United States Office of Personnel Management

Agency Financial Report

Fiscal Year 2019

OPM.GOV

NOVEMBER 2019

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Message from the Director, Agency Financial Report 2019

I am pleased to present the United States Office of Personnel Management's (OPM) Fiscal Year (FY) 2019 Agency Financial Report (AFR). This AFR is one in a series of reports used to convey budget, performance, and financial information with regard the agency to the United States Congress and the American Taxpayers.

OPM remains committed to the responsible and transparent management of our resources. We remain committed to enhancing our information technology infrastructure and maintaining a mature enterprise risk management strategy in order to prevent fraud, waste, and abuse. By strengthening internal controls and leveraging technology we can continue to effectively serve the over 5.8 million federal civil servants, retirees, and survivors who rely on the successful execution of our mission.

Notably, FY 2019 marked the transition of the National Background Investigations Bureau (NBIB) to the Department of the Defense (DOD) pursuant to the National Defense Authorization Act for Fiscal Year 2018 and Executive Order 13467. This task involved the transfer of over 3,000 personnel and over $1 billion in program assets. I thank the staff of OPM, NBIB, and the newly formed Defense Counterintelligence and Security Agency (DCSA) for the many hours of hard work it took to accomplish this transition.

In my short time at OPM, I have been pleased to find committed and talented civil servants who serve our nation. Every day these outstanding men and women diligently work to deliver world class products and services to our stakeholders. It is an honor and a privilege to be a part of this agency and its critical mission.

Sincerely,

Dale Cabaniss

Dale Cabaniss
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 2019 gross budget, including appropriated, mandatory administrative authorities and revolving fund activities, totaled $2,058,078,917. In FY 2019, the agency had approximately 5,500 full-time equivalent employees. OPM's discretionary budget authority, excluding the Office of the Inspector General, was $265,655,000. For more information about OPM, please refer to the agency's website, **www.opm.gov**.

ABOUT THIS REPORT

The FY 2019 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 2020, OPM will publish its FY 2019 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 2019, 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

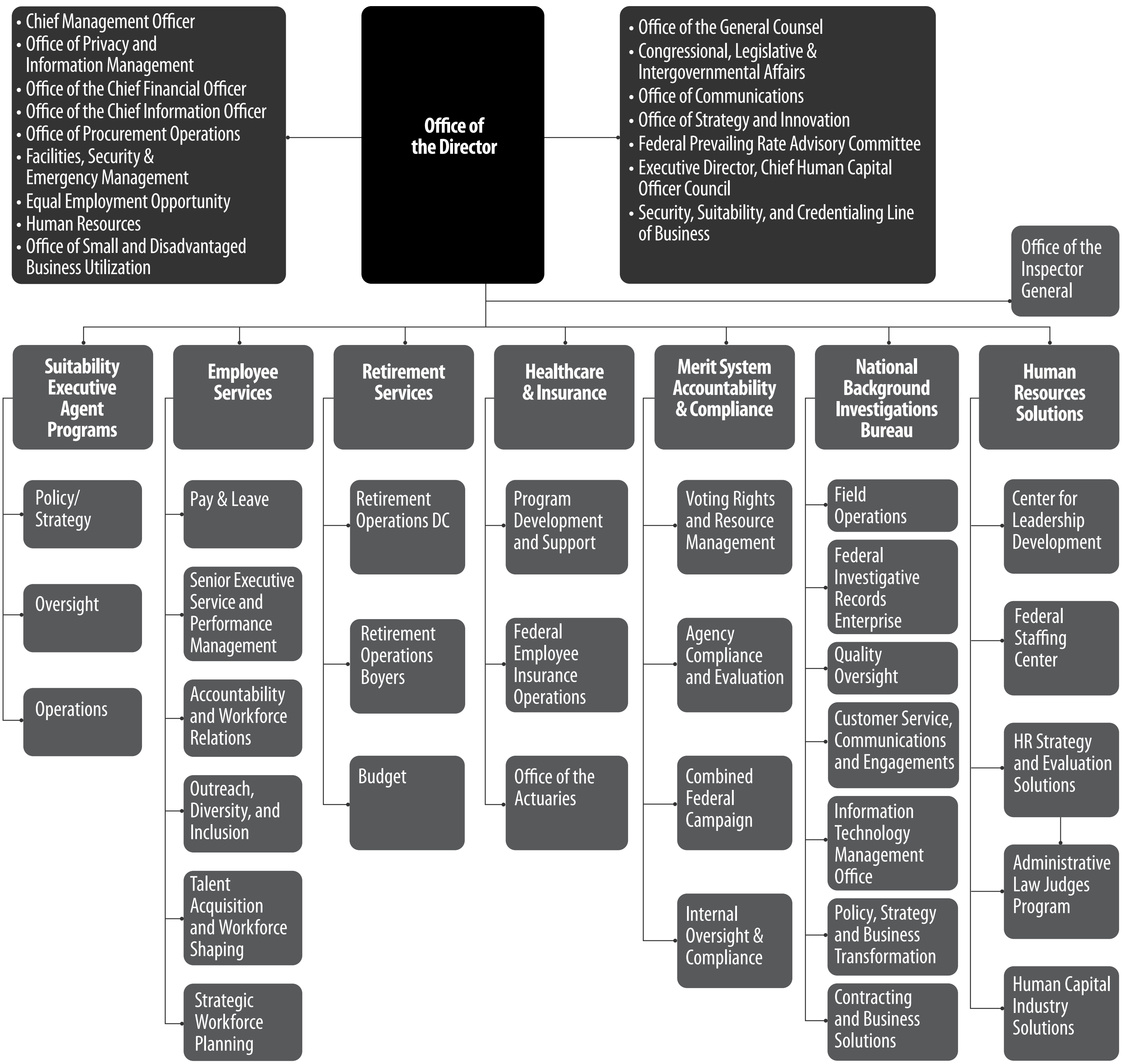
OPM's Strategic Plan is the starting point for performance and accountability. The FY 2018-2022 plan details four strategic goals and corresponding objectives to *lead and serve the Federal Government in enterprise human resources management by delivering policies and services to achieve a trusted effective 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	Improve collection and analysis of data to better inform human capital management decisions
	2.2	Advance human capital management through the strategic use of interoperable HR IT that connects all parts of the talent management lifecycle and drives agency 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 FRAMEWORK

OPM's divisions and offices and their 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 four different types of offices: Executive, Program, Mission Support, and Others, 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. 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. The 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. Additionally, the ExecSec coordinates OPM's international affairs activities and contacts.

- ***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 of 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.

- ***Office of Privacy and Information Management (OPIM)*** was established in February 2019 in order to elevate and co-locate certain important and complementary subject matter areas and, in so doing, call attention to their significance in the day-to-day business operations of OPM and ensure they were properly resourced. This included realigning the former Information Management and Freedom of Information Act (FOIA) groups from the Office of the Chief Information Officer into OPIM and realigning the Chief Privacy Officer/ Senior Agency Official for Privacy from within the Office of the Director to lead the new organization. OPIM's key areas of responsibility are: Privacy; FOIA; Records Management; Section 508 Accessibility; Forms Management/ Paperwork Reduction Act; and Controlled Unclassified Information.

- ***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. Further, consistent with the Government in Ethics Act, OGC is also responsible for working on any regulations related to the Standards of Conduct issued by the United States Office of Government Ethics in collaboration with DOJ.

- ***Congressional, Legislative and Intergovernmental Affairs (CLIA)*** is the OPM office that fosters and maintains relationships with Members of the 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 leadership and the Congress, as well as 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 as well as Government-wide.
- ***Office of Strategy and Innovation (OSI)*** uses data and research to develop human capital strategy and leads human resources innovation throughout the Federal Government. OSI includes both the Data Analysis Group and the Survey Analysis Group.

PROGRAM OFFICES

- ***Employee Services (ES)*** administers statutory and regulatory provisions related to recruitment, strategic workforce planning, pay, leave, performance management and recognition, leadership and employee development, reskilling, work/life/wellness programs, diversity and inclusion, and labor and employee relations efforts with tools, education, and direct support. Employee Services also uses data and research to develop human capital strategy and leads human resources innovation throughout the Federal Government.
- ***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 development and management functions for the Federal Employees Health Benefits (FEHB) Program, Federal Employees' Group Life Insurance (FEGLI), the Federal Long Term Care Insurance Program (FLTCIP), the Federal Employees Dental and Vision Insurance Program (FEDVIP), and the Federal Flexible Spending Account Program (FSAFEDS).
- ***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 regulations. MSAC evaluates agencies' programs through a combination of OPM-led evaluations and as participants 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 is required to report to Congress on its review and determinations concerning these appointments. MSAC also adjudicates classification appeals, job grading appeals, Fair Labor Standards Act claims, compensation and leave claims, and declination of reasonable offer appeals (where the grade or pay is equal to or greater than the retained grade (5 CFR 536.402), 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. Further, MSAC manages OPM's Office of Internal Oversight and Compliance, which drives the resolution of audit recommendations to strengthen OPM's risk management and operational performance.

- ***Human Resources Solutions (HRS)*** is a fee-based organization comprised of four practice areas offering a complete range of tailored and standardized human resources products and services, on a reimbursable basis, designed to meet the unique and dynamic needs of the Federal Government, including operationalizing Government-wide HR policies and other key human capital initiatives. Accordingly, 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 mission success. This includes recruiting and examining candidates for positions for employment by Federal agencies nationwide; managing the Leadership for a Democratic Society program and other leadership, management, and professional development programs; automating the full range of Federal rules and procedures for staffing, learning and performance management; operating the USAJOBS online recruitment site; developing specialized assessments and performance management strategies; providing comprehensive HR strategy; and offering Federal customers human capital management, organizational performance improvement, and training and development expertise procured through best-in-class contracts. The Administrative Law Judges (ALJ) program provides noncompetitive services to 28 agencies employing ALJs Government-wide, to include processing noncompetitive actions, details, classification, and reviewing vacancy announcements.

- ***National Background Investigations Bureau (NBIB)*** was 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 focused on continuous process improvements through innovation, stakeholder engagement, and agile acquisition strategy in order to meet the important national security need of establishing a trusted Federal Government and contractor workforce. The functions of NBIB were transferred to the Department of Defense (DOD) at the beginning of FY 2020.

- ***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.

- ***Office of the Chief Financial Officer (OCFO)*** provides leadership and coordination of OPM financial management services, accounting, financial systems, budget, performance, enterprise risk management, and internal controls programs which enable the agency to achieve strategic objectives and mission. Additionally, the OCFO ensures the completion of timely and accurate financial reports that support decision making, comply with Federal requirements, and demonstrate effective management of taxpayer dollars.

- ***Office of the Chief Information Officer (OCIO)*** develops the Information Resource Management Plan and defines the information technology vision and strategy to include information technology policy and security for OPM. The OCIO manages the IT infrastructure that supports OPM business applications and operations. The OCIO 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 OCIO 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 OCIO 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 OCIO leads the agency's information technology architecture engineering to further architecture integration, design consistency, and compliance with Federal standards. The OCIO also works with other agencies on Government-wide projects such as IT Modernization, Cloud Email Adoption, 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, physical security and safety, and occupational health programs. FSEM provides personnel security, suitability, and national security adjudicative determinations for OPM personnel. FSEM oversees OPM's Personal Identification Verification program and provides shared service adjudicative services to other government agencies. FSEM directs the operations and oversees OPM's classified information, industrial security, insider threat, and preparedness and emergency response programs.

- ***Office of Procurement Operations (OPO)*** awards and administers several thousand contract actions and interagency agreements annually, with an estimated value of over $2 billion. OPO provides acquisition support to OPM programs and 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, 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 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, compliant, 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. A complete discussion of the OIG, including regarding its audit, investigation, evaluations, and other oversight activity, may be found in the OIG's separate budget submission.

FY 2019 PERFORMANCE HIGHLIGHTS

This section contains OPM's performance results for its FY 2018-2019 Agency Priority Goals. OPM will publish complete performance results in the agency's FY 2019 Annual Performance Report, which is scheduled for publication on the agency's website at **www.opm.gov** in February 2020, concurrent with OPM's FY 2021 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:

While responsibility for the EDR has shifted to GSA, OPM retains the leadership role for the Federal Human Capital Information Model which supports all of the other strategy areas. Through Integrated Process Teams, OPM's Human Resources Line of Business (HRLOB) continues to develop and mature the Human Capital Information Model in regular collaboration sessions with agencies, shared service providers, OPM policy offices, and other data stakeholders prior to submission to the Data Review Board for approval.

The Data Review Board continues to meet monthly to address, govern, and advise on Human Capital Information Model development, changes, governance, and outreach. On July 13, 2019, the OPM Director realigned the duties of the Data Review Board to the Chief Data Officer Council in order to meet the requirements of the Foundations for Evidence-Based Policymaking Act of 2018.

Through FY 2019, OPM approved and released more than 1,630 data standards, approved by a Data Review Board, related to payroll, time and attendance, transfer, separations, and retirement. HRLOB released version 1.1 and version 1.2 of the Federal Human Capital Data Standard, as well as related schemas and domain values. OPM also worked to create the Federal Human Capital Data Standard to automate and streamline human capital management services, support self-service, support retirement processing and health benefits, and advance data analytics. The first example of implementation of the standard is the Government-wide NewPay initiative to outsource the payroll calculation to private vendor(s). OPM developed these standards in regular collaboration with agencies, shared service providers, OPM policy offices, and other data stakeholders prior to submission.

The Data Review Board also worked towards the creation of a cross-Governmental Alternate Employee ID. While it is not currently prioritized, OPM will continue to formulate the business case for the request. This ID would be used in lieu of an employee's social security number and would be part of the Federal Human Capital Data Standard. Over the course of FY 2019, the Federal Human Capital Data Standard team collaborated with GSA's Business Standards Council. The team compared data standards across different Lines of Business, such as Travel and Financial Management, to determine ownership and promote consistency.

Performance Milestones:

FY 2019 Milestones	Met/Not Met
Analyze privacy metadata and prioritize privacy integration	Not Met†
Integrate initial privacy content into Human Capital Information Model so that data can be smartly designed and securely shared	Not Met†
Establish data feeds based on EDR data standards	N/A*
Socialize initial data integration with providers	Met
Stand up initial data repository so that other agencies and industry can interoperate and use the data standard	N/A*
Build and provide a state of the art data exchange platform	N/A*

* OPM priorities have shifted from development of the Employee Digital Record. OPM will continue to work with agencies to develop and implement the Human Capital Information Model.

† While the Alternate Employee ID is not currently prioritized, OPM will continue to formulate the business case for the request.

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:

OPM strengthened the capabilities of Federal HR professionals by redesigning the delegated examining (DE) training and certification program that creates a level standard for HR delegated examiners. However, OPM made the mandatory training component and on-the-job training elements voluntary. By September 30, 2019, OPM did not achieve its goal of having at least 43 percent of delegated examiners complete the updated certification program. The newly developed assessment test remains mandatory for certification and has been implemented.

OPM, with the assistance of the Chief Human Capital Officers (CHCO) Council, continues to implement strategies to close the skills gaps of Federal HR specialists. Together, OPM and Federal agencies have a vested interest in training employees who can perform examining functions well and in a manner that is defensible. To do that, employees must be knowledgeable about competitive examining procedures and requirements.

OPM continues to manage and track the progress of the DE Certification Program and the HR Policy Center of Excellence. The DE Certification Program is key to ensuring that all Federal HR practitioners are equipped with the knowledge and understanding of the process to fill competitive civil service jobs. The HR Policy Center of Excellence is in the process of selecting a new group of participants who are expected to start in Q2 FY 2020. Both of these programs are designed to build capability amongst Federal HR professionals. OPM will continue to monitor the progress of these programs as part of the initiative to build capability and close skill gaps for HR Professionals.

Delegated Examining Certification Program

During FY 2019, OPM completed development of the DE certification program. Over the course of the year, the agency updated and finalized training course materials as well as completed the DE Operations Handbook. OPM developed and published a DE Certification Program Guide outlining new requirements, costs, and how to register. The agency also completed changes to the enrollee registration and training tracking system. OPM launched the DE Certification Assessment in Q4 FY 2019.

HR Policy Center of Excellence

In FY 2019, a five participant cohort completed a pilot program. Over the course of the year, the cohort attended workshops on Diversity and Inclusion; Talent, Acquisition, and Workforce Shaping; Strategic Workforce Planning; Accountability and Workforce Relations; Pay and Leave; and Senior Executive Service and Performance Management. In addition, the cohort participated in onsite visits to a CHCO Council meeting and the Merit Systems Protection Board and a coaching session on Strategic Human Capital Management. By the end of FY 2019, the HR Policy Center of Excellence completed its evaluation of the program. This evaluation incorporated feedback from participants as well as both home and host supervisors.

Performance Measures:

Percent of Federal HR professionals who perform delegated examining (DE) work completing DE certification						
FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2018 Results	FY 2019 Results	FY 2019 Target	Met/ Not Met
*	*	*	*	0%	43%	Not Met†

* No historical data available for this period.

† OPM launched the DE certification program in Q4 FY 2019. OPM intended both the training and assessment components of the program to be required for certification. However, with the launch of the program in Q4, OPM issued guidance stating that the training components of the program would be voluntary and that passing the assessment would be the only requirement for certification.

Percent of staffing specialist course participants who demonstrate knowledge improvement						
FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2018 Results	FY 2019 Results	FY 2019 Target	Met/ Not Met
*	*	*	89.0%	93%	90%	Met

* No historical data available for this period.

Percent of managers of participants in the HR Policy Center of Excellence who report an increase in the participants' knowledge/expertise						
FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2018 Results	FY 2019 Results	FY 2019 Target	Met/ Not Met
*	*	*	*	100%	85%	Met

* No historical data available for this period.

Number of participants in the HR Policy Center of Excellence						
FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2018 Results	FY 2019 Results	FY 2019 Target	Met/ Not Met
*	*	*	0	5	18	Not Met†

* No historical data available for this period.
† Due to implementation challenges identified in the development of the implementation plan, OPM did not meet the target. The HR Policy Center of Excellence aims to begin training a new group of participants in Q2 FY 2020.

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 OCFO 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 2019 APR in February 2020.

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 twentieth 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 2019, OPM held $1,130.7 billion in assets, an increase of 2.1 percent from $1,107.2 billion at the end of FY 2018. 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 $1,066.7 billion, which represents 94.3 percent of all assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and its total assets, in normal years, usually both grow.

There was a Debt Issuance Suspension Period (DISP) instated by the Treasury Department that began on March 4, 2019 and ended on August 2, 2019 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 2019, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $24.2 billion. When the net effect is favorable, the Retirement Program has the ability to reinvest interest earnings and apply the excess funds to the Treasury Transferred-In to subsidize the underfunding of the Civil Service Retirement System (CSRS). The CSRS transfer was a total of more than $34.3 billion for FY 2019.

Liabilities

At the end of FY 2019, OPM's total liabilities were $2,447.7 billion, an increase of 2.1 percent from $2,398.5 billion at the end of FY 2018. 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

$1,976.7 billion at the end of FY 2019, an increase of $38.2 billion, or 2.0 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Post-Retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $402.2 billion at the end of FY 2019. This reflects an increase of approximately $11.6 billion from the amount at the end of FY 2018, or 3.0 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 decreased by approximately $0.3 billion in FY 2019 to $53.6 billion, or (0.6) 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 2019 by $1,317 billion, primarily due to the large actuarial liabilities. However, it is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 3—Net Assets Available for Benefits—shows that OPM's net assets available to pay benefits have increased by $23.7 billion in FY 2019 to $1,115.5 billion.

TABLE 3 - Net Assets Available for Benefits

($ in Billions)	FY 2019	FY 2018	Change
Total Assets	$1,130.7	$1,107.3	$23.4
Less "Non-Actuarial" Liabilities	15.2	15.5	(0.3)
Net Assets Available to Pay Benefits	$1,115.5	$1,091.7	$23.8

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 2019 Net Cost of Operations was a Loss of $82.9 billion, as compared with a Loss of $90.3 billion in FY 2018. 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 $45.9 billion in FY 2019, an increase of $24.0 billion from FY 2018. As reported on the SNC, there was a current year loss of $11.2 billion for CSRS due to changes in actuarial assumptions, such as a decrease to the assumed long term interest rate.

