements of the United States Office of Personnel Management (OPM) (the "Agency"), which comprise the consolidated and consolidating balance sheet as of September 30, 2017 and 2016, and the related consolidated and consolidating statements of net cost, changes in net position, and the combined and combining statement of budgetary resources for the year then ended, and the related notes to the consolidated and consolidating financial statements (collectively, the "financial statements"), and have issued our report thereon dated November 13, 2017.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the section titled Material Weakness – Information Systems Control Environment below that we consider to be a material weakness 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 OMB Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*, 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 systems 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 increases the risk 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 management, segregation of duties, and service continuity or contingency planning. General controls provide the foundation for the integrity of systems including applications and the system software which make up the general support systems for an Agency's 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 OPM's mainframe, networks, databases, applications, and other supporting systems and was conducted at headquarters.

During Fiscal Year (FY) 2017, OPM made progress in strengthening controls over its information systems to address the material weakness over its information system (IS) control environment reported in FY 2016. However, our FY 2017 testing identified similar control issues in both design and operation of key controls. We believe that, in many cases, these deficiencies continue to 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,
- 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, and

- Oversight and governance was insufficient to enforce policies and address deficiencies.

The information system issues identified in FY 2017 remain consistent with prior years. We also noted new deficiencies. The noted deficiencies in OPM's IS control environment in the areas of Security Management, Logical and Physical Access, and Configuration Management, in the aggregate, are considered to be a Material Weakness.

Security Management

Appropriate security management controls provide reasonable assurance that the security of an Agency's IS 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. We noted the following deficiencies during our review of OPM's security management controls:

- System Security Plans, Risk Assessments, Security Assessment and Authorization Packages and Information System Continuous Monitoring documentation were incomplete,

- OPM did not have a centralized process in place to maintain a complete and accurate listing of systems and devices to be able to provide security oversight or risk mitigation in the protection of its resources,

- Instances of applications were not scanned during the first quarter of FY 2017 and in July 2017,

- OPM did not have a system in place to identify and generate a complete and accurate listing of OPM contractors and their employment status,

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

- Several instances of known security weaknesses did not correspond to a POA&M,

- OPM did not have a system in place to identify and generate a complete and accurate listing of users with significant information systems responsibilities, and

- Entity level policies and procedures are outdated and / or incomplete.

Without a comprehensive understanding of all devices, software and systems within OPM's boundaries, OPM is unable to provide comprehensive security oversight or risk mitigation in the protection of its resources. Furthermore, without comprehensive tracking of vulnerabilities or known system weaknesses, OPM is unable to determine whether they have been remediated within a timely manner. This increases the risk of systems being compromised and may result in

GrantThornton

the unauthorized use, modification, or disclosure of data. Further, the lack of insight into the presence of similar or aging vulnerabilities throughout all systems and devices connected to the network increases the risk of unauthorized access to sensitive information or system resources.

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 access 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 controls:

- OPM did not comply with their policies regarding the periodic recertification of the appropriateness of user access,
- Users are not appropriately provisioned and de-provisioned access from OPM's information systems and the data center,
- Six of the six financial applications assessed were not compliant with OMB-M-11-11 *Continued 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 OPM policy which requires the two-factor authentication,
- Active Directory password settings were not compliant with OPM policy,
- OPM could not provide a system generated listing of all users who have access to systems,
- System roles and associated responsibilities or functions, including the identification of incompatible role assignments were not documented,
- Security events were not reviewed in a timely manner, and
- A comprehensive review of audit logs was not performed.

By not obtaining authorization for new hires and reassignments there is a risk that individuals are provided access to functions or data that is not required to perform their job responsibilities. This could allow for erroneous data entry or data changes. Further, by not removing access in a timely fashion, a terminated individual may be able to access systems or data. Finally, users who have the ability to perform functions outside of their job responsibilities or execute key processes or transactions from initiation to completion, increases the risk of inaccurate, invalid and/or unauthorized transactions being processed by the system. Therefore, there is a risk of unauthorized access to financially relevant transactions or data.

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

Grant Thornton

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 configuration management controls:

- OPM had not developed comprehensive configuration management policies and procedures governing changes that is formally approved and disseminated to OPM personnel,
- OPM did not have the ability to generate a complete and accurate listing of modifications made to configuration items to systems,
- OPM did not maintain a security configuration checklist for platforms,
- One instance of patches were not applied in a timely manner, and
- Two instances of anti-virus were not configured or reported during the audit period.

Without formalized and comprehensive configuration management policies and procedures, the risk of having incomplete and / or inaccurate review and approval processes, audit trails of configuration changes, and configuration management documentation increases, which may in turn increase the risk that unauthorized or erroneous changes to OPM's information systems environment may be introduced without detection by system owners. Furthermore, well established configuration management controls prevent unauthorized changes to financial applications and provide reasonable assurance that systems are configured and operating securely and as intended. Included in these configuration management controls is the ability to systematically track all changes, including patches migrated or applied to the production environment. The issue noted above presents a risk that unauthorized or erroneous changes could be introduced without detection by system owners.

Recommendations

We recommend that the Office of the Chief Information Officer (OCIO), in coordination with system owners, enforce and monitor the implementation of corrective actions to:

Security Management

- Review, update and approve policies and procedures in accordance with frequencies prescribed by OPM policy,
- Implement processes to update the FISMA inventory listing to include interconnections, and review the FISMA inventory listing on a periodic basis for completeness and accuracy,
- Implement processes to associate software and hardware assets to system boundaries,

- Implement backup procedures to ensure continuous security scans over web applications,
- Implement a system or control that tracks the employment status of OPM contractors,
- Assign specific individuals with overseeing and monitoring POA&Ms to ensure security weaknesses correspond to a POA&M so that they are addressed in a timely manner,
- Establish a means of developing a complete and accurate listing of users with Significant Information System Responsibilities that are required to complete role-based training, and
- Continue to follow its project management plan to review and approve newly prepared policies so that the policies can be disseminated to stakeholders.

Logical and Physical Access

- Perform a comprehensive periodic review of the appropriateness of personnel with access to systems,
- Implement physical security access reviews to ensure access to the data center is limited to personnel that require access based on their job responsibilities,
- Implement two-factor authentication for applications,
- Document access rights to systems to include roles, role descriptions, and privileges or activities associated with each role and role or activity assignments that may cause a segregation of duties conflict,
- Ensure policies and procedures governing the provisioning and de-provisioning of access to information systems are followed in a timely manner and documentation of completion of these processes is maintained,
- 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 appropriate team members for review. The review of audit logs should be documented for record retention purposes, and
- Establish a means of documenting all users who have access to systems.

Configuration Management

- Establish a comprehensive configuration management plan that includes roles and 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, and

- Enforce existing policy developed by OPM, vendors or federal agencies requiring mandatory security configuration settings and implement a process to periodically validate the settings are appropriate.

Views of Responsible Officials and Planned Corrective Actions

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.

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. Our work on FFMIA would not necessarily disclose all instances of lack of compliance with FFMIA requirements.

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 Section 803(a) requirements disclosed no instances of substantial noncompliance with the applicable Federal accounting standards and the USSGL at the transaction level that are required to be reported under FFMIA.

Agency's response to findings

The Agency's response to our findings, which is described in the section titled Material Weakness – Information Systems Control Environment, 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.

Intended purpose

The purpose of this report 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

Arlington, VA
November 13, 2017

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

CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2017 and September 30, 2016
(In Millions)

	FY 2017	FY 2016
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$3,046	$2,736
Investments [Note 3]	1,032,575	1,014,420
Accounts Receivable [Note 4]	44,182	36,404
Total Intragovernmental	**1,079,803**	**1,053,560**
Accounts Receivable from the Public, Net [Note 4]	1,706	1,729
General Property and Equipment, Net	2	5
Other [Note 1L]	805	782
Total Assets	**$1,082,316**	**$1,056,076**
LIABILITIES		
Intragovernmental [Note 6]	$1,612	$1,387
Federal Employee Benefits:		
Benefits Due and Payable	12,010	11,748
Pension Liability [Note 5A]	1,908,400	1,805,700
Postretirement Health Benefits Liability [Note 5B]	363,452	341,077
Actuarial Life Insurance Liability [Note 5C]	52,207	49,976
Total Federal Employee Benefits	**2,336,069**	**2,208,501**
Other [Notes 6 and 7]	1,483	1,396
Total Liabilities	**2,339,164**	**2,211,284**
NET POSITION		
Unexpended Appropriations	39	42
Cumulative Results of Operations	(1,256,887)	(1,155,250)
Total Net Position - All Other Funds	**(1,256,848)**	**(1,155,208)**
Total Liabilities and Net Position	**$1,082,316**	**$1,056,076**

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, 2017 and 2016
(In Millions)

		FY 2017	FY 2016
Provide CSRS Benefits	Gross Costs	$28,791	$24,407
	Less: Earned Revenue	10,947	12,927
	Net Cost	**17,844**	**11,480**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5A]	61,230	(25,083)
	Net Cost of Operations [Notes 8 and 9]	**$79,074**	**($13,603)**
Provide FERS Benefits	Gross Costs	$62,827	$54,616
	Less: Earned Revenue	52,366	47,974
	Net Cost	**10,461**	**6,642**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5A]	33,426	(8,929)
	Net Cost of Operations [Notes 8 and 9]	**$43,887**	**($2,287)**
Provide Health Benefits	Gross Costs	$66,385	$52,026
	Less: Earned Revenue	42,544	45,890
	Net Cost	**23,841**	**6,136**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5B]	6,871	(13,449)
	Net Cost of Operations [Notes 8 and 9]	**$30,712**	**($7,313)**
Provide Life Insurance Benefits	Gross Costs	$4,347	$3,917
	Less: Earned Revenue	3,829	3,584
	Net Cost	**518**	**333**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5C]	946	386
	Net Cost of Operations [Notes 8 and 9]	**$1,464**	**$719**
Provide Human Resource Services	Gross Costs	$1,350	$1,311
	Less: Earned Revenue	1,371	1,279
	Net Cost of Operations	**($21)**	**$32**
Total Net Cost of Operations	Gross Costs	$163,700	$136,277
	Less: Earned Revenue	111,057	111,654
	Net Cost	**52,643**	**24,623**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Notes 5A, 5B, and 5C]	102,473	(47,075)
	Net Cost of Operations [Notes 8 and 9]	**$155,116**	**($22,452)**

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, 2017 and 2016
(In Millions)

	FY 2017	FY 2016
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	**($1,155,250)**	**($1,226,753)**
Budgetary Financing Sources:		
Appropriations Used	53,449	49,028
Other Financing Sources	30	23
Total Financing Sources	**53,479**	**49,051**
Net Cost of Operations	155,116	(22,452)
Net Change	**(101,637)**	**71,503**
Cumulative Results of Operations - Ending Balance	**($1,256,887)**	**($1,155,250)**
UNEXPENDED APPROPRIATIONS		
Beginning Balance	**$42**	**$49**
Budgetary Financing Sources:		
Appropriations Received	53,506	49,078
Other Adjustments	(60)	(57)
Appropriations Used	(53,449)	(49,028)
Total Budgetary Financing Sources	**(3)**	**(7)**
Total Unexpended Appropriations - Ending Balance	**39**	**42**
Net Position - All Other Funds	**($1,256,848)**	**($1,155,208)**

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, 2017 and 2016
(In Millions)

	FY 2017	FY 2016
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	$66,475	$64,532
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	1
Unobligated Balance Brought Forward, Oct 1, as adjusted	**66,475**	**64,533**
Recoveries of Unpaid Prior Year Obligations	43	113
Other Changes in Unobligated Balance	(11)	(6)
Unobligated Balance, from Prior Year Budget Authority, Net	**66,507**	**64,640**
Appropriations	140,794	131,962
Spending Authority from Offsetting Collections	58,582	56,993
Total Budgetary Resources	**$265,883**	**$253,595**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments [Note 11]	$196,582	$187,120
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,121	795
Unapportioned, Unexpired Accounts	68,113	65,615
Unexpired, Unobligated Balance, End of Year	69,234	66,410
Expired, Unobligated Balance, End of Year	67	65
Total Unobligated Balance, End of Year	**69,301**	**66,475**
Total Budgetary Resources	**$265,883**	**$253,595**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, Oct 1	$15,357	$15,022
Adjustment to Unpaid Obligations, Start of Year	-	4
New Obligations and Upward Adjustments	196,582	187,120
Less: Outlays, Gross	196,083	186,676
Less: Recoveries of Prior Year Unpaid Obligations	43	113
Unpaid Obligations, End of Year	**$15,813**	**$15,357**
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	$3,028	$3,172
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	5
Change in Uncollected Payments, Federal Sources	86	(149)
Uncollected Payments, Federal Sources, End of Year	**$3,114**	**$3,028**
Memorandum (Non-add) Entries:		
Obligated Balance, Start of Year	$12,329	$11,849
Obligated Balance, End of Year	$12,699	$12,329
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$199,376	$188,955
Less: Actual Offsetting Collections	58,496	57,144
Less: Change in Uncollected Payments, Federal Sources	86	(149)
Budget Authority, Net	**$140,794**	**$131,960**
Outlays, Gross	$196,083	$186,676
Less: Actual Offsetting Collections	58,496	57,144
Outlays, Net	**137,587**	**129,532**
Less: Distributed Offsetting Receipts	42,126	38,215
Agency Outlays, Net	**$95,461**	**$91,317**

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 and 2016 [$ 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), which consists of three (3) participant contribution rates. 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. The FERS – Revised Annuity Employees (RAE) was established in 2012 and became effective on January 1, 2013 and the FERS – Further Revised Annuity Employee was established in 2013 and became effective on January 1, 2014. Both defined-benefit pension 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*, which reimburse participants or their health care providers 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 Federal Employees Health Benefits (FEHB) Program by the carrier 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 FEHB Program. Coverage under a Self Plus One enrollment was available beginning in January 2016. As of March 2017, enrollment for Self Plus One was 643,606. That amount is comprised of Postal – 58,576, Other Agencies – 202,719, and Annuitants – 382,311.

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.

Salaries and Expenses. Salaries and Expenses provide 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 and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements." GAAP 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 GAAP 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 Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, 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 37.4 percent and 32.8 percent of basic pay for FY 2017 and FY 2016, respectively. For FERS, the service cost for most or "regular" FERS participants is 16.2 percent and 14.7 percent of basic pay for FY 2017 and FY 2016, 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 2017 and 2016. 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 2017 and 2016, this amount was $33.9 billion and $33.4 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 2017 and 2016, this amount was $6.7 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 2017 and 2016).

