UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Agency Financial Report

Fiscal Year 2018

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NOVEMBER **2018**

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Message from the Acting Director, Agency Financial Report 2018

In FY 2018, the U.S. Office of Personnel Management (OPM) served the American people by delivering human resource policies and services in support of Executive Branch agencies and the Federal workforce. OPM's work to ensure sound human resource policies, competitive benefits and strategic human capital practices are an essential part of delivering government services in the 21st Century.

This Agency Financial Report provides an overview of how OPM used its financial resources to support the mission, service and stewardship objectives of human resource management in the Federal Government. As stewards of resources entrusted to this agency by Congress, financial transparency is critical to ensure efficient, effective, and accountable use of these Federal dollars. As such, this report incorporates the contributions of an Independent Auditor and input from every program office at OPM.

The United States Government faces significant annual deficits and a growing national debt. These difficult fiscal realities require every agency to make the tough, but necessary, choices on how to deliver on its mission within existing financial resources. Our responsibility at OPM is no different. Moving forward, I remain committed to strong fiscal stewardship, to ensure that every dollar at OPM is invested in advancing its core mission and critical services.

Importantly, OPM has a critical role to play in helping other agencies accomplish their mission objectives, via hiring, training and workforce management activities, as well as providing critical retirement, benefits and background investigation policies and services. Leveraging the framework of the President's Management Agenda, OPM seeks to maintain our ability to support the 21st Century mission via investments in Information Technology (IT) modernization activities, 21st Century data strategies and enhanced people management processes across the Federal Government.

The American people and Executive Branch agencies are fortunate to have such a talented and dedicated workforce at OPM and I feel privileged to work alongside them. Our Federal employees are key assets in mission delivery and customer service. A modern Federal workforce must have the right skills, tools, and operating structure in place to accomplish its mission for America's citizens. Making the necessary investments in our workforce empowers them to drive better outcomes and service to the American public. Consequently, OPM will manage our financial activities to efficiently and effectively support government-wide human resources policy for a 21st century workforce, administer benefit programs accurately and on time, and enforce civil service laws that apply merit-based system principles for the entire civil service.

In FY 2018 OPM initiated a range of IT modernization activities designed to enhance the security, scalability and resiliency of critical OPM technology assets. Given the legacy environments involved, this work is significant and on-going, and will continue to be a priority going forward. These foundational IT modernization projects are a critical step toward creating a technology environment that is capable of taking advantage of the business process automation, advanced data analytics and other technology tools that are required to meet the productivity needs of our workforce in the 21st Century.

Throughout FY 2018, the OPM workforce made progress in several key areas. Seeking to simplify the overall hiring process, and ensure Federal agencies can quickly find the right talent to fill certain needs, OPM authorized Direct Hire authorities for specified Science, Technology, Engineering, Math (STEM) and Cybersecurity roles. In addition, we have proposed legislative proposals to streamline the hiring process and simplify retirement benefits. We managed our mission to administer healthcare responsibly and had the lowest increase in premiums, an increase of 1.3 percent, in Federal Employee Health Benefit plans since the 1996 plan year. We also improved current operation methods to enhance customer service by reducing the average number of minutes to conduct retirement phone calls to 8.6 minutes, down from more than 17 minutes in FY 2017. These are all examples of the work that must continue to improve as we serve in the changing landscape of the 21st century.

One fundamental change that is occurring is the recently enacted legislation by Congress to transition most of the National Background Investigations Bureau (NBIB) to the Department of Defense (DOD). This enactment prompted a decision by the Administration to take steps to transition the entire NBIB to DOD. Over the past year, OPM has made progress in implementing these decisions as efficiently as possible with DOD and other agency partners. Even while this transition has been in motion, NBIB has begun to reverse the trend of an increasing case inventory, ending FY 2018 with approximately 650,000 cases, down from 708,000 at the beginning of the year. Since NBIB is the largest business operation within OPM, it is no secret that we will need to significantly change our way of doing business once that mission has successfully transferred to DOD.

That change begins now. Over the coming year, we will optimize the remaining business functions within OPM and propose several changes to better position its critical services for the future. Although the structure and functions may look different, the mission and people will remain. It is our goal that every outcome from these changes will set a new standard of stability, sustainability, and service for the work OPM must carry out. As we move forward together on these changes, we will adopt new approaches to delivering our mission with careful fiscal stewardship of taxpayer dollars.

In the months ahead, OPM will continue efforts to ensure our dedicated civil servants are primed for 21st century realities and ready to deliver world-class service for the American people for years to come. Delivering timely, relevant, and measurable results for the Federal community and the American people is a must. If we work together to maximize all of our financial resources and focus on mission, service, and stewardship, more progress will be achieved in meeting the needs of Federal agencies and the American public in the future.

Sincerely,

Margaret M. Weichert
Acting Director

SECTION 1

Management's Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

AGENCY FINANCIAL REPORT OVERVIEW

As the Federal Government's human resources agency and personnel policy manager, OPM aspires to *lead and serve the Federal Government in enterprise human resources management by delivering policies and services to achieve a trusted effective civilian workforce* 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 2018 gross budget, including appropriated, mandatory administrative authorities and revolving fund activities, totaled $2,119,135,918. In FY 2018, the agency had approximately 5,453 full-time equivalent employees. OPM's discretionary budget authority, excluding the Office of the Inspector General, was $260,755,000. For more information about OPM, please refer to the agency's website, **www.opm.gov**.

ABOUT THIS REPORT

The FY 2018 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 2019, OPM will publish its FY 2018 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 2018-FY 2022 Strategic Plan.

The AFR provides an accurate and thorough accounting of OPM's financial performance in fulfilling its mission during FY 2018, 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:

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

OPM'S MISSION AND STRATEGIC GOALS

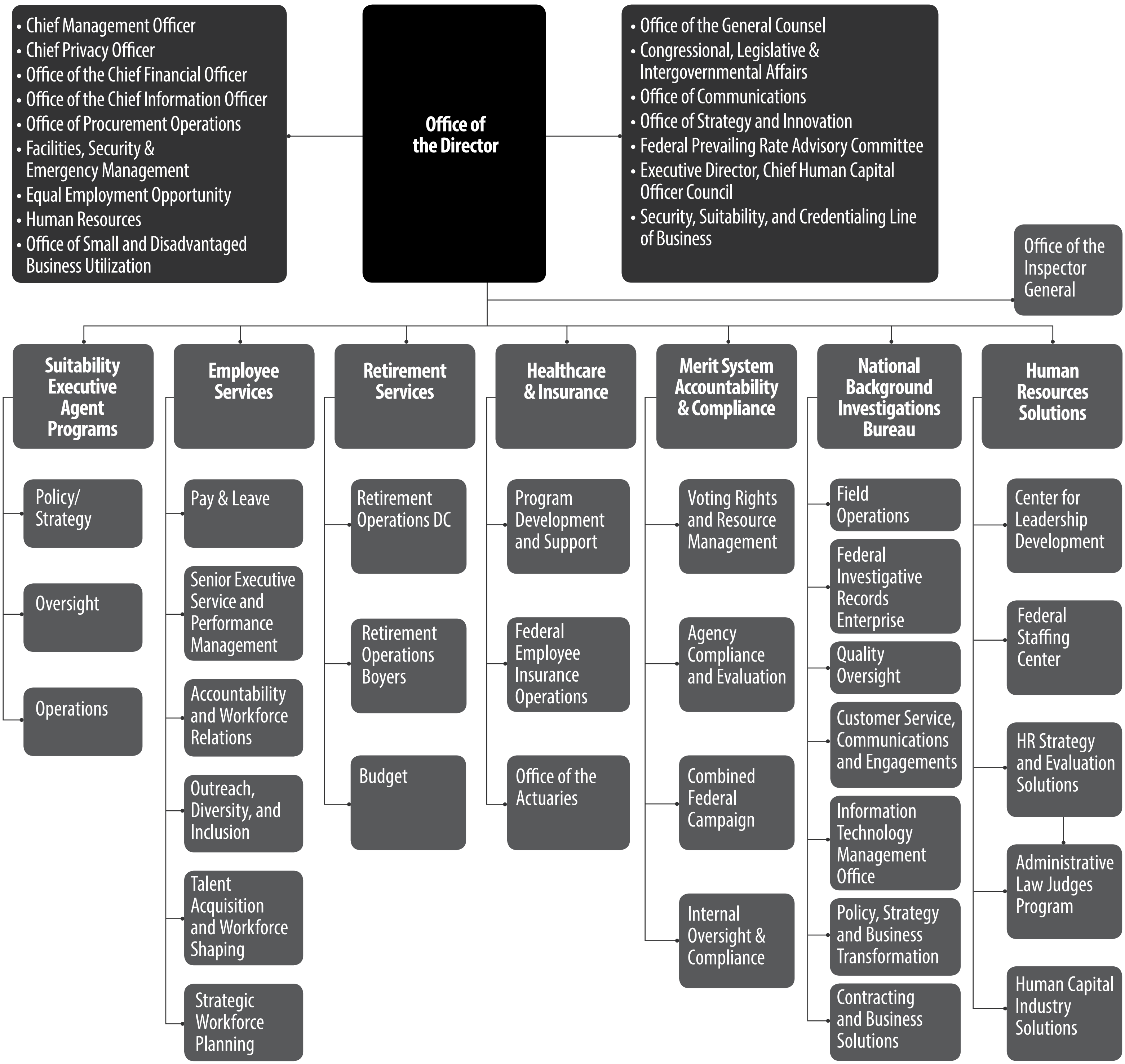
OPM's Strategic Plan is the starting point for performance and accountability. The FY 2018-2022 plan details four strategic goals and corresponding objectives to *lead and serve the Federal Government in enterprise human resources management by delivering policies and services to achieve a trusted effective civilian workforce*. The agency uses a series of performance measures or key milestones, developed during its annual performance budgeting process, to gauge its progress in implementing the strategies and achieving the goals in the plan.

STRATEGIC GOAL	OBJECTIVE	OBJECTIVE STATEMENT
Transform hiring, pay, and benefits across the Federal Government to attract and retain the best civilian workforce	1.1	Drive improvements to the hiring process so agencies are able to hire the best candidate in a timely manner
	1.2	Achieve reforms to the pay system to drive performance excellence and greater responsiveness to changes in labor markets
	1.3	Reduce the complexity and costs to administer Federal employee retirement earned benefits by achieving and implementing legislative reform
	1.4	Improve healthcare quality and affordability in the FEHB program with 75 percent of enrollees in quality affordable plans
	1.5	Transform the background investigation process to improve investigation timeliness
Lead the establishment and modernization of human capital information technology and data management systems and solutions	2.1	Establish a Center of Excellence by leveraging data analytics and research to advance evidence-based human capital management
	2.2	Advance human capital management through the strategic use of interoperable HR IT that connects all parts of the talent management lifecycle and facilitates drives adoption of the Software as a Service model by the end of 2022
	2.3	Streamline data collection and leverage data repositories to enhance enterprise-wide Human Resource (HR) data analytics and reduce low-value reporting requirements
Improve integration and communication of OPM services to Federal agencies to meet emerging needs	3.1	Strengthen OPM coordination of policy, service delivery, and oversight resulting in agencies' achievement of human capital objectives
	3.2	Achieve recognition as the trusted human capital management advisor
Optimize agency performance	4.1	Improve collaboration, transparency, and communication among OPM leadership to make better, more efficient decisions, increasing OPM's collaborative management score by 4 percentage points
	4.2	Invest in OPM management and provide the tools managers need to maximize employee performance, improving OPM's score in dealing with poor performers by 4 percentage points
	4.3	Exceed the Government-wide average satisfaction score for each agency mission support service
	4.4	Improve retirement services by reducing the average time to answer calls to 5 minutes or less and achieve an average case processing time of 60 days or less

OPM's complete Strategic Plan is available on OPM's website at **https://www.opm.gov/about-us/budget-performance/strategic-plans/2018-2022-strategic-plan.pdf.**

ORGANIZATIONAL STRUCTURE

OPM's divisions and offices and their approximately 5,453 employees implement the programs and deliver the services that enable the agency to meet its strategic goals. The agency's organizational framework consists of program divisions and offices that both directly and indirectly support 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.

  Within OD, the Chief Privacy Officer/ Senior Agency Official for Privacy serves as the principal privacy advisor to the OPM Director and is responsible for formulating and implementing OPM policies related to the collection, maintenance, and use of personally identifiable information. These responsibilities include compliance throughout OPM with the Privacy Act, the privacy provisions of the E-Government Act, and other privacy-related laws, regulations, and guidance.

- ***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 administrative 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.

- ***Security, Suitability and Credentialing Line of Business (SSCLoB)*** is an interagency organization that is administratively housed within OPM's Office of the Director. The SSCLoB was established by and supports the Security, Suitability and Credentialing Performance Accountability Council (PAC) through its Program Management Office (PAC PMO). The PAC is chaired by the Deputy Director for Management for the Office of Management and Budget, and is accountable to the President for enterprise-wide personnel vetting reforms. Through the PAC PMO, the PAC establishes the overall direction for and oversees the SSCLoB's work to identify and assist with implementing solutions that optimize personnel vetting investments, simplify delivery of personnel vetting services, establish shared services, and promote reciprocity, efficiency, and effectiveness across the personnel vetting enterprise.

- ***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 attend meetings, briefings, markups and hearings in order to interact, educate, and advise agency, Congressional, State, and

Local Governments. CLIA is also responsible for supporting Congressional efforts through providing technical assistance and substantive responses to Congressional inquiries.

- ***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 Strategy and Innovation (OSI)*** uses data and research to develop human capital strategy and lead human resources innovation throughout the Federal Government. OSI includes both a Data Analysis Group and the Survey Analysis Group.

PROGRAM OFFICES

- ***Employee Services (ES)*** provides policy direction and leadership in designing, developing, and promulgating Government-wide human capital strategy, systems, and programs. ES supports agencies' recruitment, hiring policy and classification, veterans' employment, strategic workforce planning, pay, leave, performance management and recognition, leadership and employee development, diversity and inclusion, work/life/wellness programs, accountability, and labor and employee relations with tools, education, and direct support. ES also provides technical support to agencies regarding the full range of human capital management policies and practices.

- ***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 annuitant accounts, sending out 1099-Rs, surveying certain annuitants to ensure their continued eligibility to receive benefits, and conducting other post adjudication activities.

- ***Healthcare & Insurance (HI)*** consolidates OPM's healthcare and insurance responsibilities into a single organization. This includes contracting and program management functions for the Federal Employees Health Benefits (FEHB) Program, Federal Employees' Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employee Dental and Vision Insurance Program (FEDVIP), the Federal Flexible Spending Account Program (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 OPM's Human Capital Framework: (1) strategic planning and alignment of human resources to mission, (2) performance culture, (3) talent management, and (4) 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 verify that 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 procedural 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 implementation of the laws and Executive Orders governing the Administrative Law Judge program, recruiting and examining candidates for 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 with requirements development expertise, ultimately procuring solutions through best-in-class awards.
- ***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 personnel 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 continuous process improvements through innovation, stakeholder engagement, an agile acquisition strategy in order to meet the important national security need of establishing a trusted Federal Government and contractor workforce. NBIB absorbed most of the roles, responsibilities, and staff of Federal Investigative Services starting in FY 2017. OPM is currently supporting DOD's efforts to implement Section 925 of the 2018 National Defense Authorization Act (NDAA), which gives the Secretary of Defense the authority to conduct security, suitability and credentialing background investigations for Department of Defense personnel. OPM and DOD are also considering how the entire NBIB program could be transitioned to DOD in light of the Administration's June 2018 Reform Plan and Reorganization Recommendations.
- ***Suitability Executive Agent (SuitEA)*** was established as a distinct program office within OPM in December 2016 to strengthen the effectiveness of suitability, fitness, and credentialing 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

- ***Human Resources (HR)*** is responsible for OPM's internal human resources management programs. OPM HR supports the human capital needs of program offices throughout the employment lifecycle, from recruiting and hiring candidates for employment opportunities at OPM, to coordinating career development opportunities, to processing retirement applications. The Chief Human Capital Officer leads HR, and is responsible for shaping corporate human resources strategy, policy, and solutions to workforce management challenges within the agency.
- ***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 CFO ensures the completion of timely and accurate financial reports that support decision making, comply with Federal requirements, and demonstrate effective management of taxpayer dollars.
- ***Chief Information Officer (CIO)*** develops the Information Resource Management Plan and defines the information technology vision and strategy to include information technology policy and security for OPM. 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 administers OPM's PIV program and 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 supports the agency suspension and debarment program, as well as supports the small business utilization efforts for OPM in conjunction with Public Law (P.L.), 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 purchase 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). EEO also designs and implements all required internal OPM diversity and inclusion efforts to promote diversity management.

OTHER OFFICES

- ***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)*** The 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 2018 PERFORMANCE HIGHLIGHTS

This section contains OPM's performance results for its FY 2018-2019 Agency Priority Goals. OPM's complete performance results will be published in the agency's FY 2018 Annual Performance Report, which is scheduled for publication on the agency's website at **www.opm.gov** in February 2019, concurrent with OPM's FY 2020 Congressional Budget Justification.

Agency Priority Goal: Enable Federal employees to seamlessly transfer agencies

Goal Statement: By September 30, 2019, OPM will ensure implementation of Employee Digital Record (EDR) data standards and associated application program interfaces (APIs) that demonstrate an initial capability toward Federal employees being able to transfer between agencies using paperless processing.

Progress Update:

In FY 2018, OPM approved and released more than 1,300 data standards approved by a Data Review Board related to Payroll, Time & Attendance, Transfer, Separations and Retirement. The Human Resources Line of Business (HRLOB) developed these standards in regular collaboration with agencies, shared service providers, OPM policy offices, and other data stakeholders. The HRLOB is continuing to work through community feedback on the version 1 release of the data standards for future releases.

Also in FY 2018, the HRLOB integrated the set of standard employee forms and payroll and time & attendance specifications to demonstrate reusability and duplication of data. This integration is managed within the Human Capital Information Model.

The HRLOB Multi-Agency Strategy Committee created an EDR Adoption Subcommittee to develop a plan for EDR adoption so that agencies, providers, and the HR community can be prepared to take advantage of the data standards and eventual system. The subcommittee discussed criteria for successful adoption of human capital data standards and EDR, and will prepare Government stakeholders for expedited implementation. With the data standards implemented, OPM and Shared Service Providers will be able to acquire Software as a Service solutions in the cloud and develop the EDR.

Performance Milestones:

FY 2018 Milestones	Met/Not Met
Release alpha version of EDR data standard (Payroll and Time & Attendance)	Met
Release beta version of EDR data standard (Payroll and Time & Attendance)	Met
Release first version of EDR data standard so that the HR community can speak a common language	Met
Analyze privacy metadata and prioritize privacy integration	Not Met*
Establish Data Review Board so that OPM leadership demonstrates and executes on the importance of data	Met
Establish Executive Steering Committee so that executive leadership are aware, informed, and in-sync with the future strategic and tactical vision of EDR	Met
Establish data feeds based on EDR data standards	Not Met†
Design and prototype state of the art data exchange protocol	Met^

* Engaged Chief Privacy Officer to tailor the needs of NewPay to System of Record requirements.

† OPM is prepared to establish data feeds when the IT solution is determined.

^ OPM, in conjunction with NTIS, designed a prototype to prove the potential of the EDR. After the prototype release, however, the scope of the EDR project changed.

Agency Priority Goal: Improve the hiring process

Goal Statement: Strengthen the capabilities of Federal HR professionals by relaunching a delegated examining (DE) certification program that creates a level standard for all HR delegated examiners. By September 30, 2019, at least 43 percent of delegated examiners will complete the updated certification program.

Progress Update:

DE Certification Program

In FY 2018, OPM completed DE certification assessment questions and a course pilot. The agency also developed 70 percent of a tracking system, which scheduled for completion in Q1 FY 2019. Further, OPM is in the process of procuring an assessment delivery/testing platform. A DE Operations Handbook is in the final stages of the approval process, and OPM expects to publish the handbook in Q1 FY 2019.

HR Policy Center of Excellence

OPM also made progress on an HR Policy Center of Excellence to enable HR professionals to develop highly needed policy skills, broaden organizational experience, and build Government-wide networks to improve participants' abilities to assume Human Capital leadership roles. OPM developed a framework that includes an informative and interactive orientation; a robust educational component to broaden participants' understanding of Government-wide policy and law; and an effective assessment process to examine the extent to which program goals are met, participants' professional development, program administration, and host and home supervisor's experiences. Following a nomination and interview process, OPM selected seven participants.

Performance Measures:

Percent of staffing specialist course participants who demonstrate knowledge improvement						
FY 2014 Results	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2018 Results**	**FY 2018 Target**	**Met/ Not Met**
-*	-*	-*	-*	89.0%	85%	Met

FY 2018 Analysis of Results: In FY 2018, 105 of 118 staffing specialist course participants demonstrated knowledge improvement, exceeding the target of 85 percent.

-* No historical data available for this period.

Number of participants in the HR Policy Center of Excellence						
FY 2014 Results	**FY 2015 Results**	**FY 2016 Results**	**FY 2017 Results**	**FY 2018 Results**	**FY 2018 Target**	**Met/ Not Met**
-*	-*	-*	-*	0	15	Not Met

FY 2018 Analysis of Results: Due to implementation challenges identified in the development of the implementation plan, OPM was unable to meet the target. The anticipated launch date of the HR Policy Center of Excellence is set for Q1 FY 2019. OPM selected seven individuals to participate in the pilot.

-* 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 2018 APR in February 2019.