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 increased in FY 2019 by $27 million from FY 2018 and OPM's earnings on CSRS investments declined by approximately $858 million from the prior fiscal year.

TABLE 4 - Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2019	FY 2018	Change
Gross Cost	$43.6	$39.4	$4.2
(Net of Assumptions of Gain/Loss)	11.2	(7.9)	19.1
Associated Revenues	8.9	9.6	(0.7)
Net Cost of Operations	$45.9	$21.9	$24.0

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 $34.4 billion in FY 2019, as compared to the $38.3 billion in FY 2018. 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 2019 decreased by $14.3 billion from FY 2018 resulting in a Net Cost of Operations of $16.6 billion for the FY 2019. 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 gains and interest costs on the accrued actuarial liability.

For FY 2019, OPM incurred a Pension Expense for FERS of $72.1 billion, as compared with $84.4 billion in FY 2018. The primary reasons for the decrease in FERS pension expense were due to changes in long term actuarial economic assumptions. There was an actuarial gain of $0.5 billion in FY 2019, due to lower assumed future long term rate of annuitant cost of living increase and general salary increase. The FY 2019 Pension Expense also reflected an experience loss primarily due actual general salary increase and COLA rates being greater than assumed rates.

Contributions by and for FERS participants increased by $1,359 million, or 3.9 percent from the prior FY 2018, 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 2019	FY 2018	Change
Gross Cost	$72.6	$63.7	$8.9
(Net of Assumptions of Gain/Loss)	(0.5)	20.7	(21.2)
Associated Revenues	55.5	53.5	2.0
Net Cost of Operations	$16.6	$31.0	$(14.4)

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 2019, OPM paid FERS benefits of $18.7 billion, compared with $16.4 billion in FY 2018. 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 2019 decreased by $14.3 billion from that in FY 2018, 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 2019	FY 2018	Change
Gross Cost	$75.8	$67.5	$8.3
(Net of Assumptions of Gain/Loss)	(8.8)	13.0	(21.8)
Associated Revenues	44.7	43.9	0.8
Net Cost of Operations	$22.3	$36.6	$(14.3)

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 2019. The total amount due to the PSRHBF from the USPS is $47.2 billion: $42.6 billion due from FY 2011 – FY 2018 and $4.6 billion for FY 2019. As of September 30, 2019, the Postal Service has indicated payment of the total $47.2 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 2019, OPM incurred a PRHB expense of $27.5 billion, as compared with $42.8 billion in FY 2018. This change is due to actuarial gain largely attributable to updated cost curve, retirement plan choice assumptions and population changes.

Current Benefits and Premiums stayed level with FY 2019. However, the contributions (for and by participants) increased by $658 million from FY 2018 to FY 2019. As discussed above, in FY 2019, a total of $47.2 billion in payments was due to the PSRHB Fund from the USPS.

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

TABLE 7 - Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2019	Total FY 2018
Claims	$31.6	$11.2	$42.8	$42.9
Premium Expense	4.5	2.2	6.7	6.9
Administrative Expense and Other	$3.4	$2.5	$5.9	$3.5

NET COST TO PROVIDE LIFE INSURANCE BENEFITS

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits decreased from a Net Cost of $0.9 billion in FY 2018 to Net Income $(1.5) billion in FY 2019. Gross Cost increased $0.1 billion for FY 2019 as compared to FY 2018, with an actuarial gains of $1.6 billion. The Associated Revenues higher for FY 2019 as compared to FY 2018 by $0.4 billion. 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 2019 and 2018. 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 2019 as compared to FY 2018.

TABLE 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2019	FY 2018	Change
Gross Cost	$ 4.6	$4.5	$.01
(Net of Assumptions of Gain/Loss)	(1.6)	0.5	(2.1)
Associated Revenues	4.5	4.1	0.4
Net Cost (Income) of Operations	$ (1.5)	$0.9	$(2.4)

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 $ 284.3 billion in budgetary resources was available to OPM for FY 2019, OPM's budgetary resources in FY 2019 included $ 71.8 billion (25.3 percent) carried over from FY 2018, plus three major additional sources:

- Appropriations Received = $ 56.9 billion (20.0 percent)
- Trust Fund receipts of $ 106.8 billion, less $ 13.9 billion not available = $92.9 billion (32.6 percent)
- Spending authority from offsetting collections (SAOC) = $ 62.7 billion (22.1 percent)

* Total budgetary resources do not include $16.5 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 $44.6 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 2019	FY 2018
Trust Fund Receipts	32.6%	32.4%
Balance Brought Forward from Prior Year	25.3%	25.2%
Spending Authority from Offsetting Collections	22.1%	22.2%
Appropriations	20.0%	20.2%

Trust Fund Receipts are Retirement Program and PSRHB Fund 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 2019	FY 2018
Retirement Benefits	63.0%	63.3%
Health Benefits	34.3%	34.3%
Life Insurance Benefits	1.6%	1.7%
Other	1.1%	0.7%

From the $ 284.3 billion in budgetary resources OPM had available during FY 2019, it incurred obligations of $ 210.7 billion less the $ 43.6 billion transferred from the Treasury's General Fund (see Note 1G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $44.6 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 2019 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

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

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

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

Management Assurances

Office of Personnel Management

FY 2019 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, 2019, 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. One non-conformance with financial management system requirements is noted in Exhibit B, as a result of the material weaknesses described in Exhibit A. Other than the exception noted, OPM can provide reasonable assurance that it complies with FFMIA as of September 30, 2019.

Dale Cabaniss 11/14/19

Dale Cabaniss
Director

Date

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

The 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.

FMFIA 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 provides guidance to federal managers on improving accountability and effectiveness of federal programs as well as mission-support operations through implementation of Enterprise Risk Management (ERM) practices and by establishing, maintaining, and assessing internal control effectiveness. The Circular emphasizes the need to integrate and coordinate risk management and strong and effective internal control into existing business activities and as an integral part of managing an Agency. In addition, OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (Appendix A), contains specific requirements for agencies to assess internal control over reporting. OPM's Risk Management Council (the "Council") oversees the Agency's internal control program. The 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 employs a multi-pronged approach to evaluating its systems of internal control over Agency operations, reporting, and compliance with applicable laws and regulations. Under the oversight of the Risk Management Council, office heads conducted self-assessments of the internal controls under their purview and provided an assurance statement detailing whether their internal control systems met the requirements of FMFIA. This included an assessment of entity level controls. As part of the assessment, each business unit assessed its controls against the 17 internal control principles from the Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government. As part of the overall assessment, RMIC reviewed these submissions along with applicable reports of audits performed by the Office of the Inspector General and GAO throughout the reporting period to determine if there were other material weaknesses that should be reported in the assurance statement. Finally, in accordance with Appendix A, OPM assessed the effectiveness of its internal controls to support reliable reporting through testing the design and operating effectiveness of key internal controls over external financial and non-financial reporting.

A significant change related to Appendix A is the requirement that agencies develop and maintain a Data Quality Plan that considers the incremental risks to data quality in federal spending data and any controls that would manage such risks in accordance with OMB Circular No. A-123. As part of our assessment of internal control over reporting, RMIC conducted a test of the design of the key controls contained in OPM's DQP. For FY 2019, our testing was limited to determining whether the key controls documented in the plan are designed appropriately.

EXHIBIT A - SUMMARY OF MATERIAL WEAKNESSES

Information Security Governance Program

In its audit of OPM's compliance with FISMA, OIG reported that, in FY 2019, OPM's cybersecurity maturity level is measured as "2 - Defined." While continued maturity is necessary, OPM made progress in FY 2019, closing eight prior recommendations.

OIG stated that the FY 2019 FISMA Inspector General reporting metrics use a maturity model evaluation system derived from the National Institute of Standards and Technology's Cybersecurity Framework. The Cybersecurity Framework is comprised of eight "domain" areas and the modes (i.e., the number that appears most often) of the domain scores are used to derive the agency's overall cybersecurity score. These eight domains are broad cyber security control areas used to assess the effectiveness of the information security policies, procedures, and practices of the agency. Each domain is comprised of a series of individual metrics, which are the specific controls that they evaluate and test when assessing the agency's cybersecurity program. Each metric receives a maturity level rating of 1-5.

Information Systems Control Environment

In FY 2019, OPM's Independent Auditor reported deficiencies in various aspects of OPM's information systems control environment, including in the areas of Security Management, Logical Access, Configuration Management and Interface / Data Transmission Controls. The information system issues identified in FY 2019 included repetitive conditions consistent with prior years, as well as new deficiencies. Due to the continued existence of these deficiencies, as well as new deficiencies, they are reported collectively as a material weakness in OPM's internal control over financial reporting.

OPM is committed to assessing each condition contributing to these material weaknesses and will develop an appropriately risk-based, cost effective plan to address each condition.

COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

Financial Management Systems

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

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

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2019, except for the financial management systems requirements, as noted in Exhibit B. 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 law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets; and reliable and timely information was maintained, reported, and used for decision making. CFO 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 sustains OPM's mission objectives and overall government requirements.

In FY 2019 the Cost Accounting project team made significant strides in the functional and technical aspects of sustaining OPM's Enterprise Cost Accounting System (ECAS) solution. Functionally, ECAS played an important role in the transition of the background investigations process to the DOD by providing costs estimations to support the identification and classification of the continuation of background services at the newly established Defense Counterintelligence and Security Agency (DCSA) under DOD. This effort included the development of a Service Catalog that defined and priced financial management services to be purchased by DOD from OPM. In addition to transition efforts, ECAS also supported the Retirement Services (RS) organization in meeting Congressional reporting requirements. This six-month data standardization effort for RS resulted in greater transparency in identifying data sources for metrics reporting. Lastly, over the course of the fiscal year, the ECAS project continued to enhance cost accounting system data with added drivers, and non-labor detail, which, in turn yielded additional granularity with the data reporting. Agency stakeholders are realizing the benefits of the system and using the tool to help in their analysis of operational cost. Technical milestones and accomplishments include the acquisition and configuration of an OPM-owned cloud environment and accompanying software components. OPM expects to meet required security requirements through the Authority to Operate (ATO) to finalize its deployment of ECAS in the OPM-owned cloud environment in FY 2020.

Budget Management System (BMS) continues to serve as OPM's core budget and performance system. OPM continues to realize benefits from the implementation it operationalized in FY 2017. Since then, several capabilities were added to BMS which enhanced personnel models for budget formulation and operating plans. These improvements have fostered and enriched the FY 2021 budget request, to include OPM's Congressional Budget Justification (CBJ) and Annual Performance Report (APR), and the Annual Performance Plan (APP). In FY 2020, additional enhancements will include the automation of the Congressional Operating Plan (COP), integrated Budget Execution capabilities, and delivery of business intelligence and analytics technology to support agency planning and execution of its strategic mission.

One strategic priority that is vital to meeting the "optimize agency performance" goal and emphasizing high value work is the replacement of the financial system used to manage OPM's earned benefits trust funds. The Trust Funds Modernization effort will provide stability, service, and sustainability through the automation of trust fund financial management, reduced manual work and time needed to complete financial management and accounting activities, reduction of human errors, and reduced overall costs of operation and maintenance by optimizing and automating related business processes into other legacy systems.

In FY 2018, in alignment with the President's Office of Management and Budget (OMB) Memorandum M-16-11, and Memorandum M-17-22, the Administrative Resource Center (ARC) was identified by OPM as a solution provider that could potentially meet the agency's Trust Funds accounting needs. In FY 2019, OPM executed an interagency agreement with Treasury ARC to execute an Engagement project with Treasury to assess how ARC can meet OPM requirements for replacing the Federal Financial System (FFS), Financial Management Collection Deposit System (FMCD2812), the Investment Sub-Ledger (ISL), and related support services. Additionally, development of the solution to automate semi-annual earned benefit program enrollment data collection with select Federal payroll offices was started in 2019. OPM also started development activities to the benefits processing systems to allow for the automated collection of seven payment streams using Online Bill Pay Services (OLBP) offered by Treasury as part of the initiative to streamline its cash management services.

In FY 2020, OPM plans to continue to partner with its Federal Shared Service Providers (FSSP) on the development and configuration activities associated with core financial management functionality and investment management functionality, which will be operational in FY 2022.

OPM will also deploy OLBP Services offered by Treasury, and leverage its centralized Receivables Services to streamline the agency's trust fund receivables collections processes. The outcomes of this multi-year endeavor will include streamlined investment accounting, transaction processing, and debt collection. Streamlining OPM's financial management and accounting systems improves efficiencies, and reduces errors while potentially realizing a costs savings to the agency due to automation. This will provide more information to customers and will enhance the quality of OPM's financial management services.

In FY 2017, OPM began Stage 1 efforts to support the Consolidated Business Information System (CBIS) migration to the Department of Transportation, Federal Aviation Administration's (FAA) Enterprise Service Center (ESC) Delphi platform. This implementation will migrate, per GSA's Unified Shared Service Management's (USSM) M3 Playbook, CBIS to the ESC's infrastructure and platform to allow for the elimination of several manual processes and introduce electronic integration with other related business systems. The initial task involved OPM completing a "Lift and Shift" move of CBIS to the FAA ESC to assist in adopting an upgraded technology platform and to reduce overall technology risk and to consolidate cost. OPM views its compliance to FFMIA through its continued partnership with FAA ESC as they also provide assurances related to their systems of controls and compliance with Federal guidelines and policy. In FY 2019, OPM engaged in Stage 2 to conduct M3 Playbook's Discovery Phase that assessed business capabilities of the FAA ESC's shared solution (Delphi) and options to meet OPM financial management requirements. On April 26, 2019, OMB released M-19-16 basically halting our progress towards beginning the actual implementation stage. OPM collaboratively worked with Office of Budget and Management [OMB], GSA's Unified Shared Service Management [USSM] and Treasury's Quality Service Management Office [QSMO] to obtain final approval to move forward with the implementation to the FAA ESC shared solution in October 2019. OPM plans to continue implementation effort through FY 2020 with a planned operational date in Q2 of FY 2021.

Since FY 2017, OPM continues 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 maintain its compliance status by applying changes to its file submissions as updates are made to the DATA Act requirements by Treasury.

In FY 2020, OPM will continue to optimize functions, processes, and service delivery across the financial management components to further its compliance with FFMIA. Our executive leadership is committed to ensuring 100% success as we continue to pave OPM's path towards shifting financial management systems and operations for OPM.

EXHIBIT B – NON-CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Information Systems Control Environment

The Agency has determined that the material weakness related to the information systems 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, 2018 through September 30, 2019 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 2019	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2018	3	$ 73.0
New reports requiring management decisions	10[1]	30.9
Management decisions made during the year	9	19.9
Costs disallowed	–	18.7
Costs not disallowed	–	1.2[2]
Reports with no management decision on September 30, 2019	4	84.0

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2018 through March 31, 2019 and April 1, 2019 through September 30, 2019.

Purpose: To provide data to the OCFO to be included in the fiscal year 2019 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, 36 reports were issued and 10 of them had monetary findings, and 26 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 2019.

The OCIO made significant progress in overcoming the staffing and resource challenges that have restrained the program in recent years. These restraints have impacted risk assessments for major information systems, complete and comprehensive testing of security controls, and consistent implementation of OPMs Information Security Continuous Monitoring activities. Senior leadership vacancies were filled early in the year and staffing deltas were documented in order to identify additional resource constraints. OCIO's commitment to appropriate staffing and maintenance of sufficient resources to support OPM's cybersecurity needs will continue in FY 2020 with plans in place to obtain additional resources in the first half of the fiscal year. Senior agency leadership has taken steps to ensure that critical positions within OCIO are funded and allocated, the benefits of which are beginning to bear fruit in the program. The CISO office maintained current Authorizations to Operate (ATOs) throughout FY 2019 for all OPM but one information system.

In FY 2019 the Security Operations Center (SOC) refined security capabilities to strengthen the security of the overall environment in support of the OPM defense-in-depth architecture. In the FY 2019 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 2019 OIG FISMA report for the third year in a row.

The Agency made significant improvements in Security Training in FY 2019 and is operating at CIGIE Maturity Model Level 4, Managed and Measurable. The agency-wide IT security awareness training program required by all Government employees and contractors contributed to this improved score as well as the enhanced tailored training for employees with significant security responsibilities. Improvements to the latter will continue in FY 2020.

OMB recently released M-19-17 which now supersedes M-11-11 and includes new ICAM requirements. In the coming year, the agency will identify steps to implement the requirements of M-19-17.

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 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:

- Set critical financial performance indicators that 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 necessary to enable it to continue to achieve Independent Public Accountant (IPA) unmodified audit opinions 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 2019 Financial Information

A Message from the Chief Financial Officer

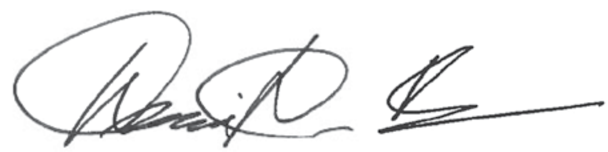
I am proud to be presenting the Office of Personnel Management's (OPM) Agency Financial Report (AFR) for Fiscal Year (FY) 2019. For the twentieth consecutive year, OPM has achieved an unmodified opinion of our consolidated financial statements from our independent public accounting firm, Grant Thornton LLP. The opinion provides reasonable assurance that the financial statements are reported fairly, in all material aspects, in accordance with U.S. Generally Accepted Accounting Principles (GAAP)

A major OPM priority for FY 2019, was the transitioning of the government-wide background investigations program to the DOD, as required in Congressional legislation. This involved the transfer of over 3,000 personnel and over $1 billion in program assets. OPM partnered with the newly-formed DCSA to make this a seamless transition. Due to the extraordinary work of OPM and DCSA personnel, the National Background Investigations Bureau was transferred from OPM to DCSA on October 1, 2019.

OPM continued to place a major focus on the modernization of its financial systems and associated toolsets to improve financial transparency, automate manual processes, and reduce long-term operating costs. We continued with the modernization of our earned benefits accounting system and business processes by launching a partnership with the Department of Treasury's Administrative Resource Center to develop and deploy a solution that will continue to account for $1 trillion in earned benefit assets. We also completed a deployment strategy for the Enterprise Cost Accounting System, which will serve as an agency-wide cost accounting tool that will provide additional transparency to the cost of agency operations and support future budget developments.

As OPM moves forward, we will continue the commitment to stability and sustainment necessary to support our infrastructure, maturing our enterprise risk management strategy, strengthening internal controls, and leveraging technology to reduce manual and burdensome processes as we continue to serve over 5.8 million employees, retirees, and survivors. I continue to appreciate partnering with my OPM colleagues as we maintain a solid financial stewardship of agency resources and provide increased transparency to our stakeholders. On behalf of Federal employees, retirees, their families, and survivors, we are honored to safeguard these assets against fraud, waste and abuse. Again, it is with great pleasure that I, on behalf of the OCFO organization, provide you with the FY 2019 AFR, documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds.

Sincerely,



Dennis D. Coleman
Chief Financial Officer

Transmittal from OPM's Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the Inspector General

November 18, 2019

Report No. 4A-CF-00-19-022

MEMORANDUM FOR DALE CABANISS
Director

FROM: NORBERT E. VINT
Deputy Inspector General Performing the Duties of the Inspector General

SUBJECT: Audit of the U.S. Office of Personnel Management's Fiscal Year 2019 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 2019 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, 2019 and 2018. 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. 19-03, *Audit Requirements for Federal Financial Statements*.

Grant Thornton's audit report for Fiscal Year 2019 includes opinions on the consolidated financial statements and the individual statements for the three benefit programs. In addition, Grant Thornton separately reported on internal controls and on compliance with laws and regulations. In its audit of OPM, Grant Thornton found:

www.opm.gov www.usajobs.gov

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

- Grant Thornton's 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 deficiencies.

  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) Section 803(a), 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 Section 803(a) disclosed no instances of substantial noncompliance with the applicable Federal accounting standards and the application of 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 2019 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 19-03, 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 15, 2019, 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 90 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

Jonathan J. Blyth
Acting Chief of Staff

Honorable Dale Cabaniss 4

Kathleen M. McGettigan
Chief Management Officer

Mark A. Robbins
General Counsel

Dennis D. Coleman
Chief Financial Officer

Clare A. Martorana
Chief Information Officer

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

Janet L. Barnes
Director, Internal Oversight and Compliance

Lori Giblin
Chief, Risk Management and Internal Control

Independent Auditors' Report

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Dale Cabaniss, Director
United States Office of Personnel Management

Norbert E. Vint, Deputy Inspector General Performing the Duties of the 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, 2019 and 2018, 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, 2019 and 2018, 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 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-03 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 statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's

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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 opinions.