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 covered by 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 2017 and 2016, 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 National Background Investigative Bureau, USAJOBS, and Human Resource Solutions.

Salaries and Expenses. The Salaries and Expenses (S&E) account and the Office of Inspector General (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 transfer from Treasury's General Fund is recorded as a transfer-in and a transfer-out within the Retirement Fund and therefore does not appear on the statement of changes in net position. The obligation and disbursement are reflected in 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 2018 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 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 Debt Issuance Suspension Period (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.

The Secretary of the Treasury stated that the U.S. had reached its statutory debt limit on March 16, 2017 and the DISP continued until September 8, 2017. During this period, Treasury took extraordinary measures, including those described above, to avoid exceeding the statutory debt limit. The U.S. Government is required to pay the CSRDF and the PSRHBF the amount of "foregone interest", those Funds would have otherwise earned had such an extraordinary measure not taken place.

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, 2017, Other Assets - Non-intragovernmental for the Health Program and Life Programs were $147 million and $658 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 to 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, 2017 and 2016 are:

September 30, 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$12	-	-	-	$12
Revolving Fund	-	-	-	$1,473	1,473
General Funds	-	$1,389	$5	96	1,490
Trust Revolving Funds	-	65	6	-	71
Total	**$12**	**$1,454**	**$11**	**$1,569**	**$3,046**
September 30, 2016 ($ 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**

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 portions of OPM's temporary reductions, unexpended balances that are obligated, unobligated and precluded from obligation at September 30, 2017 and 2016:

September 30, 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$12	$1,454	$11	$1,569	$3,046
Investments	905,103	75,467	45,542	-	1,026,112
Total, Unexpended Balance	**$905,115**	**$76,921**	**$45,553**	**$1,569**	**$1,029,158**
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$1,121	$1,121
Unavailable	-	$23,386	$44,684	110	68,180
Obligated not yet Disbursed	$7,455	4,037	869	338	12,699
Precluded (See Note 10)	897,657	49,491	-	-	947,148
Temporary Reduction & Rounding	3	7	-	-	10
Total, Status of Fund Balances	**$905,115**	**$76,921**	**$45,553**	**$1,569**	**$1,029,158**

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 & Rounding	4	7	-	-	11
Total, Status of Fund Balances	**$887,173**	**$76,605**	**$45,062**	**$1,288**	**$1,010,128**

NOTE 3 - INVESTMENTS

All of OPM's 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 $122 billion and $121 billion invested as of September 30, 2017 and 2016, respectively. 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.

As discussed in Note 1 the DISP ended on September 8, 2017.

The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2017 and 2016.

As of September 30, 2017 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program						
Marketable:						
FFB Securities	$11,457	-	$86	$11,543	-	$11,457
Non-Marketable: (PAR)						
Par-value GAS securities	850,371	-	5,609	855,980	-	850,371
Certificates of Indebtedness	43,275	-	4	43,279	-	43,275
Total Retirement Program	**$905,103**	**-**	**$5,699**	**$910,802**	**-**	**$905,103**
Health Benefits Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$25,977	$24	$22	$26,023	$(20)	$25,933
Non-Marketable: (PAR)						
Par-value GAS securities	49,491	-	317	49,808	-	49,491
Certificates of Indebtedness	-	-	-	-	-	-
Total Health Benefits Program	**$75,468**	**$24**	**$339**	**$75,831**	**$(20)**	**$75,424**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$45,860	$1	$81	$45,942	$181	$47,747
Total Life Insurance Program	**$45,860**	**$1**	**$81**	**$45,942**	**$181**	**$47,747**
Total Investments	**$1,026,431**	**$25**	**$6,119**	**$1,032,575**	**$161**	**$1,028,274**

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**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2017 and 2016 are:

September 30, 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$5,012	$39,010	$21	-	$44,043
Other	-	-	-	139	139
Total	**$5,012**	**$39,010**	**$21**	**$139**	**$44,182**
September 30, 2016 ($ 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**

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 and normal and amortization payments of approximately $4.3 billion due September 2017 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 2017. As of September 30, 2017, a total of $38.2 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, 2017 and 2016 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$149	$973	$163	-	$1,285
Overpayment of benefits [net of allowance of $107]	$320	-	-	-	320
Due from carriers [net of allowance of $0]	-	101	-	-	101
Other	-	-	-	-	-
Total	**$469**	**$1,074**	**$163**	**-**	**$1,706**
September 30, 2016 ($ 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**

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 2017 and 2016:

Economic Assumptions	FY 2017		FY 2016	
	CSRS	FERS	CSRS	FERS
Interest rate	3.2%	3.8%	3.5%	4.0%
Cost of Living Adjustment*	1.8%	1.4%	1.9%	1.6%
Rate of increases in salary	1.5%	1.5%	1.5%	1.5%

*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, 2017 and 2016:

FY 2017 ($ in millions)	CSRS	FERS	TOTAL
Normal cost	$3,294	$33,194	$36,488
Interest cost	37,831	28,059	65,890
Actuarial (Gain)/Loss - Experience	(12,334)	1,574	(10,760)
Actuarial (Gain)/Loss - Assumptions	61,230	33,426	94,656
Pension Expense	**$90,021**	**$96,253**	**$186,274**

FY 2016 ($ in millions)	CSRS	FERS	TOTAL
Normal 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**

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

FY 2017 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2016	**$1,113,600**	**$692,100**	**$1,805,700**
Plus: Pension Expense			
Normal Cost	3,294	33,194	36,488
Interest on the Liability Balance	37,831	28,059	65,890
Actuarial (Gain)/Loss:			
From experience:	(12,334)	1,574	(10,760)
From changes in actuarial assumptions:	61,230	33,426	94,656
Net (Gain)/Loss	48,896	35,000	83,896
Total Expense:	**90,021**	**96,253**	**186,274**
Less: Costs applied to Pension Liability	(69,321)	(14,253)	(83,574)
Pension Liability at September 30, 2017	**$1,134,300**	**$774,100**	**$1,908,400**
FY 2016 ($ 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 (Gain)/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**

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 2017 and 2016:

FY 2017 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$68,887	$14,026	$82,913
Refunds of contributions	251	176	427
Administrative and other expenses	183	51	234
Costs applied to the Pension Liability	**$69,321**	**$14,253**	**$83,574**
FY 2016 ($ 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**

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 2017	FY 2016
Interest rate(1)	3.8%	4.0%
Increase in per capita cost of covered benefits(2)	4.8%	5.5%
Ultimate medical trend rate	3.4%	3.5%

1 The single equivalent annual interest rate for FY 2017 is derived from a yield curve based on the average of the last 40 quarters through March 2017. 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.

2 The increase in per capita cost of covered benefits for FY 2017 represents a variable trend which begins at 4.9% and then declines to 3.4% by FY 2075. Last year, the increase in per capita cost of covered benefits represented a variable trend that began at 5.5%, and ultimately declined to 3.5%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2017 and 2016:

($ in millions)	FY 2017	FY 2016
Normal cost	$12,874	$13,396
Interest cost	13,643	14,466
Actuarial (Gain)/Loss - Experience	4,574	(11,164)
Actuarial (Gain)/Loss - Assumptions	6,871	(13,449)
PRHB Expense	**$37,962**	**$3,249**

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

($ in millions)	FY 2017	FY 2016
PRHB Liability at the beginning of the year	$341,077	$352,819
Plus: PRHB Expense		
Normal Cost	12,874	13,396
Interest on the Liability Balance	13,643	14,466
Actuarial (Gain)/Loss:		
From experience:	4,574	(11,164)
From assumption changes:	6,871	(13,449)
Net (Gain)/Loss	**11,445**	**(24,613)**
Total Expense:	**37,962**	**(3,249)**
Less: Costs applied to PRHB Liability	(15,587)	(14,991)
PRHB Liability at the end of the year	**$363,452**	**$341,077**

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 2017 and 2016:

($ in millions)	FY 2017	FY 2016
Current benefits	$12,147	$11,371
Premiums	2,225	2,140
Administrative and other expenses	1,215	1,480
Total costs applied to the PRHB Liability	**$15,587**	**$14,991**

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 2017 and 2016:

($ in millions)	FY 2017		FY 2016	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$416,429	$318,956	$389,491	$300,717

($ in millions)	FY 2017			FY 2016		
	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
	$6,665	$8,492	$5,257	$5,517	$6,988	$4,346

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 2017 and 2016. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

ALIL Interest Rate	FY 2017	FY 2016
Interest rate	3.6%	3.8%
Rate of increases in salary	1.5%	1.5%

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 2017 and 2016:

($ in millions)	FY 2017	FY 2016
New Entrant Expense	$370	$342
Interest Cost	1,895	1,943
Actuarial (Gain)/Loss – Experience	(414)	(810)
Actuarial (Gain)/Loss – Assumptions	946	386
Life Insurance Expense	**$2,797**	**$1,861**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2017 and 2016 is:

($ in millions)	FY 2017	FY 2016
Life Insurance Expense	$2,797	$1,861
Less: Net Costs applied to Life Insurance liability	(566)	(558)
Future Life Insurance Benefits Expense	**$2,231**	**$1,303**

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

($ in millions)	FY 2017	FY 2016
Actuarial LI Liability at the beginning of the year	$49,976	$48,673
Plus: Expense		
New Entrant Expense	370	342
Interest on the Liability Balance	1,895	1,943
Actuarial (Gain)/Loss:		
From experience:	(414)	(810)
From assumption changes:	946	386
Net (Gain)/Loss:	**532**	**(424)**
Total LI Expense:	**2,797**	**1,861**
Less: Costs applied to Life Insurance Liability	(566)	(558)
Actuarial LI Liability at the end of the year	**$52,207**	**$49,976**

NOTE 6 - INTRAGOVERNMENTAL AND OTHER LIABILITIES

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2017 and 2016:

September 30, 2017 ($ in millions)	Accounts Payable	Other	Total
Retirement	$43	-	$43
Health Benefits	324	-	324
Life Insurance	12	-	12
Revolving Fund	-	1,353	1,353
Salaries and Expenses	-	3	3
Eliminations	(119)	(4)	(123)
Total Intragovernmental Liabilities	**$260**	**$1,352**	**$1,612**
September 30, 2016 ($ 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**

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, 2017 and September 30, 2016 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, 2017 and 2016:

September 30, 2017 ($ in millions)	Withheld from Benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative Expenses	Contingencies	Total
Retirement Program	$946	-	-	$95	$1,041
Health Benefits Program	-	$292	-	-	292
Life Insurance Program	-	33	-	-	33
Revolving Fund Program	-	-	89	-	89
Salaries and Expenses	-	-	26	2	28
Total Other Liabilities	**$946**	**$325**	**$115**	**$97**	**$1,483**
September 30, 2016 ($ 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**

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 2017, OPM has recorded a total liability of $96.7 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $1.5 million and for the Retirement Fund the estimated amount of probable losses is $95.2 million. There are no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund.

For FY 2016, OPM recorded a total liability of $10.5 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $0.4million. 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 2016.

In addition, OPM has determined, at September 30, 2017, it is reasonably possible that losses ranging from an additional $16.7 million to $93.0 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $1.5 million to $66.6 million, for the Revolving Fund the total of all reasonably possible losses ranges from $15.3 million to $26.4 million. For FY 2017, the Retirement Fund, Health Benefits Fund and the Life Insurance Fund did not have any reasonably possible losses.

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, 2017 and 2016:

FY 2017 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total
Provide CSRS Benefits	-	$28,791	$28,791	$10,163	$784	$10,947
Provide FERS Benefits	-	62,827	62,827	49,371	2,995	52,366
Provide Health Benefits	-	66,385	66,385	26,833	15,711	42,544
Provide Life Insurance Benefits	-	4,347	4,347	1,062	2,767	3,829
Provide Human Resources Services	$569	1,199	1,768	1,774	15	1,789
Eliminations	(418)	-	(418)	(418)	-	(418)
Total	**$151**	**$163,549**	**$163,700**	**$88,785**	**$22,272**	**$111,057**
FY 2016 ($ in millions)	**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**

NOTE 9 – NET COST BY STRATEGIC GOALS

OPM's Strategic Plan contains five key goals that are focused on improving internal OPM systems and processes that enable the agency to provide more efficient and effective services to our customers. OPM's strategic plan also contains five goals that are focused on OPM's external responsibilities as the lead agency for HR policy, HR products and services, benefits policy and administration, and background investigation services. As required by the Government Performance and Results Modernization Act of 2010 (P.L. 111-352), our budget request maps to our FY 2014 – 2018 Strategic Plan.

The ten Strategic Goals in FY 2017 and nine in FY 2016 define OPM's direction, and are summarized in the following chart:

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
GOAL 10 Increase the Efficiency and Effectiveness of Human Capital Management Across the Federal Government Total	Increase the efficiency and effectiveness of human capital management across the Federal Government by providing procedures and services that increase accountability, and provide greater organizational and management flexibility

FY 2017 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	3	1	2	-	18	**24**
	Less earned revenue	-	-	-	-	19	**19**
	Net program cost	3	1	2	-	(1)	**5**
Goal 2	Total program cost	-	-	-	-	1	**1**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	1	**1**
Goal 3	Total program cost	-	-	-	-	1	**1**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	1	**1**
Goal 4	Total program cost	22	10	14	1	218	**265**
	Less earned revenue	-	-	-	-	222	**222**
	Net program cost	22	10	14	1	(4)	**43**
Goal 5	Total program cost	-	-	-	-	6	**6**
	Less earned revenue	-	-	-	-	6	**6**
	Net program cost	-	-	-	-	-	**-**
Goal 6	Total program cost	-	-	-	-	71	**71**
	Less earned revenue	-	-	-	-	73	**73**
	Net program cost	-	-	-	-	(2)	**(2)**
Goal 7	Total program cost	28,748	62,808	36	3	-	**91,595**
	Less earned revenue	10,947	52,366	-	-	-	**63,313**
	Actuarial (Gain)/Loss	61,230	33,426	-	-	-	**94,656**
	Net program cost	79,031	43,868	36	3	-	**122,938**
Goal 8	Total program cost	-	-	-	-	933	**933**
	Less earned revenue	-	-	-	-	947	**947**
	Net program cost	-	-	-	-	(14)	**(14)**
Goal 9	Total program cost	18	8	66,333	4,343	14	**70,716**
	Less earned revenue	-	-	42,544	3,829	15	**46,388**
	Actuarial (Gain)/Loss	-	-	6,871	946	-	**7,817**
	Net program cost	18	8	30,660	1,460	(1)	**32,145**
Goal 10	Total program cost	-	-	-	-	88	**88**
	Less earned revenue	-	-	-	-	89	**89**
	Net program cost	-	-	-	-	(1)	**(1)**
Total	**Total program cost**	**28,791**	**62,827**	**66,385**	**4,347**	**1,350**	**163,700**
	Less earned revenue	**10,947**	**52,366**	**42,544**	**3,829**	**1,371**	**111,057**
	Actuarial (Gain)/Loss	**61,230**	**33,426**	**6,871**	**946**	**-**	**102,473**
	Net program cost	**79,074**	**43,887**	**30,712**	**1,464**	**(21)**	**155,116**

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 actuarial gain/loss from experience on pension, ORB, or OPEB actuarial liabilities (see Notes 5A, 5B, and 5C).