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 and consolidating 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 nineteenth consecutive year, OPM received 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 2018, OPM held $1,107.2 billion in assets, an increase of 2.3 percent from $1,082.3 billion at the end of FY 2017. 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 $1,050.9 billion, which represents 95 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 December 11, 2017 and ended on February 9, 2018 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 2018, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $22.5 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 transfer was a total of more than $34.2 billion for FY 2018.

Liabilities

At the end of FY 2018, OPM's total liabilities were $2,398 billion, an increase of 2.5 percent from $2,339 billion at the end of FY 2017. 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 $1,938 billion at the end of FY 2018, an increase of $30.1 billion, or 1.6 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 $390.6 billion at the end of FY 2018. This reflects an increase of approximately $27.2 billion from the amount at the end of FY 2017, or 7.5 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The *Actuarial Life Insurance Liability* is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.7 billion in FY 2018 to $53.9 billion, or 3.2 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 benefits (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 2018 by $1,291 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 $24.5 billion in FY 2018 to $1,091.7 billion.

TABLE 3 - Net Assets Available for Benefits

($ in Billions)	FY 2018	FY 2017	Change
Total Assets	$1,107.3	$1,082.3	$24.9
Less "Non-Actuarial" Liabilities	15.5	15.1	0.4
Net Assets Available to Pay Benefits	$1,091.7	$1,067.2	$24.5

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 2018 Net Cost of Operations was a Loss of $90.3 billion, as compared with a Loss of $155.1 billion in FY 2017. The primary reasons for the reduction in net loss are due to changes in the actuarial assumptions.

NET COST TO PROVIDE CSRS BENEFITS

As indicated in Table 4, the Net Cost of Operations for CSRS Benefits was $21.9 billion in FY 2018, a decrease of $57.2 billion from FY 2017. As reported on the SNC, there was a current year gain of $7.9 billion for CSRS due to changes in actuarial assumptions, such as a decrease in assumed future long term rates of the annuitant Cost of Living Adjustment (COLA) factor.

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

Contributions by and for CSRS participants decreased in FY 2018 by $204 million from FY 2017 and OPM's earnings on CSRS investments declined by approximately $806 million from the prior fiscal year.

TABLE 4 - Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2018	FY 2017	Change
Gross Cost	$39.4	$28.8	$10.6
(Net of Assumptions of Gain/Loss)	(7.9)	61.2	(69.2)
Associated Revenues	9.6	10.9	(1.4)
Net Cost of Operations	$21.9	$79.1	$(57.2)

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 $38.3 billion in FY 2018, as compared to the $41.1 billion in FY 2017. 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 2018 decreased by $12.9 billion from FY 2017 resulting in a Net Cost of Operations of $31.0 billion for the FY 2018. 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 2018, OPM incurred a Pension Expense for FERS of $84.5 billion, as compared with $96.2 billion in FY 2017. The primary reasons for the decrease in FERS pension expense were due to changes in actuarial economic assumptions, and actual salary expense was lower than expected.

Due to changes in actuarial assumptions such as the lower long term interest rate assumption there was a loss of $33.4 billion in FY 2017, which was followed by a loss of $20.7 billion in FY 2018. This contributed to the decrease in pension expense of $11.8 billion from FY 2017 to FY 2018. The FY 2018 Pension Expense also reflected an experience gain primarily due to demographic experience being more favorable than assumed during the previous fiscal year.

Contributions by and for FERS participants increased by $542 million, or 1.6 percent from the prior FY17, due to the increase in FERS payroll primarily as a result of general salary increases.

TABLE 5 - Net Cost to Provide FERS Benefits

($ in Billions)	FY 2018	FY 2017	Change
Gross Cost	$63.7	$62.8	0.9
(Net of Assumptions of Gain/Loss)	20.7	33.4	(12.7)
Associated Revenues	53.5	52.4	1.1
Net Cost of Operations	31.0	$43.9	(12.9)

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 2018, OPM paid FERS benefits of $16.4 billion, compared with $14.3 billion in FY 2017. 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 2018 increased by $5.9 billion from that in FY 2017, 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 2018	FY 2017	Change
Gross Cost	$67.5	$66.3	$1.2
(Net of Assumptions of Gain/Loss)	13.0	6.9	6.1
Associated Revenues	43.9	42.5	1.4
Net Cost of Operations	$36.6	$30.7	$5.9

The Postal Service Retiree Health Benefits Fund (PSRHBF) is included in the Health Benefits Program. The United States Postal Service (USPS) was required by P.L. to make a series of fixed payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) maintained by OPM up to and including FY 2017. The total amount due to the PSRHBF from the USPS is $42.6 billion: $38.2 billion due from FY 2011 – FY 2017 and $4.5 billion for FY 2018. As of September 30, 2018, the Postal Service has indicated payment of the total $42.6 billion due will remain open. 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 2018, OPM incurred a PRHB expense of $42.8 billion, as compared with $37.9 billion in FY 2017. This change is due to an actuarial loss largely attributable to population change, updated plan choice at retirement assumptions, the use of group specific demographic rates, and updated waiver assumptions at and in retirement. The actuarial loss was partially offset by changes in the SFFAS No. 33 trend and interest assumptions.

Current Benefits and Premiums stayed level with FY 2018. However, the contributions (for and by participants) increased by $1.3 billion from FY 2017 to FY 2018. As discussed above, in FY 2018, a total of $42.6 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 2018	Total FY 2017
Claims	$31.1	$11.8	$42.9	$41.1
Premium Expense	4.6	2.3	6.9	6.8
Administrative Expense and Other	$2.0	$1.5	$3.5	$2.9

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits decreased by $0.6 billion from FY 2017 resulting in a Net Cost of Operations of $0.9 billion for FY 2018. Gross Cost increased $0.2 billion for FY 2018 as compared to FY 2017, but the actuarial loss was lower and Associated Revenues higher for FY 2018 as compared to FY 2017. 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 2018 and 2017. 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 2018 as compared to FY 2017.

TABLE 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2018	FY 2017	Change
Gross Cost	$4.5	$4.3	0.2
(Net of Assumptions of Gain/Loss)	0.5	0.9	(0.4)
Associated Revenues	4.1	3.8	0.3
Net Cost of Operations	$0.9	$1.5	$(0.6)

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 $276.2 billion in budgetary resources was available to OPM for FY 2018, OPM's budgetary resources in FY 2018 included $69.3 billion (25.2 percent) carried over from FY 2017, plus three major additional sources:

- Appropriations Received = $56 billion (20.2 percent)
- Trust Fund receipts of $103.9 billion, less $15.4 billion* not available = $89.8 billion (32.4 percent)
- Spending authority from offsetting collections (SAOC) = $61.0 billion (22.2 percent)

* Total budgetary resources do not include $15.4 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 $47.1 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 2018	FY 2017
Trust Fund Receipts	32.4%	32.8%
Balance Brought Forward from Prior Year	25.2%	25.1%
Spending Authority from Offsetting Collections	22.2%	22.1%
Appropriations	20.2%	20.0%

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 2018	FY 2017
Retirement Benefits	63.3%	63.3%
Health Benefits	34.3%	34.1%
Life Insurance Benefits	1.7%	1.6%
Other	0.7%	1.0%

From the $276.2 billion in budgetary resources OPM had available during FY 2018, it incurred obligations of $204.6 billion less the $42.9 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 $47.1 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 2018 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
- Prompt Payment Act
- Debt Collection Improvement Act
- Improper Payments Information Act
- Inspector General Act, as amended
- Civil Monetary Penalty Act

Management Assurances

Office of Personnel Management

FY 2018 Statement of Assurance

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, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2018, except for the material weaknesses described in Exhibit A.

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.

11/14/2018

Margaret M. Weichert
Acting Director

Date

COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

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 evaluations of their systems of internal control and annually provide reasonable assurance to the President and the Congress on the adequacy of those systems. 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.

OPM employed a multi-pronged approach to evaluating its systems of internal control. OPM conducted an evaluation of its entity level controls comprised of a survey of the heads of each business unit and data gathering to support the survey results. The survey asked each business unit head to assess the 17 internal control principles from Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government for their respective business units. OPM also conducted an assessment of its internal control over Agency operations, reporting, 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. RMIC reviewed the submissions along with applicable reports of audits performed by the OIG and GAO throughout the reporting period to determine if there were other material weaknesses that should be reported in the assurance statement. Finally, OPM assessed the effectiveness of its internal controls to support reliable financial reporting through testing the design and operating effectiveness of key internal controls over several financial business processes and information systems.

EXHIBIT A - SUMMARY OF MATERIAL WEAKNESSES

Information Security Governance Program

In its audit of OPM's compliance with the Federal Information Security Modernization Act (FISMA), the OIG reported that the Chief Information Security Officer organization remains understaffed, and continues to struggle to implement the OIG's recommendations with respect to cybersecurity controls.

Information System Control Environment

In FY 2018, OPM's independent auditor reported deficiencies in various aspects of OPM's information system control environment, including in the areas of security management, logical and physical access controls, and configuration management. Due to the continued existence of these deficiencies, they continue to be reported collectively as a material weakness in OPM's internal control over financial reporting by the independent auditor.

OPM concurs with the independent auditor's assessment. Notwithstanding the progress that has been made to mature the OCIO organization and enhance the information system control environment, OPM will continue to actively develop and implement appropriate, risk-based, cost effective corrective plans.

COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

Financial Management Systems

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

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

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2018, 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. The results also indicated that OCFO was consistent with FFMIA guidelines and OPM's mission to provide reliable and timely information for agency decision making.

In addition, our resources were used consistent with OPM's mission and are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; 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. OCFO financial information systems continue to support OPM's strategic goal to "Exceed the Government-wide average satisfaction score for each agency mission support service" through identifying, building, and managing financial management solutions that sustain OPM's mission objectives and overall government requirements.

The agency continues to apply major improvements to its financial systems each year. The OPM Enterprise Cost Accounting System (ECAS), the system component of the Enterprise Managerial Cost Accounting (EMCA) initiative, commenced at the end of quarter four of FY 2016. In FY 2017, the modeling of key OPM program offices was successfully piloted. In FY 2018, OCFO focused on defining the technical and solution architecture and executing activities in compliance with our OCIO standards and policies. OPM acquired a FedRAMP-certified cloud hosting provider that provides a Hybrid-Cloud solution, allowing ECAS to inherit benefits of the Cloud such as high availability and scalability across the platform. ECAS will be the first OPM application in an OPM-owned cloud environment. Deployment of user access accounts to the full system for the agency EMCA project is targeted for completion by the end of FY 2019. OPM continues to support the adoption and promotion of the Taxonomy and Technology Business Management (TBM) as a best practice for Information Technology (IT) management and as a framework for modeling all of its IT costs through ECAS. The Taxonomy is incorporated as a key part of the ECAS model, which is used to capture and drive all IT expenditures.

The benefits from deploying the Budget Management System (BMS) in FY 2017, afforded OPM the opportunity in achieving its business objectives and requirements relative to managing and administering the agency's budgetary resources. BMS was used to formulate the agency's FY 2019 budget request, the OPM's Congressional Budget Justification (CBJ) and Annual Performance Report (APR). For the agency's FY 2020 budget request, BMS continues to be the core system for the preparation of the CBJ and APR, and this year, the automated version of Annual Performance Plans. The future of BMS will provide integration to the agency core accounting system, the Consolidated Business Information System (CBIS), and additional processes to automate the Congressional Operating Plan, and to deploy an integrated Budget Execution capability.

In FY 2018, OPM continued to manage the Trust Funds Modernization Program implementation that will provide a solution for replacing the current Trust Funds legacy systems. An extensive governance structure (Executive Steering Committee, Leadership Council, Working Group) was created and used to engage stakeholder participation, accountability and to foster decision making transparency. Program/project management processes such as risk management, communications management, schedule management, and governance were utilized. OPM acquired the services of a Federally Funded Research and Development Center as a strategic advisor to define its unique trust funds management requirements using a standardized federal financial management framework and to document common financial management activities and focus on business outcomes, data, processes and performance. This was key as the process leveraged the Treasury Federal Financial Management standards, which will allow OPM to realize some efficiencies in the target state. The definition of our activities led to the development of business capability statements and business use cases, and the TFM Solution Concept document, which outlines a proposed solution architecture, acquisition strategy and business delivery strategy. In FY 2019, OPM is engaging with a Federal Shared Service Provider (FSSP) to begin the Discovery Phase.

OPM views its compliance to FFMIA through its continued partnership with a certified FSSP that provides assurance related to their systems of controls and compliance with Federal guidelines and policy. OPM continues to realize benefits from its "blended approach" for transaction processing, IT hosting, and application management services. Last year, OPM completed a "Lift and Shift" move of CBIS to a FSSP to assist in adopting an upgraded technology platform, to reduce overall technology risk and to consolidate cost. In FY 2018, OPM analyzed options for a full migration of CBIS into an FSSP financial management solution and entered into an Interagency Agreement to begin the Discovery Phase of the effort. The migration deployment is planned for mid-year of FY 2020.

In FY 2018, OPM continued to meet reporting submission requirements for the Digital Accountability and Transparency Act (DATA Act) on **USASpending.gov**, in accordance with the Department of Treasury's established submission dates. OPM will continue to apply changes to its file submissions as updates are made to the DATA Act requirements by Treasury.

In FY 2019, OPM will continue to optimize functions, processes, and service delivery across the financial management components and workflows to further its compliance with FFMIA. These include: integration, reporting and analysis, transaction processing, and continuous training.

EXHIBIT B – NON-CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Information System Control Environment

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

Compliance with the Inspector General Act

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its Office of the Inspector General. OPM is reporting on audit follow-up activities for the period October 1, 2017 through September 30, 2018, Table 9 – Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

TABLE 9 - Inspector General Audit Findings

FY 2018	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2017	4	$22.6
New reports requiring management decisions	16[1]	109.4
Management decisions made during the year	17	58.9
Costs disallowed	-	53.6
Costs not disallowed	-	5.4[2]
Reports with no management decision on September 30, 2018	3	73.0

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2017 through March 31, 2018 and April 1, 2018 through September 30, 2018.

Purpose: To provide data to the OCFO to be included in the fiscal year 2018 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, 40 reports were issued and 16 of them had monetary findings, and 24 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 2018.

In FY 2018, the Chief Information Security Officer faced challenges including a lack of appropriate staffing and maintenance of sufficient resources, specifically related to conducting risk assessments for major information systems, conducting complete and comprehensive tests of security controls, and effectively implementing OPMs Information Security Continuous Monitoring activities. OCIO is committed to appropriate staffing and maintenance of sufficient resources to support OPM's cybersecurity needs. Senior agency leadership is taking steps to help ensure that critical positions within OCIO are funded and allocated. Despite these challenges, CISO office maintained current Authorizations to Operate (ATOs) for all OPM major information systems throughout FY 2018. At the start of FY 2019, all ATOs remain current.

In addition, in FY 2018 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 2018 OIG FISMA Audit Report, the Incident Response domain was again reported as operating at Level 4, Managed and Measurable. As a result, no recommendations were issued in this domain in the FY 2018 OIG FISMA report for the second year in a row.

Further evidencing advancement in the SOC and continued maturity of the Information Security Continuous Monitoring (ISCM) program in FY 2018 included adoption of phase two capabilities of the DHS Continuous Diagnostics and Mitigation (CDM) program, Privilege

Management and Credential Management. OPM continues to lead the Federal government in the deployment of phase two capabilities through cross-agency coordination for configuration and deployment of single sign-on capabilities with the enterprise credential management solution. Through compliance with Binding Operational Directive 18-02, "Securing High Value Assets" and CDM, OPM High Value Asset systems were identified and reported to DHS. Several of these systems have been selected for DHS CDM High Value Asset assessments in FY 2019 and the agency has begun work supporting these assessments.

The Agency has made significant improvements in Security Training in FY 2018 and will continue to improve the program in FY 2019. The Agency is now operating at CIGIE Maturity Model Level 3, Consistently Implemented. The program has also continued to improve the tailored training for employees with significant security responsibilities.

A significant challenge the agency faces is meeting the requirements of OMB M-11-11, requiring all OPM information systems to use PIV for multi-factor authentication. The agency has plans to deploy tools to assist meeting the intent of the memorandum and require all major information systems to require multi-factor authentication with PIV credentials during FY 2019.

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 2018 Financial Information

A Message from the Chief Financial Officer

This is the eleventh 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) 2020 Budget to Congress. This approach offers more transparent conveyance to the public with improved quality and utility for management and stakeholders.

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

OPM issued a qualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. This was due to the continued material weakness regarding OPM's information systems control environment, as well as a material weakness reported by the Office of Inspector General in its annual report on OPM's compliance with the Federal Information Security Modernization Act. OPM's Office of the Chief Information Officer (OCIO) continues to make significant progress in resolving the information systems control environment and security issues. 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 is in place. We designed a governance framework that supports OPM's oversight and execution of controls to effectively validate information and to mitigate information risks. The framework also assists in promoting OPM's decision making authority at the appropriate levels, fostering accountability and responsibility for task completion, and ensuring that expected business outcomes are achieved.

During FY 2018, OPM continued to develop its Enterprise Risk Management (ERM) capability. This includes the issuance of an ERM Policy as well as an ERM Strategy and Process Guide. OPM will continue to mature this capability in FY 2019 through the integration of its internal control activities with ERM.

OPM is fulfilling its role in the President's Management Agenda (PMA) with the primary focus of modernizing government for the 21st century. We are implementing changes that will allow the agency to deliver its mission of "leading and serving the Federal Government in enterprise human resources management by delivering of policies and services to achieve a trusted and effective civilian workforce", by ensuring excellent customer service is provided, and the American people have confidence that tax dollars are being effectively and properly managed, is an agency priority. Our support of the PMA is directly reflected in our agency strategic plan that is supported in our Congressional Budget Justification alignment of resources.

In response to the enacted Congressional legislation including the 2016 National Defense Authorization Act (NDAA) 1, Section 951(a)(1) and the subsequent 2018 NDAA

2, Section 925 (a)(1), OPM is adhering to this guidance in transitioning the National Background Investigations Bureau (NBIB) to the Department of Defense (DoD) to achieve an efficient, effective, fiscally viable, and secure operation that meets all agencies' needs. This transition is complex and is related to OPM's Revolving Fund program, and the implications of these changes on OPM operations will be significant in terms of financials, people, information technology, and facilities. Similar to this effort, we are collaborating with the General Services Administration to transition the Human Resources Solutions (HRS) program in response to the Reform Plan and Reorganization Recommendations issued by the Executive Office of the President. This transition will centralize human resources operational functions and service delivery into a single entity. HRS services along with Federal employee payroll and travel would be integrated to offer end-to-end services around the Federal employee lifecycle with the purpose of attaining considerable operational efficiencies.

During FY 2018, the Office of the Chief Financial Officer (OCFO) team made advances towards complying with the Office of Management and Budget (OMB) mandate (OMB A-11, Section 55; FY 2019 Information Technology (IT) Budget – Capital Planning Guidance) to implement the Technology Business Management (TBM) methodology targeted for FY 2022. The TBM focuses on identifying the transparency of IT costs, consumption and performance. In FY 2018, OMB introduced standards to align IT investments with IT towers in the TBM framework. OMB is requiring Federal agencies to implement their respective TBM frameworks through a phased approach. In FY 2019, requirements for IT cost pools for internal labor will be required, and all applicable IT tower costs will be mandatory. In FY 2020, additional reporting requirements for non-standard IT investments and associated reports will be required. In FY 2021, mandatory reporting on application, output and delivery of standard investments will be implemented.

OCFO worked with various groups within OPM, including the OCIO, to establish additional budget object codes (BOC) to improve the categorization of IT costs in accordance with the TBM. OPM expects that its IT budget and TBM will align across the taxonomy which is consistent with the Federal IT Acquisition Reform Act (FITARA) process. This effort in FY 2019, is fostered within various OPM components and it is anticipated that these incorporated changes will result in additional cost transparency when identifying IT products and services.

Finally, we continue to carry out our fiduciary responsibilities over the $1.1 trillion in assets in the Federal employees' earned-benefit trust and other funds with pride. In FY 2018, we disbursed approximately $142 billion in benefits for over 5 million retirees, survivors, and current employees.

As part of our Trust Funds Modernization, we are currently undertaking a significant effort of standardizing and streamlining the OPM earned benefit trust funds financial management business processes and a solution to enable greater efficiency, transparency, accountability, and responsiveness that will ensure we maintain our financial stewardship over all the earned benefit assets we are entrusted to manage.

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 2018 AFR documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds.

Sincerely,

Dennis D. Coleman
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

November 15, 2018

Report No. 4A-CF-00-18-024

MEMORANDUM FOR MARGARET M. WEICHERT
Acting Director

FROM: NORBERT E. VINT
Acting Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2018 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 2018 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, 2018 and 2017. 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. 19-01, *Audit Requirements for Federal Financial Statements*.

Grant Thornton's audit report for Fiscal Year 2018 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:

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

- Grant Thornton's 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- Grant Thornton's report did not identify any significant deficiency.

  A significant deficiency is a deficiency, or 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 tests 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 2018 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 19-01, and other applicable professional auditing standards;

- documented oversight activities and monitored audit status;

- reviewed responses to audit reports and reported significant disagreements to the audit follow-up official per OMB Circular No. A-50, Audit Follow-up;

- coordinated issuance of the audit report; and

- performed other procedures we deemed necessary.

Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. Grant Thornton is responsible for the attached auditor's report dated November 14, 2018, and the conclusions expressed in the report. 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.

Attachment

cc: Honorable Michael J. Rigas
Deputy Director

Neal A. Patel
Acting Chief of Staff

Honorable Margaret M. Weichert 4

Kathleen M. McGettigan
Chief Management Officer

Dennis D. Coleman
Chief Financial Officer

Daniel K. Marella
Deputy Chief Financial Officer

David A. Garcia
Chief Information Officer

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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Margaret M. Weichert, 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 financial statements of United States Office of Personnel Management (the "Agency"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, as well as the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs as of September 30, 2018 and 2017, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the individual 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 opinions 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 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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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.