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, 2019 and 2018, 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, 2019 and 2018, 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 statement of budgetary resources 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. With the exception of the Retirement, Health Benefits and Life Insurance Programs in the combining statement of budgetary resources, on which we have expressed an opinion, 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 financial statements as of and for the years ended September 30, 2019 and 2018 (Schedules 1 through 3) and the Civil Service Retirement System (CSRS) and Federal Employees Retirement

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System (FERS) columns in the consolidating statements of net cost for the years ended September 30, 2019 and 2018 (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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Other Information (Section 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 15, 2019, 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 15, 2019

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

Dale Cabaniss, Director
United States Office of Personnel Management

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Bulletin No. 19-03, *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, 2019 and 2018, 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, 2019 and 2018, 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 15, 2019, on the financial statements.

Internal control over financial reporting

Management's responsibility for internal control
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

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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 over financial reporting is a process affected 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 material weakness in the Agency's internal control.

Material Weakness – Information Systems Control Environment

In accordance with the Federal Managers' Financial Integrity Act of 1982 and the requirements of the OMB Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*, Agency management is responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance. This includes establishing information systems (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

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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 2019, deficiencies noted in FY 2018 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 2019 included repetitive conditions consistent with prior years, as well as new deficiencies. The deficiencies in OPM's IS control environment are in the areas of Security Management, Logical 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:

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- General Support Systems (GSSs) and application System Security Plans, Risk Assessments, Authority to Operate Packages and Information System Continuous Monitoring documentation were incomplete, not timely, 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.

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 Access

Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. 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. We noted the following deficiencies during our review of OPM's logical access to controls:

- Users, including those with privileged access, were not appropriately provisioned and de-provisioned access from OPM's information systems.
- OPM did not comply with their policies regarding the periodic recertification of the appropriateness of user access.

- 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 are not compliant with OPM policy.
- OPM could not provide a system generated listing of all users who have access to systems, as well as a listing of all users who had their access to systems revoked during the period.
- System roles and associated responsibilities or functions, including the identification of incompatible role assignments, were not documented.
- Audit logging and monitoring procedures were not developed for all tools, operating systems, and databases contained within the application boundaries. Further, a comprehensive review of audit logs was not performed, or was not performed in a timely manner.
- Memorandums of Understandings and Interconnection Service Agreements were not documented, signed, or reviewed on an annual basis.

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

- Users have access to both, develop and migrate changes to the information systems. Additionally, there were instances in which OPM was unable to articulate users with access to develop and migrate changes to the information systems.
- OPM did not perform post-implementation reviews to validate that changes migrated to production were authorized for in scope systems.
- OPM did not maintain a security configuration checklist for platforms. Furthermore, baseline scans were not configured on all production servers within application boundaries. Lastly, misconfigurations identified through baseline scans were not remediated in a timely manner.
- Patch management procedures are outdated. Furthermore, 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 issues noted above present 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, and validate that security software and tools are installed on all systems.
- 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.

Logical 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.
- Implement two-factor authentication for applications.

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- 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.

- Prepare audit logging and monitoring procedures for databases within application boundaries. 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, and all users who had their systems access revoked.

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

- Document, sign, and review and update Interagency Service Agreements and Memorandums of Understanding in accordance with agency policies and procedures.

Configuration Management

- 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.

- Separate users with the ability to develop and migrate changes to production, or implement controls to detect instances in which a user develops and migrates the same change.

- Conduct post-implementation reviews to validate that changes migrated to production are authorized.

- 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.

- Update patch management procedures to reflect current operating conditions. 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
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
The objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Agency. Accordingly, we do not express such an opinion.

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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 the USSGL at the transaction level.

Agency's response to findings

The Agency's response to our findings, which is 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 15, 2019

U.S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED BALANCE SHEETS

As of September 30, 2019 and September 30, 2018

(In Millions)

	FY 2019	FY 2018
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	**$3,354**	**$3,366**
Investments [Note 3]	**1,066,721**	**1,050,945**
Accounts Receivable [Note 4]	**57,927**	**50,441**
Total Intragovernmental	**1,128,002**	**1,104,752**
Accounts Receivable from the Public, Net [Note 4]	**1,830**	**1,754**
General Property and Equipment, Net	**3**	**2**
Other [Note 1L]	**818**	**762**
TOTAL ASSETS	**$1,130,653**	**$1,107,270**
LIABILITIES		
Intragovernmental [Note 6]	**$944**	**$1,601**
Federal Employee Benefits:		
Benefits Due and Payable	**12,751**	**12,382**
Pension Liability [Note 5A]	**1,976,700**	**1,938,500**
Postretirement Health Benefits Liability [Note 5B]	**402,201**	**390,638**
Actuarial Life Insurance Liability [Note 5C]	**53,615**	**53,863**
Total Federal Employee Benefits	**2,445,267**	**2,395,383**
Other [Note 6]	**1,486**	**1,469**
TOTAL LIABILITIES	**2,447,697**	**2,398,453**
Commitments and Contingencies [Note 7]		
NET POSITION		
Unexpended Appropriations	**58**	**58**
Cumulative Results of Operations	**(1,317,102)**	**(1,291,241)**
TOTAL NET POSITION	**(1,317,044)**	**(1,291,183)**
TOTAL LIABILITIES AND NET POSITION	**$1,130,653**	**$1,107,270**

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, 2019 and 2018

(In Millions)

		FY 2019	FY 2018
Provide CSRS Benefits	Gross Costs	$43,582	$39,355
	Less: Earned Revenue	8,916	9,557
	Net Cost	34,666	29,798
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	11,221	(7,939)
	Net Cost of Operations [Notes 8 and 9]	$45,887	$21,859
Provide FERS Benefits	Gross Costs	$72,622	$63,747
	Less: Earned Revenue	55,546	53,477
	Net Cost	17,076	10,270
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	(506)	20,733
	Net Cost of Operations [Notes 8 and 9]	$16,570	$31,003
Provide Health Benefits	Gross Costs	$75,789	$67,529
	Less: Earned Revenue	44,687	43,873
	Net Cost	31,102	23,656
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	(8,830)	12,974
	Net Cost of Operations [Notes 8 and 9]	$22,272	$36,630
Provide Life Insurance Benefits	Gross Costs	$4,589	$4,519
	Less: Earned Revenue	4,482	4,077
	Net Cost	107	442
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	(1,575)	471
	Net Cost of Operations [Notes 8 and 9]	($1,468)	$913
Provide Human Resource Services	Gross Costs	$2,138	$1,633
	Less: Earned Revenue	2,537	1,747
	Net Cost of Operations [Notes 8 and 9]	($399)	($114)
Total Net Cost of Operations	Gross Costs	$198,720	$176,783
	Less: Earned Revenue	116,168	112,731
	Net Cost	82,552	64,052
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	310	26,239
	Net Cost of Operations [Notes 8 and 9]	$82,862	$90,291

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, 2019 and 2018

(In Millions)

	FY 2019	FY 2018
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$58	$39
Budgetary Financing Sources:		
Appropriations Received	57,088	55,951
Other Adjustments	(134)	(25)
Appropriations Used	(56,954)	(55,907)
Total Budgetary Financing Sources	-	19
Total Unexpended Appropriations - Ending Balance	58	58
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	($1,291,241)	($1,256,887)
Budgetary Financing Sources:		
Appropriations Used	56,954	55,907
Other Financing Sources	47	30
Total Financing Sources	57,001	55,937
Net Cost of Operations	82,862	90,291
Net Change	(25,861)	(34,354)
Cumulative Results of Operations - Ending Balance	($1,317,102)	($1,291,241)
NET POSITION	($1,317,044)	($1,291,183)

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, 2019 and 2018

(In Millions)

	FY 2019	FY 2018
BUDGETARY RESOURCES		
Unobligated Balance, from Prior Year Budget Authority, Net	$71,758	$69,324
Appropriations	149,827	145,812
Spending Authority from Offsetting Collections	62,753	61,046
Total Budgetary Resources	$284,338	$276,182
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments [Note 11]	$210,709	$204,646
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,456	1,245
Unapportion, Unexpired Accounts	72,112	70,232
Expired, Unobligated Balance, End of Year	61	59
Total Unobligated Balance, End of Year	73,629	71,536
Total Budgetary Resources	$284,338	$276,182
OUTLAYS, NET		
Outlays, Net	$148,056	$143,044
Less: Distributed Offsetting Receipts	44,918	44,242
Agency Outlays, Net	$103,138	$98,802

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO OPM 2019 AGENCY FINANCIAL REPORT

SEPTEMBER 30, 2019 and 2018 [$ in millions]

The numbers presented throughout the FY 2019 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.) OPM is the Federal Government's human resources (HR) agency. It was created as an independent agency of the Executive Branch of Government on January 1, 1979. Many of the functions of the former Civil Service Commission were transferred to OPM at that time.

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

The financial statements comprise the following major programs administered by OPM: The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program. The statutory authority for OPM's Federal employees' benefit programs can be found in Title 5, United States Code (USC); Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89 provides a complete description of the Employees' Health Benefits Fund and the Retired Employees' Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees' Group Life Insurance Fund provisions. In addition, Sections 802 and 803 of 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 prepared 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.

Effective for reporting periods beginning after September 30, 2018, SFFAS 51 establishes accounting and financial reporting standards and disclosures for insurance program. Current accounting and disclosures for the OPM insurance programs are in accordance with the standard.

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. Statements of Federal Financial Accounting Standards (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. Accounting 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 (SBR) 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 38.5 percent and 38.4 percent of basic pay for FY 2019 and FY 2018, respectively. For FERS, the service cost for most or "regular" FERS participants is 16.7 percent and 16.9 percent of basic pay for

FY 2019 and FY 2018, 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 2019 and 2018. 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 2019 and 2018, this amount was $34.3 billion and $34.2 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 2019 and 2018, this amount was $9.3 billion and $8.7 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 2019 and 2018).

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 pension increased by 2.3 percent. 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 than the basic benefit paid to those groups under FERS.

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

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis; OPM contributes the "employer" share for Retirement Program annuitants via an appropriation. The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A small portion, 0.02 percent of the pay of participating employees in FY 2019 and 2018, 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 Revolving Fund Programs include National Background Investigations Bureau, USAJOBS, and Human Resource Solutions. Refer to Note. 7 for information regarding the transfer the NBIB program.

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 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 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 2019 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, uninvested balances in its appropriation, trust, revolving, and trust revolving accounts. All of OPM's collections are deposited into and its expenditures paid from one of its FBWT accounts. OPM invests FBWT balances associated with the Retirement, Health Benefits, and Life Insurance Programs that are not immediately needed to cover expenditures.

J. INVESTMENTS

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

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

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

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

Debt Issuance Suspension Period. 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 U.S. 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 March 4, 2019, and the DISP continued until August 7, 2019. 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, 2019, Other Assets—Non-intragovernmental for the Health Program and Life Programs were $164 million and $654 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, or Foreign Government.

R. PARENT-CHILD REPORTING ALLOCATION TRANSFER

OPM is a party to an allocation transfer with another Federal agency, the Department of Health and Human Services (HHS), which is the parent. OPM is the receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate "Health Insurance Reform Implementation Fund," account 024075X0119, was created in the 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.

S. CLASSIFIED ACTIVITIES

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

T. PRESENTATION CHANGE

In accordance with SFFAS No. 53, Budget and Accrual Reconciliation, OPM has modified the FY 2019 presentation of Note 14, Reconciliation of Net Cost to Net Outlays, to comply with the new reporting requirements. FY 2018 balances are not required to be presented in the new format.

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, 2019 and 2018:

September 30, 2019 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$21	$1,552	$11	$1,770	$3,354
Investments	939,703	72,131	47,742	-	1,059,576
Total, Unexpended Balance	**$939,724**	**$73,683**	**$47,753**	**$1,770**	**$1,062,930**
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$1,456	$1,456
Unavailable	-	24,960	46,852	361	72,173
Obligated not yet Disbursed	7,940	4,101	901	(47)	12,895
Precluded (See Note 10)	931,780	44,611	-	-	976,391
Temporary Reduction & Rounding	4	11	-	-	15
Total, Status of Fund Balances	**$939,724**	**$73,683**	**$47,753**	**$1,770**	**$1,062,930**

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**

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 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 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 Treasury. Because OPM and the 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 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 $121 billion and $122 billion invested as of September 30, 2019 and 2018, 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 August 7, 2019.

The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2019 and 2018.

As of September 30, 2019 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program						
Marketable:						
FFB Securities	$8,809	-	$60	$8,869	-	$8,809
Non-Marketable: (PAR)						
Par-value GAS securities	884,448	-	6,335	890,783	-	884,448
Certificates of Indebtedness	46,446	-	2	46,448	-	46,446
Total Retirement Program	**$939,703**	**-**	**$6,397**	**$946,100**	**-**	**$939,703**
Health Benefits Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$27,550	$62	$44	$27,656	$(190)	$27,963
Non-Marketable: (PAR)						
Par-value GAS securities	44,611	-	306	44,917	-	44,611
Certificates of Indebtedness	-	-	-	-	-	-
Total Health Benefits Program	**$72,161**	**$62**	**$350**	**$72,573**	**$(190)**	**$72,574**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$48,101	$(179)	$126	$48,048	$(276)	$48,578
Total Life Insurance Program	**$48,101**	**$(179)**	**$126**	**$48,048**	**$(276)**	**$48,578**
Total Investments	**$1,059,965**	**$(117)**	**$6,873**	**$1,066,721**	**$(466)**	**$1,060,855**

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**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2019 and 2018 are:

September 30, 2019 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$9,632	$48,129	$23		$57,784
Other	-	-	-	143	143
Total	**$9,632**	**$48,129**	**$23**	**$143**	**$57,927**

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**

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 $4.6 billion due in September 2019 and $4.5 billion due September 2018 according to the legislation. We have not received annual payments from FY 2011 through 2019. A total of $47.2 billion is due from USPS as of September 30, 2019. The $47.2 billion is included in the A/R as it is currently under dispute with Treasury and the USPS is not planning on paying. As of September 30, 2018, a total of $42.6 billion is due from the USPS. The last payment received from the USPS 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, 2019 and 2018 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2019 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$192	$1,066	$185	-	$1,443
Overpayment of benefits [net of allowance of $111]	310	-	-	-	$310
Due from carriers [net of allowance of $0]	-	77	-	-	$77
Other	-	-	-	-	-
Total	**$502**	**$1,143**	**$185**	**-**	**$1,830**

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**

Included in the Receivable from the Public are criminal restitution orders. As of September 30, 2019, the Retirement Program and the Health Benefits Program had a balance of $65.0 million for criminal restitution orders. As of September 30, 2018, the Retirement Program and the Health Benefits Program had a balance of $59.9 million for criminal restitution orders.

NOTE 5 - FEDERAL EMPLOYEE BENEFITS

A. PENSIONS

OPM's Office of Actuaries, 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 factors such as mortality, retirements, 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, and due to changes to the actuarial assumptions.

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 2019 and 2018:

Economic Assumptions	FY 2019		FY 2018	
	CSRS	FERS	CSRS	FERS
Interest rate	2.9%	3.5%	3.0%	3.6%
Cost of Living Adjustment*	1.6%	1.3%	1.6%	1.4%
Rate of increases in salary	1.1%	1.1%	1.3%	1.3%

*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, 2019 and 2018:

FY 2019 ($ in millions)	CSRS	FERS	TOTAL
Normal cost	$2,483	$38,788	$41,271
Interest cost	31,884	30,677	62,561
Actuarial (Gain)/Loss - Experience	9,215	3,157	12,372
Actuarial (Gain)/Loss - Assumptions	11,221	(506)	10,715
Pension Expense	**$54,803**	**$72,116**	**$126,919**
FY 2018 ($ 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**

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

FY 2019 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2018	**$1,096,300**	**$842,200**	**$1,938,500**
Plus: Pension Expense	-	-	-
Normal Cost	2,483	38,788	41,271
Interest on the Liability Balance	31,884	30,677	62,561
Actuarial (Gain)/Loss:			
From experience:	9,215	3,157	12,372
From changes in actuarial assumptions:	11,221	(506)	10,715
Net (Gain)/Loss	20,436	2,651	23,087
Total Expense:	**$54,803**	**$72,116**	**$126,919**
Less: Costs applied to Pension Liability	(70,003)	(18,716)	(88,719)
Pension Liability at September 30, 2019	**$1,081,100**	**$895,600**	**$1,976,700**

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**

Costs Applied to the Pension Liability. Accounting standards require the Pension Liability be reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in FY 2019 and 2018:

FY 2019 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$69,680	$18,499	$88,179
Refunds of contributions	218	165	383
Administrative and other expenses	105	52	157
Costs applied to the Pension Liability	**$70,003**	**$18,716**	**$88,719**
FY 2018 ($ 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**

B. POST-RETIREMENT HEALTH BENEFITS

OPM's Office of Actuaries, 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 factors such as mortality, retirements, and terminations. Actuarial gains or losses occur to the extent that actual experience differs from those assumptions used to compute the PRHB Liability and associated expense, and due to changes to the actuarial assumptions.

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 2019	FY 2018
Interest rate[1]	3.5%	3.6%
Increase in per capita cost of covered benefits[2]	4.4%	4.5%
Ultimate medical trend rate	3.1%	3.2%

[1] The single equivalent annual interest rate for FY 2019 is derived from a yield curve based on the average of the last 40 quarters through March 2019. 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.

[2] The single equivalent increase in per capita cost of covered benefits for FY 2019 represents a variable trend which begins at 4.6% and then declines to 3.1% by FY 2075. Last year, the single equivalent increase in per capita cost of covered benefits represented a variable trend that began at 4.6%, and ultimately declined to 3.2%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2019 and 2018:

($ in millions)	FY 2019	FY 2018
Normal cost	$15,853	$15,428
Interest cost	14,063	13,811
Actuarial (Gain)/Loss - Experience	6,389	595
Actuarial (Gain)/Loss - Assumptions	(8,830)	12,974
PRHB Expense	**$27,475**	**$42,808**

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

($ in millions)	FY 2019	FY 2018
PRHB Liability at the beginning of the year	$390,638	$363,452
Plus: PRHB Expense		
Normal Cost	15,853	15,428
Interest on the Liability Balance	14,063	13,811
Actuarial (Gain)/Loss:		
From experience:	6,389	595
From assumption changes:	(8,830)	12,974
Net (Gain)/Loss	**(2,441)**	**13,569**
Total Expense:	**$27,475**	**$42,808**
Less: Costs applied to PRHB Liability	(15,912)	(15,622)
PRHB Liability at the end of the year	**$402,201**	**$390,638**

Costs Applied to PRHB Liability. Accounting standards require OPM to reduce the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in FY 2019 and 2018:

($ in millions)	FY 2019	FY 2018
Current benefits	$11,189	$11,855
Premiums	2,208	2,309
Administrative and other expenses	2,515	1,458
Total costs applied to the PRHB Liability	**$15,912**	**$15,622**

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 2019 and 2018:

($ in millions)	FY 2019		FY 2018	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$463,573	$351,088	$450,536	$340,870

FY 2019			
Per Capita Normal Cost at Valuation Date		One Percent Increase	One Percent Decrease
Postal	$8,488	$10,798	$6,705
Non Postal*	$7,535	$9,680	$5,893

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

*The Non Postal category includes all FEHB participants who are not Postal participants (Postal participants are current employees of the USPS or employees who have retired from the Postal Service).