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, 2017 and 2016 (rounding may appear):

September 30 ($ in millions)	2017	2016
Temporarily precluded from obligation at the beginning of the year	$879,821	$864,512
Plus: Trust fund receipts during the year	101,723	98,243
Plus: Appropriations Received	40,636	36,664
Less: Obligations Incurred during the year	124,523	119,598
Excess of trust fund receipts over obligations incurred during the year	17,836	15,309
Temporarily Precluded from Obligation at the End of the Year	**$897,657**	**$879,821**

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 2017 and FY 2016 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, 2017 and 2016:

September 30 ($ in millions)	2017	2016
Temporarily precluded from obligation at the beginning of the year	$51,495	$49,993
Plus: Special Fund receipts during the year	1,446	1,502
Less: Obligations Incurred during the year	3,450	-
Excess of Special Fund receipts over obligations incurred during the year	(2,004)	1,502
Temporarily Precluded from Obligation at the End of the Year	**$49,491**	**$51,495**

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 2017 and 2016:

FY 2017 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$83,887	-	**$83,887**
Retirement Program	E	40,636	-	**40,636**
Subtotal		**$124,523**	**-**	**$124,523**
Health Benefits Program	B	54,323	-	**54,323**
Health Benefits Program	E	12,654	-	**12,654**
Life Insurance Program	B	3,065	-	**3,065**
Life Insurance Program	E	43	-	**43**
Revolving Fund Program	B	-	1,514	**1,514**
Salaries and Expenses	A and B	383	77	**460**
Total		**$194,991**	**$1,591**	**$196,582**

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**

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 2019, which will contain the actual budgetary resources information for FY 2017, will be published in February 2018 and will be available on the OMB website. The President's Budget for FY 2018, which contains actual budgetary resource information for FY 2016, was released on February 9, 2017.

There are no material differences between the SBR and the SF-133s - "Reports on Budget Execution," for FY 2017 and FY 2016. Additionally, there are no material differences between the actual amounts for FY 2016 published in the President's Budget and those reported in the accompanying prior FY 2016 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 2017 and 2016 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries and Expenses	Total
FY 2017	$994	$102	$1,096
FY 2016	$1,045	$82	$1,127

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

Per SFFAS No. 7, requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2017 reconciliation and comparative FY 2016 reconciliation are as follows:

FY 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2017
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$124,523	$66,977	$3,108	$1,514	$460	$196,582
Less: Spending Authority from Offsetting Collections and Recoveries	-	52,920	3,581	1,776	349	58,626
Less: Appropriated Trust Fund Receipts	101,723	1,446	-	-	-	103,169
Obligations Net of Offsetting Collections and Recoveries	22,800	12,611	(473)	(262)	111	34,787
Less: Offsetting Receipts	40,680	1,446	-	-	-	42,126
Net Obligations	**$(17,880)**	**$11,165**	**$(473)**	**$(262)**	**$111**	**$(7,339)**
Other Resources	-	-	-	19	13	32
Total Resources Used to Finance/ Generated From Activities	**$(17,880)**	**$11,165**	**$(473)**	**$(243)**	**$124**	**$(7,307)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$40,636	-	-	-	-	$40,636
Other	44	1,450	(294)	219	(25)	1,394
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**40,680**	**1,450**	**(294)**	**219**	**(25)**	**42,030**
Total Resources Used to Finance/ Generated from the Net Cost of Operations	**$22,800**	**$12,615**	**(767)**	**(24)**	**99**	**$34,723**
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	$102,700	$22,375	$2,231	-	-	$127,306
Exchange Revenue Not in the Budget	(2,627)	(4,309)	-	-	-	(6,936)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	100,073	18,066	2,231	-	-	120,370
Components Not Requiring or Generating Resources						
Other	88	31	-	(99)	3	23
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**88**	**31**	**-**	**(99)**	**3**	**23**
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**100,161**	**18,097**	**2,231**	**(99)**	**3**	**120,393**
NET COST OF OPERATIONS	**$122,961**	**$30,712**	**$1,464**	**$(123)**	**$102**	**$155,116**

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 WILL 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 Will 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)**

NOTE 15 - HEALTH BENEFITS/ LIFE INSURANCE PROGRAM CONCENTRATIONS

During FY 2017 and 2016, 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, 2017
(In Millions)

Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2017
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$12	$1,454	$11	$1,473	$96	-	$3,046
Investments [Note 3]	910,802	75,831	45,942	-	-	-	1,032,575
Accounts Receivable [Note 4]	5,012	39,010	21	140	122	($123)	44,182
Total Intragovernmental	**915,826**	**116,295**	**45,974**	**1,613**	**218**	**(123)**	**1,079,803**
Accounts Receivable from the Public, Net [Note 4]	469	1,074	163	-	-	-	1,706
General Property and Equipment, Net	-	-	-	2	-	-	2
Other [Note 1L]	-	147	658	-	-	-	805
Total Assets	**$916,295**	**$117,516**	**$46,795**	**$1,615**	**$218**	**($123)**	**$1,082,316**
LIABILITIES							
Intragovernmental [Note 6]	$43	$324	$12	$1,353	$3	($123)	$1,612
Federal Employee Benefits:							
Benefits Due and Payable	6,470	4,613	927	-	-	-	12,010
Pension Liability [Note 5A]	1,908,400	-	-	-	-	-	1,908,400
Postretirement Health Benefits Liability [Note 5B]	-	363,452	-	-	-	-	363,452
Actuarial Life Insurance Liability [Note 5C]	-	-	52,207	-	-	-	52,207
Total Federal Employee Benefits	**1,914,870**	**368,065**	**53,134**	**-**	**-**	**-**	**2,336,069**
Other [Notes 6 and 7]	1,041	292	33	89	28	-	1,483
Total Liabilities	**1,915,954**	**368,681**	**53,179**	**1,442**	**31**	**(123)**	**2,339,164**
NET POSITION							
Unexpended Appropriations	-	-	-	3	36	-	39
Cumulative Results of Operations	(999,659)	(251,165)	(6,384)	170	151	-	(1,256,887)
Total Net Position - All Other Funds	**(999,659)**	**(251,165)**	**(6,384)**	**173**	**187**	**-**	**(1,256,848)**
Total Liabilities and Net Position	**$916,295**	**$117,516**	**$46,795**	**$1,615**	**$218**	**($123)**	**$1,082,316**

The accompanying notes are an integral part of the 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 STATEMENT OF NET COST
For the Year Ended September 30, 2017
(In Millions)

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2017
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$289	$280	($418)	$151
With the Public:									
Pension Expense [Note 5A]	$28,791	$62,827	$91,618	-	-	-	-	-	91,618
Postretirement Health Benefits [Note 5B]	-	-	-	$31,091	-	-	-	-	31,091
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$1,285	-	-	-	1,285
Current Benefits and Premiums	-	-	-	33,604	3,038	-	-	-	36,642
Other	-	-	-	1,690	24	1,043	156	-	2,913
Total Gross Costs with the Public	**28,791**	**62,827**	**91,618**	**66,385**	**4,347**	**1,043**	**156**	**-**	**163,549**
Total Gross Costs [Notes 8 and 9]	**28,791**	**62,827**	**91,618**	**66,385**	**4,347**	**1,332**	**436**	**(418)**	**163,700**
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,339	30,996	33,335	25,208	523	-	-	(101)	58,965
Earnings on Investments	7,634	17,932	25,566	1,599	539	-	-	-	27,704
Other	190	443	633	26	-	1,455	319	(317)	2,116
Total Intragovernmental Earned Revenue	**10,163**	**49,371**	**59,534**	**26,833**	**1,062**	**1,455**	**319**	**(418)**	**88,785**
With the Public:									
Participant Contributions	784	2,995	3,779	15,709	2,764	-	-	-	22,252
Other	-	-	-	2	3	-	15	-	20
Total Earned Revenue with the Public	**784**	**2,995**	**3,779**	**15,711**	**2,767**	**-**	**15**	**-**	**22,272**
Total Earned Revenue [Notes 8 and 9]	**10,947**	**52,366**	**63,313**	**42,544**	**3,829**	**1,455**	**334**	**(418)**	**111,057**
Net Cost	**17,844**	**10,461**	**28,305**	**23,841**	**518**	**(123)**	**102**	**-**	**52,643**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	61,230	33,426	94,656	6,871	946	-	-	-	102,473
Net Cost of Operations	**$79,074**	**$43,887**	**$122,961**	**$30,712**	**$1,464**	**($123)**	**$102**	**-**	**$155,116**

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 [Notes 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 CHANGES IN NET POSITION
For the Year Ended September 30, 2017
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2017
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	**($917,331)**	**($233,107)**	**($4,963)**	**$27**	**$124**	**($1,155,250)**
Budgetary Financing Sources:						
Appropriations Used	40,636	12,654	43	-	116	53,449
Other Financing Sources	(3)	-	-	20	13	30
Total Financing Sources	**40,633**	**12,654**	**43**	**20**	**129**	**53,479**
Net Cost of Operations	122,961	30,712	1,464	(123)	102	155,116
Net Change	**(82,328)**	**(18,058)**	**(1,421)**	**143**	**27**	**(101,637)**
Cumulative Results of Operations - Ending Balance	**($999,659)**	**($251,165)**	**($6,384)**	**$170**	**$151**	**($1,256,887)**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	**-**	**-**	**-**	**$3**	**$39**	**$42**
Budgetary Financing Sources:						
Appropriations Received	40,636	$12,701	$45	-	124	53,506
Other Adjustments	-	(47)	(2)	-	(11)	(60)
Appropriations Used	(40,636)	(12,654)	(43)	-	(116)	(53,449)
Total Budgetary Financing Sources	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Total Unexpended Appropriations - Ending Balance	**-**	**-**	**-**	**3**	**36**	**39**
Net Position - All Other Funds	**($999,659)**	**($251,165)**	**($6,384)**	**$173**	**$187**	**($1,256,848)**

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
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

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2017
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2017
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, Oct 1	-	$21,340	$44,168	$863	$104	$66,475
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-
Unobligated Balance Brought Forward, Oct 1, as adjusted	-	21,340	44,168	863	104	66,475
Recoveries of Unpaid Prior Year Obligations	-	-	-	39	4	43
Other Changes in Unobligated Balance	-	-	-	-	(11)	(11)
Unobligated Balance from Prior Year Budget Authority, Net	-	21,340	44,168	902	97	66,507
Appropriations	$124,523	16,104	43	-	124	140,794
Spending Authority from Offsetting Collections	-	52,919	3,581	1,737	345	58,582
Total Budgetary Resources	**$124,523**	**$90,363**	**$47,792**	**$2,639**	**$566**	**$265,883**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments [Note 11]	$124,523	$66,977	$3,108	$1,514	$460	$196,582
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	-	-	-	1,097	24	1,121
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	23,386	44,684	28	15	68,113
Unexpired, Unobligated Balance, End of Year	-	23,386	44,684	1,125	39	69,234
Expired, Unobligated Balance, End of Year	-	-	-	-	67	67
Total Unobligated Balance, End of Year	**-**	**23,386**	**44,684**	**1,125**	**106**	**69,301**
Total Budgetary Resources	**$124,523**	**$90,363**	**$47,792**	**$2,639**	**$566**	**$265,883**
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations Brought Forward, Oct 1	$7,349	$5,979	$965	$973	$91	$15,357
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-
New Obligations and Upward Adjustments	124,523	66,977	3,108	1,514	460	196,582
Less: Outlays, Gross	124,417	66,686	3,096	1,448	436	196,083
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	39	4	43
Unpaid Obligations, End of Year	**$7,455**	**$6,270**	**$977**	**$1,000**	**$111**	**$15,813**
Uncollected Payments:						
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	-	$2,216	$71	$616	$125	$3,028
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	-	-
Change in Uncollected Payments, Federal Sources	-	17	37	36	(4)	86
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,233**	**$108**	**$652**	**$121**	**$3,114**
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$7,349	$3,763	$894	$357	($34)	$12,329
Obligated Balance, End of Year	$7,455	$4,037	$869	$348	($10)	$12,699
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$124,523	$69,023	$3,624	$1,737	$469	$199,376
Less: Actual Offsetting Collections	-	52,902	3,544	1,701	349	58,496
Less: Change in Uncollected Payments, Federal Sources	-	17	37	36	(4)	86
Budget Authority, Net	**$124,523**	**$16,104**	**$43**	**-**	**$124**	**$140,794**
Outlays, Gross	$124,417	$66,686	$3,096	$1,448	$436	$196,083
Less: Actual Offsetting Collections	-	52,902	3,544	1,701	349	58,496
Outlays, Net	**124,417**	**13,784**	**(448)**	**(253)**	**87**	**137,587**
Less: Distributed Offsetting Receipts	40,680	1,446	-	-	-	42,126
Agency Outlays, Net	**$83,737**	**$12,338**	**($448)**	**($253)**	**$87**	**$95,461**

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, Oct 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, Oct 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)
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.

