United States Office of Personnel Management

Agency Financial Report

Fiscal Year 2015

OPM.GOV

NOVEMBER **2015**

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Message from the Director

I am pleased to present the United States Office of Personnel Management's (OPM) Fiscal Year (FY) 2015 Agency Financial Report (AFR). This AFR is an alternative to the consolidated Performance and Accountability Report pursuant to Office of Management and Budget (OMB) Circular No. A-136. It is one in a series of reports used to convey budget, performance, and financial information to our constituents. Under separate cover, OPM will submit its Annual Performance Report (APR), concurrent with the submission of the President's FY 2017 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a succinct reporting of OPM's accountability of its resources and improves reporting through more meaningful and transparent information to the public.

FINANCE

It is my great pleasure to report that OPM earned an unmodified audit opinion on its FY 2015 consolidated financial statements from the independent public accounting (IPA) firm of KPMG LLP. A new material weakness that was issued on information technology is being addressed. OPM can provide qualified assurance for its internal control over financial reporting for FY 2015, and has begun addressing the material weakness concerning its information systems control environment and significant deficiency in entity level controls over financial management. Lastly, OPM received an unmodified audit opinion on the FY 2015 individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs.

OPM INFORMATION TECHNOLOGY AND CYBERSECURITY

During FY 2015, OPM announced that it became aware of two cybersecurity intrusions affecting its systems and data. OPM has undertaken an aggressive effort to update its cybersecurity posture, adding numerous tools and capabilities to its networks. For example, the Office of the Chief Information Officer continued to build on the progress made in implementing an Agency-Wide Continuous Diagnostic Monitoring program. A new "SHELL" environment that will eventually protect all OPM systems and a 24-hour Security Operations Center were established. Additionally, OPM initiated a comprehensive review of its IT systems. OPM is continuing an ongoing review of its IT systems, and remains committed to protecting the safety and security of the information that is handled on behalf of Federal employees and contractors.

REDUCING THE RETIREMENT CLAIMS INVENTORY

OPM is responsible for the administration of the Federal Retirement Program covering more than 2.7 million active employees, including the United States Postal Service, and 2.6 million annuitants and survivors. At the end of FY 2015, the claims inventory was 14,706 cases – a 75.9 percent reduction since the peak of 61,108 cases in January 2012. During FY 2015, OPM processed 70.1 percent of the retirement cases within 60 days or less.

While part of the retirement process remains paper-based, we remain focused on transitioning to a fully-digitized process. OPM's Strategic Plan for FY 2014-2018 and our Strategic IT Plan call for fully-automated processes. We are also developing high-level functional requirements for a case management system and online retirement application. While OPM made progress, we continue to improve our retirement information system infrastructure and the services our customers deserve and expect.

IMPROVING ACCESS TO HEALTHCARE

In addition to handling the Federal Government's retirement process, OPM has been a key contributor to the implementation of the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA). The ACA expanded the scope of OPM's mission to include contracting with health insurance issuers to offer health insurance plans to uninsured individuals and their families, and employees of small businesses. OPM's Multi-State Plan program, set out in the Affordable Care Act, has made a difference in the lives of nearly 450,000 people who chose this option in the health law's Marketplace. In 2015, consumers in 35 states and the District of Columbia had a Multi-State Plan option as part of their health coverage choices. OPM worked to ensure that program options offer comprehensive benefits with strong consumer protections. With the program in place, uninsured Americans now have even more choices for affordable coverage. Additionally, under the ACA, OPM extended insurance benefits for the first time to Native American and Alaska Native tribal employees.

Another hallmark was that OPM issued a final rule in September 2015 to amend the Federal Employees Health Benefits (FEHB) Program regulations to include the new Self Plus One enrollment type, a change of unprecedented proportion in the FEHB Program. The final rule amends FEHB regulations to comply with the provisions of the 2013 Bipartisan Budget Act. The Self Plus One enrollment type will be available beginning plan year 2016.

OPM PROCUREMENT PROCESS OVERSIGHT

Effective financial stewardships require that proper procurement policies, procedures, and controls be implemented and monitored across the full acquisition process. To help meet these challenges, OPM increased the level of resourcing to the Office of Procurement Operations (OPO) and implemented a reorganization that places OPO as a direct report to the Chief Operating Officer. The reorganization efforts allows for higher level executive input on acquisition matters. Based on the results of an external assessment conducted in FY 2015, OPO implemented additional policies and procedures across the acquisition process to enhance critical oversight and compliance efforts. In FY 2016, OPO will continue to strengthen internal controls, further implement critical policy and procedures, to include updating acquisition system processes, enhancements, and upgrades as well as continuing efforts to refresh policy guidance to facilitate the necessary oversight and compliance. OPM will continue assessing its needs and to properly resource those efforts in order to provide adequate and consistent oversight and compliance.