Opinions on the financial statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Office of Personnel Management as of September 30, 2018 and 2017, and its net cost, changes in net position, and budgetary resources for the years then ended, as well as, the individual financial positions of the Retirement, Health Benefits, and Life Insurance Programs as of September 30, 2018 and 2017, and their individual net costs, 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*, which consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management is responsible for preparing, measuring, and presenting the required supplementary information in accordance with accounting principles generally accepted in the United States of America. 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.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Revolving Fund Programs, Salaries and Expenses and Eliminations columns in the consolidating and combining financial statements as of and for the years ended

September 30, 2018 and 2017 (Schedules 1 through 4) and the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) columns in the consolidating statements of net cost for the years ended September 30, 2018 and 2017 (Schedule 2) are presented for purposes of additional analysis, rather than to present the financial position and results of operations of the individual components, and are not a required part of the basic consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The Other Information (Section 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Management is responsible for preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and for ensuring the consistency of that information with the basic financial statements and the required supplementary information. We read the other information in order to identify material inconsistencies, if any, with the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 14, 2018, 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 14, 2018

Grant Thornton

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

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Margaret M. Weichert, Acting Director
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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 19-01, *Audit Requirements for Federal Financial Statements*, the financial statements of United States Office of Personnel Management (the "Agency"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, as well as the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs as of September 30, 2018 and 2017, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the individual financial statements. We have issued our report, dated November 14, 2018, on the financial statements.

Internal control over financial reporting

Management's responsibility for internal control

Agency management is responsible for maintaining effective internal control over financial reporting ("internal control"), including 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

In planning and performing our audit of the financial statements, we considered the Agency's internal control as a basis for designing 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. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and inherent limitations of internal control

An entity's internal control is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting provides reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control may not prevent, or detect and correct, misstatements due to fraud or error.

Results of our consideration of 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 Office of Management and Budget (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 (IS) 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 FY 2018, deficiencies noted in FY 2017 continued to exist and our 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:

- Lack of centralized or comprehensive policies and procedures.
- The design of enhanced or newly designed controls did not completely address risks and recommendations provided over past audits.
- Oversight and governance was insufficient to enforce policies and address deficiencies.
- Risk mitigation strategies and related control enhancements require additional time to be fully implemented or to effectuate throughout the environment.

The information system issues identified in FY 2018 included repetitive conditions consistent with prior years as well as new deficiencies. The noted deficiencies in OPM's IS control environment in the areas of Security Management, Logical and Physical Access, Configuration Management and Interface / Data Transmission Controls, 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:

- General Support Systems (GSSs) and application System Security Plans, Risk Assessments, Authority to Operate Packages and Information System Continuous Monitoring documentation were incomplete or not reflective of current operating conditions.

- OPM did not have a centralized process in place to track 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.

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

- A complete and accurate listing of Plan of Action and Milestones (POA&Ms) could not be provided. Additionally, documentation of the periodic review of POA&Ms did not exist.

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

- Control owners were unable to articulate the IT internal control environment for one of the six in-scope applications.

Without a comprehensive understanding of all devices, software and systems and the controls that have been implemented to protect those 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 appropriate action has been taken and whether they have been remediated within a timely manner. 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. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

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, including those with privileged access, were not appropriately provisioned and de-provisioned access from OPM's information systems.

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- Physical access to one of the data centers is not appropriate.

- Financial applications assessed are 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.

- Password and inactivity settings for the general support systems and one of the six in-scope applications are 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.

- A comprehensive review of audit logs was not performed for the mainframe and four of the six in-scope applications which are mainframe based, or was not performed in a timely manner for one of the six in-scope applications that resides on the network.

- Memorandums of Understandings and Interconnection Service Agreements were not reviewed on an annual basis.

- Incident handling procedures were not applied for an event identified within the agency's alert and notification tool.

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. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

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, approved, and disseminated comprehensive configuration management policies and procedures.

- OPM did not have the ability to generate a complete and accurate listing of modifications made to configuration items to the GSS and applications.

- OPM did not maintain a security configuration checklist for platforms.

- Patches were not applied in a timely manner.

Without formalized and comprehensive configuration management policies and procedures; the inability to generate a complete and accurate listing of modifications made to production; and documentation of security configuration baselines, there is an increased risk of incomplete and / or inaccurate review and approval processes, audit trails of configuration changes, and configuration management documentation. This 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. The issue noted above presents a risk that unauthorized or erroneous changes could be introduced without detection by system owners.

Interface / Data Transmission Controls:
Interface / data transmission controls provide for the timely, accurate, and complete processing of information between applications and other feeder and receiving systems on an on-going basis. We noted the following deficiencies during our review of OPM's interface / data transmission controls:

- Controls are not in place to validate that data transmitted to applications is complete and accurate.

- Comprehensive interface / data transmission design documentation is not in place.

Without documentation specifying the data fields being transmitted from one system to another, as well as controls in place to validate that all data from the source system was transmitted to the target system in appropriate formats, incomplete or inaccurate data may transfer between systems which may impact the completeness, accuracy, and validity of data.

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 and update system documentation (System Security Plans and Authority to Operate Packages) and appropriately document results of Risk Assessments and Information System Continuous Monitoring) in accordance with agency policies and procedures.

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

- 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, and are remediated in a timely manner.

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

- Conduct a risk assessment to identify current gaps in defining and implementing controls necessary to achieve the NIST baseline for the system. Then, develop, document, and implement controls to achieve full compliance with the baseline.

Logical and Physical Access

- 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.

- Perform a comprehensive periodic review of the appropriateness of personnel with access to systems.

- Ensure policies and procedures governing the provisioning and de-provisioning of access to the data center are followed in a timely manner and documentation of completion of these processes is maintained.

- Implement physical security access reviews to ensure access to the data center is limited to appropriate personnel.

- 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.

- 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.

- Establish a means of documenting all users who have access to systems.

- Configure password and inactivity parameters to align with agency policies.

- Review and update Interagency Service Agreements and Memorandums of Understanding in accordance with agency policies and procedures.

- Perform reconciliations to validate that all events noted within the alert and notification tool were appropriately escalated or contained a valid business justification indicating rationale for why escalation is not necessary.

Configuration Management

- Establish comprehensive configuration management policies and procedures that include roles and responsibilities and outline details supporting authorization, testing and documentation requirements.

- Establish a methodology to systematically track all configuration items that are migrated to production and be able to produce a complete and accurate listing of all configuration items for both internal and external audit purposes, which will in turn support closer monitoring and management of the configuration management process.

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

- Establish a process to validate patches, updates, and fixes are applied in a timely manner.

Interface / Data Transmission Controls:

- Implement controls to validate that data transmitted to applications is complete and accurate.

- Develop interface / data transmission design documentation that specifies data fields being transmitted, controls to ensure the completeness and accuracy of data transmitted, and definition of responsibilities.

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 consistent with the auditor's responsibility discussed below, in accordance with *Government Auditing Standards*. Noncompliance may occur that is not detected by these tests.

Management's responsibility
Agency management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency.

Auditor's responsibility
Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and disclosures, and perform certain other limited procedures. We did not test compliance with all laws, regulations, contracts, and grant agreements.

Results of our tests of compliance

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 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 the Agency'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 application of USSGL at the transaction level.

Agency's response to findings

The Agency's response to our findings, which is described in the section titled Views of Responsible Officials and Planned Corrective Actions, 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 14, 2018

U.S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED BALANCE SHEETS

As of September 30, 2018 and September 30, 2017

(In Millions)

	FY 2018	FY 2017
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	**$3,366**	**$3,046**
Investments [Note 3]	**1,050,945**	**1,032,575**
Accounts Receivable [Note 4]	**50,441**	**44,182**
Total Intragovernmental	**1,104,752**	**1,079,803**
Accounts Receivable from the Public, Net [Note 4]	**1,754**	**1,706**
General Property and Equipment, Net	**2**	**2**
Other [Note 1L]	**762**	**805**
TOTAL ASSETS	**$1,107,270**	**$1,082,316**
LIABILITIES		
Intragovernmental [Note 6]	**$1,601**	**$1,612**
Federal Employee Benefits:		
Benefits Due and Payable	**12,382**	**12,010**
Pension Liability [Note 5A]	**1,938,500**	**1,908,400**
Postretirement Health Benefits Liability [Note 5B]	**390,638**	**363,452**
Actuarial Life Insurance Liability [Note 5C]	**53,863**	**52,207**
Total Federal Employee Benefits	**2,395,383**	**2,336,069**
Other [Notes 6 and 7]	**1,469**	**1,483**
TOTAL LIABILITIES	**2,398,453**	**2,339,164**
NET POSITION		
Unexpended Appropriations	**58**	**39**
Cumulative Results of Operations	**(1,291,241)**	**(1,256,887)**
TOTAL NET POSITION	**(1,291,183)**	**(1,256,848)**
TOTAL LIABILITIES AND NET POSITION	**$1,107,270**	**$1,082,316**

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, 2018 and 2017
(In Millions)

		FY 2018	FY 2017
Provide CSRS Benefits	Gross Costs	$39,355	$28,791
	Less: Earned Revenue	9,557	10,947
	Net Cost	29,798	17,844
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	(7,939)	61,230
	Net Cost of Operations [Notes 8 and 9]	$21,859	$79,074
Provide FERS Benefits	Gross Costs	$63,747	$62,827
	Less: Earned Revenue	53,477	52,366
	Net Cost	10,270	10,461
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	20,733	33,426
	Net Cost of Operations [Notes 8 and 9]	$31,003	$43,887
Provide Health Benefits	Gross Costs	$67,529	$66,385
	Less: Earned Revenue	43,873	42,544
	Net Cost	23,656	23,841
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	12,974	6,871
	Net Cost of Operations [Notes 8 and 9]	$36,630	$30,712
Provide Life Insurance Benefits	Gross Costs	$4,519	$4,347
	Less: Earned Revenue	4,077	3,829
	Net Cost	442	518
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	471	946
	Net Cost of Operations [Notes 8 and 9]	$913	$1,464
Provide Human Resource Services	Gross Costs	$1,633	$1,350
	Less: Earned Revenue	1,747	1,371
	Net Cost of Operations [Notes 8 and 9]	($114)	($21)
Total Net Cost of Operations	Gross Costs	$176,783	$163,700
	Less: Earned Revenue	112,731	111,057
	Net Cost	64,052	52,643
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	26,239	102,473
	Net Cost of Operations [Notes 8 and 9]	$90,291	$155,116

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, 2018 and 2017

(In Millions)

	FY 2018	FY 2017
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$39	$42
Budgetary Financing Sources:		
Appropriations Received	55,951	53,506
Other Adjustments	(25)	(60)
Appropriations Used	(55,907)	(53,449)
Total Budgetary Financing Sources	19	(3)
Total Unexpended Appropriations - Ending Balance	58	39
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	($1,256,887)	($1,155,250)
Budgetary Financing Sources:		
Appropriations Used	55,907	53,449
Other Financing Sources	30	30
Total Financing Sources	55,937	53,479
Net Cost of Operations	90,291	155,116
Net Change	(34,354)	(101,637)
Cumulative Results of Operations - Ending Balance	($1,291,241)	($1,256,887)
NET POSITION	($1,291,183)	($1,256,848)

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, 2018 and 2017

(In Millions)

	FY 2018	FY 2017
BUDGETARY RESOURCES		
Unobligated Balance, from Prior Year Budget Authority, Net	**$69,324**	**$66,507**
Appropriations	**145,812**	**140,794**
Spending Authority from Offsetting Collections	**61,046**	**58,582**
Total Budgetary Resources	**$276,182**	**$265,883**
Memorandum (Non-add) Entries:		
Net Adjustments to Unobligated Balance Brought Forward	**$0**	**$0**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments [Note 11]	**$204,646**	**$196,582**
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	**1,245**	**1,121**
Unapportion, Unexpired Accounts	**70,232**	**68,113**
Expired, Unobligated Balance, End of Year	**59**	**67**
Total Unobligated Balance, End of Year	**71,536**	**69,301**
Total Budgetary Resources	**$276,182**	**$265,883**
OUTLAYS, NET		
Outlays, Net	**$143,044**	**$137,587**
Less: Distributed Offsetting Receipts	**44,242**	**42,126**
Agency Outlays, Net	**$98,802**	**$95,461**

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017 [$ in millions]

The numbers presented throughout the FY18 Notes to the Financial Statement may not tie exactly to the totals provided in the financial statements due to rounding.

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 under OPM's control to include: appropriation, trust, trust revolving, special and revolving funds. 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 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.

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 and are pursuant to OMB directives. OPM prepares additional financial reports that are used to monitor and control 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 the 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. An implication of this is that liabilities cannot be liquidated absent legislation that provides the legal authority and resources 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 the 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. Non-entity Assets refers to assets received from the general public. 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 specifically by identified revenues, provided to the Government by non-federal sources, often supplemented by other financing sources, which remain available over time. 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 appropriated and made available through legislation. 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 (PRHB), and Actuarial Life Insurance Liabilities, they are disclosed as being “liabilities 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 comprising 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, net cost of operations, and cumulative results of operations.

Obligated vs. Unobligated Balance. OPM’s Combined and Combining Statements of Budgetary Resources present the 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. Direct obligations are incurred and paid immediately. 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, with the exception of the Revolving Fund Programs, which only incurs reimbursable obligations.

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 38.4 percent and 37.4 percent of basic pay for FY 2018 and FY 2017, respectively. For FERS, the service cost for most or “regular” FERS participants is 16.9 percent and 16.2 percent of basic pay for FY 2018 and FY 2017, respectively. Different service-costs apply for participants under FERS-

RAE, FERS-FRAE, Postal Service participants, and participants covered under special retirement provisions such as law enforcement officers, firefighters and air traffic controllers.

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 2018 and 2017. 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 2018 and 2017, this amount was $34.2 billion and $33.9 billion, respectively, for the CSRS.

FERS. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. In addition, Treasury was required by statute to transfer an amount from the General Fund of the United States to the CSRDF for the FERS Supplemental Liability; for FY 2018 and 2017, this amount was $8.7 billion and $6.7 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 2018 and 2017).
2. For participants entering service during calendar year 2013, 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. 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. For most FERS-FRAE participants, the participant contribution rate is 4.4 percent of pay.

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 from 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 2018 and 2017, of post-retirement life insurance coverage is not funded.

Revolving Fund Programs. OPM's Revolving Fund Programs provide 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's 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) 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. For fiscal year 2018 the PSRHB funds are used 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, un-invested 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. Section 8348 of Title 5, U.S. Code, authorizes the Secretary of the Treasury to suspend additional investments of Treasury securities in the CSRDF if such additional investment could not be made without causing the public debt of the United States to exceed the public debt limit. In addition, the Secretary may sell or redeem securities, obligations, and other invested assets of the CSRDF before maturity in order to prevent the public debt from exceeding the public debt limit. The Secretary may redeem such investments only during a (DISP) and only to the extent necessary to obtain an amount of payments authorized to be made from the CSRDF during such period. Further, the Postal Accountability and

Enhancement Act of 2006 require 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 December 11, 2017 and the DISP continued until February 9, 2018. 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, 2018, Other Assets - Non-intragovernmental for the Health Program and Life Programs were $121 million and $641 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 are 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, (PRHB) 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 No. 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 Treasury's Office of Thrift Supervision through December 31, 2011. The 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 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 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 is a Federal, State, Commonwealth, Local, orForeign 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

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, 2018 and 2017:

September 30, 2018 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$16	$1,525	$11	$1,814	$3,366
Investments	922,993	74,416	46,458	-	1,043,867
Total, Unexpended Balance	$923,009	$75,941	$46,469	$1,814	$1,047,233
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$1,245	$1,245
Unavailable	-	24,667	45,538	87	70,292
Obligated not yet Disbursed	7,685	4,120	931	482	13,218
Precluded (See Note 10)	915,321	47,145	-	-	962,466
Temporary Reduction & Rounding	3	9	-	-	12
Total, Status of Fund Balances	**$923,009**	**$75,941**	**$46,469**	**$1,814**	**$1,047,233**

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**

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 FFB 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 $122 billion invested as of September 30, 2018 and 2017, respectively, the majority of which 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 February 9, 2018. The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2018 and 2017.

As of September 30, 2018 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program						
Marketable:						
FFB Securities	$10,340	-	$75	$10,415	-	$10,340
Non-Marketable: (PAR)						
Par-value GAS securities	867,022	-	6,246	873,268	-	867,022
Certificates of Indebtedness	45,632	-	9	45,641	-	45,632
Total Retirement Program	**$922,994**	**-**	**$6,330**	**$929,324**	**-**	**$922,994**
Health Benefits Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$27,271	$74	$15	$27,360	$(24)	$27,280
Non-Marketable: (PAR)						
Par-value GAS securities	47,145	-	319	47,464	-	47,145
Certificates of Indebtedness	-	-	-	-	-	-
Total Health Benefits Program	**$74,416**	**$74**	**$334**	**$74,824**	**$(24)**	**$74,425**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	46,768	(53)	82	46,797	99	46,210
Total Life Insurance Program	**$46,768**	**$(53)**	**$82**	**$46,797**	**$99**	**$46,210**
Total Investments	**$1,044,178**	**$21**	**$6,746**	**$1,050,945**	**$75**	**$1,043,629**

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**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2018 and 2017 are:

September 30, 2018 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$6,800	$43,476	$20	-	$50,296
Other				145	145
Total	**$6,800**	**$43,476**	**$20**	**$145**	**$50,441**

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**

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 30 per year from FY 2007 through FY 2016 and normal and amortization payments of approximately $4.5 billion due in September 2018 and $4.3 billion due September 2017 according to the legislation. We have not received annual payments from FY 2011 through 2018. A total of $42.6 billion is due from Postal Service as of September 30, 2018. The $42.6 billion is included in the A/R as it is currently under dispute with Treasury and the Postal Service is not planning on paying. As of September 30, 2017, a total of $38.2 billion is due from the Postal Service. The last payment received from the Postal Service was $5.5 billion in FY 2010. As of September 30, 2017, a total of $38.2 billion is due from the Postal Service. The last payment received from the Postal Service was $5.5 billion in FY 2010.

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2018 and 2017 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2018 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$160	$1,024	$172	-	$1,356
Overpayment of benefits [net of allowance of $110]	314	-	-	-	$314
Due from carriers [net of allowance of $0]	-	84	-	-	$84
Other	-	-	-	-	-
Total	**$474**	**$1,108**	**$172**		**$1,754**

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**

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 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 2018 and 2017:

Economic Assumptions	FY 2018		FY 2017	
	CSRS	FERS	CSRS	FERS
Interest rate	3.0%	3.6%	3.2%	3.8%
Cost of Living Adjustment*	1.6%	1.4%	1.8%	1.4%
Rate of increases in salary	1.3%	1.3%	1.5%	1.5%

*Note: The actuarial liability for CSRS and FERS is determined based on an assumed rate of retiree Cost of Living Adjustment, 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, 2018 and 2017:

FY 2018 ($ in millions)	CSRS	FERS	TOTAL
Normal cost	$3,094	$36,689	$39,783
Interest cost	35,245	29,798	65,043
Actuarial (Gain)/Loss - Experience	1,016	(2,739)	(1,723)
Actuarial (Gain)/Loss - Assumptions	(7,939)	20,733	12,794
Pension Expense	**$31,416**	**$84,481**	**$115,897**

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**

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

FY 2018 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2017	**$1,134,300**	**$774,100**	**$1,908,400**
Plus: Pension Expense	-	-	-
Normal Cost	3,094	36,689	39,783
Interest on the Liability Balance	35,245	29,798	65,043
Actuarial (Gain)/Loss:	-	-	-
From experience:	1,016	(2,739)	(1,723)
From changes in actuarial assumptions:	(7,939)	20,733	12,794
Net (Gain)/Loss	(6,923)	17,994	11,071
Total Expense:	**$31,416**	**$84,481**	**$115,897**
Less: Costs applied to Pension Liability	(69,416)	(16,381)	(85,797)
Pension Liability at September 30, 2018	**$1,096,300**	**$842,200**	**$1,938,500**
FY 2017 ($ 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**

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 2018 and 2017:

FY 2018 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$69,047	$16,159	$85,206
Refunds of contributions	258	171	429
Administrative and other expenses	111	51	162
Costs applied to the Pension Liability	**$69,416**	**$16,381**	**$85,797**
FY 2017 ($ 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**

B. POST-RETIREMENT HEALTH BENEFITS

OPM's actuary, in computing the PRHB Liability and associated expense, applies economic assumptions to historical cost information to estimate the Government's future cost of providing PRHB 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 2018	FY 2017
Interest rate[1]	3.6%	3.8%
Increase in per capita cost of covered benefits[2]	4.5%	4.8%
Ultimate medical trend rate	3.2%	3.4%

[1] The single equivalent annual interest rate for FY 2018 is derived from a yield curve based on the average of the last 40 quarters through March 2018. 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.