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, 2017
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2017
BUDGETARY RESOURCES							
Unobligated Balance Brought Forward, Oct 1	-	$21,340	$44,168	$863	$104	-	$66,475
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-	-
Unobligated Balance Brought Forward, Oct 1, as adjusted		21,340	44,168	863	104	-	66,475
Recoveries of Unpaid Prior Year Obligations	-	-	-	39	4	-	43
Other Changes in Unobligated Balance	-	-	-	-	(11)	-	(11)
Unobligated Balance from Prior Year Budget Authority, Net	**-**	**21,340**	**44,168**	**902**	**97**	**-**	**66,507**
Appropriations	$83,887	3,450	-	-	124	$53,333	140,794
Spending Authority from Offsetting Collections	-	52,919	3,581	1,737	345	-	58,582
Total Budgetary Resources	**$83,887**	**$77,709**	**$47,749**	**$2,639**	**$566**	**$53,333**	**$265,883**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments [Note 11]	$83,887	$54,323	$3,065	$1,514	$460	$53,333	$196,582
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	-	-	-	1,097	24	-	1,121
Unapportioned, Unexpired Accounts	-	23,386	44,684	28	15	-	68,113
Unexpired, Unobligated Balance, End of Year	-	23,386	44,684	1,125	39	-	69,234
Expired, Unobligated Balance, End of Year	-	-	-	-	67	-	67
Total Unobligated Balance, End of Year		**23,386**	**44,684**	**1,125**	**106**	**-**	**69,301**
Total Budgetary Resources	**$83,887**	**$77,709**	**$47,749**	**$2,639**	**$566**	**$53,333**	**$265,883**
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, Oct 1	$7,349	$4,628	$960	$973	$91	$1,356	$15,357
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-	-
New Obligations and Upward Adjustments	83,887	54,323	3,065	1,514	460	53,333	196,582
Less: Outlays, Gross	83,781	54,070	3,053	1,448	436	53,295	196,083
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	39	4	-	43
Unpaid Obligations, End of Year	**$7,455**	**$4,881**	**$972**	**$1,000**	**$111**	**$1,394**	**$15,813**
Uncollected Payments:							
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$2,216	$71	$616	$125	-	$3,028
Adjustment to Uncollected Payments, Federal Sources, Start of Year	-	-	-	-	-	-	-
Change in Uncollected Payments, Fed Sources	-	17	37	36	(4)	-	86
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,233**	**$108**	**$652**	**$121**	**-**	**$3,114**
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$7,349	$2,412	$889	$357	($34)	$1,356	$12,329
Obligated Balance, End of Year	$7,455	$2,648	$864	$348	($10)	$1,394	$12,699
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$83,887	$56,369	$3,581	$1,737	$469	$53,333	$199,376
Less: Actual Offsetting Collections	-	52,902	3,544	1,701	349	-	58,496
Less: Change in Uncollected Payments, Federal Sources	-	17	37	36	(4)	-	86
Budget Authority, Net	**$83,887**	**$3,450**	**-**	**-**	**$124**	**$53,333**	**$140,794**
Outlays, Gross	$83,781	$54,070	$3,053	$1,448	$436	$53,295	$196,083
Less: Actual Offsetting Collections	-	52,902	3,544	1,701	349	-	58,496
Outlays, Net	**83,781**	**1,168**	**(491)**	**(253)**	**87**	**53,295**	**137,587**
Less: Distributed Offsetting Receipts	40,680	1,446	-	-	-	-	42,126
Agency Outlays, Net	**$43,101**	**($278)**	**($491)**	**($253)**	**$87**	**$53,295**	**$95,461**

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, 2016
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2016
BUDGETARY RESOURCES							
Unobligated Balance Brought Forward, Oct 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	$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
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, Oct 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, Oct 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)
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**

SECTION 3

OTHER INFORMATION

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 1, 2017

MEMORANDUM FOR KATHLEEN M. McGETTIGAN
Acting Director

FROM: NORBERT E. VINT
Acting Inspector General

SUBJECT: Fiscal Year 2017 Top Management Challenges

Attached is our final report on the U.S. Office of Personnel Management's (OPM) Fiscal Year 2017 Top Management Challenges.

We submitted a draft report to OPM on October 13, 2017, which identified three environmental challenges and eight internal challenges. The environmental challenges identified represent challenges in the areas of Strategic Human Capital Management, Federal Health Insurance Initiatives, and Background Investigations, and the internal challenges are related to information technology, improper payments, the retirement claims process, and the procurement process. OPM's comments on the draft report were considered in preparing this final report.

The final report includes written summaries of each of the challenges mentioned above. These summaries recognize OPM management's efforts to address 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. As a result of our reviews, no new challenges were added this year.

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 Drew M. Grimm, Assistant Inspector General for Investigations, at 606-1200.

Attachment

www.opm.gov Recruit, Retain and Honor a World-Class Workforce to Serve the American People www.usajobs.gov

Patrick J. Young
Acting Chief of Staff

Dennis D. Coleman
Chief Financial Officer and Acting Chief Management Officer

Margaret P. Pearson
Associate Chief Financial Officer

Mark W. Lambert
Associate Director, Merit System Accountability and Compliance

Janet L. Barnes
Director, Internal Oversight and Compliance

Thomas A. Moschetto
Chief, Policy and Internal Controls

Theodore M. Cooperstein
General Counsel

Kathie Whipple
Deputy General Counsel

Jason Foster
Associate General Counsel

U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL

Top Management Challenges: Fiscal Year 2017

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2017

November 01, 2017

EXECUTIVE SUMMARY

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2017

November 01 2017

The Purpose of This Report.

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. We have classified the challenges into two key types of issues facing the U.S. Office of Personnel Management (OPM) – environmental challenges, which are either inherent to the program or function, or 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.

What Did We Consider?

We have identified these 11 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.

Norbert E. Vint
Acting Inspector General

What Did We Find?

The OIG identified the following three environmental challenges:

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

These environmental challenges 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 OIG also identified the following eight 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.

These internal 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 impact on OPM's performance if they are not handled appropriately by OPM management.

i

ABBREVIATIONS

ACA	**Patient Protection and Affordable Care Act**
CHCO	**Chief Human Capital Officers**
CISO	**Chief Information Security Officer**
DOD	**U.S. Department of Defense**
GAO	**U.S. Government Accountability Office**
FEHBAR	**Federal Employees Health Benefits Acquisition Regulations**
FEDVIP	**Federal Employees Dental and Vision Insurance Program**
FEHBP	**Federal Employees Health Benefits Program**
FIS	**Federal Investigative Services**
FISMA	**Federal Information Security Management Act**
FLTCIP	**Federal Long-Term Care Insurance Program**
FSAFEDS	**Federal Flexible Spending Account Program**
FWA	**Fraud, Waste, and Abuse**
FY	**Fiscal Year**
HCDW	**Health Claims Data Warehouse**
HI	**Healthcare and Insurance**
HR	**Human Resources**
ISSO	**Information System Security Officer**
IT	**Information Technology**
MLR	**Medical Loss Ratio**
MSPP	**Multi-State Plan Program**
NBIB	**National Background Investigations Bureau**
OCIO	**Office of the Chief Information Officer**
OIG	**Office of the Inspector General**
OMB	**Office of Management and Budget**
OPM	**U.S. Office of Personnel Management**
OPO	**Office of Procurement Operations**
PIV	**Personal Identity Verification**
PPA	**Planning and Policy Analysis**

TABLE OF CONTENTS

I. 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.

Closing Skills Gaps

In April 2017, Title 5, Code of Federal Regulations, Part 250 subpart B was published requiring that program specific workforce investments and strategies (*e.g.,* closing skill gaps) be incorporated into Agency Annual Performance Plans.

The Government-wide and Federal Agency, Federal Action Skill Teams, established in 2016, are currently responsible for providing quarterly updates on their skills gaps closure process, as defined in their action plans to the OPM Director.

OPM has had success in creating an infrastructure and governance structure for closing Human Resource (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. In FY 2016 the framework for the new Delegated Examining Certification Program was approved by the Executive Steering Committee, which 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, and the CHCO Council. By the end of FY 2016, a proposed Delegated Examining Certification Program of competence was presented to the ESC for closing HR skills gaps. In FY 2017, funding for the new Delegated Examining Certification Program was secured. Also in FY 2017 the closing HR Skills Gaps initiative put greater emphasis on building and maintaining HR Capabilities. HR Capabilities not only looks at skills gaps, but will cultivate continuous development of Federal HR professionals' capacity to recruit and retain the best and brightest talent to achieve the mission of Federal agencies. In FY 2018 the focus will be on developing the assessment and tracking/registration system for the new Delegated Examining Certification Program, followed by implementation.

According to OPM, through FY 2020, the Federal Action Skills Teams will execute and monitor their action plans, submit quarterly reports to OPM, and review reports with the OPM Director. Because delegated examining is a critical area of non-compliance for staffing specialists, OPM will develop, approve, pilot, and launch a formal Delegated Examining Certification Program and they will continue to post technical competencies and courses to enhance OPM's HR University.

While OPM has made progress in working to close the skills gaps within the Federal Government, OPM should continue to work on branding and communicating the overall effort for equipping the HR community with the tools and resources needed to provide the best service to their customers.

2. FEDERAL HEALTH INSURANCE INITIATIVES

Two major challenges for OPM involve the Federal Employees Health Benefits Program (FEHBP) and the Multi-State Plan Program (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 Patient Protection and 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. Federal Employees Health Benefits Program

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, OPM announced that the average premium increase for Federal employees and retirees participating in the FEHBP in 2018 will be 4.4 percent, which is down 2 percentage points from the 2017 benefit year 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 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 that 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 Information 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 further strengthen system security 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 starting on page 15 of this memo).

3

OPM will also be challenged with populating the warehouse with big data from a large number of disparate sources, some of which may not be willing to cooperate. Additional challenges involve compliance with Privacy Act requirements and public disclosure related to establishing a new system of records.

2) Prescription Drug Benefits and Costs

Prescription drugs have become a significant portion of healthcare costs, representing over 25 cents of every healthcare dollar spent in the FEHBP. Drug expenditures will likely continue to experience significant increases in the foreseeable future, due in part to new pharmaceutical advancements in biotechnology/biosimilar agents and the rapid expansion of the specialty drug market. OPM will need to develop an effective, long-term strategy to mitigate and manage FEHBP prescription drug costs, while maintaining overall program value and effectiveness.

One opportunity to potentially lower prescription drug costs, to which OPM should give serious consideration, is carving out the pharmacy benefit entirely from the health benefits currently provided by FEHBP carriers.

Since the inception of the FEHBP, pharmacy benefits have been provided via 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 capitalizing on the purchasing power of over 8 million FEHBP members to negotiate a single PBM contract with OPM, each of the hundreds of FEHBP participating carriers separately contracts with a PBM, with more limited negotiating leverage, resulting in FEHBP pharmacy costs that vary greatly.

Furthermore, since OPM has minimal 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 allow OPM to gain more control of pharmacy benefits by leveraging the purchasing power of the FEHBP in negotiating transparent, flexible, and cost beneficial contract terms and pricing.

We recognize that OPM cannot currently contract directly for prescription drug benefits. However, the vehicle to change that has existed since 2011, when "The President's Plan for Economic Growth and Deficit Reduction" was issued calling 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.

In the past, OPM has sought to amend the current FEHBP law to permit OPM to contract directly with PBMs, but there has not been a concentrated effort by OPM to push this initiative to Congress for approval. We encourage OPM to continue with this effort and work with its Office of Congressional and Legislative Affairs to make the proposed statutory authority language change a priority initiative in 2018.

3) Health Benefits Carriers' Fraud and Abuse Programs

OPM delegates the FEHBP program integrity function to all contracted carriers. As such, the 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 OIG.

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

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 is in the process of drafting and issuing an updated FWA Carrier Letter (replacing Carrier Letter 2014-29) to all FEHBP carriers. This Carrier Letter will contain updated definitions, training guidance, and reporting requirements.

After reviewing the 2015 and 2016 fraud and abuse reports submitted under the current Carrier Letter 2014-29, 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; allow their vendors, such as PBM's, to interpret and report FWA numbers; do not audit or confirm the vendor's reports; and lack oversight of their vendor's FWA detection and reporting efforts. Notwithstanding these issues, there continues to be a significant number of case notifications received from the carriers. This is a direct result of our audit work and the collaboration with OPM. While the quantity of these notifications have remained significant, the carriers still require guidance on submitting *quality* referrals. We are hopeful that OPM's updated FWA Carrier Letter will provide the necessary guidance to assist carriers in

5

minimizing audit findings, providing quality referrals, and reporting accurate data in FWA annual reports.

OPM has also created a formal Healthcare and Insurance (HI) FWA team that includes representatives from Program Analysis and Systems Support, HI Groups and Audit Resolution, and regularly consults with the OIG. Additionally, OPM/HI reviewed and analyzed annual FWA reports from the FEHB health plans to assess contract compliance and Program performance. One additional action OPM should consider is the establishment of a dedicated Program Integrity Office.

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 the FEHBP carriers accountable for operating effective fraud and abuse programs. After more comprehensive guidance has been issued, OPM will need to enforce these requirements and hold the 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.
OPM's 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 situations unique to the FEHBP MLR continue to surface, the need for detailed criteria and carrier instruction becomes ever more crucial. During recent MLR audits, the OIG identified areas of the MLR methodology that continue to lack clear instruction from OPM, such as tax allocation methods, overage dependent eligibility, and determination of premiums. 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, depending upon the issue identified, using the HHS guidance is not always feasible or even applicable.

6

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. However, 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.

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.

To OPM's credit, language was added to the 2018 rate instructions in an attempt to address our concerns regarding Federal income tax allocation methods that were identified on recent audits. While this is a good first step to address this issue, we still have several concerns with OPM's use of MLR as a basis of determining fair and reasonable rates.

Our biggest concern is the fact that in switching from the Similarly-Sized Subscriber Group methodology to an MLR methodology, OPM moved carriers from a community rating method to a more cost accounting-based method. Unfortunately, most of the criteria currently in place for the community-rated health plans provides guidance and instruction for how to develop a community rate, not how MLR confirms that the FEHBP received a fair and equitable community-rate.

There is, however, guidance for experience-rated health plans in the Federal Employees Health Benefits Acquisition Regulations (FEHBAR) which provides direction on allocation techniques and other cost-based accounting methods. Perhaps these sections of the FEHBAR should be amended to also apply to community-rated carriers that are required to file an MLR form with OPM. We believe it should be considered, as the resulting impact would be more concrete guidance on how costs should be allocated, which would result in a more auditable MLR ratio.

OPM must carefully assess the concerns and challenges facing the application of MLR methodology and develop adequate instructions that allow carriers to produce accurate and auditable MLR ratios. If this is not done, 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.

7

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 (MSP) program. 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 will be one of several health insurance options for small employers and uninsured individuals from which to choose.