AGENCY PRIORITY GOALS

OPM's Agency Priority Goals (APGs) are near-term results or achievements that agency leadership wants to accomplish. The APGs rely predominantly on agency implementation as opposed to budget or legislative accomplishments. The APGs are intended to help the agency advance progress toward longer-term outcomes. For the results for OPM's priority measures, please refer to the Performance Highlights section of the Management's Discussion and Analysis. For more information on OPM's APGs, including the newly published goals for FY 2016—FY 2017, please refer to ***www.Performance.gov***.

DIVERSITY AND INCLUSION

Executive Order 13583, *Establishing a Coordinated Government-Wide Initiative to Promote Diversity and Inclusion in the Federal Workforce*, and similarly, Executive Order 13548, *Increasing Federal Employment of Individuals with Disabilities*, were issued to create a comprehensive, coordinated, and integrated effort to foster diversity and inclusion in the Federal workforce and thereby enhance the Federal government's ability to serve the American people. The President directed OPM and OMB, in partnership with the President's Management Council and the Equal Employment Opportunity Commission, to develop a Governmentwide Diversity and Inclusion (D&I) Strategic Plan. OPM issued the plan, and fifty-seven (57) agencies submitted agency-specific D&I Strategic Plans to OPM in March of 2012. Data reflects that, while agencies have made some progress toward implementing the Executive Orders, more work remains. OPM has developed the "New IQ" (Inclusion Quotient) to foster inclusion.

I am committed to building, developing and retaining a workforce at all levels of Government that draws from all segments of society. OPM will continue to work with agency leaders, managers, employees, and other stakeholders to foster diversity and inclusion within our Federal workforce from resume to retirement.

COMPLETENESS AND RELIABILITY OF FINANCIAL AND PERFORMANCE INFORMATION

The financial and performance information used by OPM in this AFR for FY 2015 is complete and reliable, as defined by OMB Circular No. A-136 Financial Reporting Requirements and the Government Performance and Results Act. If there are instances where full and complete data for a measure are not available, these instances are noted and final information will be updated in the Annual Performance Report in February 2016.

CONCLUSION

OPM employees are talented, creative, and have the skills needed to produce positive and tangible results for the American people. OPM will continue to implement initiatives throughout the organization to improve the performance of its programs and to maximize taxpayer value. By focusing on results that can be measured, we will further our ability to meet the unique human resource challenges of the Federal Government, to ensure a world class civilian workforce, and to continue to be a model employer for the 21st century.

Beth F. Cobert
Acting Director
November 16, 2015

SECTION 1

Management's Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

AGENCY FINANCIAL REPORT OVERVIEW

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

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW Washington, D.C., 20415, field offices in 16 locations across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. In FY 2015, the agency had 4,937 full-time equivalent employees. OPM's total discretionary budget authority, excluding the Office of the Inspector General, for FY 2015 totaled $214,464,000. For more information about OPM, please refer to the agency's website, ***www.opm.gov***.

ABOUT THIS REPORT

The FY 2015 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 2016, OPM will publish its FY 2015 Annual Performance Report and a Summary of Performance and Financial Information. The Annual Performance Report will provide an overview of OPM's progress in implementing the strategies and achieving the goals in its FY 2014-FY 2018 Strategic Plan.

The AFR provides an accurate and thorough accounting of OPM's financial performance in fulfilling its mission during FY 2015, and meets reporting requirements stemming from laws focusing on improved accountability among Federal agencies and guidance described in Office of Management and Budget (OMB) Circulars A-11, A-123, and A-136. All reports are available on the OPM website at ***https://www.opm.gov/about-us/budget-performance/performance/***.