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 Office of Actuaries 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 2019 and 2018. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

ALIL Interest Rate	FY 2019	FY 2018
Interest rate	3.3%	3.4%
Rate of increases in salary	1.1%	1.3%

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for FY 2019 and 2018:

($ in millions)	FY 2019	FY 2018
New Entrant Expense	$480	$477
Interest Cost	1,830	1,877
Actuarial (Gain)/Loss – Experience	(407)	(579)
Actuarial (Gain)/Loss – Assumptions	(1,575)	471
Life Insurance Expense	**$328**	**$2,246**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2019 and 2018 is:

($ in millions)	FY 2019	FY 2018
Life Insurance Expense	$328	$2,246
Less: Net Costs applied to Life Insurance liability	(576)	(590)
Future Life Insurance Benefits Expense	**$(248)**	**$1,656**

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

($ in millions)	FY 2019	FY 2018
Actuarial LI Liability at the beginning of the year	$53,863	$52,207
Plus: Expense		
New Entrant Expense	480	477
Interest on the Liability Balance	1,830	1,877
Actuarial (Gain)/Loss:		
From experience:	(407)	(579)
From assumption changes:	(1,575)	471
Net (Gain)/Loss:	**(1,982)**	**(108)**
Total LI Expense:	**$328**	**$2,246**
Less: Costs applied to Life Insurance Liability	(576)	(590)
Actuarial LI Liability at the end of the year	**$53,615**	**$53,863**

As of 9/30/2019, the total amount of FEGLI insurance in-force is estimated at $711.5 billion ($608.5 billion employees + $103.0 billion annuitants).

NOTE 6 - INTRAGOVERNMENTAL AND OTHER LIABILITIES

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2019 and 2018:

September 30, 2019 ($ in millions)	Accounts Payable	Other	Total
Retirement	$31		$31
Health Benefits	329	-	329
Life Insurance	12	-	12
Revolving Fund	-	686	686
Salaries and Expenses	-	3	3
Eliminations	(112)	(5)	(117)
Total Intragovernmental Liabilities	**$260**	**$684**	**$944**
September 30, 2018 ($ 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**

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 or 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 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, 2019 and September 30, 2018 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, 2019 and 2018:

September 30, 2019 ($ in millions)	Withheld from Benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative Expenses	Contingencies	Total
Retirement Program	$1,022	-	-	$95	$1,117
Health Benefits Program	-	222	-	-	222
Life Insurance Program	-	23	-	-	23
Revolving Fund Program	-	-	92	-	92
Salaries and Expenses	-	-	31	1	32
Total Other Liabilities	**$1,022**	**$245**	**$123**	**$96**	**$1,486**
September 30, 2018 ($ 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**

NOTE 7 - COMMITMENTS AND CONTINGENCIES

NBIB resources and activities transferred to the Department of Defense. The National Defense Authorization Act for Fiscal Year 2018, Section 925 (10 U.S.C 1564 Note) and Section 1104 of Title 5, U.S.C, directed the transfer of the NBIB resources and activities from the OPM to the DCSA. The NBIB resources and activities transferred from OPM to DCSA on October 1, 2019.

Legal Contingencies. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. For FY 2019, OPM has recorded a total liability of $95.6 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $.4 million, for the Revolving Fund the estimated amount of probable losses is $.02 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, the Life Insurance Fund, and the Flexible Spending Account (FSA) for FY 2019.

For FY 2018, OPM recorded a total liability of $97.4 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $1.9 million. 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 2018.

In addition, OPM has determined, at September 30, 2019, it is reasonably possible that losses ranging from an additional $16.2 million to $92.7 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $.8 million to $64.2 million, for the Revolving Fund the total of all reasonably possible losses ranges from $15.4 million to $26 million, for the Health Benefits Fund the total of all reasonably possible losses range from $0 to $2.2 million, and for the Retirement Fund the total of all reasonably possible losses range from $0 to $.3 million.

Environmental and Other Contingencies. OPM does not have any environmental contingencies or other contingencies.

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, 2019 and 2018:

FY 2019 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total
Provide CSRS Benefits	-	$43,582	$43,582	$8,372	$544	$8,916
Provide FERS Benefits	-	72,622	72,622	51,679	3,867	55,546
Provide Health Benefits	-	75,789	75,789	28,004	16,683	44,687
Provide Life Insurance Benefits	-	4,589	4,589	1,452	3,030	4,482
Provide Human Resources Services	631	1,927	2,558	2,951	6	2,957
Eliminations	(420)	-	(420)	(420)	-	(420)
Total	**$211**	**$198,509**	**$198,720**	**$92,038**	**$24,130**	**$116,168**
FY 2018 ($ in millions)	**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**

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by OPM are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

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.”

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 2019 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	$7	$4	$11	$1	$1,531	**$ 1,554**
	Less earned revenue	-	-	-	-	1,817	**1,817**
	Net program cost	7	4	11	1	(286)	**(263)**
Goal 2	Total program cost	-	-	-	-	98	**98**
	Less earned revenue	-	-	-	-	116	**116**
	Net program cost	-	-	-	-	(18)	**(18)**
Goal 3	Total program cost	-	-	-	-	147	**147**
	Less earned revenue	-	-	-	-	174	**174**
	Net program cost	-	-	-	-	(27)	**(27)**
Goal 4	Total program cost	53	28	33	2	197	**313**
	Less earned revenue	-	-	-	-	234	**234**
	Net program cost	53	28	33	2	(37)	**79**
Additional Mission and Mission Support Activities	Total program cost	43,522	72,590	75,745	4,586	165	**196,608**
	Less earned revenue	8,916	55,546	44,687	4,482	196	**113,827**
	Actuarial (Gain)/Loss	11,221	(506)	(8,830)	(1,575)	-	**310**
	Net program cost	45,827	16,538	22,228	(1,471)	(31)	**83,091**
Totals	**Total program cost**	**43,582**	**72,622**	**75,789**	**4,589**	**2,138**	**198,720**
	Less earned revenue	**8,916**	**55,546**	**44,687**	**4,482**	**2,537**	**116,168**
	Actuarial (Gain)/Loss	**11,221**	**(506)**	**(8,830)**	**(1,575)**	**-**	**310**
	Net program cost	**$45,887**	**$16,570**	**$ 22,272**	**$(1,468)**	**$(399)**	**$82,862**

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**

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. Also, gross cost of providing benefits are reported as "Additional Mission and Mission Support Activities."

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, 2019 and 2018 (rounding may appear):

September 30 ($ in millions)	2019	2018
Temporarily precluded from obligation at the beginning of the year	$915,321	$897,657
Plus: Trust fund receipts during the year	105,568	103,851
Plus: Appropriations Received	43,644	42,856
Less: Obligations Incurred during the year	132,753	129,043
Excess of trust fund receipts over obligations incurred during the year	16,459	17,664
Temporarily Precluded from Obligation at the End of the Year	**$931,780**	**$915,321**

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 2019 and 2018 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, 2019 and 2018:

September 30 ($ in millions)	2019	2018
Temporarily precluded from obligation at the beginning of the year	$47,145	$49,491
Plus: Special Fund receipts during the year	1,230	1,343
Less: Obligations Incurred during the year	3,764	3,689
Excess of Special Fund receipts over obligations incurred during the year	(2,534)	(2,346)
Temporarily Precluded from Obligation at the End of the Year	**$44,611**	**$47,145**

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 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 2019 and 2018:

FY 2019 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$89,109	-	$89,109
Retirement Program	E	43,644	-	43,644
Subtotal	**-**	**$132,753**	**-**	**$132,753**
Health Benefits Program	B	59,197	-	59,197
Health Benefits Program	E	13,131	-	13,131
Life Insurance Program	B	3,275	-	3,275
Life Insurance Program	E	42	-	42
Revolving Fund Program	B	-	1,828	1,828
Salaries and Expenses	A and B	408	75	483
Total		**$208,806**	**$1,903**	**$210,709**
FY 2018 Program/Fund ($ 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**

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

OPM reports information about budgetary resources in the Combined SBR and for presentation in the "President's Budget." The President's Budget for FY 2021, which will contain the actual budgetary resources information for FY 2019, will be published in February 2020 and will be available on the OMB website. The President's Budget for FY 2020, which contains actual budgetary resource information for FY 2018, was released on March 11, 2019.

There are no material differences between the SBR and the SF-133s - "Reports on Budget Execution and Budgetary Resources," for FY 2019 and 2018. Additionally, there are no material differences between the actual amounts for FY 2018 published in the President's Budget and those reported in the accompanying prior FY 2018 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 FY 2019 represents OPM's best estimates. Undelivered orders as of September 30, 2019 and 2018 consisted of the following:

Undelivered Orders ($ in millions)	Revolving Fund			Salaries & Expenses		
FY 2019	Federal	Non-Fed	Total	Federal	Non-Fed	**Total**
Unpaid	$146	$740	$886	$69	$46	$115
Paid	-	-	-	-	-	-
Total	**$146**	**$740**	**$886**	**$69**	**$46**	**$115**

Undelivered Orders ($ in millions)	Revolving Fund			Salaries & 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**

NOTE 14 - RECONCILIATION OF NET COST TO NET OUTLAYS

During FY 2018, Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 53, Budget and Accrual Reconciliation, which requires a reconciliation of OPM's net outlays on a budgetary basis to its net cost of operations during the reporting period. The Reconciliation, called the Budget and Accrual Reconciliation replaces the Reconciliation of Net Cost of Operations to Budget. This standard is effective FY 2019.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

The large increase of accounts receivable is because of additional receivable from the U. S. Postal Service for the current year. Appropriated Trust Fund Receipts in the reconciliation are related to cash collections for the Retirement Fund receipt accounts and do not offset outlays. The increase of other liabilities are due to higher Pension and Postretirement Health Benefits Actuarial Liabilities. Distributed Offsetting Receipts are collections that are credited to the Retirement Fund receipt accounts which offset gross outlays at the agency level.

U. S. OFFICE OF PERSONNEL MANAGEMENT
Combined Reconciliation of Net Operating Cost and Net Budgetary Outlays
For The Year Ended September 30, 2019
(In Millions)

	Intra-governmental	With The Public	Total FY 2019
NET OPERATING COST	($91,826)	$174,688	$82,862
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	7,487	77	7,564
Investments	67	-	67
Other:			
Appropriated Trust Fund Receipts	102,026	4,771	106,797
Other Assets	-	57	57
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	656	(37)	619
Salaries and Benefits	-	(280)	(280)
Other Liabilities (Unfunded leave, Unfunded FECA, Actuarial Liabilities)	2	(49,587)	(49,585)
Other Financing Sources:	-	-	
Imputed Financing Sources	(50)	-	(50)
Total Components of Net Operating Cost Not Part of the Budget Outlays	110,188	(44,999)	65,189
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Distributed Offsetting Receipts	(44,874)	(39)	(44,913)
Total Components of the Budgetary Outlays That are Not Part Net Operating Cost	(44,874)	(39)	(44,913)
NET OUTLAYS	($26,512)	$129,650	$103,138

NOTE 15 - HEALTH BENEFITS/ LIFE INSURANCE PROGRAM CONCENTRATIONS

During FY 2019 and 2018, 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. See Notes 1A. and 1F. for additional details on the Health Benefits and Life Insurance Programs.

NOTE 16 - RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION TO FINANCIAL REPORT OF THE U.S. GOVERNMENT

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows OPM's financial statements and OPM's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy items. A copy of the 2018 FR can be found here: **https://www.fiscal.treasury.gov/reports-statements/** and a copy of the 2019 FR will be posted to this site as soon as it is released.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

OPM Reclassification of AFR Balance Sheet, SNC and SCNP to FR Reclassified Format			
FY2019 - September 30, 2019			
	(In Millions)	(In Millions)	
Financial Statement Line	2019 Balance Sheet	2019 Reclassified Balance Sheet	Reclassified Line
ASSETS			
Fund Balance with Treasury	$3,354	$3,354	Fund Balance with Treasury
Investments	$1,066,721	$1,059,848	Federal Investments
		$6,873	Interest Receivable – Investments
Accounts Receivable	$57,927	$147	Accounts Receivable
		$57,780	Benefit Program Contributions Receivable
Total Intragovernmental	$1,128,002	$1,128,002	Total Federal Assets
Accounts Receivable from the Public, Net	$1,830	$1,830	Accounts and Taxes Receivable, Net
General Property and Equipment, Net	$3	$3	Property, Plant and Equipment, Net
Other Assets	$818	$819	Other Assets
	$2,651	$2,652	Total Non-Federal Assets
TOTAL ASSETS	$1,130,653	$1,130,654	Total Assets
LIABILITIES			
Intragovernmental	$944	$264	Accounts Payable
		$4	Benefit Program Contributions Payable
		$676	Advances from Others and Deferred Credits
	$944	$944	Total Federal Liabilities
Benefits Due and Payable	$12,751		
Pension Liability	$1,976,700		
Postretirement Health Benefits Liability	$402,201		
Actuarial Life Insurance Liability	$53,615		
Total Federal Employee Benefits	$2,445,267	$2,445,268	Federal Employee and Veteran Benefits Payable
Other Liabilities	$1,486	$1,262	Other Liabilities
		$62	Other Liabilities-Advances and Deferred Revenue
		$96	Other Liabilities-Contingent Liabilities
		$23	Federal Employee and Veteran Benefits Payable
		$43	Accounts Payable
	$2,446,753	$2,446,754	Total Non-Federal Liabilities
TOTAL LIABILITIES	$2,447,697	$2,447,698	Total Liabilities
NET POSITION			
Unexpended Appropriations	$58		
Cumulative Results of Operations	($1,317,102)	($1,317,044)	Net Position – Funds Other than those from Dedicated Collections
TOTAL NET POSITION	($1,317,044)	($1,317,044)	Total Net Position
TOTAL LIABILITIES AND NET POSITION	$1,130,653	$1,130,654	Total Liabilities and Net Position

OPM Reclassification of AFR Balance Sheet, SNC and SCNP to FR Reclassified Format			
FY2019 - September 30, 2019			
	(In Millions)	(In Millions)	
Financial Statement Line	**2019 SNC**	**2019 Reclassified SNC**	**Reclassified Line**
Gross Costs	$198,720	$2	Benefit Program Costs
		$50	Imputed Costs
		$159	Buy/Sell Cost
		$211	Total Federal Gross Cost
		$198,509	Non-Federal Gross Cost
Total Gross Costs	**$198,720**	**$198,720**	**Department Total Gross Cost**
Earned Revenue	$116,168	$61,039	Benefit Program Revenue
		$28,359	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		$2,640	Buy/Sell Revenue
		$92,038	Total Federal Earned Revenue
		$24,130	Non-Federal Earned Revenue
Total Earned Revenue	**$116,168**	**$116,168**	**Department Total Earned Revenue**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	$310	$310	Gains/Losses from Changes in Actuarial Assumptions
Net Cost of Operations	**$82,862**	**$82,862**	**Net Cost of Operations**
Financial Statement Line	**2019 SCNP**	**2019 Reclassified SCNP**	**Reclassified Line**
UNEXPENDED APPROPRIATIONS			
Beginning Balance	**$58**	$58	**Net Position, Beginning of Period**
Appropriations Received	$57,088	$56,954	Appropriations Received as Adjusted
Other Adjustments	($134)		
Appropriations Used	($56,954)	($56,954)	Appropriations Expended
Total Unexpended Appropriations - Ending Balance	**$58**	**$58**	**Total Net Position, End of Period**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	**($1,291,241)**	**($1,291,241)**	**Net Position, Beginning of Period**
Appropriations Used	$56,954	$56,954	Appropriations Used
Other Financing Sources	$47	$51	Imputed Financing Sources
		($4)	Non-entity Collections Transferred to the General Fund
Net Cost of Operations	**$82,862**	**$82,862**	**Net Cost of Operations**
Cumulative Results of Operations - Ending Balance	**($1,317,102)**	**($1,317,102)**	**Total Net Position, End of Period**
NET POSITION	**($1,317,044)**	**($1,317,044)**	**Total Net Position, End of Period**

CONSOLIDATING FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2019
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2019
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$21	$1,552	$11	$1,658	$112	-	$3,354
Investments [Note 3]	946,100	72,573	48,048	-	-	-	1,066,721
Accounts Receivable [Note 4]	9,632	48,129	23	146	114	($117)	57,927
Total Intragovernmental	955,753	122,254	48,082	1,804	226	(117)	1,128,002
Accounts Receivable from the Public, Net [Note 4]	502	1,143	185	-	-	-	1,830
General Property and Equipment, Net	-	-	-	3	-	-	3
Other [Note 1L]	-	164	654	-	-	-	818
TOTAL ASSETS	$956,255	$123,561	$48,921	$1,807	$226	($117)	$1,130,653
LIABILITIES							
Intragovernmental [Note 6]	$31	$329	$12	$686	$3	($117)	$944
Federal Employee Benefits:							
Benefits Due and Payable	6,894	4,841	1,016	-	-	-	12,751
Pension Liability [Note 5A]	1,976,700	-	-	-	-	-	1,976,700
Postretirement Health Benefits Liability [Note 5B]	-	402,201	-	-	-	-	402,201
Actuarial Life Insurance Liability [Note 5C]	-	-	53,615	-	-	-	53,615
Total Federal Employee Benefits	1,983,594	407,042	54,631	-	-	-	2,445,267
Other [Note 6]	1,117	222	23	92	32	-	1,486
TOTAL LIABILITIES	1,984,742	407,593	54,666	778	35	(117)	2,447,697
Commitments and Contingencies [Note 7]							
NET POSITION							
Unexpended Appropriations	-	-	-	-	58	-	58
Cumulative Results of Operations	(1,028,487)	(284,032)	(5,745)	1,029	133	-	(1,317,102)
TOTAL NET POSITION	(1,028,487)	(284,032)	(5,745)	1,029	191	-	(1,317,044)
TOTAL LIABILITIES AND NET POSITION	$956,255	$123,561	$48,921	$1,807	$226	($117)	$1,130,653

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2018
(In Millions)

	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 [Note 6]	1,103	251	16	69	30	-	1,469
TOTAL LIABILITIES	1,946,284	395,945	54,896	1,411	33	(116)	2,398,453
Commitments and Contingencies [Note 7]							
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 STATEMENT OF NET COST

For the Year Ended September 30, 2019

(In Millions)

	Retirement Program CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2019
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$341	$290	($420)	$211
With the Public:									
Pension Expense [Note 5A]	$43,582	$72,622	$116,204	-	-	-	-	-	116,204
Postretirement Health Benefits [Note 5B]	-	-	-	$36,305	-	-	-	-	36,305
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$1,327	-	-	-	1,327
Current Benefits and Premiums	-	-	-	36,074	3,242	-	-	-	39,316
Other	-	-	-	3,410	20	1,735	192	-	5,357
Total Gross Costs with the Public	43,582	72,622	116,204	75,789	4,589	1,735	192	-	198,509
Total Gross Costs	43,582	72,622	116,204	75,789	4,589	2,076	482	(420)	198,720
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,402	32,025	34,427	26,167	553	-	-	(109)	61,038
Earnings on Investments	5,970	19,654	25,624	1,837	899	-	-	-	28,360
Other	-	-	-	-	-	2,636	315	(311)	2,640
Total Intragovernmental Earned Revenue	8,372	51,679	60,051	28,004	1,452	2,636	315	(420)	92,038
With the Public:									
Participant Contributions	544	3,867	4,411	16,675	3,028	-	-	-	24,114
Other	-	-	-	8	2	1	5	-	16
Total Earned Revenue with the Public	544	3,867	4,411	16,683	3,030	1	5	-	24,130
Total Earned Revenue [Notes 8 and 9]	8,916	55,546	64,462	44,687	4,482	2,637	320	(420)	116,168
Net Cost	34,666	17,076	51,742	31,102	107	(561)	162	-	82,552
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	11,221	(506)	10,715	(8,830)	(1,575)	-	-	-	310
Net Cost of Operations	$45,887	$16,570	$62,457	$22,272	($1,468)	($561)	$162	-	$82,862

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)

	Retirement Program CSRS	Retirement Program FERS	Retirement Program Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2018
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 CHANGES IN NET POSITION

For the Year Ended September 30, 2019

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2019
UNEXPENDED APPROPRIATIONS						
Beginning Balance		-	-	$3	$55	$58
Budgetary Financing Sources:						
Appropriations Received	43,644	$13,264	$43	-	137	57,088
Other Adjustments	-	(133)	(1)	-	-	(134)
Appropriations Used	(43,644)	(13,131)	(42)	(3)	(134)	(56,954)
Total Budgetary Financing Sources	-	-	-	(3)	3	-
Total Unexpended Appropriations - Ending Balance	-	-	-	-	58	58
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	($1,009,670)	($274,891)	($7,255)	$437	$138	($1,291,241)
Budgetary Financing Sources:						
Appropriations Used	43,644	13,131	42	3	134	56,954
Other Financing Sources	(4)	-	-	28	23	47
Total Financing Sources	43,640	13,131	42	31	157	57,001
Net Cost of Operations	62,457	22,272	(1,468)	(561)	162	82,862
Net Change	(18,817)	(9,141)	1,510	592	(5)	(25,861)
Cumulative Results of Operations - Ending Balance	($1,028,487)	($284,032)	($5,745)	$1,029	$133	($1,317,102)
NET POSITION	($1,028,487)	($284,032)	($5,745)	$1,029	$191	($1,317,044)