The biggest challenge currently facing the MSP program 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, funding, 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. The OIG issued a Management Alert Memo[1] on December 8, 2016, to the Director of OPM to describe the status of MSP program. The memo referenced the fact that until there is individual and small market stabilization, the MSP program will continue to see volatility and a reduction of state-level 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 an individual Co-Op to offer MSPs in 22 marketplaces in 2017. OPM has also taken steps to clarify, in the future, the MSP naming convention used for the MSP options that are offered on the marketplaces. This may help clarify the consumer's choice of the product.

Additionally, OPM has been diligent in attempting to reach out to insurance companies and working to grow the MSP program. However, despite all of OPM's efforts, the marketplaces remain volatile and there is no ability to estimate how many MSP options might be offered in 2018. To add to the volatility, the Administration recently issued an Executive Order to stop the payment of cost-sharing reductions to the health care plans that are owed money from the Federal Government for services rendered to qualified low-income enrollees. Congress is currently working on legislation that would appropriate the cost-sharing reduction funds, but there is no certainty that the bill would pass both chambers of the legislature. Should this and the other issues currently plaguing the state marketplaces not be resolved, the program could lose its remaining participating issuers, which would have a negative impact on competition and choice for the members who are relying on this program to meet their health care needs.

[1] https://www.opm.gov/our-inspector-general/reports/2016/management-alert-status-of-the-multi-state-plan-program-4a-hi-00-17-013.pdf

3. BACKGROUND INVESTIGATIONS

In January 2016, the Administration announced the establishment of the National Background Investigations Bureau (NBIB), which absorbed the majority of the Federal Investigative Services' (FIS) mission, functions, and personnel. The initial operating capability for NBIB occurred on October 1, 2016. However, OPM leadership acknowledges that it will take significantly longer to make the full transition from FIS, NBIB's predecessor organization. The following sections highlight NBIB's challenges and current initiatives in place to address them.

A. National Defense Authorization Act (NDAA) §951

One key challenge faced by the NBIB is uncertainty as to its future responsibilities. Specifically, Congress has been considering for the past two years whether to permit the DOD to conduct its own background investigations.

Last year, Congress passed a provision in the FY 2017 National Defense Authorization Act (NDAA) that directed DOD to prepare a plan to potentially transition a large portion of the background investigations program from OPM to DOD. DOD prepared this plan and presented it to Congress. In September 2017, the Senate passed a version of the NDAA for FY 2018 that contained a provision permitting DOD to implement that plan. This provision was not included in the bill passed by the House of Representatives in July 2017. In late October 2017, the bill went to conference and the differences were not resolved prior to publication of this document.

If Congress allows DOD to re-assume the authority to conduct its own background investigations, NBIB would be faced with the dual challenges of ensuring the efficient transfer of its DOD caseload and servicing its remaining customers with fewer resources.

B. National Background Investigations Bureau

In January 2016, the Administration announced the establishment of the NBIB, which absorbed the Federal Investigative Services' (FIS) background investigation mission, functions, and personnel. NBIB is unique in that it is housed in OPM, but the DOD has been tasked through Executive Order with responsibility for the design, development, security, and operation of NBIB's background investigations IT systems.

There have been a number of developments during NBIB's inaugural year. NBIB expanded both its Federal and contractor workforce by hiring 200 Federal investigators and signing two new background investigations contracts. It also established a cross-agency Backlog Reduction & Mitigation Initiative Working Group to identify ways to

9

address the background investigation backlog. NBIB is working with DOD's Defense Information Systems Agency to create the new IT system needed to support its operations. OPM informed us that NBIB further secured and modernized its information technology through the development of an eAdjudication prototype. NBIB is currently working to modernize business processes and tools, has in place a new organizational model to bolster security and intergovernmental communications, and utilizes an updated governance structure that will better align policy and operations and facilitate continuous improvements.

The establishment of the NBIB is the most significant institutional reorganization since OPM absorbed DOD's background investigations unit, the Defense Security Service, in 2005. 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 has been, and must continue to 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.

The OIG has been monitoring the agency's progress in transitioning operations from FIS to NBIB, including receiving regular briefings from the NBIB Director and OCIO staff. Although we have not yet conducted any formal audit oversight of NBIB, we included the establishment of this new entity as a management challenge because of the scope and complexity of this massive endeavor. As such, we anticipate that this will continue to be a top management challenge for OPM for at least the next few years.

C. Case Processing Backlog

NBIB is responsible for processing background investigations for Federal applicants, employees, and contractor personnel for customer agencies. NBIB provides investigative reports on the basis of which other agencies, either the employing agency or the agency sponsoring the request for a security clearance or credential, make determinations of various eligibilities.

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 FY 2017, NBIB failed to meet its timeliness goals by a significant margin. NBIB completed the fastest 90 percent of initial security clearance investigations in 159 days and completed the fastest 90 percent of initial Top Secret investigations in 326 days.

In 2017, NBIB increased the capacity of its background investigator workforce by initiating a new background investigations contract, which increased the workforce from two to four background investigator contractors. Additionally, NBIB:

- Teamed with the four fieldwork contractors and provided them with incentives to build capacity, increase production, and reduce the inventory of aged investigations;
- Hired 200 additional Federal background investigators;
- Concentrated the background investigative workforce in the highest workload locations;
- Began work with a cross-agency Backlog Reduction & Mitigation Initiative Working Group to identify potential initiatives and recommendations that will lead to the reduction of the backlog; and
- Partnered with the 'DOD's Defense Information Security Agency to build a more secure and flexible case management system.

II. 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, and made some notable improvements, 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 information 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 report to the OCIO.

OPM has since centralized its cybersecurity program under a Chief Information Security Officer (CISO) that is supported by a team of ISSOs and network security engineers. This team has developed policies and procedures designed to improve the efficiency with which this team operates, and has implemented a variety of technical security tools and controls that help protect the agency from cyber-attack.

We believe that this centralized security governance structure can be effective, but the ISSO team is currently not effectively fulfilling its responsibilities. While OPM's cybersecurity

12

posture is notably better than it was in the past, the organization continues to struggle to comply with both traditional and recently implemented FISMA requirements, and is not making notable progress in implementing our FISMA audit recommendations. OPM has only closed 34% of the FISMA findings issued in the past two years, and we expect the number of new recommendations issued to significantly increase as the FISMA audits continue to evolve and look into new areas of the agency's technical operations.

Our FISMA audit reports currently classify OPM's information security governance structure as a significant deficiency, as the agency continues to face challenges 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 information technology (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.

In an effort to revitalize its Authorization program, in FY 2016 OPM initiated an "Authorization Sprint" designed to get all of the agency's systems compliant with the Authorization requirements. OPM dedicated significant resources toward re-Authorizing the systems that were neglected. By the second quarter of FY 2017, the OCIO had completed an Authorization for every major information system owned by the agency, and had successfully addressed some of the critical weaknesses that our audits had identified with the previously completed Authorization packages. As a result of these improvements, we upgraded the material weakness related to system Authorizations to a significant deficiency. However, we continue to detect widespread issues – albeit less severe – in OPM's Authorization process. These ongoing issues primarily relate to incomplete or inadequate independent testing of the systems' security controls.

The OCIO has continued its efforts 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.

We acknowledge the improvement that OPM has made in its Authorization program, and are optimistic that the agency is on a path toward addressing the significant deficiency and audit recommendations in this area. We will continue to closely monitor this issue going forward.

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. OPM has also implemented a variety of security tools associated with the Department of Homeland Security's Continuous Diagnostics and Mitigation program, and these tools help automate efforts to secure the agency's network. In addition, OPM has made notable progress in encrypting the databases that support the agency's 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 enforced the use of PIV authentication to connect to the agency's network. However, this control in itself is not sufficient, as users or attackers that do gain access to the network 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 2017 Major Management Challenges progress update states that it has enabled multifactor authentication for 53 percent of its major applications. However, these numbers do not accurately reflect the data security posture of the agency, 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 two major applications enforce multifactor authentication via PIV card at the application level.

4. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT PROJECT

Prior to 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. OPM's initial attempt to modernize its infrastructure involved the creation of two new physical data centers designed to house a modern, 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 abandoned the entire project before a single application was modernized and migrated.

In the time since OPM suspended its dual commercial data center approach, the agency has focused its efforts on consolidating its nine existing data centers and dedicating resources to cyber security tools and personnel. OPM's efforts in modernizing the agency's ageing IT hardware and applications have not been funded, and the agency has made limited progress in this area.

In FY 2017, Congress made $11 million available to OPM for IT system modernization, but the obligation of this money was contingent upon the agency developing a comprehensive plan that, among other requirements, identifies the full scope and cost of the IT modernization and stabilization project. OPM's lack of disciplined project management and capital budgeting processes surrounding the troubled Shell project influenced the decision-making process of the Appropriations committees in Congress that drafted the FY 2017 spending bill. This is clear from our prior reporting on the matter, our interactions with the committees during the drafting process, and the committee report which amplifies the intent of the language. Congress is willing to fund OPM's modernization efforts provided that OPM has developed a clear strategy for the total effort, has identified the technical level of effort involved, and has estimated the total costs of the project.

To document OPM's adherence to these basic project management and capital budgeting activities, Congress included in the FY 2017 Omnibus Appropriations Act the requirement for certain artifacts, including a United States Office of Management and Budget (OMB) Major IT Business Investment (OMB Exhibit 300). OPM has not yet completed its FY 2017 spending plan or provided any of the associated artifacts.

OPM faces enormous hurdles in reaching its desired outcome of modernizing its legacy infrastructure and applications. OPM must develop a workable strategy and follow established project management and capital budgeting processes to achieve its goals.

5. STOPPING THE FLOW OF IMPROPER PAYMENTS

In FY 2016, OPM paid over $82 billion to nearly 2.6 million Federal annuitants and survivor annuitants under the Federal Employees' Retirement System and the Civil Service Retirement System. Payments are made out of the Civil Service Retirement and Disability Fund (Retirement Trust Fund), into which Federal employees and the Government (i.e., American taxpayers) each make contributions.

In its annual financial report, OPM reported that the overall improper payment rate for these retirement programs was .37 percent in FY 2016. Although this rate is quite low compared to many other Federal programs, the total amount of all types of improper retirement payments reported by the agency was $304 million. Therefore, under the Improper Payments Elimination and Recovery Act of 2010 and OMB Circular A-123, the retirement programs are considered to be at risk for significant improper payments because the program's improper payments annually total more than $100 million.

The OIG has spent a decade examining a specific type of improper retirement payment: those made to deceased annuitants. We spend a significant amount of time and resources investigating such cases and regularly find situations where a single deceased annuitant was improperly paid over five, ten, or even twenty years. This is why we have repeatedly advocated for the institution of additional and improved internal controls to monitor annuitant deaths, focusing upon the elderly population.

We have discovered in our years of studying Retirement Services' program integrity operations that the office is woefully understaffed to sufficiently handle the volume of work and to handle the workload associated with validating an annuitant's status.

In addition, we have determined that Retirement Inspections lacks a comprehensive centralized tracking system to record and analyze its program integrity work. This tracking system would document, store, record, communicate, and report all activities associated with a particular case and support the actions and decisions made by Retirement Services.

The OIG predominately receives suspected fraud referrals resulting from the Retirement Inspections Group's work on the Social Security Death Match. However, we rarely, if ever, see suspected fraud referrals concerning the other program integrity work performed.

One example of Retirement Services' other program integrity work is the marital survey conducted by the Retirement Surveys Group to determine if survivor annuitants under the age of 55 are still eligible to receive a survivor annuity.

During FY 2017, we conducted a pro-active project to examine Retirement Services' work in this area. Our review showed that some of the survivor annuitants had in fact remarried prior to age 55, resulting in a computed overpayment.

We believe that additional unreported remarriages exist, and Retirement Services' failure to identify them results in the continuation of improper payments. Consequently, we suggest that Retirement Services initiate a project to identify unreported marriages.

For years, OPM leadership has failed to prioritize the prevention of improper payments in its budget requests, and as a result, Retirement Services now lacks the resources to adequately perform the work necessary to protect Federal funds from this waste. OPM management has a duty to the American people to protect the integrity of the retirement trust fund from waste from improper payments.

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, the 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 FY 2017, Retirement Services has not met its strategic plan goal of adjudicating 90 percent of retirement cases within 60 days. Specifically, the percentage of claims that were processed in 60 days or less decreased from 77 percent in FY 2016 to 57 percent in FY 2017.

In addition, where claims in this category were processed in an average of 40 days in FY 2016, it took Retirement Services 47 days to process a claim in FY 2017.

While Retirement Services has not met its strategic plan goal, the office has decreased the average number of days in which claims over 60 days old were processed from 102 days in FY 2016 to 93 days in FY 2017.

OPM appears to remain focused on 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. OPM also continues to focus on 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 remains 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.

During FY 2017, Retirement Services has taken on the challenge of reducing call waiting time by hiring additional Customer Service Specialists and Legal Administrative Specialists to help with the yearly surge that occurs from February through March. In addition, Retirement Services/Benefits Officers Training and Development (BOTD) delivered a pre-retirement seminar on Capitol Hill to congressional staffers. Retirement Services/BOTD also held two training events where Benefit Officers came from agencies across the Federal government to take part in workshops on Federal Retirement, Insurance, Benefits, and Financial Planning.

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 delays in OPM's benefit program procurements and the failure to properly manage the bid process for the BENEFEDS benefits portal, the Federal Long Term Care Insurance Program (FLTCIP), and the Federal Flexible Spending Account Program (FSAFEDS).

Over the past year, OPM has corrected some of the deficiencies in its benefit program procurement process and it has strengthened its oversight role in monitoring these procurements. The Office of Procurement Operations (OPO) and Federal Employee Insurance Operations (FEIO) have collaboratively prepared a corrective action plan addressing the OIG's recommendations found in the Management Alert memorandum and implemented several controls to mitigate future lapses in bidding actions. So far, two of the four recommendations identified in our Management Alert memorandum have been satisfactorily implemented by OPM and closed.

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. In addition, a new FLTCIP contract was also awarded on April 5, 2016, and the BENEFEDS procurement was awarded on March 15, 2017.

We commend OPM's efforts to correct some of the deficiencies in its benefit program procurement process. OPM's challenge moving forward 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. Strengthening the procurement planning process to minimize potential delays is vital to meeting this challenge. 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, be compliant with the applicable law and regulations, and be documented and approved by OPM's oversight authority. The OIG will continue to monitor the progress of the procurement plan as OPM implements additional controls and prepares for future procurements.