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

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

OPM'S MISSION AND STRATEGIC GOALS

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

OPM's strategic goals are as follows:

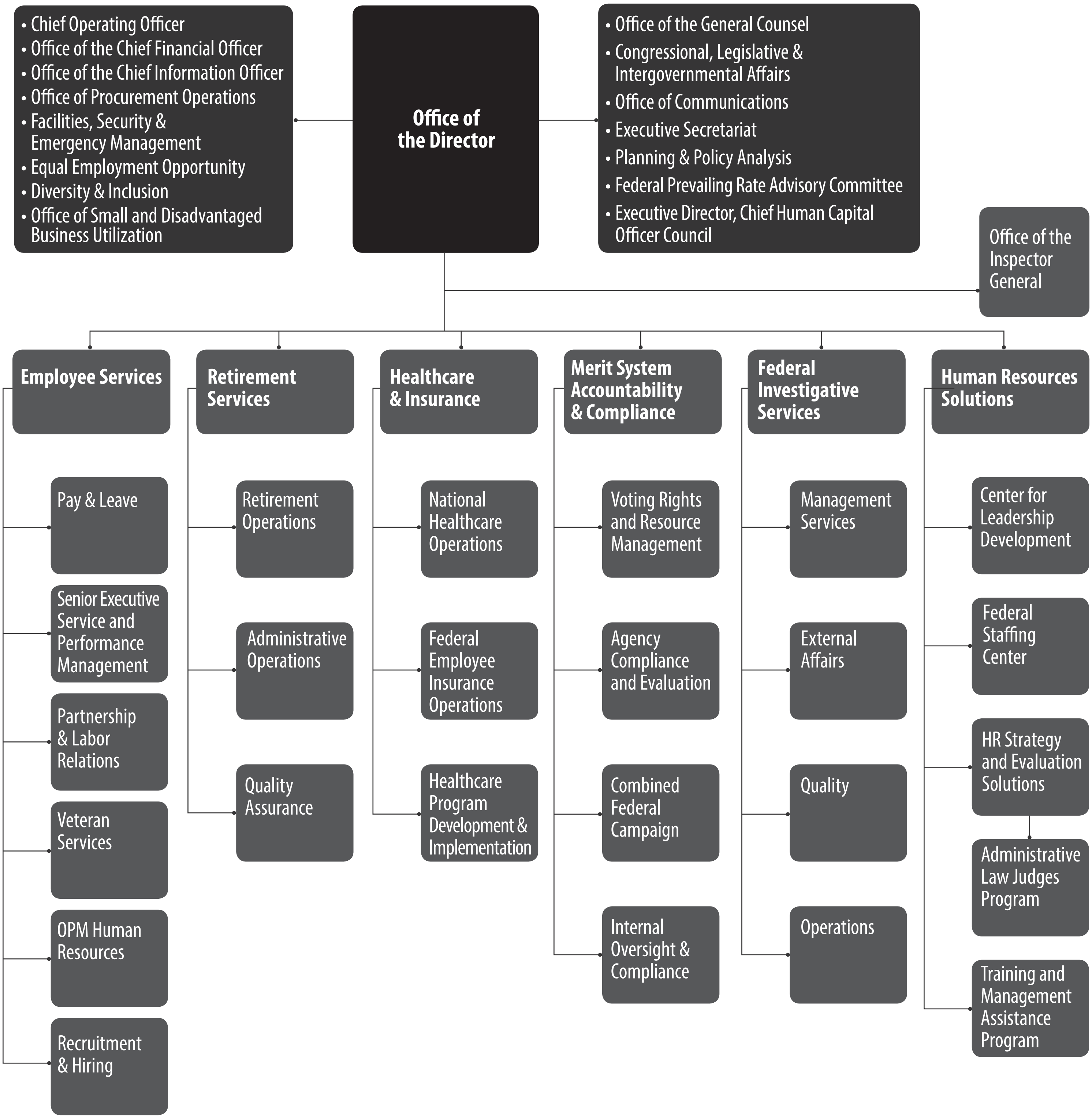
TABLE 1 - OPM's Mission Statement:
Recruit, Retain, and Honor a World-Class Workforce to Serve the American People

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

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

ORGANIZATIONAL STRUCTURE

OPM's divisions and offices and their approximately 4,937 full-time equivalent employees implement the programs and deliver the services that enable the agency to meet its strategic goals. The agency's organizational framework consists of program divisions and offices that both directly and indirectly support agency mission. This section contains descriptions of each organization and the key roles and responsibilities it plays in contributing to the achievement of OPM's overall mission.