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)

	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.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2019
(In Millions)

	Retirement Program	Retirement Payment Account	Health Benefits Program	Health Benefits Payment Account	Life Insurance Program	Life Insurance Payment Account	Revolving Fund Programs	Salaries and Expenses	FY 2019
BUDGETARY RESOURCES									
Unobligated Balance from Prior Year Budget Authority, Net	-	-	$24,667	-	$45,538	-	$1,445	$108	$71,758
Appropriations	$89,109	$43,644	3,764	$13,131	-	$42	-	137	149,827
Spending Authority from Offsetting Collections	-	-	55,726	-	4,589	-	2,106	332	62,753
Total Budgetary Resources	$89,109	$43,644	$84,157	$13,131	$50,127	$42	$3,551	$577	$284,338
STATUS OF BUDGETARY RESOURCES									
New Obligations and Upward Adjustments [Note 11]	$89,109	$43,644	$59,197	$13,131	$3,275	$42	$1,828	$483	$210,709
Unobligated Balance, End of Year:									
Apportioned, Unexpired Accounts	-	-	-	-	-	-	1,424	32	1,456
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	-	24,960	-	46,852	-	299	1	72,112
Expired, Unobligated Balance, End of Year	-	-	-	-	-	-	-	61	61
Total Unobligated Balance, End of Year	-	-	24,960	-	46,852	-	1,723	94	73,629
Total Budgetary Resources	$89,109	$43,644	$84,157	$13,131	$50,127	$42	$3,551	$577	$284,338
OUTLAYS, NET									
Outlays, Net	$88,853	$43,644	$3,510	$13,110	($1,284)	$42	$47	$134	$148,056
Less: Distributed Offsetting Receipts	43,687	-	1,230	-	-	-	-	1	44,918
Agency Outlays, Net	$45,166	$43,644	$2,280	$13,110	($1,284)	$42	$47	$133	$103,138

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

Required Supplementary Information

*** For the purpose of comparison presentation, FY2018 Combining Statement of Budgetary Resources by Major Budget Account has been revised, the total amounts did not change.**

U.S. OFFICE OF PERSONNEL MANAGEMENT

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018

(In Millions)

	Retirement Program	Retirement Payment Account	Health Benefits Program	Health Benefits Payment Account	Life Insurance Program	Life Insurance Payment Account	Revolving Fund Programs	Salaries and Expenses	FY 2018
BUDGETARY RESOURCES									
Unobligated Balance from Prior Year Budget Authority, Net	-	-	$23,386	-	$44,684	-	$1,151	$103	$69,324
Appropriations	$86,187	$42,856	3,689	$12,904	-	$42	-	134	145,812
Spending Authority from Offsetting Collections	-		54,555	-	4,184	-	1,979	328	61,046
Total Budgetary Resources	$86,187	$42,856	$81,630	$12,904	$48,868	$42	$3,130	$565	$276,182
STATUS OF BUDGETARY RESOURCES									
New Obligations and Upward Adjustments [Note 11]	$86,187	$42,856	$56,963	$12,904	$3,330	$42	$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	$86,187	$42,856	$81,630	$12,904	$48,868	$42	$3,130	$565	$276,182
OUTLAYS, NET									
Outlays, Net	$85,956	$42,856	$2,378	$12,849	($916)	$42	($232)	$111	$143,044
Less: Distributed Offsetting Receipts	42,899		1,343	-	-	-	-	-	44,242
Agency Outlays, Net	$43,057	$42,856	$1,035	$12,849	($916)	$42	($232)	$111	$98,802

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

SECTION 3

Other Information

OIG Management Challenges Report

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 6, 2019

MEMORANDUM FOR DALE CABANISS
Director

FROM: NORBERT E. VINT
Deputy Inspector General Performing the Duties of the Inspector General

SUBJECT: Fiscal Year 2020 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 2020 Top Management Challenges, which is included in OPM's AFR and made publicly available on the OPM website.

We submitted a draft report to OPM on October 11, 2019, which identified four environmental challenges and nine internal challenges. The environmental challenges identified represent challenges in the areas of the Proposed OPM merger with the General Services Administration, Background Investigations, Strategic Human Capital Management, and Federal Health Insurance Initiatives, and the internal challenges are related to information technology, improper payments, the retirement claims process, the procurement process, and the Federal Employees Health Benefits Program (FEHBP) enrollment and eligibility. 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 the transfer of the background investigations function to the Department of Defense (DOD), the Case Processing Backlog challenge, included in prior years' top management challenges reports, has been removed as a top management challenge. In addition, due to successful efforts by OPM to rebid several of the Federal benefit contracts, the Procurement Process for Benefit Programs challenge has been removed as a top management challenge for this year. Also, because the agency has not been able to collect data for the Health Claims Data Warehouse project, it has been removed as a top management challenge until it becomes operational.

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Furthermore, the transfer of the background investigations function to DOD also involves the transfer of OPM's legacy systems and data to DOD. Because the legacy systems are tightly integrated with other OPM systems, this has been added as a short-term top management challenge for the agency. Lastly, the problem of unentitled individuals receiving benefits from the FEHBP must be addressed and has been added as a top management challenge.

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

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

Attachment

cc: Honorable Michael J. Rigas
Deputy Director

Jonathan J. Blyth
Acting Chief of Staff

Kathleen M. McGettigan
Chief Management Officer

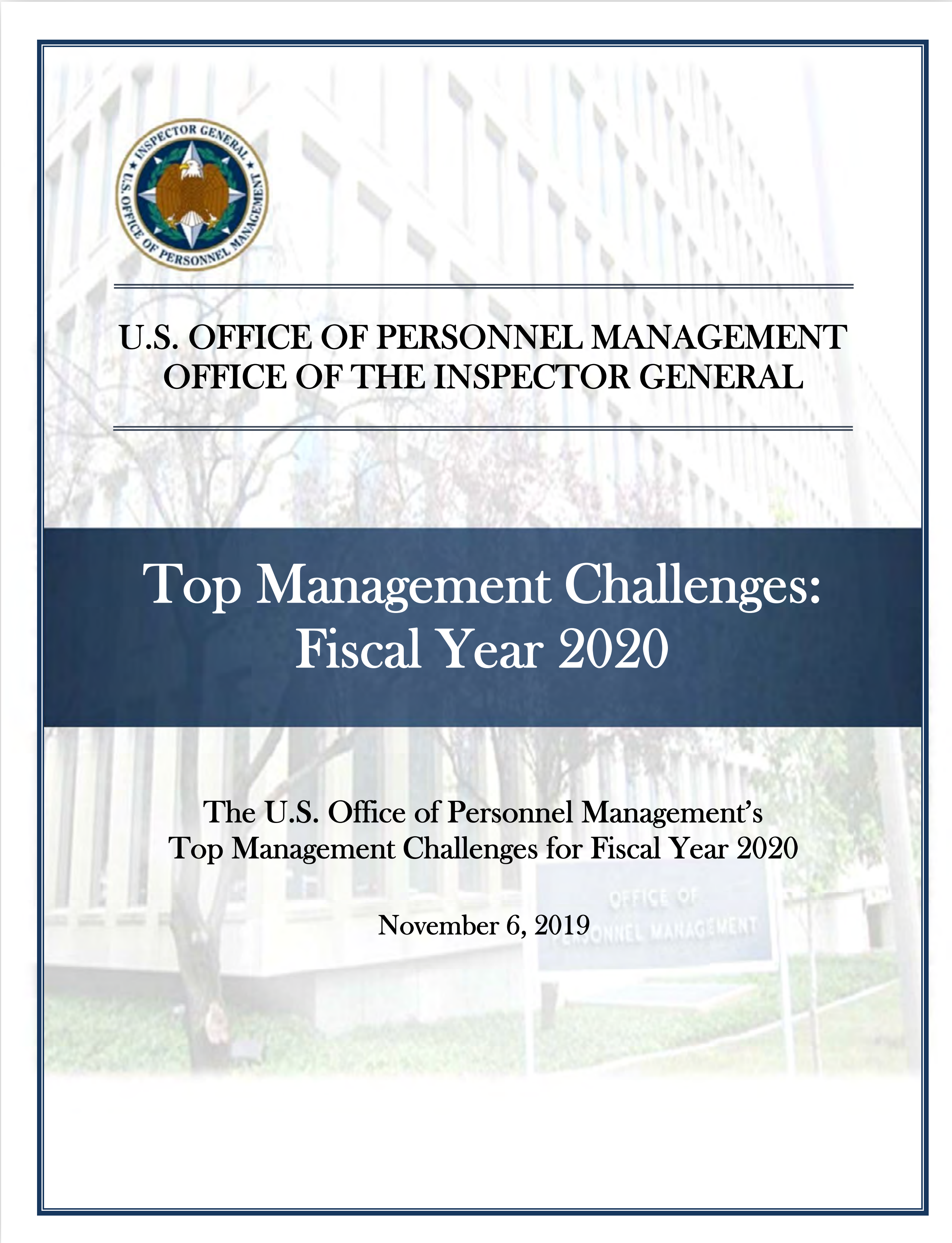
Margaret P. Pearson
Associate Chief Financial Officer

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

Janet L. Barnes
Director, Internal Oversight and Compliance

Kolo Babagana
Acting Chief, Risk Management and Internal Control

Mark A. Robbins
General Counsel



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

Top Management Challenges: Fiscal Year 2020

The U.S. Office of Personnel Management's
Top Management Challenges for Fiscal Year 2020

November 6, 2019

EXECUTIVE SUMMARY

The U.S. Office of Personnel Management's Top Management Challenges for Fiscal Year 2020

November 6, 2019

The Purpose of This Report.

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

What Did We Consider?

We identified 13 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.

For Norbert E. Vint

Norbert E. Vint
Deputy Inspector General Performing the Duties of the Inspector General

What Did We Find?

The OIG identified the following four environmental challenges:

- Proposed OPM merger with the General Services Administration;
- Background Investigations;
- Strategic Human Capital Management; and
- Federal Health Insurance Initiatives.

These environmental challenges are due to external factors including, but not limited to, rapid technological advances, shifting demographics, various quality of life considerations, and national security threats that are prompting fundamental changes to Federal Government operations. 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 nine internal challenges:

- Information Security Governance;
- Information Security Continuous Monitoring;
- Data Security;
- Information Technology Infrastructure Improvement Project;
- National Background Investigations Bureau Legacy Information Systems;
- Stopping the Flow of Improper Payments;
- Retirement Claims Processing;
- Procurement Process Oversight; and
- Federal Employees Health Benefits Program Enrollment and Eligibility.

Information Security Governance is the only challenge currently reported as a material weakness in the fiscal year 2018 Federal Information Security Modernization Act (FISMA) report. While the remaining challenges are not currently considered material weaknesses in either FISMA or the Chief Financial Officers Act Financial Statement audit report, they are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed, or face the possibility of becoming material weaknesses and having a negative impact on OPM's performance if they are not handled appropriately by OPM management.

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ABBREVIATIONS

CBIS	**Consolidated Business Information System**
DCSA	**Defense Counterintelligence and Security Agency**
DOD	**Department of Defense**
E.O.	**Executive Order**
EKRA	**Eliminating Kickbacks in Recovery Act of 2018**
FEHBP	**Federal Employees Health Benefits Program**
FISMA	**Federal Information Security Modernization Act**
FWA	**Fraud, Waste, and Abuse**
FY	**Fiscal Year**
GAO	**U.S. Government Accountability Office**
GSA	**General Services Administration**
HHS	**U.S. Department of Health and Human Services**
ISCM	**Information Security Continuous Monitoring**
IT	**Information Technology**
MLR	**Medical Loss Ratio**
NBIB	**National Background Investigations Bureau**
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**
PBM	**Pharmacy Benefits Manager**
PIV	**Personal Identity Verification**
PRISM	**Procurement Information System for Management**

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I. ENVIRONMENTAL CHALLENGES

The following challenges are issues that are potentially long-term challenges and could be on our list of top challenges for the U.S. Office of Personnel Management (OPM or "the agency") for multiple years because of their dynamic, ever-evolving nature, and because they are mission-critical programs.

This fiscal year (FY) there is a change in the environmental top management challenges. Since the National Background Investigations Bureau (NBIB)[1] has transferred to the Department of Defense (DOD), the Case Processing Backlog is no longer a challenge for OPM and therefore has been dropped.

1. PROPOSED OPM MERGER WITH THE GENERAL SERVICES ADMINISTRATION (GSA)

In June 2018, the Executive Office of the President (or "the President" or "the Administration") published *Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations*. The document puts forth a comprehensive plan that would reorganize OPM, including the transfer of a variety of OPM functions to the GSA. This proposal has also been set forth in the President's most recent budget and a May 2019 formal legislative proposal submitted by the Administration to Congress. The legislative proposal would transfer the majority of OPM's current functions and resources to GSA, including Human Resources Solutions, Information Technology (IT), Retirement, and the Healthcare and Insurance divisions. However, the proposal does not include a reorganization plan, shifting the burden to the agency to fully study, plan, and execute reorganization activities.

While the legislative proposal has not been introduced in either chamber of Congress, OPM continues to explore ways to merge functions with GSA, as demonstrated by the planned transfer of the Performance Accountability Council, Performance Management Office and Chief Human Capital Officers Council to GSA. Meanwhile, the specific details of the full OPM/GSA merger continue to evolve and every iteration of the proposed reorganization would fundamentally alter how agency functions and duties are performed. As directed by Congress and in accordance with authorities granted by the *Inspector General Act of 1978,* as amended, OPM's Office of the Inspector General (OIG) has taken an active role in the oversight of the proposed OPM/GSA merger to confirm that the process is efficient, effective, and free of fraud, waste, and abuse.

[1] As of October 1, 2019, NBIB was transferred to DOD and is now known as the Defense Counterintelligence and Security Agency.

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The agency appears to be aware of the inherent risks in the merger and has established decisional frameworks to monitor and discuss these risks. For example, OPM is using the "tollgate" process, a Six Sigma-based process used for mergers and acquisitions in the private sector, to steer the proposed reorganization plan. The agency has also attempted to engage employees by having the former Acting Director, Margaret Weichert, visit program offices. The former Acting Director participated in three town hall meetings focused on the reorganization; however, staff surveys have shown confusion and uncertainty related to the proposed merger. OPM leadership must continue to educate the staff on the reorganization in order to have an engaged and productive workforce.

The OPM OIG also remains concerned that many aspects of the proposed reorganization have not been fully documented. OPM lacks a developed analysis of alternative approaches to the merger, a thorough cost-benefit analysis, a comprehensive timeline, and documentation that delineates which legal or regulatory authorities OPM will use to administratively transfer agency functions. This is particularly evident with the planned transfer of the Performance Accountability Council, Performance Management Office and Chief Human Capital Officers Council. The agency has not conducted a business or cost-benefit analysis to justify the move of either Council. For example, the staff subject to the transition of the Chief Human Capital Officers Council to GSA would be appointed to new positions non-competitively once GSA cleared the positions through the Interagency Career Transition Assistance Plan. Not only does this process not guarantee current OPM staff reemployment at GSA, OPM has not conducted an assessment of the costs associated with this workforce restructuring. Until OPM undertakes the necessary planning to address these issues, the agency will encounter numerous challenges implementing the proposed reorganization.

In order to help ensure a successful outcome, OPM should conduct and fully document a thorough analysis of the options and the cost-benefit of those options. A review of published best practices for government reorganization may help with this effort. Beyond developing documentation to support the merger proposal, OPM leadership will also need to work towards acquiring buy-in by continuing to engage with a variety of stakeholders, including Congress, agency employees, and oversight bodies in the Executive and Legislative branches in order to effectively implement any full or partial reorganization. We look forward to continuing to work with the agency on the continued monitoring and review of these efforts.

2. BACKGROUND INVESTIGATIONS

Transfer of the Background Investigation Function

Following the massive data breach in 2015, the President issued an Executive Order (E.O.) to consolidate the background investigative services that OPM provides to Federal departments and agencies. In FY 2017, the National Defense Authorization Act directed the DOD to

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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, Section 925 of the FY 2018 National Defense Authorization Act directed DOD, in consultation with OPM, to begin carrying out the implementation plan no later than October 1, 2020, and authorized DOD to conduct background investigations for DOD-affiliated personnel. On April 24, 2019, the President signed E.O. 13869, *Transferring Responsibility for Background Investigations to the Department of Defense,* directing the transfer of the remaining non-DOD related investigations to DOD's newly created Defense Counterintelligence and Security Agency (DCSA). The E.O. stated that OPM delegate the authority to conduct these NBIB functions to DCSA, and required the transfer to DCSA take effect by October 1, 2019. The E.O. recognized that as part of this delegation, OPM would have a continuing role by establishing appropriate performance standards and oversight.

In response to the Congressional mandate to transfer DOD-related investigations, NBIB has undertaken numerous initiatives to address issues with the transfer, including identifying workforce processes, working capital and appropriated budgets, NBIB contracts, and the transfer of personnel from Title 5 to Title 10, as well as working with OPM's Office of the Chief Information Officer regarding strategies for legacy technology and NBIB data. In December 2018, NBIB published a backlog mitigation plan and reported a substantial decrease in the case backlog. We are also encouraged both by the dialogue between the two agencies, as well as by NBIB's efforts to thoroughly study and document this transfer. In June 2019, OPM delegated its authority to operate a clearance database and to conduct investigations to DOD. Over the course of FY 2019, NBIB made an effort to plan for an orderly transfer of the background investigation function.

The E.O. recognized, as mandated by Title 5, that OPM is required to establish appropriate performance standards and maintain an oversight program for this delegated authority to DOD. In addition, OPM may face a significant challenge regarding the transfer of IT systems to DCSA. OPM anticipates the transfer of IT systems to DCSA to take some time. In the interim, OPM will need to continue to maintain and secure OPM's legacy IT systems, which have presented challenges in the past. The OIG will monitor OPM's compliance with its legal requirements regarding the delegation and the transfer to DCSA, and the OIG will continue to monitor OPM's IT systems controls and legacy IT-related issues.

The E.O. also included the transfer of NBIB employees and resources associated with those functions from OPM to DOD. NBIB is the single largest component of OPM, employing approximately 3,000 full-time equivalent employees, and providing a variety of investigative products to over 100 federal agencies. Receipts for these services contribute over $2.24

billion in revenue. Initially, the transfer of NBIB personnel and funds to DOD presented OPM with a $70 million budget shortfall. Through OPM's successful advocacy with Congress and the Administration, the continuing resolution for FY 2020 included an additional $48 million for OPM. Additionally, OPM anticipates partially mitigating the shortfall with the buyback by DOD of certain IT and financial services from OPM after the transfer. The OIG will continue to monitor how OPM plans to address funding of common services after the transfer of NBIB.

3. STRATEGIC HUMAN CAPITAL MANAGEMENT

Since 2001, strategic human capital management has been on the U.S. Government Accountability Office's (GAO) high-risk list of Government-wide challenges requiring focused attention. In their March 2019 *HIGH-RISK SERIES Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* report, GAO stated that over the years since this area was added to their high-risk list, in addition to recommendations to address critical skills gaps in individual high-risk areas, they have made numerous recommendations to OPM related to this high-risk issue, 29 of which remain open. Furthermore, GAO suggested that OPM fully address the open recommendations in its January 2015 report, which called on the Director of OPM to make more strategic use of government workforce data by building a predictive capacity for identifying and mitigating emerging skills gaps across Government. The report also recommended that OPM work with the Chief Human Capital Officers Council to bolster the ability of agencies to assess workforce competencies by sharing competency surveys, lessons learned, and other tools and resources.

Skills Gaps Closure Progress

Strategic human capital management remains high-risk because more work is needed to address Government-wide mission critical skills gaps. According to GAO's 2019 analysis of Federal high-risk areas, skills gaps played a role in approximately 49 percent of the Government-wide high-risk areas. Skills gaps within individual Federal agencies can lead to costly, less-efficient government.