8. PROCUREMENT PROCESS OVERSIGHT

OPM's OPO 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. Prior 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 former Federal employees.

During FY 2017, OPO has continued to work with the Internal Oversight and Compliance office in executing an established corrective action plan to appropriately address the OIG's audit report recommendations from the *Audit of the U.S. Office of Personnel Management's Office of Procurement Operations' Contract Management Process,* Report Number 4A-CA-00-15-041, issued July 8, 2016.

Specifically, OPO states that they have taken the following steps during FY 2017 to address the OIG's concerns in the reported areas:

- Resource Levels – Hiring staff at all levels, securing contractor support for critical OCIO IT requirements and agency-wide closeout efforts, and communicating challenges to OPM leadership.

- Delegation of Authority – Finalizing the agency-wide warrant (delegated procurement authority) refresh[2], and review and approval of drafted Oversight and Compliance Policy (through General Counsel and Labor Relations).

- Customer Communication and Outreach – Continuing (1) procurement action reviews with OPM program offices, (2) collaboration efforts with OMB/ Office of Federal Procurement Policy on their Acquisition 360 initiative, and analyzing FY 2017 survey data to identify improvement opportunities, and (3) to strengthen communication through training and briefing events.

- Standardized Documentation and Updated Policies and Procedures – Issuing new policy and internal guidance related to acquisition planning, Contracting Officer Representatives, and Procurement Request Cut-Off Date and Procurement Action Lead Time.

- Documentation Accessibility – Internal guidance is made available to staff through the OPO's internal website.

- Staff Training –Holding staff training through internal and external venues.

- Lack of Procurement Actions Oversight and Review - Drafting oversight and compliance policy that will "go-live" at the beginning of FY 2018.

OPO's continued commitment to actively improve its internal controls is a sign that, although it will take time to implement the necessary corrective actions, improvements are occurring.

[2] The refresh ensures such authority is current and up to date and that it is being properly administered through the established federal acquisition institute training assistance system.

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse

By Phone:

Toll Free Number:	(877) 499-7295
Washington Metro Area:	(202) 606-2423

By Mail:

Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

NOV 0 8 2017

MEMORANDUM FOR NORBERT E. VINT
Acting Inspector General

FROM: Dennis Coleman
Chief Financial Officer

SUBJECT: Agency Comments on the OIG Report - Fiscal Year 2017 Top Management Challenges, dated November 1, 2017

Thank you for your FY 2017 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. Agency leadership continues to strategically prioritize resources and activities to address the top management challenges.

While we concur with the overall findings of your report, we do not concur with some of the OIG's recommendations and characterizations related to the FEHB program and data security.

Federal Health Insurance Initiatives

Prescription Drug Benefits and Costs - Prescription Carve-Out Program

OPM does not concur with OIG's suggestion that OPM continue to pursue efforts towards a prescription carve-out program. The FEHB Program is a market-based program that provides complete health benefits within each FEHB plan. The FEHB Program is not a self-funded plan and its statutory framework does not contemplate it to be the direct payer of benefits. Each FEHB Program plan offers comprehensive medical services including services provided by physicians and other health care professionals, hospital services, surgical services, prescription medications, medical supplies and devices, and mental health services. FEHB Program plans compete to offer all of these benefits in a high quality manner at the most competitive price possible.

Carving out pharmacy benefits or any of the other services normally covered under an FEHB Program contract and administering the benefit as a separate contract or program could undermine the fundamental market-based nature of the FEHB Program. It would be disruptive and could lead to a reduction in plan participation and limit the ability of FEHB carriers to focus on comprehensively improving the health of the population. There would likely be less effective coordination of medical and pharmacy claims, and potentially less effective, one-size-fits-all pharmacy utilization and disease management programs. OPM is now assessing carrier performance on the basis of clinical quality measures that require tight coordination between medical and pharmacy benefits. A carved out pharmacy benefit is not consistent with or

www.opm.gov Recruit, Retain and Honor a World-Class Workforce to Serve the American People www.usajobs.gov supportive of plan performance assessment, and may impair achievement of OPM's long term population health goals. As an example, carriers being held accountable for controlling diabetes and hypertension in the population they serve cannot do so readily if they do not have control over pharmacy benefit design and real time access to adherence data.

Regarding controlling the cost of prescription drugs, OPM works with carriers to better manage pharmacy networks, focus on drug utilization techniques, coordinate coverage of specialty drugs between the medical and pharmacy benefit, optimize the prescription drug benefit via formulary design and implement effective cost comparison tools for members and prospective enrollees.

Health Benefits Carriers' Fraud and Abuse Programs - Program Integrity Office

OIG asks OPM to consider establishing a Program Integrity Office. This proposal cannot be implemented based on our current staffing and funding levels. However, OPM is engaging OIG to gain more information about their proposal, including a clearer vision of its purpose, scope, staffing, funding and how it would be implemented.

FEHB 2018 Premium Increase

OPM would like to make a technical clarification regarding OIG's reference to the average increase in the FEHB's 2018 premiums. The overall average FEHB premium increase for non-postal employees and annuitants will be 4.0 percent in 2018, rather than 4.4 percent.

Data Security

We appreciate that OIG acknowledges the robust authentication of the multi-factor enforcement at the network level. However, OIG does not include in its description the substantial additional controls and defense in depth which provide considerable protections against traversing the network to gain unauthorized access to applications. This defense in depth strategy to enhance OPM's cybersecurity posture means there are many layers and aspects to OPM's defensive strategy. This strategy is supported and defined in NIST 800-53. Thus, the OIG statements paint an incomplete and, ultimately, not fully accurate picture of OPM's cybersecurity posture. As OPM modernizes its applications, it will continue to impose multi-factor authentication, as appropriate.

Conclusion

OPM is committed to addressing these challenges. To drive progress in resolving these challenges, OPM identifies, and publishes in its Annual Performance Plan, performance measures and targets, milestones, planned actions, and an agency official responsible for each challenge. The agency tracks and reports its progress in resolving the challenges in its Annual Performance Report. Many of the challenges you identified are also aligned to objectives in OPM's draft strategic plan for FY 2018-2022. While more work remains, OPM has made significant improvements in addressing many of these challenges.

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

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 Systems Control Environment	1	0	0	0	1	0
IS Security Assessment and Authorization Process	1	0	1	0	0	0
Information Security Management Structure	1	0	1	0	0	0
Total Material Weaknesses	**3**	**0**	**2**	**0**	**1**	**0**

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	1	1
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

PAYMENT INTEGRITY

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 required 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 Performance Accountability Report (PAR) or Agency Financial Report (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 ensure that a thorough review of eligibility occurs with relevant information on available databases before the release of Federal funds. The Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P.L. 112-248) strengthened the requirements for agencies to use 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.

OPM is reporting details on improper payments for FY 2017 for two major programs: Federal Retirement Services (RS) and Federal Employees Health Benefits (FEHB) Program. FY 2017 improper payments for those two programs respectively are $313.81 million and $27.62 million, for a total of $341.43 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 both 1.5 percent and $10 million of program spending, or $100 million. Susceptible programs must be reported annually.

OPM has detailed information on improper payments and information previously reported in the AFR available at the following link: **https://paymentaccuracy.gov/**.

PROGRAM DESCRIPTIONS

RETIREMENT PROGRAM

OPM paid $82.91 billion in defined-benefits to retirees, survivors, representative payees, and families during FY 2017 under the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (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

Since 1960, the FEHB Program has provided essential health benefits for enrollees, dependents and other eligibles. The Program offers national as well as regional plan choices, represents excellent value, premium increases that are consistently lower than the industry, receives high satisfaction ratings, and is a vital part of the government's benefits package.

The FEHB Program 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 FEHB Program 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 2017, ERCs incurred benefit and administrative expenses of nearly $43.77 billion on behalf of the FEHB Program, and the FEHB Program paid over $6.51 billion in premiums to CRCs.

I. PAYMENT REPORTING

RETIREMENT PROGRAM

In FY 2017 RS properly paid $82.60 billion and improperly paid $313.81 million to retirees, survivors, representative payees, and families; accordingly 99.62 percent of payments were properly paid and .38 percent were improperly paid. Although the percentage of improper payments continues to be very low, considering its size and complexity, RS is committed to continue working to prevent, reduce, and recovery improper payments in FY 2018 and beyond.

The amount of improper payment that resulted in overpayments in FY 2017 was $238.74 million, which represented 76.08 percent of total improper payments. The amount of improper payments that resulted in underpayments was $75.07 million, which represented 23.92 percent of total improper payments.

HEALTH BENEFITS PROGRAM

The FEHB Program properly paid $50,250,398,261 billion and improperly paid $27,620,783 million in FY 2017, representing 99.95 percent accuracy of the total outlays for All Carriers. The $27.62 million represents both over payments and under payments, from audit determinations as well as investigative recoveries. OPM uses the results from audits of CRC's, Medical Loss Ratio (MLR) and comparisons of Similarly Sized Subscriber Groups (SSSG), as well as, claims payments and expenses paid on behalf of the FEHB Program by ERC's to report FEHB Program improper payments. One hundred percent of FEHB Program premium payments are subject to audit and samples are generally judgmental, not random, targeting higher claim payment amounts as well as areas and actions most likely to contain improper payments. 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 (CO).

The FEHB Program's improper payments are subject to substantial fluctuation from one year to the next. Audit findings and restitution orders (from fraud investigations) 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, determined, settled, or the restitution order is finalized.

The decrease in improper payments from FY 2016 to FY 2017 is largely due to an increase in contested audit findings that were upheld after legal review, prior to a receivable being established. The findings were typically complex and not without merit, often revealing opportunities to add new or update existing guidance, strengthen carrier reporting or other controls. However, questioned costs are validated based on carrier's actions in comparison with the guidance in place at the time of an audit and must be defensible if legally challenged. As previously noted, improper payments in the FEHB Program, as measured by a comprehensive group of audit determinations, plus restitution orders from fraud, waste and abuse (FWA) investigations, represent a very small percentage of the program's total premium payments. However, OPM recognizes the high cost of erroneous payments and dedicates substantial resources to mitigate, resolve and recover improper payments and to address procedural audit findings that may improve carrier's efforts to prevent improper payments. That commitment is evidenced by OPM's ongoing efforts to reduce improper payments and strengthen internal controls. Table 1 reflects the improper payment rates, outlook, and recapture, activity for both RS and FEHB Program.

PAYMENT SUMMARY

TABLE 1 - Payment Summary

Payment Summary ($ in millions)							
Program	FY 2017 Outlays ($)	FY 2017 Proper Payment ($)	FY 2017 Proper Payment Rate	FY 2017 IP Amount ($)	FY 2017 IP Rate	FY 2017 Over-Payment ($)	FY 2017 Under-Payment ($)
Retirement Program	82,913.00	82,599.19	99.62	313.81	0.38	238.74	75.07
FEHB - All Carriers	50,278.02	50,250.40	99.95	27.62	0.05	27.61	0.01

IMPROPER PAYMENT ROOT CAUSE CATEGORY MATRIX

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

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data, Financial, Excluded, Prisoner, and other data	Insufficient Documentation to Determine	Medical Necessity	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Other Reasons
Retirement Services	Overpayments	-	-	108.28	-	-	-	-	-	130.46
Retirement Services	Underpayments	-	-	-	-	-	75.07	-	-	-
FEHB - All Carriers	Overpayments	-	-	-	-	-	-	-	16.67	10.94
FEHB - All Carriers	Underpayments	-	-	-	-	-	-	-	0.01	-
Agency Total	**-**	**-**	**-**	**108.28**	**-**	**-**	**75.07**	**-**	**16.68**	**141.40**

IMPROPER PAYMENTS CORRECTIVE ACTIONS

RETIREMENT PROGRAM

RS is aware of the major contributing factors of improper payments, however is unable to provide the level of granularity needed to fulfill OMB A-136 reporting requirements. OPM's systems were not designed or built to perform analysis of vast quantities of data. Therefore, the remaining balances of the 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.

OPM is fully committed to identifying the root causes of improper payments and has actively engaged the OCIO to assist with achieving this commitment. In FY 2018, RS will continue having discussions with the OCIO to address this challenge.

1. Failure to Verify-Death Data

While the category "Failure to Verify: Death Data," aligns to OMB's definition, OPM does not view this as a literal interpretation. OPM verifies entitlement to survivor benefits, yet 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 (Treasury) to ensure that no one endures financial hardship. These payments are due the first business day of each month. Payments made in error are typically identified by various methods, corrected, and subject to recovery as described below.

Although the category noted above ("Failure to Verify-Death Data") is a title that generally conforms with OMB's broad definition, OPM's focus is to follow best practices that, in its experience, are in keeping with the goal of utilizing the most practical tools and measures at our disposal. These tools include the surveys and matches described in more detail later in this narrative.

CORRECTIVE ACTIONS

Consolidated Death Match (CDM)

OPM compares the CDM with OPM's annuity roll weekly to identify annuitants who are reported as deceased by the Social Security Administration (SSA). The Validated Agency Match System 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 the 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 $55,214,171 in overpayments during FY 2017. The DMF identified and documented $116,575.43 in overpayments during FY 2017.

2. Administrative or process errors made by Federal agencies.

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.

Since 2009, 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 website 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.

RS is working on multiple fronts to perfect the end-to-end retirement process. These efforts include the Data Viewer Project, which converts some agency records into a more accessible format, as well as its data imaging efforts. In a separate endeavor, RS and OPM's Healthcare and Insurance are working with other OPM and Federal agency stakeholders to create a centralized database of FEHB Program enrollments with the intention of storing all FEHB Program enrollments in one functioning component. Once implemented, FEHB Program eligibility determinations will be streamlined and easily accessible.

The current combined weighted accuracy average for CSRS and FERS annuity and survivor claims from October 1, 2016 through July 31, 2017 was 94.88 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 2017, 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 average rate for retirement application submissions for FY 2017 was 91.92 percent.

3. Other Reason(s)

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 the agency if SSA awards them a disability award, and to set aside the sum total of SSA's retroactive award also in anticipation of recovery by OPM. However, OPM only sporadically receives notification from annuitants about retroactive SSA awards. In many cases, the disability annuitants spend the retroactive sum before recovery by OPM can begin. Efforts to remedy this arrangement are described in more detail below in the Corrective Actions section.

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.

OPM continues to explore new tools to recover these debts. Still in the exploratory stage, these methods include leveraging the Treasury Offset Program, applying administrative wage offset, and revising overpayment procedures currently used by RS staff.