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

EXECUTIVE OFFICES

- **The Office of the Director (OD)** provides guidance, leadership and direction necessary to make the Federal Government the model employer in the United States, and OPM its model agency. The Office of the Director (OD) is the leadership of the U.S. Office of Personnel Management (OPM), the agency responsible for attracting and retaining an innovative, diverse and talented workforce to make the Federal Government a model employer for the 21st century. The Suitability and Security Clearance Reform Performance and Accountability Council's Program Management Office (PAC PMO) is also housed within the OD.
- **Office of the General Counsel (OGC)** provides legal advice and representation to the Director and OPM managers and leaders so they can work to provide the Federal Government an effective civilian workforce. OGC does this by rendering opinions, reviewing proposed policies and other work products, and commenting on their legal efficacy, serving as agency representatives in administration litigation, and supporting the Department of Justice in its representation of the Government on matters concerning the civilian workforce. OGC also carries out several programmatic, substantive functions that fulfill other statutory or regulatory mandates and thus benefit other OPM offices or the Executive Branch as a whole. For example, OGC is responsible for the Government-wide Hatch Act regulations, administers the internal agency Hatch Act and ethics programs and serves in a policy and legal role in the Government-wide function of determining which Merit Systems Protection Board and arbitral decisions are erroneous and have a substantial impact on civil service law, and, thus, merit judicial review.
- **Congressional, Legislative and InterGovernmental Affairs (CLIA)** is the OPM component that fosters and maintains relationships with Members of Congress and their staff. CLIA accomplishes its mission by keeping informed of issues related to programs and policies administered by OPM. CLIA staff attends meetings, briefings, mark ups and hearings in order to interact, educate and advise agency, Congressional, State, Local and Tribal Governments.
- **Office of Communications (OC)** coordinates a comprehensive effort to inform the public of the Administration's and OPM's goals, plans and activities through various media outlets. The OC provides the American public, Federal agencies and pertinent stakeholders with accurate information to aid in their planning and decision making process. The OC coordinates the publication and production of all video products, printed materials, and websites generated by OPM offices. The office develops briefing materials for the Director, OPM officials and Congress for various activities and events. The OC also plans events that amplify the Administration's and OPM's key initiatives within the agency and Government-wide.
- **Office of the Executive Secretariat (OES)** is responsible for the administrative management and support for the Office of the Director, and other executive offices including coordination and review of agency correspondence, policy and program proposals, regulations and legislation. OES also manages the agency's international affairs program coordinating meetings and the transfer of information between OPM officials and foreign delegations.
- **Equal Employment Opportunity (EEO)** provides a fair, legally-correct and expeditious EEO complaints process (for example, EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping).

- **Office of Diversity and Inclusion (ODI)** examines policy options, Government-wide data trends, and employee survey findings that affect OPM's management of HR policy, as it relates to diversity and inclusion throughout the Federal Government. ODI develops comprehensive strategies to drive diversity and inclusion practices throughout the Federal Government and build a diverse and inclusive workforce, respecting individual and organizational cultures, while complying with merit principles and applicable Federal laws. ODI also designs and implements all required internal OPM diversity and inclusion efforts, to promote diversity management.

- **Office of Procurement Operations (OPO)** provides centralized contract management that supports the operations and Government-wide mission of OPM.

- **Office of Small and Disadvantaged Business Utilization (OSDBU)** manages the development and implementation of appropriate outreach programs aimed at heightening the awareness of the small business community to the contracting opportunities available within OPM. The office's responsibilities, programs, and activities are managed under three lines of business: advocacy, outreach, and unification of the business process.

PROGRAM OFFICES

- **Employee Services (ES)** provides policy direction and leadership in designing, developing and promulgating Government-wide human resources systems and programs. OPM continued to support agencies' recruiting and hiring programs with tools, education and direct support. Additionally, ES provides recruitment, pay, leave, performance management and recognition, leadership and employee development, work/life/wellness programs and labor and employee relations. ES provides technical support to agencies regarding the full range of human resources management policies and practices, to include veterans' employment as well as the evaluation of their human resource programs. ES also manages the operation of OPM's internal human resources program.

- **Retirement Services (RS)** is responsible for administering, developing, and providing Federal employees, retirees and their families with benefits programs and services that offer choice, value and quality to help maintain the Government's position as a competitive employer. RS is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), serving nearly 2.6 million Federal retirees and survivors who receive monthly annuity payments. Even after a case is adjudicated and added to the annuity roll, OPM continues to serve annuitants by making address or tax status changes to their accounts, sending out 1099-Rs, surveying certain annuitants to ensure their continued eligibility to receive benefits, and other post adjudication activities.