In 2018, OPM reported that they worked with the Government-wide occupational leaders for the high risk Government-wide mission critical occupations of Auditor, Economist, Cybersecurity, Acquisition, and Human Resources Specialist. As a result, a new performance auditor standard has been approved and is being made 508 compliant for the Auditor occupation; a proposed regulation was drafted for a new pay system for the Economist occupation; the Cybersecurity Reskilling Academy was launched to fill cyber-related shortages; a partnership to increase efficiencies in current acquisition processes and practices was established with the George Washington University's Government

Procurement Law and Master of Science in Government Contracts programs for the Acquisition occupation; and a comprehensive suite of tools and training was developed for Human Resource professionals.

OPM also reported that in July 2019, they issued a data call to the Chief Human Capital Officers to collect additional information related to potential barriers and continued progress in mitigating gaps within their mission critical occupations. In addition, they are collaborating with GSA to find new methods to mitigate skills gaps. OPM is also working with agencies to assist with their reskilling and upskilling efforts and to conduct Strategic Workforce Foresight analysis to identify emerging and future workforce needs. Lastly, OPM conducted Human Capital Reviews with all 24 Chief Human Capital Officers agencies, meeting with their senior leadership, to support their human capital efforts and identify opportunities to mitigate skills gaps.

OPM should fully implement GAO's recommendations related to this high-risk area. In addition, they need to continue to develop resources and tools, facilitate best practices discussions, update and maintain its main domain (opm.gov), monitor the Government-wide Federal Action Skills Team action plans, pursue funding to ensure continuous development of Human Resources courses, and launch the Competency Exploration Development and Readiness (CEDAR) assessment tool to support agencies in identifying competency and skills gaps.

4. 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.

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. The ever-increasing cost of health care, including the cost of prescription drugs, is a national challenge, affecting not only OPM. In 2019, OPM announced that the average premium increase for Federal employees and retirees participating in the FEHBP in 2020 would be 4 percent.

It is an ongoing challenge for OPM to keep these premium rate increases in check while not impacting the level of benefits offered. 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, 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 requires that OPM update guidance and improve its financial reporting activities.

1) Prescription Drug Benefits and Costs

Prescription drugs are a major share of health care costs in the FEHBP, currently representing approximately 27 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.

Since the inception of the FEHBP, pharmacy benefits have been provided via participating FEHBP carriers by administering pharmacy benefits internally, or more often, by carriers contracting with a Pharmacy Benefits Manager (PBM) on behalf of their enrolled population. OPM has no involvement in negotiating drug discounts, rebates, administrative fees, or other financial terms with PBMs. FEHBP carriers are responsible for negotiating these contracts on behalf of the Federal Government. 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.

We believe the need for clear and extensive analysis of the FEHBP drug program cost-saving options is long overdue. The last time OPM formally studied the issue was approximately nine 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, including 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. A focused independent study should be conducted to determine further prescription drug cost savings programs that could be implemented to help control future increases to the FEHBP.

2) Health Benefit Carriers' Fraud and Abuse Programs

OPM's top challenges surrounding FEHBP fraud, waste, and abuse (FWA) programs are in part a result of the over-delegation of program integrity functions to carriers and the lack of adequate controls within OPM to support the program integrity of the FEHBP. To that end, the OIG continues to suggest Healthcare and Insurance establish a dedicated program integrity office, which has precedent elsewhere within the Federal healthcare program sector.

Both Medicare and TRICARE deploy comprehensive program integrity divisions to enhance and employ strategic oversight of FWA detection and prevention, program analytics, and trend analysis to enhance criminal, civil, and administrative enforcement efforts. For example, the U.S. Department of Health and Human Services OIG enforcement actions are increasingly data- and trend-driven, derived directly from their program integrity operations and initiatives through the Centers for Medicare & Medicaid Services.

OPM has shown it recognizes the importance of robust carrier FWA programs:

- In November 2017, Healthcare and Insurance issued Carrier Letter 2017-13 (CL 2017-13) to provide FEHBP carriers new guidance for reporting FWA.

- Healthcare and Insurance realigned its FWA team to analyze FEHBP carrier annual FWA reports to improve oversight.[2]

While CL 2017-13 yielded some improvement, Healthcare and Insurance cannot provide an effective measurement of the FWA program in the FEHBP. Local plan successes do not replace a full accounting or global measurement of efforts to reduce FWA within the FEHBP. There must be quantifiable standards of success, whether reductions in improper payments as identified by carrier fraud reports or other measures as determined by the agency.

[2] OPM FY 2018 Agency Financial Report, page 148.

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The OIG remains concerned about subcontractors (in particular, PBMs and behavioral health subcontractors) whose FWA controls are layers removed from OPM oversight. Stronger program controls can help OPM recognize global fraud trends across the healthcare environment and support carriers with training and written guidance. Particularly, a permanent program integrity group dedicated to the assessment of FWA can provide consolidated approaches to analyze the effects of FWA, identify root causes, track improper payments, assess trends detected by carriers, and address programmatic issues contained in FWA reporting. Notwithstanding return on investment calculations, there is currently no all-encompassing effective measure of how well these FWA programs are working.

Additionally, a program integrity unit could help protect the FEHBP from global threats, such as the opioid crisis, by strengthening requirements for carrier internal control programs. For example, in 2018, Congress passed the Eliminating Kickbacks in Recovery Act of 2018 (EKRA). The law forbids kickbacks in one of the fastest increasing areas of FEHBP program fraud: recovery homes, clinical treatment facilities, and laboratories. However, there is no indication OPM is supporting, guiding, or working in conjunction with carriers to enhance fraud detection and reporting efforts related to EKRA.

The OIG is concerned the delegation of antifraud and program integrity functions beyond carriers and into multilayered environments of contractors and subcontractors (e.g., PBMs) has diluted OPM's ability to recognize and respond to global FWA trends affecting the FEHBP. A program integrity office dedicated to overseeing FWA programs, receiving carrier case notifications, tracking fraud trends and program vulnerabilities, and providing accurate data reporting would substantially improve OPM's ability to manage the program.

3) Medical Loss Ratio Oversight

On June 29, 2011, OPM issued an interim final ruling replacing the Similarly Sized Subscriber Group methodology with an MLR calculation. The ruling holds 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.

However, audits of the MLR calculation continue to identify concerns that question the validity of the data included in both the numerator and the denominator of this calculation. Specifically, our audits identified the following concerns: the accuracy of OPM's subscription income amount; the carriers' ability to manipulate the MLR ratio (i.e., through claims and claim type costs, expense adjustments, 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 U.S. Department of Health and Human Services (HHS) guidance that OPM also uses for the FEHBP.

OPM states that it now has the ability to document and support the data included in the subscription income report. Specifically, by accessing the computer code in the program and having records to support the data, OPM states that the subscription income is now reliable. However, further review will need to occur before the OIG can state an opinion as to whether the subscription income report is a reliable source for the premium number used by most carriers in their MLR calculation.

OPM does not believe that carriers are overstating or manipulating their MLR calculations through allocations and other methods, such as capitation. Furthermore, OPM does not believe it is in the FEHBP's best interest to issue global guidance to address these types of concerns as it only impacts a small percentage of carriers. However, based on the results of our audits, we continue to find that allocations are being inconsistently and inequitably applied. Furthermore, capitation arrangements and the expenses paid to capitated providers are not clearly identifying and accounting for FEHBP member benefits and cost sharing payments, in conjunction with the community benefits in the development of the capitated rate or payment.

We agree that overly prescriptive MLR instructions may not be ideal and some flexibility in deriving MLR percentages should be granted to the carriers. However, the methodologies used in the MLR calculation need to be accurate, auditable, and consistently enforced. 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.

OPM states that it continues to review its MLR policies to provide more meaningful and clear guidance and is willing to discuss any issues with the OIG and other parties. We welcome this openness and encourage OPM to continue to assess and update their guidance as issues become known in order to ensure reliable MLR calculations.

4) The Opioid Epidemic and the FEHBP

The President's 2017 memorandum, *Combating the National Drug and Opioid Crisis*, specified that agencies "shall exercise all appropriate emergency authorities, as well as other relevant authorities, to reduce the number of deaths and minimize the devastation the drug demand and opioid crisis inflicts upon American communities." The opioid crisis continues to present immense patient harm and fiscal cost to the FEHBP. The OIG Office of Investigations prioritizes cases related to the opioid epidemic to protect the FEHBP and Federal employees, retirees, and their dependents harmed by the crisis, including from the ancillary FWA schemes that emerged in the epidemic's wake.

From 2012 through 2018, approximately:

- $151.2 million was spent on opioid antagonist prescriptions (e.g., naloxone);
- 26,000 FEHBP enrollees received emergency department care for an opioid overdose; and
- $11 million in emergency department hospital costs were attributable to FEHBP enrollees who experienced an opioid overdose.

OPM's recent efforts to address the opioid crisis include:

- Utilization review newsletters on a variety of treatment topics, including drug disposal;
- New Health Effectiveness Data and Information Set (HEDIS) measure of opioids added to the Plan Performance Assessment Farm Team; and
- Guidelines for the OPM Call Letter that set the terms of FEHBP carrier contracts.

While the OIG continues to oversee the efforts and implementation of carrier programs and procedures for the prevention and treatment of opioid addiction, OPM and the FEHBP carriers must continue to consider and use preventive measures such as drug formulary reviews, preapproval of opioid-related prescriptions, increased access to medication-assisted therapy, and less-addictive and alternative pain medications. OPM is unable to determine the actual impact of the opioid epidemic on the FEHBP because the agency lacks a single data repository or system to capture a complete, integrated view of program data. This data is needed to effectively and independently manage the FEHBP and determine the impact of a global crisis (like the opioid epidemic) on the program.

The improvements OPM promotes to combat the opioid crisis rely on carriers and subcontractors' adherence; this relates directly to our concerns regarding OPM oversight of how carriers and related entities prevent, target, and report FWA. The complicated and layered nature of carriers and subcontractors should encourage OPM to explore a single data repository for claims information and a dedicated program integrity office to provide a single source of internal controls, oversight, and trend analysis as part of agency efforts to combat the opioid crisis.

In the FY 2018 Top Management Challenges, we included that PBMs "may find themselves defending future lawsuits alongside the drug manufacturing industry." Although the current Administration's medical liability reform proposal may ultimately assist FEHBP carriers in limiting liability, it would not affect the FEHBP until the beginning of 2022. The expansion of local and State opioid-related lawsuits should encourage OPM, as well as FEHBP carriers and subcontractors, to hasten the implementation of preventive measures.

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. This year, the Procurement Process for Benefit Programs challenge and the Health Claims Data Warehouse challenge have been removed as top management challenges.

This FY there are four changes in the internal top management challenges. First, due to successful efforts by OPM to rebid several of the Federal benefit contracts, the Procurement Process for Benefit Programs challenge has been removed as a top management challenge for this year. Second, because the agency has not been able to collect data for the Health Claims Data Warehouse project, it has been removed as a top management challenge until it becomes operational. Third, the transfer of NBIB to DOD also involves the transfer of OPM's legacy systems and data to NBIB. Because the legacy systems are tightly integrated with other OPM systems, this will be a significant short-term challenge for the agency. Fourth, the problem of unentitled people receiving benefits from the FEHBP must be addressed. This is a high risk for the program and there have been several OPM OIG audit findings and investigations related to this problem within the program. OPM addressing this challenge should result in substantial savings of tax payer dollars.

1. INFORMATION SECURITY GOVERNANCE

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

In the FY 2018 Federal Information Security Modernization Act (FISMA) audit report, we noted that OPM has made significant improvements in its technical IT security environment since 2015, including two-factor authentication at the network level, data encryption, incident response, patch management, and an improved network architecture. However, we also observed that OPM has struggled to implement an IT security governance program to ensure that these controls remain effective, and reported a material weakness in this area.

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In FY 2019, OPM's Office of the Chief Information Officer (OCIO) made some progress to improve its IT security governance program, including completing a gap analysis to identify additional resources needed and developing a mechanism to secure the needed funding. The OCIO also demonstrated that there was at least a valid authority to operate for every major system in its system inventory and made limited progress implementing corrective action for previously identified weaknesses. However, more work is needed, especially in the area of information security continuous monitoring, maturing the process of implementing corrective action for identified security control weaknesses, contingency planning, and eliminating the problem of "shadow IT."[3]

We also noted in the FY 2018 FISMA report that these issues result from OPM management's inadequate investment in the agency's IT environment for many years and OCIO's lack of control over the IT budget process. There is no real chargeback methodology, service catalog, or cost accounting process that would clearly and reliably determine the true cost of providing IT services to OPM program offices. As a result, OPM continues to struggle to implement a mature and consistent IT security program.

OPM's CIO has communicated a strategic vision that addresses some of these concerns. OPM's challenge going forward will be to ensure that there are adequate resources available to implement the vision that has been laid out.

2. INFORMATION SECURITY CONTINUOUS MONITORING

In 2011, the National Institute of Standards and Technology introduced the concept of information security continuous monitoring (ISCM) as a strategy to determine the effectiveness of system security controls and to provide information needed to quickly correct inadequate controls. This new approach was intended to replace the triennial system security assessment and authorization (Authorization) process that evaluates whether a system's security controls are meeting the security requirements of that system.

OPM has not fully implemented ISCM, but has developed a strategy that addresses the monitoring of security controls at the organization, business unit, and individual information system level. However, the agency has not successfully implemented several key objectives. During the FY 2019 FISMA audit, the OCIO provided evidence of continuous monitoring activity for only 28 of OPM's 47 major systems. Of those 28, only 8 systems were subject to adequate security controls testing and monitoring in compliance with OPM policies, procedures, and submission schedules.

[3] "Shadow IT" is a term that refers to IT applications and infrastructure that are managed and utilized without the knowledge of the enterprise's IT department.

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Eight years after the National Institute of Standards and Technology published its ISCM framework, OPM has not implemented a mature ISCM process. Not only that, the agency continues to struggle with the outdated Authorization process. In recent years, OPM's Authorization program has shown some improvement, but overall it continues to be hampered by incomplete and inconsistent results.

During our FY 2019 FISMA audit, we determined that OPM has a current authority to operate for all systems in its major system inventory. While this is a notable achievement, the quality of the authorization packages is questionable.

We acknowledge OPM's efforts and focus on improving its IT security program, including ISCM. The challenge going forward will be for OPM to establish a mature process for properly managing the security of its major computer systems and moving from the outdated Authorization program to fully implementing ISCM.

3. DATA SECURITY

Since the data breaches in 2015, where the personal information of more than 20 million people was compromised, data security has been a top management challenge facing the agency. Significant improvements have been made in the past four years to address the most acute vulnerabilities. OPM has:

- Implemented security tools associated with the Department of Homeland Security's Continuous Diagnostics and Mitigation program to automate security of the agency's network;
- Consolidated nine data centers to seven to comply with the Office of Management and Budget's (OMB's) Data Center Optimization Initiative;
- Encrypted data at rest and in transit supporting the agency's most sensitive systems; and
- Implemented multifactor authentication for network access via Personal Identity Verification (PIV) credentials.

Despite these improvements, OPM's technical environment remains complex and decentralized, characteristics that make it extremely difficult to secure.

The control that would have the greatest impact in securing sensitive data is the full implementation of two-factor authentication. Enforcing the use of PIV authentication to connect to the agency's network 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.

Our FY 2019 FISMA audit showed that application-level multi-factor authentication is in place for fewer than 10 percent of OPM's 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 has noted 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 Infrastructure Improvement Project discussed below.

4. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT PROJECT

For the better part of the past decade, OPM acknowledged that its network infrastructure needed a complete overhaul and migration to a much more centralized and manageable architecture. This need was amplified in light of the data breaches of 2015. OPM's initial attempt to modernize its infrastructure involved the creation of two new physical data centers designed to house a modern, centralized, and secure logical network environment to host OPM's systems. However, after more than a year of effort and over $45 million paid to the sole-source contractor managing the project, OPM recognized that this model was not sustainable and abandoned the entire project before a single application was modernized and migrated.

In the time since, the path to modernization changed with each new Chief Information Officer. With seven individuals in that role since 2015, the lack of continuity has been a significant hurdle. While each CIO has approached modernization through a slightly different lens, largely OPM has focused its efforts on consolidating its existing data centers and dedicating resources to cyber security tools and personnel. This leaves antiquated legacy application modernization at the forefront of the agency's challenge.

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In FYs 2017 and 2018, Congress made \$11 million and \$21 million, respectively, 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. Our oversight of OPM's IT modernization process has revealed a lack of understanding and adherence to project management and budgeting principles, especially OMB's Capital Planning and Investment Control process.

OPM's current CIO has outlined a reasonable, risk-based IT modernization strategy, including the agency's mainframe environment and the legacy applications that run on it. The strategy also addresses longstanding weaknesses in properly funding the agency's IT operations by implementing the concept of Technology Business Management, which is a framework for establishing the true cost, quality, and value of IT to the supported business operations. We agree that the CIO's vision would conceptually resolve many of the agency challenges we have reported in our FISMA audit report and other related reports; however, the vision must be supported by adequate project planning and funding based on established budget principles.

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 discussed above, OPM cannot achieve a mature and effective IT security program without modernizing its antiquated IT systems.

5. NATIONAL BACKGROUND INVESTIGATIONS BUREAU LEGACY INFORMATION SYSTEMS

The transfer of the IT systems that support the NBIB to the DCSA will be a major management challenge for OPM for the near future. It is our understanding that DCSA is in the process of developing a new IT infrastructure and systems to support the background investigations process over the next several years. Until such time that those systems are operational, DCSA will rely on the legacy OPM NBIB systems.

Complicating the transfer is that the NBIB systems reside on OPM's mainframe, which are tightly integrated with other OPM legacy systems. OPM's CIO indicated that the plan is to untangle the NBIB systems from these other systems and transfer responsibility for hosting and managing them to DCSA. While this does make some sense, it will be technically challenging and costly to achieve.

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Until that happens, OPM will be responsible for continuing to operate these systems. OPM and DCSA have worked out a chargeback model to provide funding to cover OPM's operating costs. OPM will also be responsible for maintaining and improving logical and physical security over these systems, contingency planning, and environmental controls that support the hardware. This is likely to be a major management challenge in an uncertain situation for an unknown period of time.

6. STOPPING THE FLOW OF IMPROPER PAYMENTS

Federal Employees' Retirement System and the Civil Service Retirement System

In FY 2018, Retirement Services lowered its reported improper payment amount from the Civil Service Retirement and Disability Fund (the Retirement Trust Fund) from $313.8 million (FY 2017) to $284 million. The improper payment rate had a corresponding decrease from 0.38 percent (FY 2017) to 0.36 percent (FY 2018). While this improper payment rate is low compared to other Federal benefit-paying agencies, it still places the retirement program in a high-risk category for improper payments.

Even though Retirement Services notes its relatively low improper payment rate, a previous Improper Payments Elimination and Recovery Act audit recommended increased controls to identify the root causes of improper payments and to ensure that the improper payment amount is properly categorized in OPM's Agency Financial Report. However, Retirement Services asserts that its ability to categorize additional root causes is limited because of the existing legacy systems. Without accurate recognition of the root causes of improper payments, it is probable that the improper payment rate is improperly calculated and understated. In addition, identification of the root causes will help OPM develop and implement strategies to prevent future improper payments.

There is an on-going need for innovation and improvement in the analysis of annuity payments. The addition of the Fraud Branch to the Retirement Services program office highlights the agency's attempts to improve its program integrity. Continued progress in this area will help reduce improper payments and tighten control over program vulnerabilities. However, a significant number of OIG investigative cases involve improper annuity payments made over long periods—in some cases, years or even over a decade. The OIG's success in developing proactive investigations and referring the cases to Retirement Services for recoveries demonstrates that improved prevention and detection controls within the program office will lead to the discovery and recovery of, and prevention of future, improper payments.

Retirement Services' resources focused on the pending adjudication of retirement cases, in order to resolve its ongoing backlog of unprocessed retirement applications, are significant.

However, more staff and/or better tools that perform program integrity functions may reduce improper payments substantially.

We recognize core problems that cause improper payments in the retirement programs. The lack of a comprehensive, centralized tracking system to record and analyze program integrity (including appropriate internal control procedures for the timely detection, identification, and reporting of potential FWA) is still an issue.