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.

Over the past 18 months, SSA and OPM has been meeting to discuss and resolve legal, administrative and technical issues related to implementing the law. Both parties are now working on 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 2018.

4. 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.

CORRECTIVE ACTION

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 meet or 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 (RES') 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 $324,882 in cost savings. Regulations governing the Disability Earnings Survey require OPM to terminate disability benefits effective June 30th, each year. Benefits are terminated timely, therefore the Disability Earnings Survey does not report overpayments. The Retirement Inspections Branch's Disability Earning Match identified and documented $1,800,458 in overpayments. The Marital Certification Survey identified and documented $176,166 in overpayments and a savings of $14,429 due to remarriage of the survivor annuitant prior to age 55. The statistical data represents FY 2017.

5. 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, establish 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 benefits from both programs 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 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.

OWCP Match
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. Once RS gains access to this data, it will gain the ability to compare in a quicker manner entitlement to payment data and make the necessary adjustments to the annuity, as appropriate.

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.

Automatic FERS Disability Recalculation
By law, FERS disability annuitants are entitled to 60 percent of their salary less 100 percent of their Social Security Benefit for the first year, they are entitled to 40 percent of average salary less 60 percent of their Social Security Benefit for subsequent years. Now, if an annuitant is in interim pay after one year while his or her disability case is being adjudicated, the benefit is automatically reduced to 40 percent of average salary to prevent overpayment.

6. 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 potential fraudulent activity.

In addition, OPM emphasizes electronic funds transfer (EFT) for its annuitants. The enrollment rate increased slightly in FY 2017 (through June 30) from 99.40 percent in FY 2016 to 99.48 percent in FY 2017. 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.

HEALTH BENEFITS PROGRAM

Productive, ongoing collaborations with health plans include day-to-day engagement, information exchange, reviewing plan acquisitions, mergers and sub-contracts, processing and analyzing disputed claims, providing program priorities and negotiating benefit proposals, administrative cost limits, general oversight and comprehensively evaluating plan performance, defending lawsuits, exploring new initiatives to reduce costs, improve quality or enhance benefit delivery.

Given the broad oversight of the FEHB Program that the Contracting Office performs, working with carriers to implement effective corrective actions may take various forms, such as updates to internal documentation, changes in operational procedures, incorporating edits in claim payment systems, ensuring compliance with Program guidance, expanding training to plan staff, strengthening physical or information security, improving cash management policies or strengthening internal quality control and overpayment recovery efforts.

OPM recognizes several types of improper payments across the FEHB Program. These improper payments are generally administrative in nature. Addressing administrative improper payments requires a varied approach, with some newer audit findings presenting even greater complexity, requiring additional research, legal counsel and the development of new procedures to reach resolution. Additionally, OPM is working with OIG to further update and clarify OPM's guidance to improve Carriers' efforts to prevent, detect, investigate, and report FEHB Program-related FWA. The updated guidance is expected to be issued in FY 2018.

1. Administrative or Process Error Made by Healthcare Provider

Carriers sometimes make claim payments that are not properly coordinated with Medicare, are paid on behalf of ineligible patients or during gaps in coverage, represent duplicates of previously paid claims, or have been deemed to be unreasonable. Additionally, audits of community-rated carriers' MLR 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 (BCBS) network, where the existence of a specific finding or attribute, 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. Healthcare & Insurance (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.

The FEHB Program has incorporated the MLR for most Health Maintenance Organizations, 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 the FEHB Program members on clinical services and health care quality improvements by the total amount of FEHB Program premiums collected in a calendar year less certain taxes and fees. OPM requires carriers to meet a specific MLR threshold, or provide a rebate. Audits of Carrier's MLR calculation have identified unique situations with carriers in the FEHB Program, 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, Health & Human Services (HHS), OGC, and agency audit follow-up officials. Before recovery can be sought or corrective actions taken, certain new categories of findings must first be validated, including reviewing the source 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 Officer as to whether the finding will be upheld and a receivable established to recover the questioned costs. In situations where a Contracting Officer's proposed decision does not align with the auditor's finding, this may lead to a further evaluation prior to resolution invoking the OPM audit follow-up official. Where needed, the Contracting Office will coordinate with the Office of the Actuary and OIG to develop or clarify FEHB Program-specific guidance that addresses these unique circumstances in a manner that is appropriately documented and auditable.

2. Other Reason(s) – Investigative FWA Recoveries

Improper payments may result when the FEHB Program carriers do not have robust FWA Programs.

CORRECTIVE ACTIONS

OPM has continued its strong collaboration with OIG to strengthen the FWA program, carrier reporting, and internal controls. Early in FY 2017, HI presented the FEHB Program FWA task force with an overview of a draft carrier letter (a revised version of Carrier Letter No. 2014-29) and discussed the proposed guidance to improve procedures and reporting. HI provided an overview and summary analysis of the FY 2015 FWA report, using this and other carrier feedback opportunities to further refine ideas on new guidance. The task force session had high in-person or webcast attendance among health plans.

HI is now clearing that update to Carrier Letter No. 2014-29. Carrier reporting has increased in recent years and the updates, improvements, and clarifications in the carrier letter will further improve health plans' understanding, compliance and reporting quantity and quality. It will also assist in compilation and analysis of that reporting.

OPM efforts are now guided by a formal HI FWA team that includes representatives from Program Analysis and Systems Support, all Health Insurance Groups, and Audit Resolution. The team regularly consults with the OIG. The establishment of the team has fostered collaboration, and has led to a better understanding of each entity's roles and responsibilities as they apply to the FWA program. Most importantly, formal involvement and participation by health insurance Contracting Officers (CO) has been particularly beneficial. The CO's: (1) provide additional insight, greater knowledge and familiarity with current contract requirements, and identify potential changes/improvements to the FWA program, (2) serve as a resource/spokesperson to share fraud, waste, and abuse program information within their Health Insurance Groups, (3) serve as a conduit and information source to provide informed guidance to health plans, (4) provide valuable input in the process of proposing, reviewing, and finalizing improvements to the FWA program due to contract oversight experience that is better leveraged, and (5) add awareness regarding compliance and enforcement of FWA program requirements and health plan accountability.

OPM/HI reviewed and analyzed 2016 FWA reports from the FEHB Program health plans. Overall, reporting by health plans has improved and OPM/HI continues to partner with the OIG to resolve open fraud-related audit recommendations. OPM/HI is updating the FWA report to clarify reporting requirements. OPM will continue the collaboration between OIG, the FWA team, and the Audit Resolution function, to review reports, analyze data, strengthen the FWA programs, and improve compliance and reporting.

II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

Effective validation, recovery and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of program processes, regulations, contracts, systems, and records. Given the potential costs needed to retain payment recovery auditors, the significant training and experience required to effectively evaluate and process IP's, and the high level of confirmed overpayments currently recovered, OPM has determined that it is not cost-effective to hire Payment Recapture Auditor's for either of its reported programs. Nonetheless, OPM is committed to its extensive internal recovery efforts for both the Retirement program and the FEHB Program and anticipates continued high rates of recovery for improper payments.

RETIREMENT PROGRAM

In FY 2017 RS identified $238.74 million in overpayments and recovered $224.41 million.

HEALTH BENEFITS PROGRAM

In FY 2017 HI identified $27.61 million in overpayments, recovered $20.23 million, and appropriately adjusted $49.80 million, reducing the receivable by a total of $70.04 million, which includes improper payment processing activity spanning current and prior year(s).

III. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY INITIATIVE

RETIREMENT PROGRAM

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 General Services Administration's Excluded Parties List System (EPLS) public, now known as System for Award Management EPLS or to the public version of the SSA, DMF-public.

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, RS receives the robust and comprehensive DMF under a separate agreement with the U.S. Social Security Administration. OPM has an automated process to match against the data provided in the DMF and CDM, while the DNP portal is a manual process requiring each case to be validated. Since the same data source is used as Treasury's DNP Portal this would be a duplicate effort and not a cost effective approach to address improper payments for RS which manages over 2.6 million recurring annuity payments. Below are the RS results from SSA's DMF and CDM.

FY 2017 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	3,656,335	60,989	8,623	$55,214,171	1.67%
DMF[4]	Yearly	111,645,990	149	10	$116,575.43	0.000133%
DMF[5]	Yearly	108,599,870	199	10	$787,061.31	0.000183%

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.

5 Death Master File Statistical data represents October 1, 2015 – September 30, 2016. This data was not available for the publication of the 2016 AFR.

HEALTH BENEFITS PROGRAM

OPM contracts with carriers to provide health insurance benefits to enrollees, 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. Due to this payment structure, OPM initially identified and used the List of Excluded Individuals/Entities, as a pre-award check for carriers applying to contract with the FEHB Program. 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 may be searched in the DNP online search portal. This search is typically performed in February, for all new carriers applying to the FEHB Program. Separately, new carrier applications also undergo a financial review by our CFO, to ensure minimum requirements for liquidity, financial reporting, etc are met. For FY 2017, the sole new carrier application passed the CFO's financial screening and was not entered into the online search portal.

If the FEHB Program carriers were able to directly access the DNP data bases, the tool would be more useful for the program as they might be able to identify 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.

IV. BARRIERS

RETIREMENT 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). In addition, OPM's legacy system was not designed to provide the needed granularity for root cause reporting; however, OPM continues to work on this challenge.

HEALTH BENEFITS PROGRAM

Due to the structure of the Program, our contractual relationship with carriers, budgetary constraints, and the audit program administered by OIG, there are unique challenges that represent potential barriers to the identification, reduction, recovery and/or reporting of improper payments.

Since the change from the use of SSSGs to the MLR methodology, OIG has identified and generated several audit findings reflecting new types of improper payments. As noted earlier, examination of these findings has revealed opportunities to amend guidance that carriers follow to prevent IPs and/or more clearly support plan actions.

Budgetary constraints are a reality in the operations of virtually every program and agency. HI resources are judiciously invested in contract staff, system improvements and to add new and critically needed expertise, such as our Pharmacy Officer to strengthen HI's oversight. Additional resources are needed to further improve oversight by the Contracting Office of the FEHB Program carriers. Chronic hiring freezes, continuing resolutions and the significant time it takes to train and develop contracting and resolution staff, present risks and challenges in meeting contract cycle and audit resolution timelines.

While enhanced FEHB Program 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, as noted, some newer findings require significant efforts to validate, whose outcomes may be uncertain. Together, this presents challenges in meeting IPERA reporting requirements for projecting out-year improper payments, and in demonstrating mandatory reductions in improper payments, as well as future 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 a rotation of 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., the amount questioned has been validated and a receivable established) but later successfully contested by Plans.

OIG restitution orders due to fraud investigations may also vary widely from year to year based on the number of cases opened, the FEHB Program impact, age of the activity being investigated, 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.

V. ACCOUNTABILITY

RETIREMENT PROGRAM

OPM developed and updated its overall improper payments plan as noted earlier. This plan included specific measurable goals for reducing the improper payments rate for the Retirement program and FEHB Program and for recovering increasing percentages of improper payments to deceased annuitants. Inclusion of measurable goals has increased accountability within OPM. At the beginning of FY 2016 OPM assessed its performance against these goals and developed any appropriate new goals for FY 2016 and beyond, as appropriate. OPM notes that its improper payment rates for Retirement and FEHB Program 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 IPERIA, for the following reasons: 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 RS will be the senior agency official for the issue related to the root cause categorization. The OCFO will be 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.

OPM maintains an improper payments plan that includes specific measurable goals for reducing the improper payments rate for the Retirement program and FEHB Program and for recovering increasing percentages of improper payments to deceased annuitants. Inclusion of measurable goals has increased accountability within OPM. At the beginning of FY 2016, OPM assessed its performance against these goals and developed any appropriate new goals for FY 2016 and beyond, as appropriate. OPM notes that its improper payment rates for Retirement and FEHB Program 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.

HEALTH BENEFITS PROGRAM

HI CO's and management are fully dedicated to the effective administration and oversight of the FEHB Program. From audit resolution timelines to work plans, IP recovery goals incorporated within managers' performance standards-to nationally benchmarked assessments of FEHB Program carrier performance, we closely manage and monitor resources and leverage key partnerships, seeking to continuously improve the program within a fast paced, ever-changing environment.

Both Standard and Information Systems timelines are in place to facilitate the audit resolution process. Managers' performance standards reflect resolution priorities, and are reviewed and updated annually, based on results. OIG and HI gave a presentation on the audit and resolution processes, during the 2017 annual America's Health Insurance Plans /OPM Carrier Conference. This session included tips from a Carrier Letter for plans to improve the quality and timeliness of their submissions in response to audit findings. The Carrier Letter was issued in FY 2016 and 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 final report.

In FY 2017, OPM successfully rolled out the Plan Performance Assessment, which uses a discrete set of quantifiable measures to examine key aspects of contract performance. The Plan Performance Assessment is 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. Second year scoring is underway and we anticipate improvement across key metrics.

The FEHB Program takes accountability for improper payments earnestly, and CO's discretion is a key aspect of HI's oversight of the FEHB Program. Improper payments are one of several factors considered. Collaborating with all stakeholders, including OIG, the Office of the Actuary and OGC, CO's 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. Further, the size and reach of a plan and the possible impact of an audit finding on participants, some of whom reside in areas underrepresented by health care providers and options, all 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 CO's accountable to provide effective oversight and administration of the FEHB Program.

VI. 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.

VII. SAMPLING AND ESTIMATION

RETIREMENT PROGRAM

The improper payment rate for retirement payments combines both underpayments (funds that OPM owes to the annuitant) and overpayments (funds 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.

HEALTH BENEFITS PROGRAM

OPM's HI continues to review OIG audit reports, assesses comments and clarifications from the FEHB Program Carriers, the OIG, OPM's Actuaries, and 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, the disparities between OIG findings and 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. As previously noted, the FEHB Program's improper payments also include restitution orders from OIG's investigations of reported fraud and abuse. This category of improper payments is also 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.

VIII. ADDITIONAL COMMENTS

OTHER SOURCES FOR IDENTIFYING AND CORRECTING IMPROPER PAYMENTS

RETIREMENT PROGRAM

Below are additional mechanism that RS has put in place to assist in preventing, reducing and recapturing improper payments.

Data Mining

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 (SSN)'s, and names and dates of birth to improve our Internal Revenue Service's 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 1099Rs

The reason for most returned 1099Rs is innocuous in nature, such as an annuitant moving without notifying us of their change of address. However, RS has been analyzing returned 1099Rs for several years as part of our efforts to reduce improper payments.