- **Healthcare & Insurance (HI)** consolidates OPM's healthcare and insurance responsibilities into a single organization. This includes functions such as the Affordable Care Act's Multi-State Plan Option, OPM's responsibilities to perform External Review of consumer complaints plus existing responsibilities for the Federal Employees Health Benefits Program (FEHBP), Federal Employee Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employee Dental Vision Insurance Plan (FEDVIP), and Flexible Spending Accounts for Federal Employees (FSAFEDS). HI comprises National Healthcare Operations and Federal Employee Insurance Operations.

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

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

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

MISSION SUPPORT SERVICES

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

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

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

OTHER OFFICES

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

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

OFFICE OF THE INSPECTOR GENERAL

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

FY 2015 PERFORMANCE HIGHLIGHTS

This section contains a summary of OPM's FY 2015 performance highlights by strategic goal, with results for the related sixteen Agency Priority Goal measures. OPM's complete performance results will be published in OPM's FY 2015 Annual Performance Report, which is scheduled for publication on the agency's website at ***www.opm.gov*** in February 2016, concurrent with OPM's FY 2017 Congressional Budget Justification.

TABLE 2 - Summary of Agency Priority Measures

AGENCY PRIORITY MEASURES	FY 2014	FY 2015	FY 2015 Target
Percent of OPM managers trained on the use of the New IQ learning techniques	82%	86.7%	98%
Percent of managers that have employed techniques from the New IQ	N/A	76.9%	80%
Percent of USA Staffing hiring actions for which OPM managers reviewed applicant flow data	82.1%	66.1%	95%
Percent of USAJOBS hiring actions for which managers and/or Human Resources Government-wide reviewed applicant flow data	53%	76.6%	25%
Relative ratio of complete retirement submissions versus incomplete cases	84%	87.7%	85%
Claims Inventory	12,767	14,706	13,142
Percent of retirement claims processed within 60 days	79%	70.1%	90%
Percent of investigations determined to be quality complete	99.9%	99.9%	99%
Average number of days to complete the fastest 90 percent of all initial national security investigations	35	67	40
Average number of days to complete the fastest 90 percent of initial Secret national security investigations	30	58	40
Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations	75	147	80
Percent of HR University workforce (GS-201s/203s) registered for HR University	80%	98.2%	95%
Percent increase in FEHB premiums less than or equal to private sector premium increases for comparable benefits	3.7%	6.4%	Industry Trend
Percent of FEHBP enrollees satisfied vs. health industry standard	82%	N/A	Industry Standard
Percent of adults receiving flu shots based on CAHPS Effective Care	50%	49%	Contextual
Percent of prenatal care visits that are timely	39.8%	41%	Establishing New Baseline

STRATEGIC GOAL 1: DIVERSE AND EFFECTIVE OPM WORKFORCE

In FY 2015, OPM continued its efforts to identify and address any barriers to diversity through its ongoing analysis of applicant flow data. In FY 2015, the agency's senior leadership focused on those occupations with the highest hiring volume and reviewed applicant flow data by occupation to determine whether recruitment efforts have been successful in drawing from all segments of society and to aid in developing future recruitment strategy.

Also in FY 2015, all OPM subcomponents designated leads for Federal Employee Viewpoint Survey (FEVS) action planning. The leads were provided with 2014 FEVS data specific to their organizations and trained on a corporate approach to action planning. The group leads were brought together on a periodic basis to inform each other of the strategies they are pursuing and to provide input for corporate messaging. Further, all OPM supervisors who have a FEVS report specific to their organization were provided with the report, and the agency made online training available to all supervisors.

To further a corporate culture of inclusion, OPM executives, managers, and supervisors have been trained on the New IQ (Inclusion Quotient) method. As of the end of FY 2015, 86.7 percent of OPM managers have received New IQ training. OPM also began training for all employees in FY 2015. In addition, the agency developed a web-based training regarding the inclusion of LGBT employees in the workplace.