The Federal Employees Health Benefits Program

The OIG remains concerned that the improper payment rate stated by the agency is inadequate and not reflective of the true amount of improper payments. OPM calculated its total FEHBP improper payments at $71.44 million in FY 2018 (a 0.14-percent improper payment rate), a substantial increase from FY 2017 ($28 million in improper payments; a 0.05-percent improper payment rate). The milestones Healthcare and Insurance is seeking in working with OMB to change calculations of the improper payment rate are positive steps.

However, we continue to emphasize the need for a global program integrity office that oversees the FEHBP. A program integrity office (such as one modeled on the Centers for Medicare and Medicaid Services' Center for Program Integrity) will help in identifying improper payments in order to develop a more accurate improper payment rate. OPM has acknowledged our suggestion of an independent program integrity unit has merit, but states that funding and other constraints preclude its creation at this time. We recommend the agency seek out additional funding and take actions to overcome the unspecified additional constraints, engaging all necessary internal and external stakeholders in the process.

In addition to the creation of a program integrity office, there are also legislative remedies that may improve independent oversight of FEHBP contractors and subcontractors. In the past, we recommended that OPM should pursue inclusion of the FEHBP into the definition of a Federal program under the Social Security Act section 1128B(f). We continue to suggest this remedy or others as Healthcare and Insurance deems necessary.

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 annuitants.

In FY 2018, OPM paid $77.93 billion in defined benefits to retirees, survivors, representative payees, and families. 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. OPM's Strategic Plan (FY 2018 - 2022), Goal 4 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. While Retirement Services' average case processing time from October 2018 through July 2019 of 56 days meets part of OPM's Strategic Plan Goal 4, the average call answering time of 12 minutes is above the 5 minutes or less identified in Goal 4.

Retirement Services appears to have taken several steps in FY 2019 to strengthen its operations, including:

- Updating the Services-On-Line website user satisfaction survey with additional questions to align with OMB customer experience guidance;
- Implementing a new e-mail system for its call center to assist Services On-Line inquiries and reduce the number of phone calls to the Retirement Information Office; and
- Progressing on its Online Retirement Application, by presenting Agile Sprint 1 of 7 (a time-boxed iteration of a continuous development cycle), with the goal to develop a prototype.

In continuing its efforts, Retirement Services plans to:

- Continue to integrate improvements for correspondence and claims 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 OPM and Congress;
- Perform on-going audits of agency submissions; and
- Provide monthly feedback to agencies and payroll offices and alert them of trends and improvement opportunities.

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

8. PROCUREMENT PROCESS OVERSIGHT

The Office of Procurement Operations (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. During FY 2019, OPO has been committed to improving its internal controls and strengthening the procurement process and stated that its leadership has met weekly with OPM leadership to communicate challenges. Moreover, OPO utilizes the Critical Procurement Priorities Executive Steering Group in support of OPM Strategic Goal 4.1, which seeks improved collaboration, transparency, and communication among OPM leadership and the workforce as a way to improve decision-making, and prevent duplicative efforts or inefficient use of resources.

OPO has continued to work with the Internal Oversight and Compliance office to respond to and close audit recommendations reported in the OIG's final reports, including the *Audit of the U.S. Office of Personnel Management's Office of Procurement Operations' Contract Management Process*, Report No. 4A-CA-00-15-041, and the *Audit of the U.S. Office of Personnel Management's Purchase Card Program*, Report No. 4A-OO-00-16-046. As a result, OPO has increased the number of closed out contract files and participated in the cross-agency data cleanup working group led by Office of the Chief Financial Officer to de-obligate funds and reconcile system data. However, closing out contracts and reconciling system data remains a challenge.

The Procurement Information System for Management (PRISM), a contract writing system used by OPO, resides within the Consolidated Business Information System (CBIS), a financial system owned and maintained by the OCIO. 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 Regulation, and reporting in PRISM results in manual processing and reconciliation of contract information and financial information in CBIS, increasing the risk of potential discrepancies and difficulty completing contracting processes, such as contract closeout. However, OPO states that the office has continued to be successful in supporting the OCIO's critical IT requirements, with additional support being recently secured through a new partnership with GSA's Centers of Excellence initiative, and it was recently able to secure contractor support for agency-wide closeout efforts.

OPO experienced a moderate level of attrition during the fiscal year and based on OPM's budget projections, it is unlikely that OPO will be in a position to increase its staff beyond the current level, which could have a major impact on it efforts to address major challenges moving forward.

9. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM ENROLLMENT AND ELIGIBILITY

Unentitled family members or other persons enrolled in an FEHBP plan often go undetected due to the difficulty in identifying these ineligible dependents, an area that has always been a high risk for the program. OPM has not published an estimate of how many ineligible dependents receive benefits from the FEHBP or the total cost to the program, despite it being known as an area of substantial fraud. Healthcare and Insurance uses industry-standard estimates regarding ineligible dependents to inform some decision-making regarding ineligible dependents, as seen in Carrier Letter 2014-11 and Federal Register 3059, but the actual percentage of FEHBP dependents who are ineligible is unknown.

Over the past 5 years, the OIG has identified several audit findings related to ineligible dependents age 26 and older whose eligibility to participate in the FEHBP was unsupported. In addition, investigations of ineligible dependent cases found that enrollees are able to change, update, and add dependents directly with health plans, which accept the changes without verification. Recent audit work shows that enrollees are allowed to self-certify dependent eligibility because there are no requirements in place to verify family relationships (e.g., proof of birth, marriage certificates) by Federal agency benefit officers or FEHBP insurance carriers.

OPM should require Federal agency benefit officers to verify the FEHBP eligibility of dependents at the time of initial enrollment by collecting and maintaining relevant documentation (e.g., proof of birth, marriage certificates, etc.). Furthermore, when enrollees add new dependents to a current FEHBP family plan (no plan enrollment change takes place), OPM should require FEHBP carriers to verify the eligibility of dependents by collecting and maintaining supporting documentation. OPM will need to work with its partners (agencies, payroll offices, carriers) to develop and implement a system to verify and maintain supporting eligibility documentation to reduce the aforementioned issues related to unentitled FEHBP enrollments.

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

AGENCY RESPONSE TO THE OIG MANAGEMENT CHALLENGES REPORT

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the Chief Financial Officer

NOV 1 4 2019

MEMORANDUM FOR NORBERT E. VINT
Acting Inspector General

FROM: Dennis Coleman
Chief Financial Officer

SUBJECT: Agency Comments on the OIG Report - Fiscal Year 2020 Top Management Challenges, dated November 6, 2019

Thank you for your FY 2020 report on the top management challenges facing OPM. Many of the challenges identified in your report are complex and the agency continues to focus on eventual resolution of these issues. 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 and look forward to engaging with the Office of the Inspector General (OIG), as we implement corrective actions.

While we concur with the overall findings of your report, we do not concur with some of the OIG's recommendations and characterizations related to the Proposed OPM Merger with the General Services Administration (GSA), Federal health insurance initiatives, stopping the flow of improper payments, retirement claims processing, and Federal Employees Health Benefits (FEHB) program enrollment and eligibility.

Proposed OPM Merger with the General Services Administration (GSA)

While we accept the overall findings of your report, we do not concur with some of the OIG's recommendations and characterizations. OPM does not concur with the report's characterization of the **Chief Human Capital Officers' Council (CHCOC)** and **Performance Accountability Council Program Management Office (PAC PMO)** moves on two fronts, the cost-benefit analysis or justification and the workforce restructuring. On the cost-benefit analysis, GSA currently manages other federal councils and follows best practices on how to effectively support their operations for the benefit of Federal agencies, as well as the taxpayers. We believe that the CHCOC will benefit from leveraging existing GSA infrastructure and best practices already in place to continue to advance and meet the mission of the CHCOC.

Next, while the OIG's concerns for the CHCOC workforce's ability to be reemployed at GSA are valid, both agencies acted in a manner to mitigate these concerns. GSA initiated and followed the Interagency Career Transition Assistance Program (ICTAP) process. It is our understanding, that GSA had previously posted ICTAP cleared vacancies, which covered the scope of CHCOC-

OPM.GOV Empowering Excellence in Government through Great People USAJOBS.GOV related roles. Current CHCOC staff will be laterally transferred and offered positions that cleared ICTAP. Similarly for the PAC PMO workforce, OPM's HR organization will continue to be in regular contact with their GSA counterparts regarding the ICTAP process; however, GSA is responsible for managing the ICTAP process. It is expected that GSA will clear and post PAC PMO-related vacancies to allow ICTAP eligible employees to apply. If there are no ICTAP candidates certified, regular lateral transfer authorities would be utilized. OPM therefore believes this issue is resolved.

In summary, OPM will continue to focus on the stabilization and sustainability of the agency. This includes the modernization and transformation of our information technology infrastructure and business processes. OPM continues to follow best practices for the proposed reorganization, including aligning with GAO's study in "Government Reorganization." OPM believes that GSA, as a leader in shared service modernization efforts, is well-positioned to help bring efficiencies and efficacy to both CHCOC and PAC PMO organizations. Congress also recognizes the excellence GSA provides in managing shared services for interagency councils by consistently enacting statutory authority in the GSA annual appropriations.

Federal Health Insurance Initiatives

Prescription Drug Benefits and Costs

OPM has an effective long-term, multi-pronged strategy in place to mitigate and manage prescription drug costs. OPM has provided comprehensive guidance regarding opioids in Carrier Letters 19-01 and 18-01. This includes prevention strategies, treatment parameters and supports that carriers must have in place. Further guidance was recently circulated in Carrier Letter 19-10, which was focused on pharmacy benefits.

OPM concurs with OIG's suggestion that an analysis of the FEHB Program's drug cost-saving options is overdue. OIG asserts that the pharmacy benefit manager (PBM) and prescription drug landscape has significantly changed since the last comprehensive analysis and suggests a focused independent study should be conducted to determine if further prescription drug cost savings programs could be implemented to help control future increases to the FEHB Program.

OPM is not opposed to an additional unbiased study of the FEHB Program's prescription drug costs. However, current funding does not permit us to fund such a study in FY 2020. Healthcare and Insurance (HI) did request funding for FY 2021 to conduct an independent study that will include administrative, regulatory, and legislative options, and will continue to seek opportunities to secure necessary funding to support this activity.

Health Benefits Carriers' Fraud and Abuse Programs

OIG continues to suggest that OPM consider an independent program integrity unit, dedicated to carrier enforcement. This suggestion may have merit, but funding and other constraints preclude consideration of a separate program integrity unit as 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 an independent program integrity group.

Per OIG: "…there is no indication OPM is supporting, guiding, or working in conjunction with carriers to enhance fraud detection and reporting efforts related to Eliminating Kickbacks in Recovery Act." However, OPM met with the Department of Justice to discuss the need for Anti-Kickback safeguards to be extended to the FEHB and included references in carrier contracts. This was featured in the 2018 Call Letter (2018-01) and efforts have been taken to educate both members and carriers on this important issue. Also, in support of the Administration's efforts to develop a legislative proposal, OPM has worked to craft language that would enable anti-kickback protections to be expanded to the FEHB.

OPM remains committed to effective oversight and administration of the FEHB Program, and strengthening controls surrounding carriers' Fraud Waste and Abuse (FWA) program continues to be a priority.

Medical Loss Ratio Implementation and Oversight

OIG asserts that audits of the MLR calculation continue to identify concerns that question the validity of the data included in the calculation. Now that OPM has identified and validated data included in the Subscription Income Report, we expect concerns tied to this calculation will be satisfactorily addressed.

Capitation arrangements, in which OPM has engaged OIG in repeated discussions, continues to cause OIG concern. As stated in the Top Management Challenges Report, OPM does not believe that carriers are overstating or manipulating their MLR calculations through allocations and other methods. This includes capitations. We have concluded that it is not in the best interest of the FEHB Program to issue global guidance that would affect only a very small percentage of carriers who are not undermining the program.

OPM continues to review its procedures, as appropriate, endeavors to make MLR calculations more meaningful, and is willing to make additional changes that will lead to greater clarity and better outcomes for the program. OPM stands ready to continue to engage OIG to help further OIG's understanding of how OPM's MLR regulations and rate development were developed and applied so that OIG's audit concerns may be allayed.

OPM believes that the MLR calculation process is fair and reasonable to determine the appropriateness of our carriers' premiums. OPM does not agree that the MLR precludes effective audits of community-rated carriers' rate build-ups.

Stopping the Flow of Improper Payments

The Federal Employees Health Benefits Program and Improper Payments

The OIG remains concerned that the improper payment rate stated by the agency is inadequate and not reflective of the true amount of improper payments, but acknowledged improvement in HI's FY 2018 reporting.

OPM's improper payment (IP) reporting methodology for the FEHB Program was originally developed by OIG, HI and Chief Financial Officer (CFO). HI is reviewing this current, Office of Management and Budget-approved IP rate methodology. This review includes exploring options to update the IP rate calculation. Implementation of one or more options will require completion of a comprehensive set of steps including internal and external approvals, evaluation of Fraud, Waste and Abuse (FWA) reporting, consulting and/or contracting statistical support, obtaining input from FEHB carriers, updating current guidance, contracts, etc., and testing any proposed changes. Timing and completion may depend in part on resource availability.

Retirement Claims Processing

As the OIG states, OPM's Strategic Plan Goal 4 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." OIG also notes that the "timely issuance of annuitants' payments remains a challenge for OPM." However, as noted in the report, Retirement Services' average case processing time from October 2018 through September 2019 of 56 days meets part of OPM's Goal 4. Retirement Services' average call answering time of 7 minutes (not 12 minutes as noted in the OIG report) is only slightly above the 5 minutes or less target identified in Goal 4. It is also worth noting that the retirement claims inventory slightly decreased to 17,376 as of September 2019 from an inventory of 17,628 as of September 2018.

FEHB Program Enrollment and Eligibility

OIG notes that unentitled family members or other persons enrolled in an FEHB plan often go undetected due to the difficulty in identifying these ineligible dependents. OIG has identified several audit findings related to ineligible dependents age 26 and older whose eligibility to participate in the Federal Employees Health Benefits Program (FEHBP) was unsupported. Investigations of ineligible dependent cases found that enrollees are able to change, update, and add dependents directly with plans, who accept the changes without verification.

HI recognizes that there is a need to strengthen controls surrounding ineligible spouses and dependents. OIG's increased focus on the issue of ineligible dependents created an opportunity for HI to communicate various efforts completed, underway and envisioned with OIG. This includes efforts to prevent ineligibles from being added to the FEHB, as well as reducing the number of those currently on the rolls.

The primary 'fix' for this would be a Central Enrollment Program (CEP) that would, among other functions, house enrollee and dependent information and serve as the system of record for FEHB enrollment. This government-wide project has much conceptual support, but is currently not funded and has a lengthy timeline. As an interim but necessary step in establishing an enrollment database, we are working to create a historical master enrollment index by the end of FY 2021. At the present time, there is no master list of family members covered under FEHB.

We continue to coordinate within OPM HI groups (Outreach and Program Services, Program Analysis and Development (PAD), Contract Administration and Program Support (CAPS), and the FWA team) to report and develop a set of guidance (Carrier Letter and Benefits

Administration Letter addressing Ineligible Dependents) and activities aimed at updating and communicating to agencies and carriers, raising awareness to members and aligning enrollment and FWA policies.

It is important to note that until we issue guidance to carriers and agencies, we are unable to compel carriers to take actions in response to audit findings that do not align with current guidance.

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 Systems Control Environment	1	0	0	0	0	1
Total Material Weaknesses	**1**	**0**	**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. OPM strives to find and implement innovative solutions to improve payment integrity among its programs while reducing the burden on its stakeholders.

The FY 2019 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)
- Recapture of Improper Payments Reporting (Section 3.0)
- Agency Improvement of Payment Accuracy with the Do Not Pay Initiative (Section 4.0)
- Barriers (Section 5.0)
- Accountability (Section 6.0)
- Agency Information Systems and other Infrastructure (Section 7.0)
- Sampling and Estimation (Section 8.0)
- Additional Comments (Section 9.0)
- Risk Assessments (Section 10.0)

OPM is reporting details on improper payments for FY 2019 for two major programs: Federal Retirement Services (RS) and Federal Employees Health Benefits (FEHB) Program. FY 2019 improper payments for those two programs respectively are $284.42 million and $54.94 million, for a total of $339.36 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 $80.65 billion in defined benefits to retirees, survivors, representative payees, and families during FY 2019 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

Established in 1960, the FEHB Program is the largest employer-sponsored health insurance program in the United States, providing health care benefits for about 8.2 million Federal civilian employees, retirees, and their families. Since its inception, 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. For the first time in 30 years, a government-wide Indemnity Benefit Plan (IBP) will be offered. Through a competitive process, OPM selected GEHA (Government Employees Health Association) as the exclusive carrier for two new plan options under the IBP contract. The two plan options will be available nationwide to Federal employees and annuitants beginning January 1, 2020.

Program costs are shared between participant and Federal government contributions. For plan year 2020, the average percentage increase in the FEHB Program premiums is 4.0 percent. The increase is competitive with premium increases projected for or reported by other large private and public sector employers which range from 4.5 percent to 6.5 percent.

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 2019, ERCs incurred benefit and administrative expenses of nearly $48.56 billion on behalf of the FEHB Program, and the FEHB Program paid over $6.52 billion in premiums to CRCs.

2.0 PAYMENT REPORTING

RETIREMENT PROGRAM

In FY 2019 RS properly paid $80.36 billion and improperly paid $284.42 million to retirees, survivors, representative payees, and families. Accordingly, 99.65 percent of payments were properly paid and 0.35 percent were improperly paid. Although the percentage of improper payments remains very low, considering its size and complexity, RS is committed to continue working to prevent, reduce, and recover improper payments in FY 2020 and beyond.

During FY 2019, RS estimated that the monetary loss to the government was $212.13 million and the non-monetary loss was $72.29 million. Accordingly, 74.58 percent of the total improper payment consisted of a monetary loss to the government and 25.42 percent in a non-monetary loss. OPM is unable to provide the level of specificity for the root cause categories to determine which portion of the monetary loss was inside or outside of the agency's control.

HEALTH BENEFITS PROGRAM

The FEHB Program had Total Outlays of $55.08 billion. Of that, the program properly paid $55.03 billion and improperly paid $54.94 million in FY 2019, representing 0.10 percent accuracy of the total outlays for All carriers. The 99.90 percent payment accuracy represents overpayments from audit determinations of ERCs and CRCs as well as documented recoveries from fraud investigations, which have substantially increased. All payments constituted monetary loss to the program and due to the structure with OPM contracting with the FEHB carriers, who make payments for benefits and medical expenses, losses are effectively outside the direct control of the program. Hence, improper payments are not made directly by the Federal government; rather by the carriers with whom OPM's HI contracts. For FY 2019, OPM cannot provide an estimated amount of the improper payment due to insufficient or lack of documentation and will seek to do so in FY 2020. FEHB Program carriers are subject to audit by OPM OIG whose 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 include Carriers which have not been audited recently as well as those Carriers and processes requested by agency management and Contracting Officers (CO).

FEHB improper payments decreased from $71.44 million in FY 2018 to $54.94 million in FY 2019. While the IPs remained below the $98.17 million estimated for 2019, this change reflects the type of fluctuation noted above. It is largely attributable to a significant decrease in the receivable balances. Questioned costs are validated based on a review of the audit finding and carrier's actions in comparison with the guidance in place at the time of an audit and must be defensible if legally challenged. Receivables are comprised of validated questioned costs.

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 and outlook, for both RS and the FEHB Program. Table 2 reflects the root causes of the improper payments for Retirement Program and the FEHB Program.

TABLE 1 – Improper Payment Reduction Outlook ($ in millions)

12 month Sampling Timeframe for FY 2019 Start Date 10/1/2018 and End Date 9/30/19.

Program Name	FY 2018 Outlays ($M)	FY 2018 IP Amount ($M)	FY 2018 IP Rate	FY 2019 Outlays ($M)	FY 2019 IP Amount ($M)	FY 2019 IP Rate	FY 2019 Over-payment ($M)	FY 2019 Under-payment ($M)	FY 2020 Est. Outlays	FY 2020 Est. IP %	FY 2020 Est. IP ($M)
Total Program Retirement	$77,928.02	$285.55*	0.37%*	$80,646.60	$284.42	0.35%	$212.13	$72.29	$83,460.02	0.34%	$283.76
FEHB - ALL carriers	$52,852.14	$71.44	0.14%	$55,081.92	$54.94	0.10%	$54.94	$0.00	$56,464.78	.16%	$92.26
TOTAL	$130,780.16	$356.99	0.27%	$135,728.52	$339.36	0.25%	$267.07	$72.29	$139,924.80	0.052%	$376.02

*IP rate was understated 0.01% in the FY 2018 AFR, which impacted the 2018 IP Amount.