[2] The single equivalent increase in per capita cost of covered benefits for FY 2018 represents a variable trend which begins at 4.6% and then declines to 3.2% by FY 2075. Last year, the single equivalent increase in per capita cost of covered benefits represented a variable trend that began at 4.9%, and ultimately declined to 3.4%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2018 and 2017:

($ in millions)	FY 2018	FY 2017
Normal cost	$15,428	$12,874
Interest cost	13,811	13,643
Actuarial (Gain)/Loss - Experience	595	4,574
Actuarial (Gain)/Loss - Assumptions	12,974	6,871
PRHB Expense	**$42,808**	**$37,962**

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

($ in millions)	FY 2018	FY 2017
PRHB Liability at the beginning of the year	$363,452	$341,077
Plus: PRHB Expense		
Normal Cost	15,428	12,874
Interest on the Liability Balance	13,811	13,643
Actuarial (Gain)/Loss:		
From experience:	595	4,574
From assumption changes:	12,974	6,871
Net (Gain)/Loss	13,569	11,445
Total Expense:	**$42,808**	**$37,962**
Less: Costs applied to PRHB Liability	(15,622)	(15,587)
PRHB Liability at the end of the year	**$390,638**	**$363,452**

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 2018 and 2017:

($ in millions)	FY 2018	FY 2017
Current benefits	$11,855	$12,147
Premiums	2,309	2,225
Administrative and other expenses	1,458	1,215
Total costs applied to the PRHB Liability	**$15,622**	**$15,587**

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 2018 and 2017. FY 2018 is the Postal and Non Postal values, per regulations, OPM must use Postal/Non-Postal specific assumptions as a group specific per capita normal cost is developed versus a government wide per capita normal cost as previously done in FY 2017.

($ in millions)	FY 2018		FY 2017	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$450,536	$340,870	$416,429	$318,956

FY 2018			
Per Capita Normal Cost at Valuation Date		One Percent Increase	One Percent Decrease
Postal	$7,505	$9,527	$5,941
Non Postal	$6,802	$8,730	$5,326

FY 2017			
Per Capita Normal Cost at Valuation Date		One Percent Increase	One Percent Decrease
Government-wide	$6,665	$8,492	$5,257

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 2018 and 2017. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

ALIL Interest Rate	FY 2018	FY 2017
Interest rate	3.4%	3.6%
Rate of increases in salary	1.3%	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 2018 and 2017:

($ in millions)	FY 2018	FY 2017
New Entrant Expense	$477	$370
Interest Cost	1,877	1,895
Actuarial (Gain)/Loss – Experience	(579)	(414)
Actuarial (Gain)/Loss – Assumptions	471	946
Life Insurance Expense	**$2,246**	**$2,797**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2018 and 2017 is:

($ in millions)	FY 2018	FY 2017
Life Insurance Expense	$2,246	$2,797
Less: Net Costs applied to Life Insurance liability	(590)	(566)
Future Life Insurance Benefits Expense	**$1,656**	**$2,231**

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

($ in millions)	FY 2018	FY 2017
Actuarial LI Liability at the beginning of the year	$52,207	$49,976
Plus: Expense		
New Entrant Expense	477	370
Interest on the Liability Balance	1,877	1,895
Actuarial (Gain)/Loss:		
From experience:	(579)	(414)
From assumption changes:	471	946
Net (Gain)/Loss:	**(108)**	**532**
Total LI Expense:	**$2,246**	**$2,797**
Less: Costs applied to Life Insurance Liability	(590)	(566)
Actuarial LI Liability at the end of the year	**$53,863**	**$52,207**

NOTE 6 - INTRAGOVERNMENTAL AND OTHER LIABILITIES

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2018 and 2017:

September 30, 2018 ($ in millions)	Accounts Payable	Other	Total
Retirement	$37	-	$37
Health Benefits	324	-	324
Life Insurance	11	-	11
Revolving Fund	-	1,342	1,342
Salaries and Expenses	-	3	3
Eliminations	(112)	(4)	(116)
Total Intragovernmental Liabilities	**$260**	**$1,341**	**$1,601**

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**

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. The U.S. 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, 2018 and September 30, 2017 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, 2018 and 2017:

September 30, 2018 ($ in millions)	Withheld from Benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative Expenses	Contingencies	Total
Retirement Program	$1,008	-	-	$95	$1,103
Health Benefits Program	-	251	-	-	251
Life Insurance Program	-	16	-	-	16
Revolving Fund Program	-	-	69	-	69
Salaries and Expenses	-	-	28	2	30
Total Other Liabilities	**$1,008**	**$267**	**$97**	**$97**	**$1,469**
September 30, 2017 ($ 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**

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 2018, OPM has recorded a total liability of $97.4 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $1.9 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 2017, OPM recorded a total liability of $96.7 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $1.5 million. Lastly, for the Retirement Fund, the estimated amount of probable losses was $95.2 million. There were no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund for FY 2017.

In addition, OPM has determined, at September 30, 2018, it is reasonably possible that losses ranging from an additional $15.9 million to $106.1 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $1 million to $69.9 million, for the Revolving Fund the total of all reasonably possible losses ranges from $15.2 million to $27 million. For FY 2018, Flexible Spending Account (FSA) has reasonably possible losses of $0 to $9 million.

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, 2018 and 2017:

FY 2018 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total
Provide CSRS Benefits	-	$39,355	$39,355	$8,891	$666	$9,557
Provide FERS Benefits	-	63,747	63,747	50,035	3,442	53,477
Provide Health Benefits	-	67,529	67,529	27,466	16,407	43,873
Provide Life Insurance Benefits	-	4,519	4,519	1,150	2,927	4,077
Provide Human Resources Services	539	1,510	2,049	2,158	5	2,163
Eliminations	(416)	-	(416)	(416)	-	(416)
Total	**$123**	**$176,660**	**$176,783**	**$89,284**	**$23,447**	**$112,731**
FY 2017 ($ in millions)	**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**

NOTE 9 - NET COST BY STRATEGIC GOALS

In FY 2018, OPM began implementing a new strategic plan for FY 2018-FY 2022. This new plan that was released in February 2018 is more focused than previous plans and contains three strategic goals and one operational excellence goal to improve both program operations and management functions. The four strategic goals are summarized in the chart below. Additional mission activities and mission support activities not directly aligned to a strategic goal are reported separately as "Additional Mission and Mission Support Activities."

In FY 2017, our budget request mapped to the ten Strategic Goals in our FY 2014 – 2018 Strategic Plan.

OPM's Mission Statement:
We lead and serve the Federal Government in enterprise human resources management by delivering policies and services to achieve a trusted effective civilian workforce.

Strategic Goal	Goal Statement
GOAL 1	Transform hiring, pay, and benefits across the Federal Government to attract and retain the best civilian workforce
GOAL 2	Lead the establishment and modernization of human capital information technology and data management systems and solutions
GOAL 3	Improve integration and communication of OPM services to Federal agencies to meet emerging needs
GOAL 4	Optimize agency performance

FY 2018 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	$10	$6	$11	$1	$1,180	**$1,208**
	Less earned revenue	-	-	-	-	1,261	**1,261**
	Net program cost	10	6	11	1	(81)	**(53)**
Goal 2	Total program cost	-	-	-	-	78	**78**
	Less earned revenue	-	-	-	-	84	**84**
	Net program cost	-	-	-	-	(6)	**(6)**
Goal 3	Total program cost	-	-	-	-	112	**112**
	Less earned revenue	-	-	-	-	120	**120**
	Net program cost	-	-	-	-	(8)	**(8)**
Goal 4	Total program cost	67	29	28	1	155	**280**
	Less earned revenue	-	-	-	-	165	**165**
	Net program cost	67	29	28	1	(10)	**115**
Additional Mission and Mission Support Activities	Total program cost	39,278	63,712	67,490	4,517	108	**175,105**
	Less earned revenue	9,557	53,477	43,873	4,077	117	**111,101**
	Actuarial (Gain)/Loss	(7,939)	20,733	12,974	471	-	**26,239**
	Net program cost	21,782	30,968	36,591	911	(9)	**90,243**
Totals	**Total program cost**	**39,355**	**63,747**	**67,529**	**4,519**	**1,633**	**176,783**
	Less earned revenue	**9,557**	**53,477**	**43,873**	**4,077**	**1,747**	**112,731**
	Actuarial (Gain)/Loss	**(7,939)**	**20,733**	**12,974**	**471**	**-**	**26,239**
	Net program cost	**$21,859**	**$31,003**	**$36,630**	**$913**	**$(114)**	**$90,291**

OPM's Strategic Goals in OPM's FY 2014 – 2018 Strategic Plan	
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**

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). The actuarial gain/loss from assumptions are shown separately.

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, 2018 and 2017 (rounding may appear):

September 30 ($ in millions)	2018	2017
Temporarily precluded from obligation at the beginning of the year	$897,657	$879,821
Plus: Trust fund receipts during the year	103,851	101,723
Plus: Appropriations Received	42,856	40,636
Less: Obligations Incurred during the year	129,043	124,523
Excess of trust fund receipts over obligations incurred during the year	17,664	17,836
Temporarily Precluded from Obligation at the End of the Year	**$915,321**	**$897,657**

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 2018 and 2017 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, 2018 and 2017:

September 30 ($ in millions)	2018	2017
Temporarily precluded from obligation at the beginning of the year	$49,491	$51,495
Plus: Special Fund receipts during the year	1,343	1,446
Less: Obligations Incurred during the year	3,689	3,450
Excess of Special Fund receipts over obligations incurred during the year	(2,346)	(2,004)
Temporarily Precluded from Obligation at the End of the Year	**$47,145**	**$49,491**

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 2018 and 2017:

FY 2018 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$86,187	-	$86,187
Retirement Program	E	42,856	-	42,856
Subtotal	**-**	**$129,043**	**-**	**$129,043**
Health Benefits Program	B	56,963	-	56,963
Health Benefits Program	E	12,904	-	12,904
Life Insurance Program	B	3,330	-	3,330
Life Insurance Program	E	42	-	42
Revolving Fund Program	B	-	1,905	1,905
Salaries and Expenses	A and B	393	66	459
Total		**$202,675**	**$1,971**	**$204,646**
FY 2017 Program/Fund ($ 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**

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 2020, which will contain the actual budgetary resources information for FY 2018, will be published in February 2019 and will be available on the OMB website. The President's Budget for FY 2019, which contains actual budgetary resource information for FY 2017, was released on February 9, 2018.

There are no material differences between the SBR and the SF-133s - "Reports on Budget Execution and Budgetary Resources," for FY 2018 and 2017. Additionally, there are no material differences between the actual amounts for FY 2017 published in the President's Budget and those reported in the accompanying prior FY 2017 Combined SBR.

NOTE 13 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Federal and Non-Federal Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. Due to system limitation and constraints the vendor identification code cannot be connected to the general ledger balances at this point. The data provided for the Revolving Fund and Salaries & Expenses for FY2018 represents OPM's best estimates. Undelivered orders as of September 30, 2018 and 2017 consisted of the following:

Undelivered Orders ($ in millions)	Revolving Fund			Salaries and Expenses		
FY 2018	Federal	Non-Fed	Total	Federal	Non-Fed	**Total**
Unpaid	$202	$1,021	$1,223	$68	$43	**$111**
Paid	-	-	-	-	-	**-**
Total	**$202**	**$1,021**	**$1,223**	**$68**	**$43**	**$111**

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

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 2018 reconciliation and comparative FY 2017 reconciliation are as follows:

FY 2018 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$129,043	$69,867	$3,372	$1,905	$459	$204,646
Less: Spending Authority from Offsetting Collections and Recoveries	-	54,556	4,184	2,005	336	61,081
Less: Appropriated Trust Fund Receipts	103,851	1,343	-	-	-	105,194
Obligations Net of Offsetting Collections and Recoveries	25,192	13,968	(812)	(100)	123	38,371
Less: Offsetting Receipts	42,899	1,343	-	-	-	44,242
Net Obligations	(17,707)	12,625	(812)	(100)	123	(5,871)
Other Resources	-	-	-	21	15	36
Total Resources Used to Finance/ Generated From Activities	**$(17,707)**	**$12,625**	**$(812)**	**$(79)**	**$138**	**$(5,835)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$42,856	-	-	-	-	$42,856
Other	43	1,307	78	(156)	(5)	1,267
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	42,899	1,307	78	(156)	(5)	44,123
Total Resources Used to Finance/ Generated from the Net Cost of Operations	$25,192	$13,932	$(734)	$(235)	$133	$38,288
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	$30,100	$27,186	$1,656	-	-	$58,942
Exchange Revenue Not in the Budget	(2,437)	(4,504)	(9)	-	-	(6,950)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**$27,663**	**$22,682**	**$1,647**	**-**	**-**	**$51,992**
Components Not Requiring or Generating Resources						
Other	7	16	-	(12)	-	11
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	7	16	-	(12)	-	11
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$27,670**	**$22,698**	**$1,647**	**$(12)**	**-**	**$52,003**
NET COST OF OPERATIONS	**$52,862**	**$36,630**	**$913**	**($247)**	**$133**	**$90,291**

FY 2017 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$124,523	$66,977	$3,108	$1,514	$460	$196,582
Less: Spending Authority from Off-setting Collections and Recoveries	-	52,920	3,581	1,776	349	58,626
Less: Appropriated Trust Fund Receipts	101,723	1,446	-	-	-	103,169
Obligations Net of Offsetting Collections and Recoveries	22,800	12,611	(473)	(262)	111	34,787
Less: Offsetting Receipts	40,680	1,446	-	-	-	42,126
Net Obligations	**$(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 WILL 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 Will 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**

NOTE 15 - HEALTH BENEFITS/ LIFE INSURANCE PROGRAM CONCENTRATIONS

During FY 2018 and 2017, 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, 2018
(In Millions)

Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2018
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$16	$1,525	$11	$1,705	$109	-	$3,366
Investments [Note 3]	929,324	74,824	46,797	-	-	-	1,050,945
Accounts Receivable [Note 4]	6,800	43,476	20	144	117	($116)	50,441
Total Intragovernmental	936,140	119,825	46,828	1,849	226	(116)	1,104,752
Accounts Receivable from the Public, Net [Note 4]	474	1,108	172	-	-	-	1,754
General Property and Equipment, Net	-	-	-	2	-	-	2
Other [Note 1L]	-	121	641	-	-	-	762
TOTAL ASSETS	$936,614	$121,054	$47,641	$1,851	$226	($116)	$1,107,270
LIABILITIES							
Intragovernmental [Note 6]	$37	$324	$11	$1,342	$3	($116)	$1,601
Federal Employee Benefits:							
Benefits Due and Payable	6,644	4,732	1,006	-	-	-	12,382
Pension Liability [Note 5A]	1,938,500	-	-	-	-	-	1,938,500
Postretirement Health Benefits Liability [Note 5B]	-	390,638	-	-	-	-	390,638
Actuarial Life Insurance Liability [Note 5C]	-	-	53,863	-	-	-	53,863
Total Federal Employee Benefits	1,945,144	395,370	54,869	-	-	-	2,395,383
Other [Notes 6 and 7]	1,103	251	16	69	30	-	1,469
TOTAL LIABILITIES	1,946,284	395,945	54,896	1,411	33	(116)	2,398,453
NET POSITION							
Unexpended Appropriations	-	-	-	3	55	-	58
Cumulative Results of Operations	(1,009,670)	(274,891)	(7,255)	437	138	-	(1,291,241)
TOTAL NET POSITION	(1,009,670)	(274,891)	(7,255)	440	193	-	(1,291,183)
TOTAL LIABILITIES AND NET POSITION	$936,614	$121,054	$47,641	$1,851	$226	($116)	$1,107,270

The accompanying notes are an integral part of the 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	(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 STATEMENT OF NET COST
For the Year Ended September 30, 2018
(In Millions)

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2018
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$263	$276	($416)	$123
With the Public:									
Pension Expense [Note 5A]	$39,355	$63,747	$103,102	-	-	-	-	-	103,102
Postretirement Health Benefits [Note 5B]	-	-	-	$29,834	-	-	-	-	29,834
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$1,185	-	-	-	1,185
Current Benefits and Premiums	-	-	-	35,646	3,314	-	-	-	38,960
Other	-	-	-	2,049	20	1,331	179	-	3,579
Total Gross Costs with the Public	39,355	63,747	103,102	67,529	4,519	1,331	179	-	176,660
Total Gross Costs [Notes 8 and 9]	39,355	63,747	103,102	67,529	4,519	1,594	455	(416)	176,783
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,253	31,091	33,344	25,782	535	-	-	(105)	59,556
Earnings on Investments	6,828	19,387	26,215	1,710	615	-	-	-	28,540
Other	(190)	(443)	(633)	(26)	-	1,841	317	(311)	1,188
Total Intragovernmental Earned Revenue	8,891	50,035	58,926	27,466	1,150	1,841	317	(416)	89,284
With the Public:									
Participant Contributions	666	3,442	4,108	16,402	2,939	-	-	-	23,449
Other	-	-	-	5	(12)	-	5	-	(2)
Total Earned Revenue with the Public	666	3,442	4,108	16,407	2,927	-	5	-	23,447
Total Earned Revenue [Notes 8 and 9]	9,557	53,477	63,034	43,873	4,077	1,841	322	(416)	112,731
Net Cost	29,798	10,270	40,068	23,656	442	(247)	133	-	64,052
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	(7,939)	20,733	12,794	12,974	471	-	-	-	26,239
Net Cost of Operations	$21,859	$31,003	$52,862	$36,630	$913	($247)	$133	-	$90,291

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 CSRS	Retirement Program FERS	Retirement Program Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2017
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 CHANGES IN NET POSITION

For the Year Ended September 30, 2018

(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2018
UNEXPENDED APPROPRIATIONS						
Beginning Balance	-	-	-	$3	$36	$39
Budgetary Financing Sources:						
Appropriations Received	42,856	$12,917	$44	-	134	55,951
Other Adjustments	-	(13)	(2)	-	(10)	(25)
Appropriations Used	(42,856)	(12,904)	(42)	-	(105)	(55,907)
Total Budgetary Financing Sources	-	-	-	-	19	19
Total Unexpended Appropriations - Ending Balance	-	-	-	3	55	58
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	($999,659)	($251,165)	($6,384)	$170	$151	($1,256,887)
Budgetary Financing Sources:						
Appropriations Used	42,856	12,904	42	-	105	55,907
Other Financing Sources	(5)	-	-	20	15	30
Total Financing Sources	42,851	12,904	42	20	120	55,937
Net Cost of Operations	52,862	36,630	913	(247)	133	90,291
Net Change	(10,011)	(23,726)	(871)	267	(13)	(34,354)
Cumulative Results of Operations - Ending Balance	($1,009,670)	($274,891)	($7,255)	$437	$138	($1,291,241)
NET POSITION	($1,009,670)	($274,891)	($7,255)	$440	$193	($1,291,183)

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
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
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)
NET POSITION	($999,659)	($251,165)	($6,384)	$173	$187	($1,256,848)

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

REQUIRED SUPPLEMENTARY INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018

(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2017
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	-	$23,386	$44,684	$1,151	$103	$69,324
Appropriations	$129,043	16,593	42	-	134	145,812
Spending Authority from Offsetting Collections	-	54,555	4,184	1,979	328	61,046
Total Budgetary Resources	$129,043	$94,534	$48,910	$3,130	$565	$276,182
Memorandum (Non-add) Entries:						
Net Adjustments to Unobligated Balance Brought Forward	$0	$0	$0	$0	$0	$0
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments [Note 11]	$129,043	$69,867	$3,372	$1,905	$459	$204,646
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	-	-	-	1,201	44	1,245
Unapportioned, Unexpired Accounts	-	24,667	45,538	24	3	70,232
Expired, Unobligated Balance, End of Year	-	-	-	-	59	59
Total Unobligated Balance, End of Year	-	24,667	45,538	1,225	106	71,536
Total Budgetary Resources	$129,043	$94,534	$48,910	$3,130	$565	$276,182
OUTLAYS, NET						
Outlays, Net	$128,812	$15,227	($874)	($232)	$111	$143,044
Less: Distributed Offsetting Receipts	42,899	1,343	-	-	-	44,242
Agency Outlays, Net	$85,913	$13,884	($874)	($232)	$111	$98,802

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 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
Memorandum (Non-add) Entries:						
Net Adjustments to Unobligated Balance Brought Forward	$0	$0	$0	$0	$0	$0
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
Unapportioned, Unexpired Accounts	-	23,386	44,684	28	15	68,113
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
OUTLAYS, NET						
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.

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, 2018

(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2018
BUDGETARY RESOURCES							
Unobligated Balance from Prior Year Budget Authority, Net	-	$23,386	$44,684	$1,151	$103	-	$69,324
Appropriations	$86,187	3,689		-	134	$55,802	145,812
Spending Authority from Offsetting Collections	-	54,555	4,184	1,979	328	-	61,046
Total Budgetary Resources	$86,187	$81,630	$48,868	$3,130	$565	$55,802	$276,182
Memorandum (Non-add) Entries:							
Net Adjustments to Unobligated Balance Brought Forward	$0	$0	$0	$0	$0	$0	$0
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments [Note 11]	$86,187	$56,963	$3,330	$1,905	$459	$55,802	$204,646
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	-	-	-	1,201	44	-	1,245
Unapportioned, Unexpired Accounts	-	24,667	45,538	24	3	-	70,232
Expired, Unobligated Balance, End of Year	-	-	-	-	59	-	59
Total Unobligated Balance, End of Year	-	24,667	45,538	1,225	106	-	71,536
Total Budgetary Resources	$86,187	$81,630	$48,868	$3,130	$565	$55,802	$276,182
OUTLAYS, NET							
Outlays, Net	$85,956	$2,378	($916)	($232)	$111	$55,747	$143,044
Less: Distributed Offsetting Receipts	42,899	1,343	-	-	-	-	44,242
Agency Outlays, Net	$43,057	$1,035	($916)	($232)	$111	$55,747	$98,802

LEGEND:

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

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 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
Memorandum (Non-add) Entries:							
Net Adjustments to Unobligated Balance Brought Forward	$0	$0	$0	$0	$0	$0	$0
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
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
OUTLAYS, NET							
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 Health Benefits Fund	*HBF*
Employees Group Life Insurance Fund	*LIF*
Revolving Fund	*RF*
Salaries and Expenses Account	*S&E*
Trust Fund Feeder Accounts	*Feeder*

SECTION 3

OTHER INFORMATION

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 5, 2018

MEMORANDUM FOR MARGARET M. WEICHERT
Acting Director

FROM: NORBERT E. VINT
Acting Inspector General

SUBJECT: Fiscal Year 2018 Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to identify and report annually the top management challenges facing the agency. In addition, the U.S. Office of Personnel Management (OPM) annually documents its performance and accountability measures by preparing the Agency Financial Report (AFR). Attached is our final report on OPM's Fiscal Year 2018 Top Management Challenges, which is included in OPM's AFR and made publically available on the OPM website.