OPM also deployed other key strategies to improve employee inclusion. They include developing:

- the 20 Small Acts of Inclusion, which are 20 actions, based on neuroscience, that increase behaviors that lead to the perception of inclusion;
- a Habit Scan, a survey where managers are asked how many inclusive habits or activities they have engaged in;
- the Simple Pledge, in which senior leaders identify two to four commitments related to diversity, inclusion, engagement, and employee development to increase accountability and transparency across organizations. Simple Pledges are posted on the OPM Intranet (THEO) for all to see, and senior leaders provide periodic updates on their implementation of the pledges; and
- Diversity and Inclusion Dialogues to promote open and honest conversations on prescient topics to improve communication, understanding, and teamwork among employees from different offices, backgrounds and groups.
- OPM used the following measures to manage progress towards its related Agency Priority Goal to promote diversity and inclusion. For additional details on OPM's progress, please refer to ***www.Performance.gov***.

Percent of OPM managers trained on the use of the New IQ learning techniques						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	82%	86.7%	≥ 98%	Not Met

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

Percent of managers that have employed techniques from the New IQ						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	N/A*	76.9%	≥ 80%	Not Met

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

Percent of USA Staffing hiring actions for which OPM managers reviewed applicant flow data						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	82.1%^	66.1%	≥ 95%	Not Met

^ OPM revised the measure to better align with the 2014-2015 Agency Priority Goal Statement (*www.Performance.gov*) and, consequently, the prior year result was revised. This change will be disclosed in the FY 2015 APR, along with other measure changes.

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

Percent of USAJOBS hiring actions for which managers and/or Human Resources Government-wide reviewed applicant flow data						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	53%	76.6%	≥25%	Met

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

STRATEGIC GOAL 2: TIMELY, ACCURATE, AND RESPONSIVE CUSTOMER SERVICE

OPM's Customer Experience Strategic Plan establishes a framework that allows each office within the agency to tailor their efforts to the unique experiences of their customers and scale select efforts, as applicable, across OPM. The Customer Experience Strategic Plan is in the final stages of the approval process. By implementing the Customer Experience Strategic Plan, OPM can shift its customer service focus, where appropriate, from a program-centered model to a customer-centered model that is supported by various program offices. The coordination of services can lead to long-term cost savings by identifying warning signs of escalating customer issues and reducing the number of customer inquiries.

In June 2015, OPM released the first Customer Experience Training, focusing on Accuracy, Responsiveness, and Timeliness (ART). The training creates a shared sense of accountability by highlighting the recommended best practices and skill development to create a positive customer experience. It also reinforces the idea that an excellent customer experience is the responsibility of every employee, regardless of whether the employee is on the front-line dealing with external customers. The Customer Service training will be updated annually and delivered online to all OPM employees.

OPM also created an internal customer service community of practice to promote shared accountability and jointly implement the Customer Experience Strategic Plan. This group initiated a performance improvement strategy, using ART and overall satisfaction data to identify areas of improvement and make adjustments to challenge areas to enhance customer service.

STRATEGIC GOAL 3: EVIDENCE-BASED POLICY AND PRACTICES

In FY 2015, OPM defined the structure and developed the strategy for a research governance board. In support of the governance structure, the agency hired a Senior Advisor on Research and Evaluation, created and established a network of analytic ambassadors, and drafted a charter.

OPM also partnered with the Chief Human Capital Officers Council to establish the HRStat community of practice to identify commonly used data. Additionally, OPM partnered with the Good Government Group to collaborate on emerging research agendas and initiatives, allowing the agency to leverage an existing network to establish a data analysis community of practice that included Federal agencies, universities and non-profit organizations. OPM conducted a series of collaborative sessions with universities and other academic institutions to share ongoing and future research initiatives, analytic methods and emerging practices.

OPM successfully launched basic data analytics training as an online course available to all employees. Also in FY 2015, OPM procured contractor support to develop decision making training, which was launched in September 2015. The contractor will also provide advanced data analytics training for execution in FY 2016, with the potential for further development of a certification program in data analytics for OPM employees.

STRATEGIC GOAL 4: EFFICIENT AND EFFECTIVE INFORMATION SYSTEMS

OPM published the HR Line of Business Strategic Framework, which builds upon the Chief Human Capital Officer Council's HRIT Future State Vision to create a common user experience across the Federal employee lifecycle using interoperable HR systems and data. The Strategic Framework enables the development of an integrated, Government-wide HRIT environment over the next 10 years.

OPM also kicked off an update to the Business Reference Model by holding sessions with the goal of creating a single OPM framework for defining the HR lifecycle. The updated Business Reference Model will provide an operational model to standardize HR processes, define the category management initiative's human capital category structure, and facilitate financial transparency through improved HR information technology spend categorization. Category management is a new, more strategic approach that will enable the

Federal Government to "buy smarter" and more like a single enterprise.