RS reviewed over 28,548 2016 tax year 1099R's. The 1099R's were returned and classified into groups based on status. OPM determined that since the time the 1099R's were prepared and mailed, some annuitants died. Therefore, these cases were suspended for verification.

RS determined over 16,071 1099R's needed 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.

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 also regularly communicates with annuitants via other means, such as the annual annuity mailer, email blasts, the benefits booklet, and the Retirement Information Center portion of OPM's website. Topics in FY 2017 included information on email phishing, phone scams, consumer protection alerts, the annual FEHB Open Season, Phased Retirement, 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.

Over 95 Project

OPM had periodically investigated 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 performed a periodic analysis of all annuitants/survivors on the active annuity roll who were 90 years of age and older to validate whether they are alive or dead…." In June 2017 RES began an over 95 Project. The project verifies the vitality of 515 annuitants over age 95. A final report will be forthcoming in FY 2018.

CORRECTION TO INFORMATION IN PREVIOUS AFR

In the FY 2015 AFR, OPM included Table 14, Status of Internal Controls. However, the ratings for some of the internal control categories were stated incorrectly, as follows:

- The Risk Assessment category should have been rated a 4 instead of 3.
- The Information and Communication category should have been rated a 3 instead of 4; and
- The Monitoring category should have been rated a 4 instead of 3.

The pertinent ratings are as follows:

- 4=Sufficient controls are in place to prevent improper payments.
- 3=Controls are in place to prevent improper payments but there is room for improvement.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

OPM is required to comply with other legal and regulatory financial requirements, such as the DCIA.

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. Table 18 summarizes OPM's debt management activity for September 2017 and 2016. 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 2017	September 2016
Total receivables at beginning of year	$439.2	$416.4
New receivables and accruals	238.7	237.2
Less collections, adjustments, and amounts written-off	251.1	214.4
Total receivables at end of period	$426.9	$439.2
Total delinquent	$17.0	$20.4
Percent delinquent of total receivables	4.0%	4.6%
Health Benefits Program ($ in Millions)		
Receivables Activity	September 2017	September 2016
Total receivables at beginning of year	$130.2	$70.1
New receivables and accruals	39.1	99.8
Less collections, adjustments, and amounts written-off	68.9	39.7
Total receivables at end of period	$100.4	$130.2
Total delinquent	82.6	122.3
Percent delinquent of total receivables	82.0%	93.9%

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 2017*	September 2016
Outstanding Balance (OPM)	$22.67	$779.16
Outstanding more than 61 days (OPM)	$4.41	$4.66
% outstanding more than 61 days (OPM)	19%	0.00%
% outstanding more than 61 days (Government wide)	4.07%	3.86%

*September 2017 source: JPMC Payment Net, Delinquencies with Current Balance Report.

TABLE 20 - Purchase Cards

($ in Thousands)	September 2017	September 2016
Outstanding Balance (OPM)	$364.82	$423.53
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)	0.17%	0.13%

Fraud Reduction Report

In 2016, Congress passed the Fraud Reduction and Data Analytics Act of 2015 (the "Act"). The Act requires that agencies establish financial and administrative controls to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments. Additionally, the Act requires that agencies report to Congress annually on the progress of the agency in implementing (1) financial and administrative controls established pursuant to the Act, (2) the fraud risk principle in the Standards for Internal Control in the Government, and (3) OMB Circular A-123 with respect to leading practices for managing fraud risk.

OPM takes its responsibility for reducing occurrences of fraud very seriously, and is diligent about identifying potential opportunities for fraud and implementing strategies to mitigate the risk. OPM engages in ongoing efforts to reduce opportunities for fraud in its benefit and administrative programs. During FY 2017, OPM continued fraud reduction efforts through a wide variety of mechanisms.

As required by HI, FEHB carriers proactively (a) identify fraud, waste, abuse, and vulnerabilities, (b) initiate action to deny or suspend payments supported by reliable evidence of fraud, (c) develop and refer cases to the OIG for consideration of civil and criminal prosecution and/or application of administrative sanctions, and (d) provide outreach to providers and beneficiaries. HI requires carriers to utilize preventive procedures such as claim system medical edits, anti-fraud software, bill review, case management, utilization management, drug management, and prior approval programs. Most large FEHB carriers have a special investigations unit (SIU) function, and each carrier is required to have a system of controls in place to monitor, identify, investigate, report, and recover fraudulent FEHB funds. Carriers are required to submit annual fraud and abuse compliance reports to OPM, verifying significant aspects of implementation and use of a robust fraud and abuse system. OPM makes site visits to some carriers to review the effectiveness of overall operations, including fraud and abuse controls and detection systems. In addition, OPM's OIG continuously audits for conformity with OPM contract requirements to verify compliance.

OPM's Healthcare and Insurance organization provides specific fraud mitigation and reduction guidance to insurance carriers through Carrier Letters and specific contract provisions related to fraud, waste, and abuse (FWA). The most recent Carrier Letter, issued in 2014, 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 a summary of the data gathered in the 2015 reports and proposed improvements to the reporting. 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 2018.

The Retirement Services (RS) program conducts ongoing fraud mitigation and reduction efforts through various data matches and surveys of program participants. The data matches monitor information from annuitants and survivors. The surveys are conducted to identify anomalies. The data matches reveal unreported deaths and other unreported events which help RS identify potential fraud. An example of the data matches conducted by RS include the Consolidated Death Match, which is a weekly matching of social security numbers from the Social Security Administration (SSA) against the annuity roll to determine if an annuitant is deceased and should therefore no longer receive a benefit payments. Another example is the SSA Death Master File

Match, which is an annual matching of social security numbers from SSA against the annuity roll to determine if an annuitant is deceased. An example of a survey used to detect or prevent potential fraud is the Representative Payee Survey through which RS surveys those who receive benefit payments on behalf of an annuitant, to ensure that the person receiving benefits is the payee on record. As part of this survey tool, the payee certifies that he or she is using and managing the annuity payments in the best interest of the annuitant.

RS also monitors 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 EFT for its annuitants. 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. Currently, a draft of the Information Exchange Agreement (IEA 10233) under which OPM will provide SSA with electronic death master file information should be signed by both agencies in late 2017. SSA will use the OPM data to verify the accuracy of the SSA death master file. This will improve the accuracy of data held by both agencies.

OPM's Office of Procurement Operations (OPO) has put into place comprehensive policies and procedures which provide oversight and management of contractual actions of various size, scope, and complexity that, among other things, reduces the risk of fraud during source selection and contract award, and for example in contract administration efforts such as oversight of contractor performance and invoice approval. This includes the development of contractual documentation supporting critical milestones in the procurement process and the policy established for reviewing and approving those documents, which is directly supported by the agency Small Business representative, Acquisition Policy, and General Counsel. Where in certain instances as the contractual action necessitates, numerous other separate and distinct team members may also be involved in review and approval to include the Director of Contracts, Competition Advocate, Senior Procurement Executive, and/or the OPM Director. OPM also has an established Contract Review Board process involving the above mentioned representatives, which convenes at critical milestones in the procurement process including Acquisition Strategy, Pre-Solicitation, Competitive Range, and Award phases to ensure adequate oversight and management of the contractual action is recognized, reducing overall risk to the agency. OPM established policy also requires a Contracting Officer's Representatives (COR) be designated on all orders/contracts for services exceeding the simplified acquisition threshold, as defined in FAR 2.101; and all other than fixed-price orders/contracts, regardless of dollar value. CORs are required to be certified at a level commensurate with the contract risk level and dollar value of the contract ensuring adequate oversight and management of the contractual action during the administration of the award. The agency COR policy includes a well-defined process whereby a program office representative is nominated based on their COR certification level and the applicable Contracting Officer reviews, approves and formally appoints them.

OPM program and mission support offices regularly assess their programs for risks, including risks of fraud, through the FMFIA process. However, in implementing Principle 8, Assess Fraud Risk, in the *Standards for Internal Control in the Federal Government*, published by the Government Accountability Office (GAO), OPM conducted a formal fraud risk assessment during FY 2017, focusing on the higher risk areas within the agency. Through the Fraud Risk Assessment, it was determined that, for the areas assessed, OPM has adequate controls in place. The Assessment did identify a fraud related risk in one area that required additional controls and action has already been taken to implement controls to mitigate these risks.

OPM's benefit programs regularly collect and analyze data to identify potential areas of fraud or trends that may indicate fraud. To support its data mining efforts Retirement Services has dedicated staff assigned to generate, review and take action on numerous data pulls to maintain and promote the integrity of the Annuity Roll. Through this process, staff can detect anomalies or other indicators in the data that may be indicative of fraud and therefore require further analysis. When warranted, Retirement Services engages the OIG on suspected fraud by referring cases for further investigation.

OPM used the results of various monitoring and evaluation activities, as well as those of OIG audits and investigations to improve its fraud prevention, detection, and response. OPM works closely with the OIG to mitigate fraud risks, especially in its benefit programs. For example, OPM's OIG continuously audits Health Insurance Carriers which are then used by HI to help increase Carriers awareness that improper actions and payments can be costly when found by OIG and validated by OPM's Audit Resolution function. The OIG also conducts investigations of potential fraudulent activities and works with HI to implement corrective actions and improve compliance.

As noted earlier, OPM takes its responsibility for preventing and detecting fraud very seriously, and is committed to implementing strategies to mitigate the risk of fraud. As OPM continues to mature it Enterprise Risk Management Program, of which fraud risk management is a component, we will work to implement leading practices for managing fraud risks published by GAO in its Fraud Risk Management Framework.

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 2013-02, the "Reduce the Footprint" policy implementing guidance, all CFO Act entities must set annual targets to reduce the total square footage of their domestic office and warehouse inventory compared to the FY 2015 baseline.

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 applies 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 National Background Investigations Bureau (NBIB) division. Presently, we have agreements with DoD at 77 military installations whereby we occupy 132,031 square feet of space. This is a beneficial arrangement, as it is a cost avoidance for OPM as we do not have to acquire commercial space. 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.

As a result, OPM reduced its footprint by 30,591 square feet in FY 2016. In the most recent Benchmarking exercise, OPM's utilization rate is 192.1 square feet per person, which is well below the Government-wide average of 264.4. OPM experienced a slight increase of 1,543 square feet in 2017, in FY 2018 and beyond we expect a continued reduction in square footage due to a number of projects, as detailed below.

- OPM requested Consolidation Funding from GSA in order to reconfigure space in our Headquarters Facility located in the Theodore

Roosevelt Federal Building in Washington, DC. This will allow for reassignment of Federally owned space in order to accommodate a Headquarters component, which is presently in a commercially leased facility in Arlington, VA. If funding is approved, this will reduce OPM's footprint by approximately 5,000 square feet.

- We are presently conducting a study regarding expanded use of telework for our office located in San Francisco, CA. If adopted, this will reduce OPM's footprint by approximately 8,900 square feet.

Reduce the Footprint Baseline Comparison

Reduce the Footprint Baseline Comparison			
Baseline	**FY 2015 Baseline**	**2016**	**2017**
Square Footage	1,153,188	1,122,597	1,124,140

Reporting of O&M Costs – Owned and Direct Lease Buildings

OPM does not own any real property and does not engage in direct leasing. All of OPM's leasing is coordinated through the General Services Administration (GSA). As a result, we have nothing to report for this category.

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	2017	$5,957 - $10,957		*

*An updated link to the Federal Registrar was not available at the time of publishing.

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
BMS	Budget Management System
C&A	Certification and Accreditation
CALPERS	California Public Employees Retirement System
CARS	Central Accounting and Reporting System
CBIS	Consolidated Business Information System
CBJ	Congressional Budget Justification
CDM	Consolidated Death Match
CFC	Combined Federal Campaign
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
CPIC	Capitalized Planning & Investment Control
CPL	Communications and Public Liaison
CRC	Community-Rated Carrier
CBIS	Consolidated Business Information System
CISO	Chief Information Security Officer
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	Digital Accountability and Transparency Act
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System

Acronym	Definition
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
ECAS	Enterprise cost Accounting 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
EMCA	Enterprise Managerial Cost Accounting (EMCA)
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
FBU	Foreign Benefit Unit
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEGLI	Federal Employees Group Life Insurance

Acronym	Definition
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employees Retirement System
FERS-FRAE	Federal Employees Retirement System - Further Revised Annuity Employees
FERS-RAE	Federal Employees 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 Modernization Act of 2014
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
FSA	Flexible Spending Account
FSAFEDS	Flexible Spending Account for Federal Employees
FSC	Facilities, Security, & Contracting
FSM	Financial Systems Modernization
FSSP	Federal Shared Service Providers
FTE	Full-time Equivalent
FWA	Fraud, Waste, and Abuse

Acronym	Definition
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
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
ICOFR	Internal Control over Financial Reporting
IO	International Operations
IOC	Internal Oversight and Compliance

Acronym	Definition
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
ISSO	Information System Security Officer
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
MDC	Management Development Center
MSAC	Merit System Accountability and Compliance
MetLife	Metropolitan Life Insurance Company
MLE	Minimum Level of Earnings
MSP	MultiState 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

Acronym	Definition
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
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
PIV	Personal Identity Verification
POA&M	Plan of Action & Milestones
PPA	Planning and Policy Analysis
PRHB	Postretirement Health Benefits
PSRHB	Postal Service Retirees Health Benefits
PSRHBF	Postal Service Retiree and Health Benefit Fund
PY	Prior Year
QA	Quality Assurance
OPEB	Other Postemployment Benefits
RBO	Reimbursable Business Operations
RF	Revolving Fund
RMC	Risk Management Council
RMIC	Risk Management and Internal Control Group

Acronym	Definition
RS	Retirement Services
RSM	Retirement Systems Modernization
SAM	System for Award Management
SAOC	Spending Authority from Offset Collections
SBR	Statement of Budgetary Resources
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SOC	Security Operations Center
SOS	Schedule of Spending
SPFI	Summary of Performance and Financial Information
SSA	Social Security Administration
SUITEA	Suitability Executive Agent
TBD	To Be Determined
TBM	Technology Business Management
TCO	Total Cost of Ownership
THEO	OPM's intranet
TIC	Trusted Internet Connection
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

U.S. Office of Personnel Management

Chief Financial Officer

1900 E Street, NW, Washington, DC 20415

OPM.GOV

CFO-02308-AFR-11/2017