We submitted a draft report to OPM on October 3, 2018, which identified three environmental challenges, eight internal challenges, and a new developing challenge. 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. In addition, the new developing challenge identified the proposed OPM reorganization. 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 resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete, and accurate characterization of the challenges are presented. As a result of our reviews, the Affordable Care Act (ACA) challenge included in prior years has been removed as a top management challenge. Under the ACA, OPM is responsible for implementing and overseeing the Multi-State Plan Program (MSPP); however, the number of participating Issuers has steadily declined, leaving only one remaining in the Program as of this year. In addition, the enactment of the Tax Cut and Jobs Act of 2017 and a current movement in Congress to defund the Program entirely will have a significant impact on the viability of the MSPP.

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

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

cc: Honorable Michael J. Rigas
Deputy Director

Neal A. Patel
Acting Chief of Staff

Kathleen M. McGettigan
Chief Management Officer

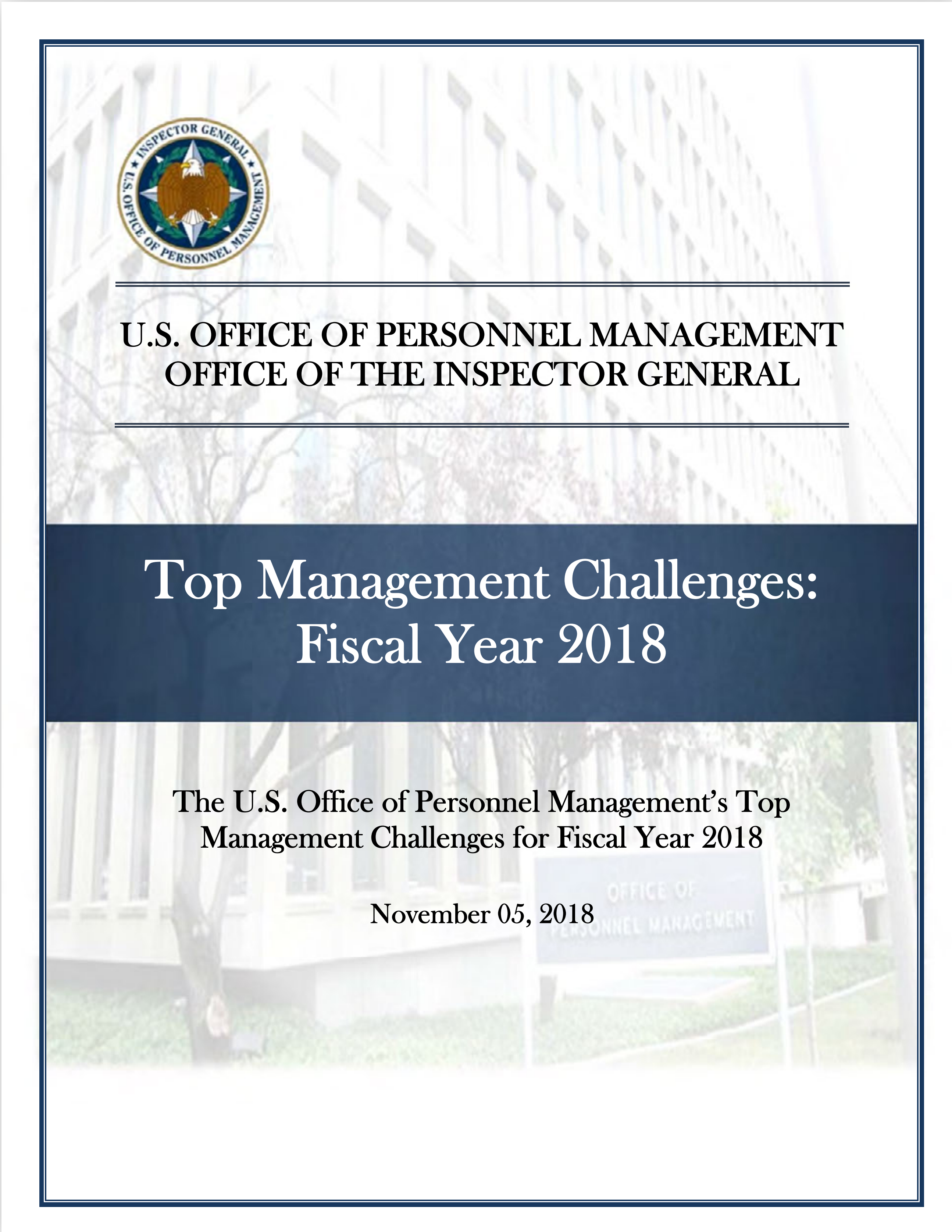
Margaret P. Pearson
Associate Chief Financial Officer

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

Janet L. Barnes
Director, Internal Oversight and Compliance

Thomas A. Moschetto
Chief, Risk Management and Internal Control

Kathie Ann Whipple
Acting General Counsel



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

Top Management Challenges: Fiscal Year 2018

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2018

November 05, 2018

EXECUTIVE SUMMARY

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2018

November 05 2018

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 three 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; internal challenges, which OPM has more control over and once fully addressed, will likely be removed as a management challenge; and a developing challenge, which is one that has not yet fully materialized.

What Did We Consider?

We identified 12 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 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.

Information Security Governance is the only challenge currently reported as a material weakness in the Federal Information Security Management Act (FISMA) report. However, while the remaining challenges are not considered material weaknesses in either FISMA or the CFO Act Financial Statement audit report, they are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. Also, 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.

Lastly, the OIG identified the proposed OPM reorganization as a developing challenge.

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ABBREVIATIONS

ACA	Affordable Care Act
CHCOC	Chief Human Capital Officers' Council
CISO	Chief Information Security Officer
EPMO	Enterprise Program Management Office
FAST	Federal Action Skills Team
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEHBAR	Federal Employees Health Benefits Acquisition Regulation
FEHBP	Federal Employees Health Benefits Program
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
GAO	U.S. Government Accountability Office
HCDW	Health Claims Data Warehouse
HHS	U. S. Department of Health and Human Services
HI	Healthcare and Insurance
HR	Human Resources
ISSO	Information System Security Officer
IT	Information Technology
MLR	Medical Loss Ratio
NBIB	National Background Investigations Bureau
NDAA	National Defense Authorization Act
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
OPO	Office of Procurement Operations
PIV	Personal Identity Verification
PRISM	Procurement Information System for Management
PBM	Pharmacy Benefit Manager
SSSG	Similarly Sized Subscriber Group

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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' Council (CHCOC), and agencies continue taking actions to address skills gaps with respect to capacity, action plan, monitoring, and demonstrated progress.

Skills Gaps Closure Strategies Using Data Analysis

In 2011, OPM partnered with the CHCOC to implement a data-driven strategy for institutionalizing the process for closing skills gaps. In consultation with the CHCOC, OPM launched the multi-factor model assessment tool to assist agencies in identifying their high risk mission critical occupations through the evaluation of a number of different data points. The outcome of the assessment resulted in each agency identifying two to three unique occupations, as well as five Government-wide occupations/functional areas, for skills gaps closure. Each agency formed a Federal Action Skills Team (FAST) to develop and implement a strategy for closing skills gaps in their high risk mission critical occupations, and Occupational Leaders were named for the Government-wide areas.

OPM asserted that they are continuing to monitor and measure the FAST's progress by agency, as well as on Government-wide skills gaps action plans for Human Resources (HR), Acquisition, Auditor, Economist, and Cybersecurity occupations. This focus includes monitoring evidence-based progress on a quarterly basis with the designated Occupational Leads and Technical Experts, sharing successful practices, and providing tailored technical assistance as needed.

Furthermore, in fiscal year (FY) 2018, to address the HR Specialist skills gaps, OPM produced and marketed 18 staffing courses; developed and launched a new Delegated Examining training and certification; designed a Government-wide HR Policy Center of Excellence pilot; and issued standardized position descriptions and job opportunity announcement templates for the staffing and classification technical areas.

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2. FEDERAL HEALTH INSURANCE INITIATIVES

A major, on-going challenge for OPM involves the Federal Employees Health Benefits Program (FEHBP). 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. This year, the Affordable Care Act (ACA) has been removed as a top management challenge. Since the ACA's inception, the number of participating Issuers has steadily declined, and there is only one remaining in the Program as of this year. In addition, the passing enactment of the Tax Bill repealed the individual mandate (starting in 2019), which required most Americans to carry a minimum level of health coverage. Under the ACA, OPM was responsible for implementing and overseeing Multi-State Plan Program options, which began in 2014. The repeal of this mandate will have a significant impact on the individual insurance markets, of which the Multi-State Plan Program is a part. Lastly, there is movement in Congress to defund the Program entirely.

The following sections highlight these challenges and current initiatives in place to address them.

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 2018, OPM announced that the average premium increase for Federal employees and retirees participating in the FEHBP in 2019 would be 1.3 percent, which is the lowest increase since 1996.

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 (MLR) rating methodology will require that OPM update guidance and improve its financial reporting activities.

1) Prescription Drug Benefits and Costs

Prescription drugs have become a major share of health care costs in the FEHBP, currently representing over 26 percent of total health care expenditures. Most FEHBP carriers report an increase in drug costs per member each year. Greater utilization of existing drugs and the high cost of specialty medications contribute significantly to FEHBP premiums. Prescription drug utilization and costs will continue to increase for the foreseeable future, as new pharmaceutical advancements are developed and the rapid growth of the specialty drug market continues. OPM needs to develop an effective, long-term strategy to mitigate and manage FEHBP prescription drug costs, while maintaining overall program value and effectiveness.

Our concern remains that OPM may not be obtaining the most cost effective pharmacy arrangements under the FEHBP. We believe that OPM should consider other options, such as direct contracting with a Pharmacy Benefits Manager (PBM), to gain additional savings and maximize cost containment efforts. 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 PBMs 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 among plans. 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.

Nonetheless, the need for clear and extensive analysis of the FEHBP drug program cost-saving options is long overdue. The last time OPM studied the issue was approximately eight years ago. The PBM and prescription drug landscape has significantly changed since 2010. Our concerns about increasing prescription drug costs warrant the need to evaluate the benefits, delivery, and pricing of FEHBP prescription drugs; specifically, whether carrier PBM contracts provide the best value to the Federal Government and FEHBP enrollees in today's environment. Moving forward, OPM needs to develop an effective, long-term strategy to mitigate and manage future FEHBP prescription drug costs, while maintaining overall program value and effectiveness.

2) Health Benefits Carriers' Fraud and Abuse Programs

OPM delegates the FEHBP's anti-fraud and program integrity function to all contracted carriers. As such, the program must include strategies to detect and eliminate fraud, waste, and abuse (FWA) internally by carrier employees and subcontractors, by providers providing goods or services to FEHBP members, and by individual FEHBP members. Carriers must report potential FWA within 30 days to OPM's Office of the Inspector General (OIG). Without a robust FWA program, the FEHBP is at greater risk for increased costs, improper payments, and patient harm to FEHBP members.

OPM recognized the importance of FEHBP carriers having robust FWA programs, and established an internal HI fraud, waste and abuse team to analyze the annual FWA reports from the FEHBP health plans. On November 20, 2017, OPM's HI issued new FWA guidance in Carrier Letter 2017-13. This carrier letter was a collaborative effort between OPM and the OIG to update definitions, reporting requirements, and revamp the annual FWA reporting requirements.

The OIG noted the following FEHBP trends in 2017 related to FWA:

- The number of carrier FWA notifications received by the OIG dropped nearly 74 percent (887 in 2017 versus 3,398 in 2016);
- There was no significant increase in the *quality* of Carrier FWA notifications to the OIG;
- OPM did not require Carrier's to report pharmacy-related FWA "actual savings" in the 2017 Annual Report, one of two primary data points in calculating anti-fraud program Return on Investment; and
- Pharmacy costs rose to 26.2 percent of all FEHBP benefit payments.

In 2017, the President declared a national emergency concerning the opioid epidemic affecting communities across the United States. With the above trends, it must remain a top priority for OPM to hold the FEHBP carriers accountable to provide effective oversight of their PBMs, and PBMs must have a comprehensive fraud detection and prevention program and strategies, track savings, and timely reporting of all potential FWA, especially in relation to the opioid epidemic to the OIG.

FEHBP carriers have more incentive to process and pay claims than to deploy an aggressive program-wide strategy to detect and prevent FWA. In our FY 2017 Top Management Challenges report, we suggested that OPM consider establishing a dedicated Program Integrity Office. Both Medicare and TRICARE[1] have independent and dedicated program integrity units/offices, which deploy comprehensive, self-directed program integrity strategies that enhance oversight initiatives, FWA detection, prevention, and trend analysis. These integrity offices work closely with their OIG's Office of Investigations to enhance oversight and enforcement operations.

[1] TRICARE is the civilian care component of the Military Health System.

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OPM is fully reliant on the various contracted FEHBP carriers to implement highly inconsistent FWA strategies in a multi-layered environment of subcontractors. This presents a myriad of challenges for OPM to provide meaningful oversight of carriers' FWA programs with no dedicated unit to enforce the necessary guidelines. As such, we think it is important for OPM to consider the benefits of having a dedicated program integrity office to provide independent FWA oversight, ensure consistency with carriers' FWA programs, and track trends and provide accurate data reporting.

3) Medical Loss Ratio Implementation and Oversight

On June 29, 2011, OPM issued an interim final rule, replacing the Similarly Sized Subscriber Group (SSSG) methodology with what was expected to be a modern and transparent calculation that would ensure the FEHBP received a fair rate. This ruling held each community-rated carrier, except those that are state-mandated to use traditional community rating, to a specific 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 the MLR, it is required to pay a penalty amount to the FEHBP. If a carrier exceeds the MLR, it receives a credit from OPM that can be used to offset future penalties. Once this rule became effective, audits of the MLR calculation were the only way to determine whether the FEHBP's community-rated carriers were charging fair and reasonable rates to the Program.

However, audits of this calculation for multiple health carriers continue to identify concerns that question how transparent this calculation truly is and whether or not it is a valid method to ensure whether Program participants, as well as the American taxpayers, who are paying approximately 75 percent of the Federal health care premium, are paying a reasonable and fair rate. Specifically, our audits have identified the following:

- Concerns with the accuracy of OPM's subscription income amount used by many carriers in their MLR calculations and whether it includes/should include OPM adjustments to the rates;
- Concerns with the carriers' ability to manipulate the MLR ratio (i.e., through what is reported as capitated costs, claims cost, or FEHBP-specific Federal income tax, etc.); and
- A continued lack of clear guidance from OPM to address issues specific to the FEHBP MLR calculation that cannot be addressed through the Health and Human Services (HHS) guidance that is being used.

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 MLR percentages should be granted to the carriers. However, the methodologies used not only have to produce accurate results, they should also be auditable. In instances where this is not the case and the resulting issues cannot be adequately addressed by the HHS guidelines, it is incumbent upon OPM to develop its own guidance to address these issues.

As stated in last year's Top Management Challenges report, OPM added language to the 2018 rate instructions in an attempt to address our concerns regarding Federal income tax allocation methods. While this is a good first step, the language does not completely resolve all of our concerns with this allocation method and the tax amount that is ultimately used to calculate the MLR. Consequently, carriers using this allocation method to derive their Federal tax expense are likely reporting ratios to OPM that are significantly overstated.

In its response to last year's report, OPM also stated that community-rated carriers' rate build-ups are still subject to audit. However, since an audit of the rate build-up no longer incorporates a comparison of a carrier's FEHBP rates to that of its SSSGs, any audit performed would be nothing more than a math check of the rates, and the results could not be used to determine whether that carrier's subscribers were paying a fair and reasonable cost.

Barring action from OPM to address the above concerns, we will continue to be unable to adequately determine whether MLR is an effective means of ensuring that Program participants are paying a fair and reasonable rate. Therefore, we encourage OPM to assess whether remedies can be implemented to address our concerns, which will result in MLRs that can be used as a basis to measure the fairness and reasonableness of the FEHBP premiums. If this assessment concludes that MLR is ultimately not a viable method to ensure the fairness of the rates, then OPM will need to develop a more appropriate method, as well as sufficient guidance and criteria to regulate its use.

4) The Opioid Epidemic and the FEHBP

Addressing the opioid abuse epidemic has become a top priority for the OIG's Office of Investigations. In the October 2017 President's Memorandum, *Combating the National Drug and Opioid Crisis*, the President described the opioid crisis as a public health emergency and directed a multi-agency response to combat the drug demand and opioid problem afflicting our nation. The memorandum specifies, "Additionally, the heads of executive departments and agencies, as appropriate and consistent with law, shall exercise all appropriate emergency authorities, as well as other relevant authorities, to reduce the

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number of deaths and minimize the devastation the drug demand and opioid crisis inflicts upon American communities."

In August 2017, the U.S. Attorney General announced the formation of the Opioid Fraud and Abuse Detection Unit. The unit focuses solely on health care fraud related to prescription opioids, including pill mills, illegal importation of Fentanyl, and unlawfully diverted or dispensed prescription opioids for illegitimate purposes.

The opioid epidemic has had a large impact on the FEHBP, on both program costs and patient harm. For example, the illegal importation of drugs like Fentanyl from China is not just sold on the streets, but it is also sold to pharmacies, providers, and pain clinics, at reduced costs to dispense to unsuspecting patients. These drugs pose a very high danger of patient harm.

On January 23, 2018, OPM issued an All Carrier Call Letter that emphasized the opioid epidemic and its impact on the FEHBP. The call letter included efforts the carriers must take to prevent opioid misuse and treat addiction. In February 2018 FEHBP carriers briefed OPM and the OIG on the impact of the opioid crisis on the FEHBP. Some important facts presented were:

- The largest FEHBP carrier reported a 300 percent increase from 2012 through 2017 in the identification of beneficiaries potentially abusing prescription opioid medications;
- The number of prescriptions for Narcan, Nalaxone and Evzio, drugs used to thwart opioid-related overdoses, doubled from 2016 through 2017; and
- In 2017, the percentage of FEHBP members enrolled in employee organization fee-for-service plans taking opioid prescriptions ranged between 17.8 percent and 24.3 percent of total beneficiaries.

These statistical indicators are a cause for concern as the OIG has seen little in the way of fraud or patient harm related case notifications from our contracted carriers. The same carriers provide primary oversight of the PBMs administering pharmacy benefits on behalf of over 8.2 million Federal employees, retirees and their eligible dependents. This may be an indicator of a lack of proactive measures being deployed by FEHBP carriers to detect fraudulent providers who may be running pill mills or pharmacies purchasing and dispensing high volumes of opioid medications.

Additionally, ancillary costs for treatment of substance abuse have risen sharply at a rate of nearly 283 percent, from 2013 through 2016, according to the briefing provided by the Blue Cross Blue Shield Association in February 2018. This coincides with a sharp rise in fraud related to opioid addiction treatment with Sober Homes, Outpatient Substance

Abuse Treatment, and Urinary Drug Testing Laboratories inflicting high impact financial losses on the FEHBP. In Florida alone, the OIG received at least 65 fraud allegations related to Sober Home and Substance Abuse Treatment facilities since 2016, providing unnecessary drug tests and other services totaling over $34.9 million in potential fraudulent FEHBP benefit payments.

Another recent concern is a trend placing responsibility for the opioid epidemic on the health insurance industry. Pharmacy benefits and formularies that restrict or do not reimburse for higher cost, less addictive pain medications, but alternatively offer low cost, highly addictive opioid pain medications, without restrictions, may find themselves defending future lawsuits alongside the drug manufacturing industry. These trends may ultimately have the effect of increasing overall program costs, placing an emphasis on detecting and mitigating fraud, and other strategies to lower costs.

In FY 2019 and 2020, the OIG will continue to oversee the efforts and implementation of new programs and procedures by carriers for fraud detection, prevention, and treatment of opioid addiction. However, OPM and FEHBP carriers must also consider preventive measures that include drug formulary reviews, pre-approval of opioid-related prescriptions, and access to less addictive alternative pain medications for FEHBP members.

Finally, OPM is responsible for providing primary oversight of the FEHBP carrier contracts. However, FEHBP carriers are directly responsible for providing oversight of their contracted PBM. Oversight of these complex, multi-layered, sub-contractual relationships can create barriers and challenges; therefore, a dedicated program integrity office could provide a single source of internal controls, oversight and trend analysis to help OPM mitigate the effects of the opioid crisis on the FEHBP.

3. BACKGROUND INVESTIGATIONS

A. Transfer of the Background Investigation Function

In January 2016, after an interagency review conducted in response to the 2015 OPM data breaches, the Obama Administration announced the establishment of the National Background Investigations Bureau (NBIB) within OPM. NBIB would serve as the new Government-wide service provider of background investigations. With its roles and responsibilities subsequently established formally by Executive Order 13741, NBIB began operating on October 1, 2016, assuming the functions, personnel, and assets of its predecessor the Federal Investigative Services.

Since its establishment, NBIB has taken several steps to make the background investigation process more efficient and to better secure sensitive data in its possession. These steps include the application of a new organizational structure to bolster security and intergovernmental communications. Additionally, since its inception, NBIB has worked closely with the U.S. Department of Defense (DOD) on the development of a new end-to-end IT system, the National Background Investigations System, to support investigative operations and enhance processes.