OPM continued to work on improvements to IT security, transitioning security monitoring from Designated Security Officers in the program offices to Information System Security Officers centralized within IT Security and Privacy. This remediated a Federal Information Security Management Act weakness identified during inspector general audits. The centralization of the Information System Security Officers increases the consistency in which OPM monitors its systems. In addition, the Security Operation Center worked with OPM's Network Management to implement tactical steps to strengthen the agency's security posture. This included upgrades to tools used to monitor OPM's network. The agency also signed an agreement with DHS to implement Continuous Diagnostics and Mitigation. This will be a multi-phase project with the first four controls implemented by the end of FY 2016.

OPM continues to implement an Infrastructure Improvement Project. The agency contracted the services of two commercial sites to provide hosting of the new OPM Data Center platform, known as SHELL. These sites meet all current best practice standards. Two identical platforms are being built to allow for a highly available and secure system.

To help OPM and other Federal agencies achieve their missions, USAJOBS developed an initial set of agency dashboards and executive monthly summary statistics. OPM also implemented a data warehouse and data analytics capability to visualize USAJOBS data. In addition, the agency implemented the Federal Workforce Map for USAJOBS, allowing geographical searches.

STRATEGIC GOAL 5: TRANSPARENT AND RESPONSIVE BUDGETS

Following the FY 2014 implementation of a budget prioritization tool to provide structure and uniformity in the definition and validation of funding and resource requirements, in FY 2015, OPM identified updates to help ensure consistency in application, provide clarification regarding requirement definitions, and streamline data entry and consolidation. In addition to making updates to the manual budget prioritization tool, in FY 2015 OPM completed market research to explore alternatives for automating the agency's budget formulation activities, incorporating components of the prioritization tool.

Also in FY 2015, OPM expanded the CFO Financial Dashboard. The CFO dashboard is located on the agency's intranet and is available to all OPM employees, and provides key financial data and metrics, allowing senior leaders and program managers to monitor resources, and planned vs. actual spending on a daily basis. Further, the agency introduced reporting of expenditures by OPM strategic goals.

During the FY 2017 budget formulation process, OPM introduced multi-year budget planning to coincide with the OPM Strategic Plan. In doing so, OPM is better able to predict the resources associated with completing agency priorities and commitments through the life of the current Strategic Plan.

STRATEGIC GOAL 6: ENGAGED FEDERAL WORKFORCE

In FY 2015, OPM worked to mature the Manager and Executive LEAD Program from a "Certificate of Completion Program" to a "Certificate of Mastery Program," and will begin monitoring and measuring the effectiveness of this initiative in FY 2016.

Also in FY 2015, OPM conducted extensive analysis that included cross walking curricula to engagement behaviors in an effort to identify gaps associated with employee engagement. OPM will continue to use this analysis to target and strengthen offerings in specific competencies that will improve employee engagement throughout the Federal Government.

OPM identified a promising practice in the use of the Supervisor Situational Judgment Test. According to OPM's analysis, there is a direct correlation between the administration of the test and improved applicant pools and subsequent successful hiring actions. The agency administered the test in 95 OPM job announcements that produced 53 hires. OPM's Human Resources Solutions, in conjunction with the U.S. Army Corps of Engineers, developed a customized Managerial Situational Judgment Test to measure leadership competencies of interest to the Corps. The Corps plans to use the test for future managerial level job openings. OPM also worked with the Defense Logistics Agency to customize the Supervisory Situational Judgment Test for its use. The Defense Logistics Agency plans to use the test, in conjunction with an assessment questionnaire, for all upcoming supervisory professional and administrative job openings. OPM expects to leverage and promulgate this process to other Federal agencies in FY 2016.

OPM revised the format and functionality of the Engagement Community of Practice web page on ***www.UnlockTalent.gov*** to highlight featured and new material and to allow the agency to add new material monthly. In FY 2016, OPM will continue to revise and update the Community of Practice to maximize its effectiveness and ensure a positive user experience for its more than 9,300 users.

OPM made progress on formalizing a roster of Senior Accountable Officials tasked with ensuring genuine commitment to improving employee engagement at all levels. In December 2014, OPM completed a prototype recruitment tool that facilitates identification and targeting of mission critical occupations for Science, Technology, Engineering, and Math and/or geographic locations.