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)[1]	Other Reason (2)[2]	TOTAL
Total Program Retirement	Overpayments	-	-	-	$118.54	-	-	-	-	-	-	-	-	-	$93.59	-	$212.13
Total Program Retirement	Underpayments	-	-	-	-	-	-	-	-	$72.29	-	-	-	-	-	-	$72.29
FEHB - ALL carriers	Overpayments	-	-	-	-	-	-	-	-	-	-	$18.70	-	-	-	$36.24	$54.94
FEHB - ALL carriers	Underpayments	-	-	-	-	-	-	-	-	-	-	$0.00	-	-	-	-	$0.00
Agency TOTAL	**-**	**$-**	**$-**	**$-**	**$118.54**	**$-**	**$-**	**$-**	**$-**	**$72.29**	**$-**	**$18.70**	**$-**	**$-**	**$93.59**	**$36.24**	**$339.36**

[1] FERS Disability Offset for Social Security Disability, SSA Retroactive Awards, and Overpayment Recovery.

[2] Fraud Recoveries

IMPROPER PAYMENTS CORRECTIVE ACTIONS

RETIREMENT PROGRAM

RS is aware of the improper payments; however, systemic limitations prevent RS from providing the needed level of specificity. OPM's systems were not designed or built to perform analyses of vast quantities of data. Therefore, OPM reports remaining balances of these payments in the "Other Reason" category. Some examples of these uncategorized 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.

RS conducts scheduled survey mailings and system IT matches to identify specific demographic groups to confirm ongoing entitlement status and to confirm the payment follows applicable regulations and statutes (they are explained in greater detail later). In addition, RS continues to explore other tools and methods to identify the root cause of improper payments.

1. Failure to Verify-Death Data

The category "Failure to Verify: Death Data" represent the amount paid to deceased annuitants. OPM continues to make progress to reduce the extent and rate of improper payments and to recover an increasing percentage of improper payments. The collection is an on-going effort, and our experience is that our reclamation amount is high. During the initial adjudication process, OPM confirms entitlement and eligibility for recurring benefits for both annuitants and survivors. Recurring payments are processed in collaboration with Treasury. 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.

Although the "Failure to Verify-Death Data" category generally conforms to OMB's broader definition, OPM's focus is to follow best practices that maintain the goal of utilizing the most practical tools and measures at its 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 $60.28 million in overpayments during FY 2019. The DMF identified and documented $0.04 million in overpayments during FY 2019.

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 claims. Insurance coverage reporting is the most common error. RS continues to explore ways to reduce the frequency of these errors.

RS also is working to improve 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. 2019 saw the early stages of RS's effort to implement the Electronic Retirement Record (ERR), an ambitious undertaking to digitize payroll records and improve the timeliness of agency retirement application submissions. The new ERR process has been activated by one payroll office. RS will use its experience with this initial implementation to eventually stand up other agency payroll offices.

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 continues 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, 2018 through July 31, 2019 was 95.09 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 2019, 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 2019 was 87.91 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 unrecoverable 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. 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

While RS endeavors to reduce and eliminate these overpayments, legislative remedies await implementation; hopefully they will be realized in the foreseeable future.

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.

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 $0.65 million in overpayment prevention for 2018 (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 annuity 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 $7.72 million 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. 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 $2.91 million in overpayments.

FERS Annuity Supplement Match

OPM uses the annual FERS Annuity Supplement match to identify annuitants who have not reported qualified excess income (as defined by the SSA) while in receipt of the FERS annuity supplement and have 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. The FERS Annuity Supplement Match identified and documented $1.99 million in overpayments based on non-reporting.

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.

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 as described earlier 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 continued to increase slightly in FY 2019 (through June 30). EFT enrollments increased to 99.62 percent in FY 2019 from 99.57 percent in FY 2018. This demonstrates OPM's success in working 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

Given the broad oversight of the FEHB Program that the contracting office performs, working with carriers to implement effective corrective actions may take various forms, such as updates to internal documentation, changes in operational procedures, incorporating edits in claim payment systems, ensuring compliance with Program guidance, expanding training to carrier staff, strengthening physical or information security, improving cash management policies. Addressing improper payments requires a varied approach, with some newer audit findings presenting greater complexity, requiring additional research, legal review and the development of new procedures to reach resolution. Additionally, OPM partners with the OIG to update and clarify OPM's guidance to improve carriers' efforts to prevent, detect, investigate, and report FEHB Program-related Fraud Waste and Abuse (FWA). Upon reviewing carriers' FWA reporting, OPM will make additional updates to the guidance and contract requirements to provide specific examples of enrollment fraud.

1. Administrative or Process Error Made by Healthcare Provider

Carriers sometimes make claim payments that are not properly coordinated with Medicare, are paid on behalf of ineligible patients or during gaps in coverage, represent duplicates of previously paid claims, or have been deemed to be unreasonable. Additionally, audits of community-rated carriers' MLR 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 BCBS network, where the existence of a specific finding or attribute, such as claims to enrollment, coordination of benefits or duplicate payments is reviewed. 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. OPM leverage BCBS' Federal Employee Program's enhanced ability to identify and mine claims through their Claims Audit Monitoring Tool. OPM objective is to improve data analysis and increase cross-training between BCBS and Audit Resolution and Compliance. For example, OPM have communicated successfully contested findings to the OIG so that these types of findings can be eliminated from future audits. OPM has also noted instances where BCBS paid claims in good faith and later received a retroactive termination from the agency. The next step is to work with BCBS to better identify the origin and cause of these retroactive enrollments. In addition, OPM has enhanced its use of work plans in the 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.

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 (per 45 CFR Part 158) requires carriers to meet a specific MLR threshold, or provide a rebate if the threshold is not met. Audits of carrier's MLR calculation have identified unique situations in the FEHB Program, highlighting the need for global review, more detailed criteria and updates to carrier instructions. It may require substantial research and coordination with OIG, Carriers, the Office of the Actuary (OA), Health & Human Services (HHS), the Office of General Counsel (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 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 whole or in part. 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 OA 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's collaboration with OIG on the FWA program led to HI's FWA team presenting the results of FWA reporting during two FWA Task Force Meetings. In December 2018, OPM provided the results of the 2017 FWA Report to FEHB carriers and in September 2019, OPM provided a summary of the 2018 FWA Reports along with an overview of future updates to the FWA guidance and an update on ineligible family member guidance. The task force sessions had high attendance among health plans. Improvements and clarifications in the new carrier letter assist in compilation and trend analysis of the annual reporting. Overall, reporting by health plans has improved and return on investment has increased. OPM will continue to partner with the OIG to raise awareness, strengthen internal controls and resolve fraud-related audit recommendations, leading to improved carrier compliance.

3.0 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.

OPM has determined that it is not cost-effective to hire payment recapture auditors for either of its reported programs. Effective validation, recovery and reporting of questioned costs or preliminary overpayments requires substantial institutional knowledge of program processes, regulations, contracts, systems, and records. 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 2019 RS identified $212.13 million in overpayments and recovered $206.98 million.

HEALTH BENEFITS PROGRAM

In FY 2019 HI identified $54.94 million in overpayments, recovered $20.75 million and appropriately adjusted $22.48 million reducing the receivable by a total of $43.23 million.

4.0 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 2.67 million recurring annuity payments. Below in Table 3 are the RS results from SSA's DMF and CDM.

TABLE 3 - FY 2019 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	5,720,316	58,980	8,539	$60,275,068.00	1.031062%
DMF[4]	Yearly	126,841,978	153	9	$43,578.87	0.000121%

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 carriers (community-rated) or holds the funds for carriers to draw from a Letter of Credit Account (LOCA) (experience-rated carriers). 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 new 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 OCFO, to confirm minimum requirements for liquidity, reserves, financial reporting, etc. 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 2019, each new carrier application passed the OCFO's financial screening and was not entered into the online search portal.

5.0 BARRIERS

RETIREMENT PROGRAM

RS continues to experience systemic improper payments when a FERS disability annuitant is awarded Social Security Disability Insurance benefits (see above explanation on root causes of improper payments). In addition, OPM's legacy system is not designed to provide the needed granularity for root cause reporting; however, OPM continues to work on this challenge.

HEALTH BENEFITS PROGRAM

There are unique challenges that represent potential barriers to the identification, reduction, recovery and/or reporting of improper payments.

One statutory barrier affecting the FEHB program pertains to the Anti-Kickback Statute. OPM's OIG is excluded from using the Anti-Kickback Statute in its investigations, which has prevented prosecutions and the recovery of fraudulently obtained OPM funds. OPM met with the Department of Justice to discuss the need for Anti-Kickback safeguards to be extended to the FEHB Program and included references in carrier contracts. This was featured in the 2019 Call Letter and efforts have been taken to educate both members and carriers on this important issue. In support of the Administration's efforts to develop a legislative proposal, OPM has worked to craft language that would enable anti-kickback protections to be expanded to the FEHB Program.

Although audits are vital and effective as a compliance and oversight tool, their results are subject to substantial variability and may result in annual fluctuations of tens of millions of dollars in improper payments reported year-over-year. This presents challenges in meeting IPERA reporting requirements for projecting linear out-year improper payments, and in demonstrating mandatory reductions in improper payments, as well as future improper payment recovery targets.

OIG restitution orders due to fraud investigations, another component of the FEHB improper payment formula, also vary widely from year to year based on the number of cases opened, the FEHB Program impact, age of the activity being investigated, successful prosecution, settlement terms and types of recoveries. Once again, these variables challenge our ability to project linear improper payment amounts and targets.

6.0 ACCOUNTABILITY

OPM's Chief Financial Officer is the Senior Accountable Official for the Payment Integrity Program. OCFO chairs an Improper Payment Working Group that includes members from program offices that meets regularly to address improper payments.

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. The fraud unit, among other things, conducts in-depth reviews of fraud referrals and/or issues, and identify solutions for minimizing and/or detecting potential improper payments. In addition, RS works with the OIG Investigation staff on identified cases as well.

HEALTH BENEFITS PROGRAM

COs 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. From the use of resolution timelines to work plans, partnering with OIG and carriers to improve fraud and abuse reporting, amending our FEHB contracts, to longer term project planning, audit resolution activities, IP recovery goals and other internal control-strengthening activities, accountability is incorporated into managers' routine activities. Managers' performance standards reflect audit resolution priorities, and are reviewed and updated annually, based on results.

HI also monitors carriers through the Plan Performance Assessment (PPA), which uses a discrete set of quantifiable measures to examine key aspects of FEHB Program health plan contract performance. The PPA 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. Scoring is underway, and HI anticipates continuing improvement across key metrics. At the 2019 FEHB Carrier Conference, OPM announced its goal to develop a risk-adjusted cost measure to help assess the value of each plan as part of PPA. This is a crucial step in assessing the FEHB value equation (healthcare quality and affordability).

7.0 AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

RETIREMENT PROGRAM

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. The agency target is .38 percent.

HEALTH BENEFITS PROGRAM

OPM has initiated the FEHB Central Enrollment Program (CEP) which seeks to provide an improved and comprehensive enrollment platform for a one-stop shop for plan selection and enrollment, premium and enrollment reconciliation, and a repository for enrollment data. The current 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). Sometimes, the carrier may not receive notification of these types of enrollment actions for years after the event. These claims payments are considered improper upon discovery and may be reported in the OIG's recurring "claims-to-enrollment" audits. While we are updating guidance to both agencies and carriers, this represents an internal control weakness that cannot be adequately addressed without a central enrollment system.

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

8.0 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 the 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. As noted earlier, determined amounts and improper payments can fluctuate widely 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 the 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.

9.0 ADDITIONAL COMMENTS

OTHER SOURCES FOR IDENTIFYING AND CORRECTING IMPROPER PAYMENTS

RS has developed additional mechanisms to assist in preventing, reducing and recapturing improper payments.

Data Mining

RS has dedicated staff to generate, review and take action on numerous data pulls to maintain and promote the integrity of the Annuity Roll. We continue to explore other opportunities to detect anomalies and other indicators in our data that may require further analysis.

In our efforts to combat improper payments, our data review 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 Social Security Numbers (SSNs) and names and dates of birth to improve RS Internal Revenue Service reporting via 1099-Rs. We also use data mining to show cases, for example, where payments to more than one payee are out of balance, where amounts of benefits exceed a threshold, and when multiple payments are returned. Among the data mining projects done on a recurring basis are cases suspended for over six months, duplicate SSNs, 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 six years, as part of its ongoing efforts to reduce improper payments. RS continues to work through the FY 2019 returned 1099Rs, following the same process as has been the case in previous years.

To date, RS has not found a correlation between returned 1099R's and improper payments. RS intends to assess FY 2019 results before determining whether the 'Returned 1099R' project should continue to be conducted annually, or whether a less frequent schedule would be more cost effective.

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 via 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.

Over 90 Project

OPM had periodically investigated the status of retirees and survivors over the age of 90 to confirm 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 July 2019, Retirement Eligibility Services (RES) began a new Over 90 Project. The project verified the vitality of 2,500 annuitants over the age of 90. A final report will be forthcoming in FY 2020.

10.0 RISK ASSESSMENTS

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. OPM created a questionnaire and risk assessment tool to assess programs for risks that included thirty-two qualitative 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 two risk assessments (travel reimbursements and travel cards) and concluded that the two programs were not susceptible to the risk of significant improper payments.

OPM questionnaire that was comprised from the risk assessment tool to include the following subject areas:

- Program History
- Human Capital Risk
- Eligibility Determinations (Cardholder, Approving Officials (A/OPCs)
- Payment (Collection and Disbursement)
- Internal Pressures

TABLE - 4 FY 2019 Risk Assessment Cycle

Program Name	Was the Program or Activity Susceptible to Significant Improper Payments During FY 2018 Risk Assessment
Travel Card	No
Travel Reimbursable	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.

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 2019 and 2018. 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 $16.2 million via BFS cross servicing.

TABLE 18 - Debt Management Activity

Retirement Program ($ in Millions)		
Receivables Activity	**September 2019**	**September 2018**
Total receivables at beginning of year	$424.3	$426.9
New receivables and accruals	212.2	212.7
Less collections, adjustments, and amounts written-off	216.3	215.3
Total receivables at end of period	$420.2	$424.3
Total delinquent	$14.3	$19.0
Percent delinquent of total receivables	3.4%	4.5%
Health Benefits Program ($ in Millions)		
Receivables Activity	**September 2019**	**September 2018**
Total receivables at beginning of year	$83.4	$100.4
New receivables and accruals	36.8	68.8
Less collections, adjustments, and amounts written-off	43.2	85.8
Total receivables at end of period	$77.0	$83.4
Total delinquent	50.2	54.1
Percent delinquent of total receivables	65%	65%

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 2019*	September 2018
Outstanding Balance (OPM)	$1.24	$47.16
Outstanding more than 61 days (OPM)	$.82	$17.61
% outstanding more than 61 days (OPM)	.66%	37%
% outstanding more than 61 days (Government wide)	2.22%	4.15%

* September 2019 source: GSA current and historical delinquency metrics for the CFO Act Agencies

TABLE 20 - Purchase Cards

($ in Thousands)	September 2019	September 2018
Outstanding Balance (OPM)	$42.96	$94.09
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)	.61%	0.26%

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 has utilized an Assessable Unit (AU) Internal Control Form (the "AU Form") to assess its operational controls. In FY 2019, in order to transition to a more robust risk-based approach to assessing internal controls, OPM's Risk Management and Internal Control (RMIC) unit redefined the AU Forms requiring AUs to assess each applicable internal control principle, including fraud risks, on their AU Form. As a result, each OPM program is required to identify risks related to fraud and identify the fraud risk factors that effected their operations and required the programs to document the fraud risk in the annual internal control and risk assessment process. Based on the submissions RMIC unit will develop a fraud awareness tool that communicates the importance of fraud risk assessment.

OPM's RS has a new office dedicated to the prevention and detection of fraud. Based on fraud tips and via identified anomalies that are revealed during scheduled surveys, matches and specific integrity projects, the fraud prevention and detection unit conducts in-depth reviews of fraud referrals and issues, identifies solutions for minimizing and detecting potential improper payments; coordinates with other agencies and organizations to identify best practices for preventing and detecting fraud; and provides training to RS employees to assist with detecting and preventing fraud. Further, this unit conducts specialized projects to identify potential fraud and detect any payment trends warranting further review.

OPM's HI continues to make fraud a priority in its program by continuing to strengthen controls surrounding FEHB carriers' Fraud Waste and Abuse (FWA) programs. HI continued its restructuring efforts in FY 2019 further 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 increased in an effort to expand representation and improve its effectiveness. The team provides internal FWA training to Health Insurance Specialists, reviews and analyzes the annual FWA reports from carriers. Working with OPM-OIG, HI is updating its FWA guidance to carriers. It will include additional examples of potential fraud and will update reporting requirements.

HI further collaborated with OPM-OIG at OPM's annual Benefits Officers conference to reinforce the role federal agencies play in protecting the FEHB program. HI continues its collaboration with OPM-OIG by presenting at the last quarterly FEHB FWA Task Force meeting. Contracting Officers direct engagement and oversight of functions such as disputed claims, large provider contracts, benefit negotiations, Fraud Hot Line referrals, audits, lawsuits and more demonstrate that OPM is aware, active and effective in its stewardship of the program and FWA in particular.

Moreover, the OPM-OIG is an independent office within OPM that has the authority to accept complaints from OPM employees, contractors, and the public concerning criminal activity, fraud, waste, abuse, and mismanagement of OPM programs and operations. The OPM-OIG Hotline is a component of the OPM-OIG's Office of Investigations, which oversees the hotline through which complaints and information are received. The OPM-OIG Hotline helps ensure the proper and efficient use of taxpayer dollars for the American people.

Furthermore, OPM Purchase Card program uses several different systems, techniques, and technologies to identify illegal, improper, or erroneous purchases. As part of the SmartPay 3 program, Citibank provides several reporting tools that the Purchase Card Program uses for the quarterly transaction reviews. These reviews form the basis of the Semi-Annual Purchase Violations reports submitted by OPM-OIG to the OMB. As part of the recent transition to SmartPay 3, the OPM Purchase Card program will also begin to use Visa's Intellilink system, which is an automated transaction audit tool that will flag transactions for review based on established compliance rules (set in accordance with OPM policy and GSA guidance). These flagged transactions will allow the purchase agency/organization program coordinators (AOPCs) to review transactions that are potentially fraudulent.

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, 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 DoD where we have located 77 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, OPM 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 resources and activities 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 HRS program office to the General Services Administration. Once the transfer of NBIB resources and activities 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	2018	2019
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
P.L. 114-74 (Sec. 701) 5 CFR 185, 103(a); 5 CFR 185, 103(f)(2)	Civil Penalty for False Claims & Statements	2015	2019	$11,463	Not Applicable	**https://www.govinfo.gov/content/pkg/FR-2019-10-01/pdf/2019-21132.pdf** 51937 FR Vol. 84, No. 190 (October 1, 2019)

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
CHCO	Chief Human Capital Officer

Acronym	Definition
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
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act

Acronym	Definition
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
DCSA	Defense Counterintelligence and Security Agency
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
FASAB	Federal Accounting Standards Advisory Board
FBU	Foreign Benefit Unit

Acronym	Definition
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
FSAFEDS	Flexible Spending Account for Federal Employees
FSC	Facilities, Security, & Contracting

Acronym	Definition
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
HR	Human Resources
HRD	Human Resources Development

Acronym	Definition
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
MLR	Medical Loss Ratio
MSP	MultiState Plan

Acronym	Definition
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
PAC PMO	Performance and Accountability Council's Program Management Office
PACER	Payments, Claims, and Enhanced Reconciliation

Acronym	Definition
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
SNC	Statement of Net Cost
SOC	Security Operations Center
SOS	Schedule of Spending

Acronym	Definition
SPFI	Summary of Performance and Financial Information
SSA	Social Security Administration
SSCLoB	Security, Suitability and Credentialing Line of Business
SSNs	Social Security Numbers
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-11/2019