These developments notwithstanding, the National Defense Authorization Act (NDAA) for FY 2017 directed the DOD to prepare an implementation plan for the transfer of the background investigation responsibility for DOD-affiliated personnel from OPM to DOD. The plan proposed a three-year phased transition of the DOD-related investigations, which account for approximately 70 percent of NBIB's caseload. In December 2017, the NDAA for FY 2018 directed DOD, in consultation with OPM, to begin carrying out the implementation plan no later than October 1, 2020, and granted DOD authorization to conduct background investigations for DOD-affiliated personnel.

On June 21, 2018, the Executive Office of the President published *Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations*, which proposed to transfer the remainder of NBIB's background investigation functions from OPM to DOD. In doing so, the Administration seeks to retain economies of scale, better leverage existing DOD capabilities, and facilitate the implementation of reforms.

Assuming the handover of the background investigations function proceeds according to the Administration's plan, OPM will face the challenge of efficiently transferring NBIB caseload and assets to DOD, while coping with the impact that transfer will have on OPM's resources. The OIG will work with our counterparts at the DOD OIG and monitor the planned transfer closely to ensure the process is undertaken effectively and consistent with relevant law.

B. Case Processing Backlog

In addition to the efforts mentioned above, NBIB executed a multi-pronged approach to addressing the case management backlog of over 700,000 cases at times during 2017. NBIB's response to Section 3 of the *Securely Expediting Clearances Through Reporting Transparency Act of 2018*, or the "SECRET Act of 2018" (Public Law 115-173), addressed numerous factors that impacted the amount of time needed to carry out investigations, including but not limited to the size of the investigative workforce, the increased complexity of case types, and the IT systems that support background investigations. During our "Audit of NBIB Backlog of Background Investigation Cases and the Effectiveness of the Quality Assurance Process," we found these factors to be valid challenges in regards to NBIB's processing of background cases.

NBIB's inventory is a result, in part, of not having the investigator capacity on hand in the past to meet the workload demands for investigations and the discontinued use of the contractor services of the US Investigations Services, which was responsible for about 65 percent of the contractor workload. NBIB stated that they addressed this by increasing the capacity of its investigative workforce from 5,843 Federal and contractor investigators on October 1, 2016, to over 8,400 today.

Conducting background investigations relies heavily on both internal and external processes that can delay completion of the investigation. These challenges include but are not limited to: the availability of current OPM legacy IT systems and the delivery of the National Background Investigations System; lack of automation for external record providers such as state and local criminal records; receiving incomplete or inaccurate information via security forms from the applicants; the availability of applicants and sources due to overseas deployments and change of duty stations; and locating key sources for interviews to corroborate issues in complex cases. Additionally, the implementation of the 2012 Federal Investigative Standards, which uses a tiered model and issue flagging strategy, added an increased level of complexity to case work as additional investigative elements were required to meet standards. These are just a few NBIB management challenges that have affected achieving a healthy working inventory.

NBIB should continue to work to improve the timeliness of investigations by optimizing its total workforce capacity, coordinating with stakeholders to create efficiencies within its current end-to-end investigative process, and participating in agency-wide efforts to revamp the entire Federal vetting enterprise.

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 already expended a great deal of resources to meet these challenges, and made some notable improvements, they will need to continue their 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 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 proactively implements 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. Some improvement was demonstrated in FY 2014 and information security governance was upgraded to a significant deficiency in the Agency's overall security posture. OPM has since centralized its cybersecurity program under a Chief Information Security Officer (CISO) that is supported by a team of Information System Security Officers (ISSOs) and network security engineers. This team developed policies and procedures designed to improve the efficiency with which this team operates, and implemented technical security tools and controls that help protect the agency from cyber-attack.

However, based on our FY 2018 FISMA audit, we determined that OPM's information security governance program regressed, and once again, we consider it to be a material weakness in the design and operation of the agency's internal controls. There is no permanent CISO, and there is an inadequate separation of duties because the current acting CISO is also in charge of IT infrastructure. In addition, OPM continues to struggle in implementing long-standing cybersecurity controls required by FISMA, relapsed in risk management, and received low maturity level scores for continuous monitoring and contingency planning. Furthermore, OPM is not making substantial progress in implementing our FISMA recommendations from prior audits. There are outstanding audit recommendations that are over a decade old, and OPM has not implemented corrective action on a single recommendation from the FY 2017 FISMA audit.

According to OPM, "The OPM [Chief Information Officer] CIO fully understands the importance of information security governance and is taking steps to continue to enhance the governance posture. As part of the FY 2017 and FY 2018 IT Modernization Plans, the CIO has awarded a task to a professional services firm to assist the [Office of the Chief Information Officer] OCIO with establishing an overall IT governance process, a risk management practice, IT enterprise architecture and establishment of an Enterprise Program Management Office (EPMO). As part of the risk management practice, the contractor is assisting the CIO with developing a strategy to close the outstanding findings and [Plan of Action and Milestones] POAMs, as well as a process to ensure the continual focus on the findings and POAMs. In addition, this issue is one of the CIO's top five priorities. Examples of accomplishments have been the implementation of a multi-tiered change management process that focused on reviewing all changes to the technical environments; implementation of additional cybersecurity policies and procedures; approval of hiring for vacant ISSO positions; and implementation of a multi-tiered process for reviewing all potential closures of POAMs."

We acknowledge the effort and focus that the OCIO is placing on improving its overall IT governance program. While it is possible that this will result in a sustained improvement leading to a fully mature IT security program, given OPM's inconsistent history and high turnover in key positions, it will be a major challenge going forward.

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. In recent years, OPM's Authorization program has shown some improvement, but overall it continues to be hampered by incomplete and inconsistent results.

In FY 2016, OPM initiated an "Authorization Sprint" designed to bring all of the agency's systems into compliance with Authorization requirements. OPM dedicated significant

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resources toward re-authorizing the systems that were neglected. By the second quarter of FY 2017, the OCIO completed an Authorization for every major information system owned by the agency, and successfully addressed some of the critical weaknesses that our audits identified with the previously completed Authorization packages.

As a result of these improvements, in FY 2017 we removed a material weakness related to system Authorizations that had been reported in several prior FISMA audit reports. We still considered the issue a significant deficiency in both FY2017 and FY 2018 however, primarily because of incomplete or inadequate independent testing of the systems' security controls.

According to OPM, "The OPM CIO continues to work to improve the [Authorization to Operate] ATO program. In addition to the previous improvements to the ATO process, the CIO has placed emphasis on completing the contingency testing portion of the ATO process and on fully documenting penetration testing. As part of the FY [20]17 and FY [20]18 IT Modernization plan, the CIO has awarded a contract to improve IT governance. The support under this task includes establishing a risk management practice and assistance with addressing all of the open findings and POAMs from all sources (OIG, GAO, annual financial audits, etc.). Addressing all open findings and POAMs is one of the CIO's top five priorities and the entire OCIO organization is working diligently to address the issues. The ATO findings are included in these efforts."

We acknowledge that OPM started the process of improving its IT governance, which should result in more consistent results in several areas, including its Authorization program. However, given the many years of inadequate performance and halting progress it remains to be seen whether OPM will be able to establish a mature process for properly managing the security of its major computer systems.

3. DATA SECURITY

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. OPM subsequently implemented security tools associated with the Department of Homeland Security's Continuous Diagnostics and Mitigation program to automate security of the agency's network.

While OPM made some progress encrypting the databases that support the agency's most sensitive systems, controls to encrypt data at rest and in transit have not been implemented.

Even when full encryption is in place, though, it would not completely protect sensitive data, since the compromise of a valid user's password could 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 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 PIV authentication were put in place at the application level, an attacker would have extreme difficulty gaining unauthorized access to data without having physical possession of an authorized user's PIV card.

OPM states that it "… continues to implement multifactor authentication for access to applications, as well as other security controls. Multifactor authentication for network access is an important security control that when combined with other controls such as network segmentation, separation of privileged accounts, and reduction of privileged accounts, creates a significantly improved cybersecurity posture. The largest challenge with fully implementing multifactor authentication for all of OPM's applications is the ability of legacy applications and technology to support multifactor authentication. OPM continues to identify technologies that will enable legacy applications to utilize multifactor authentication."

Our FY 2018 FISMA audit showed that application-level multi-factor authentication is in place for only 6 of OPM's 54 major computer systems. While multi-factor authentication to the network and the other controls cited by OPM are clear examples of improved perimeter security controls, they are not enough to prevent unauthorized access to sensitive data. Networks are becoming more complex with increased remote access and the adoption of cloud and hybrid infrastructure. Most IT security experts operate under the assumption that their perimeter is or will be compromised, so properly securing applications and data is of equal or greater importance. OPM asserts that it cannot fully implement multi-factor authentication because many of its legacy applications do not support that technology. This situation further demonstrates the importance of OPM's IT Modernization Plan (see challenge number 4, below).

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

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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.

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, identified the full scope and cost of the IT modernization and stabilization 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 an OMB Major IT Business Investment (OMB Exhibit 300). The FY 2018 Appropriations Act included another $21 million for modernizing OPM systems subject to similar requirements.

OPM's FY 2017 and FY 2018 IT modernization spending plans did not fully address the Congressional requirements. OPM officials told us that the agency's IT environment was so fractured and decentralized, and so lacking in overall governance, that they were not able to even begin the process of designing an overall IT modernization plan. The capital planning and investment control process that is described in Office of Management and Budget (OMB) Circular A-11, and which forms the basis of the FY 2017 and 2018 Appropriations Act requirements, could not be implemented. We were told that technical analysis, and cost and schedule estimates, were impossible.

We expressed the opinion that Congress should allow the agency to obligate the FY 2017 and FY 2018 funding subject to the proviso that it develop an EPMO with the goal of developing IT governance policy and defining an overall IT enterprise architecture. We can confirm that in FY 2018 OPM awarded a contract to a vendor to begin the process of establishing an EPMO with those objectives.

Even with these positive developments, OPM faces enormous hurdles in reaching its desired outcome of modernizing its legacy infrastructure and applications. The complexity not only involves stabilizing core elements of an effective IT program, but planning and executing the migration of mission critical legacy IT systems to modern technology. Continued turnover in key OCIO positions only exacerbates a difficult situation. As noted in the 'Data Security challenge,' OPM cannot achieve a mature and effective IT security program without modernizing its antiquated IT systems.

5. 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.

Because the data collected in this system is highly sensitive protected health information, it is critical that it be protected from improper disclosure. According to OPM's Healthcare and Insurance (HI) office, "OPM's [Office of the Chief Information Officer] OCIO has implemented multiple improved layers of security on the technical infrastructure such as intrusion prevention and detection, multifactor authentication through PIV, third generation firewalls, automated security patching and data loss prevention for improved infrastructure management and protection of data contained within the HCDW. In addition to the above improved security measures, HI works closely with OPM's Cybersecurity Program to continue to strengthen and ensure the latest security policies, practices and measures are in place to protect the HCDW."

While this is generally true, OPM's challenge going forward is to further strengthen system security as information technology (IT) security threats are constantly evolving. This 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 14 of this report). In addition, we completed an audit of the security controls of the HCDW in FY 2018 and found several areas for improvement in its implementation of recommended security controls.

6. STOPPING THE FLOW OF IMPROPER PAYMENTS

<u>Federal Employees' Retirement System and the Civil Service Retirement System</u>

In FY 2017, OPM paid over $82.9 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 contribute.

In its Agency Financial Report, OPM reported that the overall improper payment rate for these retirement programs was .38 percent in FY 2017. This rate is a combination of overpayments and underpayments and is quite low compared to many other Federal programs. However, even though the improper payment rate is low, it still places the retirement program in a high-risk category for improper payments. The total amount of all types of improper retirement payments reported by the agency was $313.8 million. Of that amount, $238.7 million, which represented .29 percent, were overpayments. The amount of payments that resulted in underpayments was $75.1 million, which represented .09 percent.

OPM's Retirement Services office is aware of the major contributing factors to these improper payments; however, it 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.

OPM stated that it is fully committed to identifying the root causes of improper payments. In FY 2018, Retirement Services actively engaged the OCIO to assist with achieving this commitment, and as one step, performed a limited marital certification survey that discovered, identified, and documented overpayments and a savings due to remarriage of the survivor. Additionally, in FY 2016 and FY 2017, Retirement Services performed a 1099R Project, reviewing 1099Rs, which report the amount of annual payments to annuitants, returned as undeliverable in FY 2015 and FY 2016 through the U.S. Postal Service.

However, we continue to believe that the process for conducting projects and reviews such as those described above, and for reporting and following up on the results, needs to be improved. In addition, the need for continuing innovation in the analysis of available information on annuity payments is never ending. The OIG spends a significant amount of time and resources identifying, assessing, and investigating retirement cases where a single deceased annuitant was improperly paid over five, ten, or even twenty years. It is clear that not all improper payments are being identified in a timely manner.

Furthermore, we continue to conclude that Retirement Services lacks a comprehensive centralized tracking system to record and analyze its program integrity work, and lacks appropriate internal control procedures to timely detect, identify, and report potential fraud, waste, and abuse.

OPM management has a duty to the American people to protect the integrity of the retirement trust fund from fraud and waste from improper payments. As such, Retirement Services should consider addressing these issues by establishing a dedicated program integrity office or unit whose sole objective is the detection and prevention of potential fraud, identifying program vulnerabilities, and finding the root causes of improper payments.

The Federal Employees Health Benefits Program

Until OPM develops a more adequate and reflective improper payment rate, an effective corrective action plan to reduce and recover FEHBP improper payments is not possible. In FY 2017, OPM paid over $50 billion in medical and pharmaceutical benefits for over 8.2 million Federal employees, retirees, and their dependents. During the same fiscal year, OPM reported an improper payment rate of .05 percent, representing approximately $28 million, for FEHBP medical and pharmaceutical benefits.

The calculation of improper payments for the FEHBP includes OIG investigative recoveries, OIG monetary audit findings, and monies returned by contracted health plans through the U.S. Department of the Treasury. However, OPM's calculation fails to include improper payments related to payment errors and fraud losses identified but not recovered from FEHBP contractors.

For example, FEHB Program Carrier Letter 2014-11 reported OPM paid approximately $23 billion in health benefits annually for family members (dependents) enrolled in the FEHBP. OPM stated that health insurance industry standards indicate that up to 10 percent of family members are ineligible for coverage. If that percentage is determined to be true for the FEHBP, health claims of over $2 billion could be at risk for being improperly paid. OPM recently proposed new regulations that, when notified, carriers would be allowed to prospectively dis-enroll ineligible dependents. However, not requiring FEHBP contractors to retrospectively apply the ineligibility determination allows the FEHBP contractors to ignore these improper payments.

The OIG has consistently found that FEHBP contractors have difficulty identifying, collecting, and tracking overpayments. The OIG and OPM have a mutual interest in protecting the FEHBP from improper payments. However, a longstanding program vulnerability is OPM's limitation in obtaining and integrating FEHBP data needed to independently detect and address improper payments and fraud. OPM must amend its contracts to obtain access to complete FEHBP data so OPM can effectively and independently oversee the program and meet its strategic goals.

OPM must also continue to pursue legislative remedies, such as inclusion of the FEHBP into the definition of a federal program under section 1128B(f) of the Social Security Act, to strengthen its independent oversight of FEHBP contractors.

7. RETIREMENT CLAIMS PROCESSING

OPM's Retirement Services office is responsible for determining Federal employees' eligibility for retirement benefits; processing retirement applications for Federal employees, survivors, and family members; issuing annuity payments to eligible retirees and surviving spouses; collecting premiums for health and life insurance; and providing customer service to approximately 2.6 million annuitants.

The timely issuance of annuitants' payments remains a challenge for OPM, especially coordinating retirement benefits between OPM and other agencies for disability benefits and workers compensation. In January 2012, Retirement Services released and began implementation of its Strategic Plan with the goal of adjudicating 90 percent of retirement cases within 60 days beginning in July 2013. Retirement Services believes that this "challenge is now outdated" and references the new OPM Strategic Plan (FY 2018 - 2022), Goal 4, in which their new objective is to "[i]mprove retirement services by reducing the average time to answer calls to 5 minutes or less and achieve an average case processing time of 60 days or less."

OPM appears to remain focused on its internal process improvements and external outreach towards other Federal agencies to meet their goal. However, while Retirement Services appears to have met its average case processing goal for FY 2018, with an average processing time of 59 days, its claims backlog as of September 2018 was 17,628, more than 4.5 percent higher than at the same time a year ago. In addressing the average call answering time, Retirement Services stated that the average time to answer calls in FY 2017 was 9.7 minutes, but it increased to 12 minutes in FY 2018, more than double the strategic plan goal of 5 minutes or less. Again, no data was provided to support Retirement Services' average time to answer calls.

In order to alleviate the excessive busy signals and long wait times, Retirement Services provided more automated services via Services-On-Line, a redesign which went live on June 10, 2018, featuring a new technology stack with responsive design that is compatible with any hand held device, and provides a more customer friendly experience and efficient processing of transactions.

In continuing its efforts, Retirement Services plans to:

- Continue to integrate improvements for correspondence and claims processing;
- Enhance reporting tools to monitor and address Retirement Services workloads;
- Utilize overtime to assist with timely processing;

- Work with the OCIO to investigate technological capabilities to help improve processing time and reduce wait times;
- Continue to provide Federal retirement policy technical assistance to all OPM offices and Congress;
- Perform on-going audits of agency submissions;
- Provide monthly feedback to agencies and payroll offices and alert them of trends and improvement opportunities; and
- Identify training needs for agencies, develop job aids and on-line training modules, and conduct workshops on the retirement application process.

OPM must continue to work to obtain the necessary resources to ensure that the needs of its customers and stakeholders are met.

8. PROCUREMENT PROCESS FOR BENEFIT PROGRAMS

On October 14, 2015, the OIG issued a Management Alert memorandum to OPM's former 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 corrected some of the deficiencies in its benefit program procurement process and strengthened its oversight role in monitoring these procurements, including an update to its delegation of authority. OPM's Office of Procurement Operations (OPO) and Federal Employee Insurance Operations 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, three of the four recommendations identified in our Management Alert memorandum have been satisfactorily implemented by OPM and closed. The last recommendation is currently being addressed by OPM and is expected to be finalized in FY 2019.

We commend OPM's efforts to correct these 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 Federal Employee Insurance Operations 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 applicable laws 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.

9. PROCUREMENT PROCESS OVERSIGHT

OPO provides centralized contract management that supports the operations and Government-wide missions of OPM, as well as managing OPM's 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 those impacted.

OPO has been committed to improving its internal controls. During FY 2018, OPO continued to strengthen oversight of the procurement process by working with the Internal Oversight and Compliance office to 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. In addition, OPO implemented new policies, which extend its oversight of contracting documents beyond pre-award activities to post-award activities and periodic reviews of contract files, provide guidance on maintaining contract files, establish a consistent contract file format and checklist, and clarify aspects of the procurement oversight process and the role of acquisition team members.

While OPO made progress in strengthening its oversight functions, the systems used to process acquisitions continue to be a major challenge. The Procurement Information System for Management (PRISM), which is the contract writing system used by OPO, resides within the Consolidated Business Information System, a financial system owned and maintained by the OCFO. PRISM is antiquated and does not support direct reporting to the Federal Procurement Data System - Next Generation. Reporting in the Federal Procurement Data System - Next Generation is required by the Federal Acquisition Regulations, and reporting in PRISM results in manual processing and reconciliation of contract information and financial information in the Consolidated Business Information System, increasing the risk of potential discrepancies and difficulty completing contract closeout. OPO is working with the OCFO and program offices to address system discrepancies between PRISM and the Consolidated Business Information System.

OPO should continue to move forward to (1) hire staff at all levels, secure contractor support for critical OCIO IT requirements and agency-wide closeout efforts, and communicate challenges to OPM leadership; (2) finalize the agency-wide warrant (delegated procurement authority) refresh[2], and review and approve drafted Oversight and Compliance Policy (through the Office of the General Counsel and Labor-Management Relations); (3) continue procurement action reviews with OPM program offices, collaborate efforts with OMB/Office of Federal Procurement Policy on their Acquisition 360 initiative and analyze FY 2017 survey data to identify improvement opportunities and strengthen communication; (4) complete the contract close-out process; and (5) leverage the cross agency working group to increase the contract close-outs.

[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.

III. DEVELOPING CHALLENGE

The following new challenge relates to program activities that are critical to OPM's core mission and will affect OPM as a whole.

PROPOSED OPM REORGANIZATION

In June 2018 the Executive Office of the President published a Government reform plan, titled *Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations*. The document puts forward a sweeping plan that would completely reorganize OPM.

First, the plan proposes to transfer OPM's authority with respect to Federal human resources policy to the Executive Office of the President, centralizing in that office matters of employee compensation, workforce management, and the like. Second, the Administration's plan would transfer the functions of Retirement Services, Healthcare and Insurance, and Human Resources Solutions to the General Services Administration, which would be renamed the "Government Services Agency." Lastly, the reorganization plan calls for the transfer to DOD of the remaining background investigation functions performed by NBIB that were not part of the investigation functions moved to DOD with the enactment of the NDAA for FY 2018.

The transfer of any or all of the OPM functions as contemplated by the Administration's plan carries with it the challenge of ensuring that the transfer of functions is accomplished efficiently and in accordance with relevant law. The OIG intends to closely monitor any OPM actions to effectuate the proposed reorganization.

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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

Office of the Chief Financial Officer

MEMORANDUM FOR NORBERT E. VINT
Acting Inspector General

FROM: Dennis Coleman 11/8/2018
Chief Financial Officer

SUBJECT: Agency Comments on the OIG Report - Fiscal Year 2018 Top Management Challenges, dated November 5, 2018

Thank you for your FY 2018 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 Federal health insurance initiatives, stopping the flow of improper payments, retirement claims processing, and the procurement process for benefit programs.

Federal Health Insurance Initiatives

Prescription Drug Benefits and Costs

OPM does not concur with OIG's suggestion that OPM continue to pursue efforts towards a prescription carve-out program. The Federal Employees Health Benefits (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

OPM.GOV Empowering Excellence in Government through Great People USAJOBS.GOV 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 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.

To control 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. Additionally, OPM notes that the most recent drug trend reported by FEHB carriers showed a significantly slower rate of growth compared with previous years, in line with industry trends.

Health Benefits Carriers' Fraud and Abuse Programs

OPM remains committed to strengthening controls surrounding carriers' Fraud Waste and Abuse (FWA) program. Healthcare and Insurance (HI) values its partnership with OIG and leverages the results of their investigative and compliance audits as well as information from the FEHB carrier task force to identify carriers and general areas needing targeted efforts, additional support or the implementation of corrective actions.

In FY 2018, HI underwent a substantial reorganization, which is enabling it to leverage resources and talent in order to further strengthen oversight of FEHB carriers' FWA efforts. Resources dedicated to HI's FWA team have increased in an effort to expand representation and strengthen oversight. The team was largely responsible for the effort to release updated FWA Carrier Letter guidance, CL2017-13, in November 2017, and is preparing to present its findings and analysis from the 2017 FWA reporting at the quarterly Task Force meeting in December. A reduction in carrier FWA notifications, akin to that noted by OIG, was not unexpected, since CL 2017-13, included the addition of a preliminary review step prior to submitting a notification. This results in carriers taking more time to develop allegations prior to reporting to the OIG. OPM believes this action, along with OIG's own emphasis on improving quality over quantity – communicated directly to FEHB carriers - explains the reduction in carrier notifications. OPM will work with OIG to discuss ways to provide additional instruction on the quality of notifications at the coming FEHB Task Force meeting.

The OIG also noted that OPM's FWA report does not capture pharmacy-related FWA "actual savings." This is primarily due to the fact that Pharmacy Benefits Managers (PBMs) do not track savings the way FEHB carriers do, making this information unavailable. Further, the OIG noted rising pharmacy costs, which are an industrywide problem and not unique to the FEHB Program. Given that trend, the fact that the enrollee share of FEHB premiums, which includes pharmacy, will increase by an average of only 1.5 percent in 2019 (the lowest in over 20 years), demonstrates that OPM is aware, active and effective in its negotiations and stewardship. OPM's Chief Pharmacy Officer continues to work closely with Contracting Officers, other HI staff, carriers and other stakeholders to identify and track trends, contain costs, and offer potential solutions in the coordination, access, quality and effectiveness of the FEHB pharmacy offerings.

OIG suggested that OPM consider creating an independent program integrity unit, dedicated to carrier enforcement, just as HI was beginning to implement its own reorganization. Once complete, OPM believes this realignment will improve FWA oversight. However, given the timing of the budget cycle, as well as funding and other constraints, actionable consideration of a separate program integrity unit is not a viable option at this time. In the interim, OPM will further explore, including additional discussions with OIG, the benefits, pathways or potential alternatives to a program integrity group.

Medical Loss Ratio Implementation and Oversight

OPM believes that the Medical Loss Ratio calculation process is fair and reasonable to determine the appropriateness of our carriers' premiums. OPM does not agree that the Medical Loss Ratio precludes effective audits of community-rated carriers' rate build-ups. Audits can verify that the carrier has a documented methodology in place and that the carrier follows that methodology in developing the rates. Additionally, data used in the calculation, such as claims in the experience period and demographic data, can be audited. In addition, OPM does not agree that the Federal income tax allocation methods contained in current guidance result in overstatements of the Medical Loss Ratio. OPM agrees that its Medical Loss Ratio guidance should be flexible and not overly prescriptive to account for the diversity of carriers in the FEHB Program. OPM has and will continue to evaluate additions or modifications to the Community Rating Guidelines as necessary.

The Opioid Epidemic and the FEHBP

The 2018 FEHB call letter outlined steps carriers can take to confront the complex opioid epidemic through prevention, support and treatment. For the 2019 plan year, the FEHB call letter outlines expectations for preventing opioid misuse and treating addiction. Results from the most recent Automated Data Collection reveals that opioid use, as measured by the number of prescriptions dispensed and the number of unique utilizers, is falling within the FEHB Program. 84 percent of FEHB carriers have utilization management edits in place to limit the quantity of opioids dispensed to first-time users. FEHB plans also have additional safety screening parameters in place such as:

- concomitant use of benzodiazepines, which may potentiate the effects of opioids (63 percent of FEHB carriers),
- High Morphine Milligram Equivalent screening to prevent dispensing of high doses of opioids (68 percent of FEHB carriers), and
- screening to prevent the use of extended release opioid preparations without prior use of a short acting opioid preparation (54 percent of FEHB carriers).

In addition to implementing evidence-based prescribing and dispensing guidelines for opioids, FEHB carriers have improved access to medication assisted treatment to treat substance use disorder and made non-pharmacologic treatment options and naloxone-based reversal agents widely available. FEHB carriers also play a large role in educating members on proper drug disposal and the risks of opioid use.

Stopping the Flow of Improper Payments

Federal Employees' Retirement System and the Civil Service Retirement System

OPM appreciates the OIG's perspective that improper payments are quite low compared to other similar programs and agrees with the OIG that OPM should continue efforts to reduce improper payments to the extent possible. OPM believes that even though the design of its legacy systems prohibits a detailed analysis of root causes, it has sufficient understanding of the most significant root causes to continue efforts to reduce improper payments. OPM also notes that the 0.38 percent of total payments does not include recovered payments.

Retirement Services (RS) continues to analyze returned 1099R's. As the OIG comments, thus far, no fraudulent activity has been identified through this analysis. While OPM understands the OIG's ongoing interest in this project, it does not agree that an annual review is necessarily valuable or cost effective. However, RS will continue to conduct the review as long as it is deemed to be beneficial and will continue to refine the process to reduce cost. OPM will also work to focus its efforts on the most effective way of reducing improper payments.

OPM agrees that a central unit should be implemented to bring focus on the prevention and potential prosecution of fraud. To that end, a new office has been set up and via a recent reorganization, effective October 2018, will soon be functioning in its new role.

The Federal Employees Health Benefits Program and Improper Payments

OPM's improper payment reporting methodology was developed by OIG and HI and is OPM and OMB approved.

Retirement Claims Processing

As the OIG states, OPM's new processing goal is to finalize cases in an average of less than 60 days, which OPM believes to be more directly aligned with customer interest than the previous goal to process 90 percent within 60 days. In FY 2018, case processing took an average of 58.6 days. For a variety of reasons, there are a small number of claims that take longer to process. RS can quantify this number and understands the causes, some of which are beyond the control of the organization.

Regarding the average number of minutes to answer phone calls, the FY 2018 target was 12 minutes, which OPM achieved, answering calls in 8.6 minutes, on average, down from 17.7 minutes in FY 2017. The FY 2019 goal is 5 minutes. RS reports these results directly from the call center reporting database and monitors this information in real time as well as daily, weekly and monthly.

Procurement Process for Benefit Programs

As noted, OPM has made significant progress in addressing the findings from this management alert, as HI, OPO, OGC and the Office of the Director worked diligently to make appropriate changes to the delegation of authority. That effort resulted in transferring the authority to issue, maintain and oversee contracting warrant and administrative authority from OPO to HI. That transfer, including the re-issuance of several warrants across HI, is complete, and OPM has put and continues to put into place accompanying Warrant Management operating procedures, procurement schedules and other supporting documents and internal controls. OPM is establishing new procedures and relationships to ensure HI and OPO coordinate, as needed, to implement and manage procurement actions.

Conclusion

OPM is committed to addressing these challenges. Many are aligned to objectives in OPM's FY 2018-2022 Strategic Plan. 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 Security Governance Program	0	1	0	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**0**	**1**

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

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

PAYMENT INTEGRITY

OPM is committed to improving payment accuracy in all of its programs. While the Agency has previously identified many tools and resources to prevent, detect, and reduce improper payments, it continues efforts to find and implement innovative solutions to improve payment integrity among its programs while reducing the burden on its stakeholders.

FY 2018 Payment Integrity Report includes a discussion of the following information, as required by the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012; Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements; and Appendix C of OMB Circular A-123, Requirements for Payment Integrity Improvement:

- Program Descriptions (Section 1.0)
- Payment Reporting (Section 2.0)
- Payment Summary (Section 3.0)
- Improper Payment Corrective Actions (Section 4.0)
- Recapture of Improper Payments Reporting (Section 5.0)
- Agency Improvement of Payment Accuracy with the Do Not Pay Initiative (Section 6.0)
- Barriers (Section 7.0)
- Accountability (Section 8.0)
- Agency Information Systems and other Infrastructure (Section 9.0)
- Sampling and Estimation (Section 10.0)
- Additional Comments (Section 11.0)
- Risk Assessments (Section 12.0)

OPM is reporting details on improper payments for FY 2018 for two major programs: Federal Retirement Services (RS) and Federal Employees Health Benefits (FEHB) Program. FY 2018 improper payments for those two programs respectively are $284.08 million and $71.44 million, for a total of $355.52 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/**.

1.0 PROGRAM DESCRIPTIONS

RETIREMENT PROGRAM

OPM paid $77.93 billion in defined benefits to retirees, survivors, representative payees, and families during FY 2018 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 a CSRS or FERS retirement may request that their contributions be refunded in a lump-sum payment.

HEALTH BENEFITS PROGRAM

The FEHB is the largest employer-sponsored group health insurance program in the world, covering over 8 million people. 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, receives high satisfaction ratings, and is a vital part of the government's benefits package. Premium increases are consistently lower than the industry, with the coming 2019 average increase of 1.5% being the lowest in over 20 years. Program costs are shared between participant and Federal government contributions.

The FEHB Program is administered by Healthcare and Insurance (HI) 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 2018, ERCs incurred benefit and administrative expenses of over $46.2 billion on behalf of the FEHB Program, and the FEHB Program paid nearly $6.6 billion in premiums to CRCs.

2.0 PAYMENT REPORTING

RETIREMENT PROGRAM

In FY 2018 RS properly paid $77.64 billion and improperly paid $284.08 million to retirees, survivors, representative payees, and families. Accordingly, 99.64 percent of payments were properly paid and .36 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 recover improper payments in FY 2019 and beyond.

HEALTH BENEFITS PROGRAM

The FEHB Program properly paid $52.78 billion and improperly paid $71.44 million in FY 2018, representing 99.86 percent accuracy of the total outlays for All Carriers. The $71.44 million represents both over payments and under payments, from audit determinations as well as recoveries from fraud investigations. OPM consolidates results of its existing payment integrity processes into its annual improper payment reporting. This includes audit and review determinations of Experience Rated Carrier's (ERC's) and Community Rated Carrier's (CRC's) – both Medical Loss Ratio (MLR) and Similarly Sized Subscriber Groups - and Investigative recoveries. 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 may also include Carriers that 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. Audit findings and restitution orders (from fraud investigations) reported in any given year typically represent an audit scope or investigative activity that may span multiple years but are reported in the year in which the final audit report is issued, determined, settled, or the restitution order is finalized.

FEHB improper payments increased from $27.62 million in FY 2017 to $71.44 million in FY 2018. While the IP's remained below the $94.98 million estimated for 2018, the increase reflects the type of fluctuation noted above. It is largely attributable to increases in both the Investigative Recoveries and from a number of audit findings which significantly increased the Receivable balances, but which also experienced high recovery rates. 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.

3.0 PAYMENT SUMMARY

TABLE 1 – Improper Payment Summary

12 month Sampling Timeframe for FY 2018 data Start 10/1/2017 and end date 9/30/18.

Program Name	FY 2017 Outlays ($M)	FY 2017 IP Amount ($M)	FY 2017 IP Rate	FY 2018 Outlays ($M)	FY 2018 IP Amount ($M)	FY 2018 IP Rate	FY 2018 Over-payment $	FY 2018 Under-payment $	FY 2019 Est. Outlays	FY 2019 Est. IP %	FY 2019 Est. IP $
Total Program Retirement	$82,913.00	$313.81	0.38%	$77,928.02	$284.08	0.36%	$212.44	$71.64	$73,242.75	0.35%	$256.35
FEHB - ALL carriers	$50,278.02	$27.62	0.05%	$52,852.14	$71.44	0.14%	$71.35	$0.09	$54,538.06	0.18%	$98.17

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: Inability to Access Data	Inability to Authenticate Eligibility: Data Needed Does Not Exist	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	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)	Medical Necessity	Insufficient Documentation to Determine	Other Reason (1)	Other Reason (2)	Other Reason (3)	TOTAL
Total Program Retirement	Overpayments	-	-	-	$118.34	-	-	-	-	-	-	-	-	-	$94.10	-	-	$212.44
Total Program Retirement	Underpayments	-	-	-	-	-	-	-	-	$71.64	-	-	-	-	-	-	-	$71.64
FEHB - ALL Carriers	Overpayments	-	-	-	-	-	-	-	-	-	-	$53.54	-	-	$17.81	-	-	$71.35
FEHB - ALL Carriers	Underpayments	-	-	-	-	-	-	-	-	-	-	$0.09	-	-	-	-	-	$0.09
Agency TOTAL	**-**	**$-**	**$-**	**$-**	**$118.34**	**$-**	**$-**	**$-**	**$-**	**$71.64**	**$-**	**$53.63**	**$-**	**$-**	**$111.91**	**$-**	**$-**	**-**

4.0 IMPROPER PAYMENTS CORRECTIVE ACTIONS

RETIREMENT PROGRAM

RS is familiar with the major contributing factors of improper payments; however, obstacles prevent RS from providing the level of specificity needed to fulfill OMB A-136 reporting requirements. Basically, 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 placed in "Other Reason." These improper payments include the FERS Disability Offset for Social Security Disability, Delayed Reporting of Eligibility, Unauthorized Dual Benefits (overlapping payments between benefit paying agencies), and fraud.

OPM remains committed to using other services to identify root causes of improper payments, such as the establishment of a fraud unit within its Retirement Eligibility office, and has actively engaged the OCIO to assist with achieving this commitment for FY 2019.

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 2.65 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 to 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 conducts a match to identify discrepancies that may exist between the OPM annuity roll and the Social Security Administration's (SSA) pay system. This match compares the CDM with OPM's annuity roll weekly to identify annuitants who are reported as deceased by the SSA. The Validated Agency Match System processes the death information in order to terminate Federal benefits and prevent subsequent 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 $60,473,173.00 in overpayments during FY 2018. The DMF identified and documented $344,686.55 in overpayments during FY 2018.

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 entering incorrect effective dates, salary rates, and/or tours of duty, which all impact annuity calculations. These errors may occur because OPM either incorrectly entered the information, or the retiring employee or separating agency provided incorrect information. In this regard, administrative errors may occur with both underpayments and overpayments.

CORRECTIVE ACTIONS

Audits

Quality Assurance (QA) performs continuous audits of newly adjudicated CSRS and FERS retiree and survivor claims to assess 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 information 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 has conducted audits during the screening and development stage of processing on all non-disability employing agency retirement package submissions. 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 agency headquarters' benefits officers, at the following link: **https://www.opm.gov/about-us/budget-performance/strategic-plans/retirement-processing-status.pdf**. Each month, a notice is sent to the headquarter benefits officers transmitting their respective results and highlighting the most common errors, as well as, 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 continues 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 HI 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. This effort is ongoing and remains a lengthy process. The goal is to make FEHB Program eligibility determinations more accessible and streamlined.

The current combined weighted accuracy average for CSRS and FERS annuity and survivor claims from October 1, 2017 through July 31, 2018 was 94.68 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 2018, 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 2018 was 88.93 percent.

3. Other Reason(s)

There are number of reasons for improper payments.RS identifies 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 a reduction for SSA disability. If the SSA disability award is later approved, the accrued SSA 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 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. SSA 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). To help prevent this occurrence, at the time the FERS disability annuity is finalized, OPM proactively 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 occasionally receives notification from annuitants about retroactive SSA awards. Instead, 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 is completed, 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 FERS disability annuitants are notified of their obligation to repay a FERS overpayment debt to the government, some debtors are 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 utilizing the cross-servicing tools of the Treasury, 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 that requires SSA and OPM to create an administrative process by which a FERS disability annuitant may authorize SSA to transfer a portion of the past-due Social Security benefit payable to the annuitant to OPM for the purpose of applying the past-due Social Security benefit to the FERS disability annuity overpayment. SSA and OPM are working on an Information Exchange Agreement that spells out the roles and responsibilities of each agency.

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 self-reporting by annuitants and on other sources to learn of some of these status changes. Delayed or the absence of reporting of the status changes by annuitants or other sources can result in an improper payment.

CORRECTIVE ACTION

To identify annuitant status changes and mitigate potential 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.

The Marital Certification Survey identified and documented $316,713.00 in overpayments and a savings of $95,998.00 due to remarriage of the survivor annuitant prior to age 55. The statistical data represents FY 2018.

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, as mandated by law in sections 8337(d) and 8455(a)(2) of title 5, United States Code, and section 831.1209 of title 5, Code of Federal Regulation.

The Disability Earnings Survey identified and documented $598,848.00 in overpayment prevention for 2017 (most current year available). 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.

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 FERS Annuity Supplement Survey identified and documented $6,488,112.00 in overpayment prevention. Regulations governing the FERS Annuity Supplement Survey ("FERS Supplement") require OPM to adjust (i.e. increase or decrease) the FERS Supplement effective June 30th each year. The FERS Supplement is adjusted timely; therefore, the FERS Annuity Supplement Survey does not report overpayments.

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 example, a prohibited dual benefit is when an annuitant receives benefits simultaneously from both the U.S. Department of Labor, Office of Workers' Compensation Programs (OWCP) and from OPM's RS's. 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. The Disability Earning Match identified and documented $1,722,019.00 in overpayments.

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 is 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 entitlement to payment data more quickly 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 required 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 to recover the annuity overpayment.

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. For subsequent years, they are entitled to 40 percent of average salary less 60 percent of their Social Security Benefit. If an annuitant is in interim pay after one year and his or her disability case is still being adjudicated, the FERS benefit is automatically reduced to 40 percent of average salary in order 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 and methods 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 also 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 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 potentially fraudulent activity.

In addition, OPM emphasizes electronic funds transfer (EFT) for its annuitants. The enrollment rate increased slightly in FY 2018 (through June 30) from 99.48 percent in FY 2017 to 99.57 percent in FY 2018. 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, establishing program priorities and negotiating benefit proposals, evaluating administrative cost limits, analyzing reports, survey data, exercising general oversight and comprehensively evaluating plan performance, defending lawsuits, and exploring new initiatives to reduce costs, improve quality or enhance benefit delivery.

Given the broad oversight of the FEHB Program that the CO 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 carrier staff, strengthening physical or information security, improving cash management policies or bolstering 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 greater complexity, requiring additional research, legal counsel and the development of new procedures to reach resolution. Additionally, OPM worked with the OIG to further update and clarify OPM's guidance to improve Carriers' efforts to prevent, detect, investigate, and report FEHB Program-related FWA. OPM issued Carrier Letter 2017-13, (on November 20, 2017), which updated key definitions, expanded on the process for submitting notifications, provided examples for some reporting blocks, added settlement guidelines as well as FWA manual language and training guidance. CL 2017-13 also supplements guidance from the FEHB contracts (Section 1.9 – Plan Performance).

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 CRC's MLR have revealed unique situations and generated 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 leverage BCBS' Federal Employee Program's enhanced ability to identify and mine claims through their Claims Audit Monitoring Tool. Our objective is to improve data analysis, increase cross-training between BCBS and Audit Resolution and Compliance and perform deeper trend analysis of claims types that are or have been contested. Improper payments from these audits are generally caused by internal control weaknesses found in systems or procedures, or human errors that have often been highlighted by procedural recommendations in final audit reports or identified by BCBS' own quality control reviews. HI has incorporated work plans into its resolution of these non-monetary findings and will integrate corrective actions taken by carriers with actions taken in response to similar, prior audit findings to maximize the impact of resolution efforts. Findings that question whether claims were paid at a reasonable rate or in good faith necessitate a greater degree of validation.

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 sum of the amount of dollars spent for the FEHB Program members on clinical services plus 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 CO as to whether the finding will be upheld, and a receivable established to recover the questioned costs. In situations where a CO'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 in place to prevent, identify, recover, track, and report instances of fraud.

CORRECTIVE ACTIONS

OPM has continued its collaboration with OIG to strengthen the FWA program, carrier reporting, and internal controls. Early in FY 2018, HI presented the FEHB Program Carrier FWA task force with an overview of Carrier Letter No. 2017-13 and discussed how the guidance improves procedures and reporting requirements for FEHB carriers. HI provided an overview and summary analysis of the FY 2016 FWA report, using this and other carrier feedback to further describe the new guidance. The task force session had high attendance among health plans.

Carrier reporting has increased in recent years and the improvements and clarifications in the new carrier letter assist in compilation and trend analysis of the annual reporting.

HI's efforts are now guided by a formal HI FWA team that includes representatives from Program Support and Analysis, all FEHB Contracting Groups, and Audit Resolution and Compliance. The team regularly consults with the OIG. The establishment of the team has fostered collaboration and led to a better understanding of each entity's roles and responsibilities as they apply to the FWA program. Feedback, involvement and participation by HI's Program Development and Support management, and FEIO's CO, as needed are 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 FWA 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 has now received, reviewed, and analyzed 2017 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 will continue the collaboration between OIG, the FWA team, and the Audit Resolution and Compliance function, to identify and resolve reporting discrepancies, analyze data, strengthen the FWA programs, and improve compliance.

5.0 RECAPTURE OF IMPROPER PAYMENTS REPORTING

IPERA requires any program that expends at least $1 million during the year to implement payment recapture audits, if cost effective to the agency, in order to recover improper payments. The requirement to conduct payment recapture audits is independent of whether a program is susceptible to significant improper payments.

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 2018 RS identified $212.44 million in overpayments awnd recovered $203.56 million.

HEALTH BENEFITS PROGRAM

In FY 2018 HI identified $71.35 million in overpayments, recovered $50.73 million and appropriately adjusted $35.10 million reducing the receivable by a total of $85.83 million.

6.0 AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY INITIATIVE

Treasury provides RS with a monthly listing of matches against the annuity roll. This list identifies payments that may have been paid to individuals identified in the Credit Alert System, DMF (Public), List of Excluded Individuals & Entities (Public and Restricted), Office of Foreign Asset Control (Public), and Treasury Offset Program.

While other entities in OPM can leverage some of the DNP tools for pre-award and pre-payments, RS is limited to post-payments since being identified on the DNP list does not eliminate the entitlement to an annuity. Furthermore, RS receives the robust and comprehensive DMF under a separate agreement with SSA. RS has an automated process to match against the data provided in the DMF and CDM; the DNP portal is a wholly manual process requiring each identified match 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 improper payments for RS, which manages over 2.65 million recurring annuity payments. Below are the RS results from SSA's DMF and CDM.

TABLE 3 - FY 2018 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	10,540,312	59,075	8,936	$60,473,173.00	0.56%
DMF[4]	Yearly	119,149,841	203	30	$344,686.55	0.000170%

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.

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 CRC's or holds the funds for ERC's to draw from a Letter of Credit Account. OPM does not make direct payments to healthcare providers or reimbursements to individuals for healthcare expenses; the carriers make these payments. Due to this payment structure, and other unique qualities of the FEHB program's application, award, and payment processes, OPM realizes limited value in DNP and the payment accuracy databases used by Treasury. 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 portal. However, all new carrier applications undergo a financial review by OPM's CFO, to ensure minimum requirements for liquidity, reserves, financial reporting, etc. Health carriers applying for participation in the FEHB program who do not meet the financial criteria are not accepted into the program.

If 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, with whom HI does not have a direct contractual or payment relationship.

For FY 2018, the sole new carrier application passed the CFO's financial screening and was not entered into the online search portal.

7.0 BARRIERS

RETIREMENT PROGRAM

As previously noted, 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 is 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.

Increasingly, audit findings are reflecting new and suspected improper payments of greater complexity. 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.

While enhanced FEHB Program Carrier oversight and implementation of corrective action plans are positive steps HI has taken to strengthen the program, 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, and outcomes can 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 monetary findings), and whether questioned costs are determined (e.g., the amount questioned has been validated and a receivable established) but later successfully contested by Plans.

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

8.0 ACCOUNTABILITY

OPM worked closely with the OIG during FY 2017 and dramatically strengthened its internal controls. In FY 2017, OPM tracked the progress of the actions taken in its corrective action plan, issued to Congress, and bought the agency into compliance with IPERIA through its regular Risk Management Council meetings. As a result, in May 2018, OIG reported that OPM's annual reporting for improper payments was in compliance with the reporting requirement. OPM takes its responsibility for reducing occurrences of fraud seriously.

RETIREMENT PROGRAM

Senior management remains committed to ensuring the rate of improper payments remains at 0.38 percent or less. RS established a new office dedicated to the prevention and detection of fraud. This fraud unit will, among other things, conduct in-depth reviews of fraud referrals and/or issues and identify solutions for minimizing and/or detecting potential improper payments. In addition, RS is working with the OIG Investigation staff on identified cases as well.

HEALTH BENEFITS PROGRAM

HI CO's and management are fully dedicated to the effective administration and oversight of the FEHB Program. HI underwent a reorganization in FY 2018 to strategically rebalance resources based on the current environment and future demands. This included the need to support the growing workload, responsibilities, and expectations for Federal Employee Insurance Operations while realigning the structure and staff to adapt to the smaller footprint of the Multi-State Plan (MSP) Program. The reorganization elevated the Audit Resolution function and, over time, will expand its scope to include more internal control and compliance activities. From Audit Resolution timelines to work plans, partnering to improve fraud and abuse reporting, amending our FEHB contracts to longer-term project planning, audit resolution, IP recovery goals, and other internal control-strengthening activities are incorporated into managers' performance standards.

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 jointly delivered a presentation on the Shifting Audit Landscape and Key Resolution Processes, during the 2018 annual America's Health Insurance Plans /OPM Carrier Conference. This session included common audit findings and resolution strategies, changes in OIG's audit approaches, resolution statistics, and trends. It emphasized the need to work closely with the OIG during the draft audit phase to identify and resolve potential findings before the final report is issued.

In FY 2018, OPM completed implementation of 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. Third year scoring is underway, and we anticipate continued 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 Program. CO's exercise broad authority in their day-to-day oversight, through negotiations, contract compliance, reviewing large provider and sub-contracts, lawsuits, disputed claims, benefit negotiations, performance assessment, and more. Improper payments are one of several factors that COs consider. Collaborating with all stakeholders, including OIG, the Office of the Actuary and OGC, CO's consider many technical, cost, and performance issues when resolving audit findings and making decisions on the allow ability 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. Where needed, changes to rate instruction or contract amendments may be considered to address circumstances that are not clear, or where guidance is silent.

9.0 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.

HEALTH BENEFITS PROGRAM

OPM has initiated the development of an FEHB Central Enrollment Portal and Database (CEPD) to provide an improved and comprehensive enrollment platform that provides a one-stop shop for plan selection and enrollment, premium and enrollment reconciliation, and a repository for enrollment data. The decentralized structure of the FEHB Program enrollment and reconciliation process can lead to claim payments for individuals no longer eligible for FEHB coverage because the carrier was never notified of the change in eligibility. For example, employing agencies are responsible for notifying carriers of an employee's termination; while enrollees are responsible for notifying carriers of family members no longer eligible for coverage (for example divorce). The carrier may not receive notification of these types of enrollment actions, sometimes for years after the event. These claims payments are considered improper upon discovery and are subsequently reported in the OIG's recurring "claims-to-enrollment" audits.

This project, if successfully implemented, should greatly reduce or eliminate these claim payment errors related to late notification of enrollment changes. The CEPD is envisioned to become the authoritative source for program-wide FEHB enrollment and enrollment changes. The CEPD will house all enrollees and family members, and enrollment changes will be communicated to carriers in real-time or near real-time.

10.0 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 reviews OIG audit reports, assesses responses 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 reported to OMB, although provisional improper payments are known as "questioned amounts," in the respective OIG final 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, audit type and scope, the size of the health plans under examination, the nature of the overpayments, the amounts questioned in OIG audit reports, disparities between the 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 resolution or 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, per section 2.3(g) of the contract, declare it to be uncollectible. A Carrier may also contest the validity of an audit's findings by documenting its position with sound evidence or by asserting its 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 recoveries 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 may be one or multi-year cases negotiated by the Department of Justice on behalf of the Federal Government.

11.0 ADDITIONAL COMMENTS

OTHER SOURCES FOR IDENTIFYING AND CORRECTING IMPROPER PAYMENTS

RS has developed additional mechanism 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. RS continue to explore other opportunities to detect anomalies and other indicators in our data that may require further analysis.

In OPM's efforts to combat improper payments is not limited to identifying deceased annuitants. It also includes periodic mailings of congratulatory birthday letters for aged annuitants, and the review and correction of SSN's and names and dates of birth to improve RS's Internal Revenue Service reporting via 1099-Rs. RS also use data mining to show cases, for example, where payments to more than one payee are out of balance, amounts of benefits exceed a threshold, and when multiple payments are returned. Among the data mining projects done on a recurring basis are cases suspended for over six months, duplicate SSN's, no SSNs, multiple annuity claim numbers, and FERS cases with annuitants under age 62 who are receiving SSA benefits. RS endeavors to administer its programs with all due diligence; these various analyses help RS preserve program integrity.

Returned 1099Rs

The reason 1099Rs are returned is innocuous in nature, such as an annuitant moving without notifying RS of a change in address. Following an OIG recommendation, RS has analyzed returned 1099Rs for approximately five years, as part of its ongoing efforts to reduce improper payments.

To date, RS has not found a correlation between returned 1099R's and improper payments. RS did not complete an analysis of returned 1099R's in FY 2018, but did continue to refine the process and will undergo another analysis in FY 2019.

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, but are not limited to, the following topics:

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

RS also regularly communicates with annuitants through other means, such as the annual annuity mailer, email blasts, the benefits booklet, updates on the Retirement Information Center portion of OPM's website, and special ad hoc mailings. Topics in FY 2018 included information on email phishing, phone scams, consumer protection alerts, the annual FEHB Open Season, tips on the availability of Services Online (the web portal for annuitants), information on annual surveys, updated "Frequently Asked Questions" and life events for which annuitants may need to contact OPM, and a February mass mailer announcing 2018 tax law changes that took effect.

Over 95 Project

OPM had periodically investigated the status of retirees and survivors over the age of 95 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 2018, Retirement Eligibility Services (RES) began an Over 95 Project. The project verified the vitality of 515 annuitants over age 95. RES placed 47 cases in a suspend status. Twenty, cases required a change in records, such as date of birth or SSN, and 64 responses required a representative payee (3rd party payee). Three hundred and twenty four annuitants returned the notarized "Address Verification" letters timely. As a result of this project, OPM identified, four fraud cases with improper payments totaling $601,741.10.

Over 92 Project

In addition, RES conducted the Over 92 Project of annuitants that had not used their HB premiums since 2015. RES received data for 220 annuitants of these 213 were analyzed. RES dropped 42 cases for death during the review process and placed, 36 cases were in a suspended status. Four fraud cases were identified with improper payments totaling $1,623,838.32.

RES intends to conduct the "Over 90 Project" on an annual basis beginning in 2019.

12.0 RISK ASSESSMENT

As required by the IPIA as amended and OMB implementing guidance, OPM reviews its non-risk-susceptible programs to determine if they are susceptible to significant improper payments. The OPM IPERIA Risk Assessment Tool contains seven required risk factors, specific risks identified by the program that may lead to improper payments, and controls that may mitigate those risks. By examining these areas, the risk assessment tool provides a comprehensive review and analysis of selected programs' operations to determine if a payment risk exists and, if so, the nature and severity of the identified risks.

OPM completed three risk assessments (representing risk assessments of programs and purchase cards) and concluded that the three programs were not susceptible to the risk of significant improper payments.

The following risk factors were considered in each risk assessment:

- Whether payments or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The number of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
- Recent major changes in program funding and program operations;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
- Inherent risk of improper payments due to the nature of agency programs or operations;
- Significant deficiencies in the audit reports of the agency or other relevant management findings that might hinder accurate payment certification;
- Results from prior improper payment work;
- Results from prior internal control reviews;
- Employee Turnover increases the risk associated with a particular system;
- The dollar value of payments made annually.

TABLE - 4 FY 2018 Risk Assessment Cycle

Program Name	Was the Program or Activity Susceptible to Significant Improper Payments During FY 2018 Risk Assessment
Purchase Card	No
Payroll	No
Vendor Payments	No

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 2018 and 2017. 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 $14.9 million via BFS cross servicing.

TABLE 18 - Debt Management Activity

Retirement Program ($ in Millions)		
Receivables Activity	**September 2018**	**September 2017**
Total receivables at beginning of year	$426.9	$439.2
New receivables and accruals	212.7	238.7
Less collections, adjustments, and amounts written-off	215.3	251.1
Total receivables at end of period	$424.3	$426.9
Total delinquent	$19.0	$17.0
Percent delinquent of total receivables	4.5%	4.0%
Health Benefits Program ($ in Millions)		
Receivables Activity	**September 2018**	**September 2017**
Total receivables at beginning of year	$100.4	$130.2
New receivables and accruals	68.8	39.1
Less collections, adjustments, and amounts written-off	85.8	68.9
Total receivables at end of period	$83.4	$100.4
Total delinquent	54.1	82.6
Percent delinquent of total receivables	65%	82.0%

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances that are current (less than 61 days). Tables 19 and 20 compare OPM's percentages that are more than 61 days old to Government-wide percentages.

TABLE 19 - Travel Card Usage

($ in Thousands)	September 2018*	September 2017
Outstanding Balance (OPM)	$47.16	$22.67
Outstanding more than 61 days (OPM)	$17.61	$4.41
% outstanding more than 61 days (OPM)	37%	19%
% outstanding more than 61 days (Government wide)	4.15%	4.07%

*September 2018 source: JPMC Payment Net, Delinquencies with Current Balance Report.

TABLE 20 - Purchase Cards

($ in Thousands)	September 2018	September 2017
Outstanding Balance (OPM)	$94.09	$364.82
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)	0.26%	0.17%

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. In FY 2018, OPM conducted a survey of a representative sample of employees to obtain a base-line of the awareness of fraud risks among the workforce. The survey was designed to provide agency leaders with employee feedback on conditions critical to fraud awareness: perceptions of management and supervisory effectiveness, behaviors within work units, and personal satisfaction with policies and procedures. The survey was designed around the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring). The results of the survey will be used to integrate OPM's fraud risk management activities with its Enterprise Risk Management capability.

OPM's Retirement Services established new office dedicated to the prevention and detection of fraud. This fraud unit will, among other things, conduct in-depth reviews of fraud referrals and/or issues, identify solutions for minimizing and/or detecting potential improper payments, coordinate with other agencies/organizations to identify best practices for preventing and detecting fraud, and provide training to Retirement Services employees to assist with detecting and preventing fraud.

Strengthening controls surrounding FEHB carriers' Fraud Waste and Abuse (FWA) programs continues to be a priority for OPM's Healthcare and Insurance (HI). During FY 2018, Healthcare and Insurance underwent a substantial reorganization to enable it to leverage resources and talent in ways previously unavailable, which is expected to further strengthen oversight of FEHB carriers' FWA efforts. In addition, HI FWA's team was realigned in an effort to expand representation and strengthen oversight. Working with OPM-OIG, HI released FWA Carrier Letter CL17-13 in November 2017, which updated key definitions, expanded on the process for submitting notifications, and added settlement guidelines as well as FWA manual language and training guidance. Furthermore, HI has increased its collaboration with OIG to facilitate resolving FWA-related audit findings and will present at the next quarterly FEHB FWA Task Force meeting.

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 is 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. In FY 2017, OPM submitted a request for $2.2 million in Consolidation Funding in order to relocate a portion of staff presently located in Arlington, VA into our HQ facility. With funding now approved, we are working closely with GSA to execute this project, completion of which will accomplish several goals:
    - It will support the consolidation of our CIO office, which is presently located on all floors of the building in 17 separate blocks of space. This will reduce the CIO footprint in Theodore Roosevelt Building (TRB) by approximately 11,000 USF and improve their UR efficiency by 36 percent, bringing the all-in UR to 107 square feet per person. This is particularly critical to OPM after the recent cyber breach, as staff requires co-location to improve utilization efficiencies, staff cohesiveness and collaboration, and to align staff and management in appropriate adjacencies.
    - This will clear sufficient space in Headquarters to accommodate the OPM Director's Performance and Accountability Council's Program Management Office (PAC PMO) from commercial space in Arlington, VA to the space cleared by CIO. Relinquishing the PAC PMO commercial lease will result in rent savings of $148,758 per year.
    - Additionally, upon project completion of CIO consolidation, OPM will be able reduce its warehouse footprint in Landover, Maryland from 7,140 square feet to 2,500 square feet as furniture stored in the warehouse is repurposed in the new CIO space. This represents a release of 4,640 square feet back to the commercial market.
- **Co-location Opportunities.** To the greatest extent possible, OPM partners with other government agencies to co-locate our field offices and reduce the federal government's overall realty footprint.
    - A prime example is OPM's partnership with the Department of Defense (DoD) where we have located 77 National Background Investigations Bureau (NBIB) field offices on available DoD space totaling 132,081 square feet. This is a beneficial arrangement, allowing OPM to avoid the cost of leasing this space on the commercial market.
    - In FY 2019, we will close a 1,888 square foot NBIB office in private, commercial space in Coral Springs, FL and relocate to the Ft. Lauderdale Courthouse. We will employ a similar strategy in Las Vegas, Nevada where we will close a 1,442 square foot NBIB office in a private, commercial space and relocate to the Lloyd George Federal Building.
- **Expansion of Telework and Workspace Sharing.** We recently completed a workspace sharing project within HRS Program Office in TRB, whereby staff who telework three (3) or more days per week share cubicles and/or offices. Implemented in the fall of 2017, it resulted in an overall reduction of 19,000 USF (47.3 percent) in the TRB HRS footprint. Initially an ad-hoc program, this became a model for other OPM program offices, including the HRS/MSAC co-located office in San Francisco. With MSAC expanding its implementation of teleworking and HRS

going to full-time telework for their entire staff, OPM reduced its realty footprint in San Francisco by 6,852 USF when the project was completed in early 2018. In the most recent Benchmarking exercise, OPM's utilization rate is 185.35 square feet per person, which is well below the Government-wide average of 272.38.

Reduce the Footprint Baseline Comparison. While OPM had a slight increase of 1,562 square feet in 2017 and experienced no change in 2018, for 2019 OPM does expect reductions to the footprint from the projects described above. However, the future is not without its challenges. One of the two most daunting will be the expected transfer of most or all of the NBIB program to DoD as laid out in the 2017 passage of NDAA Section 938. This will adversely affect OPM's utilization rate in the coming years as the highly space efficient NBIB field offices are reduced or relinquished entirely from OPM's portfolio. The other daunting challenge will be the proposed transfer of the Human Resources Solutions (HRS) program office to the General Services Administration. Once the transfer of NBIB to DoD and the proposed transfer of HRS to GSA are executed, OPM will then have the knowledge to project future impacts to OPM utilization rates.

Reduce the Footprint Baseline Comparison			
Baseline	FY 2016 Baseline	2017	2018
Square Footage	1,122,597	1,124,141	1,124,141

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 & Description	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty (Dollar Amount or Range)	Bureau Name	Location for Penalty Update Details
5 CFR 185, 103(a); 5 CFR 185, 103(f)(2)	Civil Penalty for False Claims & Statements	2015	2018	$11,181		https://www.federalregister.gov/documents/2018/07/24/2018-15764/program-fraud-civil-remedies-civil-monetary-penalty-inflation-adjustment

Appendix A – Acronyms and Abbreviations

(Unaudited – See accompanying Independent Auditors' Report)

Acronym	Definition
ACA	Affordable Care Act of 2010 (Affordable Care Act or ACA)
AFGE	American Federation of Government Employees
ALIL	Actuarial Life Insurance Liability
AFR	Agency Financial Report
APG	Agency Priority Goal
APR	Annual Performance Report
AR	Audit Resolution
ARPS	Annuity Roll Processing System
ART	Accuracy, Responsiveness, and Timeliness
ATO	Authority to Operate
BPD	Bureau of Public Debt
BFS	Bureau of the Fiscal Service
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
CEPD	Central Enrollment Portal and Database
CFC	Combined Federal Campaign
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations

Acronym	Definition
CHCO	Chief Human Capital Officer
CIO	Chief Information Officer
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

Acronym	Definition
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEM	Disability Earnings Match
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DISP	Debt Issuance Suspension Period
DNP	Do Not Pay
DoD	Department of Defense
DSS	Defense Security Service
EBS	Employee Benefits System
ECAS	Enterprise cost Accounting System
ECTS	Executive Correspondence Tracking System
EDR	Employee Digital Record
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

Acronym	Definition
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
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

Acronym	Definition
FSAFEDS	Flexible Spending Account for Federal Employees
FSC	Facilities, Security, & Contracting
FSEM	Facilities, Security & Emergency Management
FSM	Financial Systems Modernization
FSSP	Federal Shared Service Providers
FTE	Full-time Equivalent
FWA	Fraud, Waste, and Abuse
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAS	Government Account Series
GFIS	Government Financial Information System
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
GPRAMA	Government Performance and Results Act Modernization Act of 2010
GS	General Schedule
GSA	General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
GWA	Government-wide Accounting
HB	Health Benefits
HC	Human Capital
HCDW	Health Claims Data Warehouse
HDHP	High Deductible Health Plan
HI	Health and Insurance
HIT	Health Information Technology
HMO	Health Maintenance Organizations

Acronym	Definition
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
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

Acronym	Definition
MLR	Medical Loss Ration
MSP	MultiState Plan
MSPB	Merit Systems Protection Board
NBIB	National Background Investigations Bureau
N/A	Not applicable
NDAA	National Defense Authorization Act
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
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OI	Office of Investigations
OMB	U.S. Office of Management and Budget
OPEB	Other Postemployment Benefits
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
OSI	Office of Strategy and Innovation
OWCP	Office of Workers' Compensation Program
PAAT	Performance Appraisal Assessment Tool

Acronym	Definition
PAC PMO	Performance and Accountability Council's Program Management Office
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
RBO	Reimbursable Business Operations
RF	Revolving Fund
RMC	Risk Management Council
RMIC	Risk Management and Internal Control Group
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

Acronym	Definition
SNC	Statement of Net Cost
SOC	Security Operations Center
SOS	Schedule of Spending
SPFI	Summary of Performance and Financial Information
SSA	Social Security Administration
SSCLoB	Security, Suitability and Credentialing Line of Business
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
TRB	Theodore Roosevelt Building
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

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CFO-02308-AFR-11/2018