In November, OPM deployed applicant flow-data to its tool, establishing universal access to applicant demographic data by USA Staffing® customers to support efforts to recruit from all segments of society.

OPM also continued to focus on Government-wide diversity and inclusion efforts by partnering with agencies to employ data-driven strategies through tools like applicant flow-data and the New IQ (Inclusion Quotient) index, as well as through implementation of agency-specific diversity and inclusion strategic plans and related trainings. Key accomplishments during FY 2015 included:

- establishing the Government-wide Diversity and Inclusion in Government Council in collaboration with OMB and the Equal Employment Opportunity Commission;
- preparing the 2015 Government-wide Inclusive Diversity Strategic Plan in coordination with the 60 Diversity and Inclusion Strategic Partners;
- developing the prototype for canned reports of applicant flow-data as well as piloting efforts with OPM managers, with the stated goal to improve outreach and recruitment activities for vacant positions;
- convening a Government-wide Employee Resource Group Summit to develop leadership skills of group members at 45 agencies;
- developing web-based training for Selective Placement Program Coordinators to improve the recruitment and hiring of people with disabilities; and
- developing web-based training regarding the inclusion of LGBT employees in the workplace.

Data demonstrates that departments and agencies made progress with respect to OPM's New IQ, a data-driven strategy that teaches first-line supervisors techniques and behaviors that foster inclusion. Specifically, the 2014 FEVS data reflects that employees' positive perceptions of supervisors have increased, with 80.2 percent reporting that their supervisors treat them with respect, 75 percent feeling that their supervisors listen to what they have to say, and 60.5 percent agreeing that their supervisors provide constructive suggestions to improve their performance. OPM also deployed key strategies to improve employee inclusion. They include developing:

- a New-IQ app for mobile devices that can be used by managers to help track their use of inclusive behaviors or habits;
- New IQ Game Changers technical assistance;
- the 20 Small Acts of Inclusion, which are 20 actions based on neuroscience that increase behaviors that lead to the perception of inclusion;

- a Habit Scan, a survey where managers are asked how many inclusive habits or activities they have engaged in; and
- the Simple Pledge, in which senior leaders identify two to four commitments related to diversity, inclusion, engagement, and employee development to increase accountability and transparency across organizations.

OPM has also collaborated with agencies to attract and retain employees from historically underrepresented groups, including people with disabilities, at all levels of Government, resulting in some key successes. For example:

- In FY 2014 (the most recent year for which data is available), total non-seasonal, full-time permanent employees with targeted disabilities, increased slightly from 18,665 in FY 2013 to 19,536, representing an increase from 1.02 percent to 1.07 percent. There are more people with targeted disabilities in Federal service now than at any time in the past 18 years.
- In FY 2014, total non-seasonal, full-time permanent employees with disabilities, including 30 percent or more disabled veterans, increased from 234,395 in FY 2013 to 247,608, representing an increase from 12.80 percent to 13.56 percent. There are more people with disabilities in Federal service both in real terms and by percentage than at any time in the past 34 years.

STRATEGIC GOAL 7: IMPROVED RETIREMENT BENEFIT SERVICE

OPM continues to implement the core components in the Retirement Services Strategic Plan, including delivering quality customer service to people; implementing productivity and process improvements; partnering with agencies; and making partial, progressive information technology improvements. When the Retirement Services Strategic Plan was released in January 2012, the inventory was 61,108 claims. As of the end of 2015, OPM had reduced the inventory to 14,706.

OPM is focused on both its internal process improvements and external outreach towards other Federal agencies to meet its goal of processing 90 percent of claims within 60 days. Based on a Lean Six Sigma process improvement review, OPM has streamlined and standardized workflows, for example, changing processes to review and assemble complete cases before distributing them to legal administrative specialists for adjudication.

OPM has embarked on five major IT initiatives that will ultimately lead to the realization of its IT strategic vision, including the Electronic Retirement Record, Retirement Data Repository, Data Bridge, Online Retirement Application, and Case Management System. OPM posted two Requests for Quotations for the Case Management system. The first Request for Quotations focused on the agency platform and translating business requirements into technical requirements. The second Request for Quotations focused on the services to build the configuration (including the online retirement application) upon the agency platform. OPM is also working to expand access to the Retirement Data Repository, via Data Viewer, to additional agencies. The agency has also completed a Data Bridge and is working on the testing phase.

In FY 2015, OPM actively encouraged individuals to take advantage of the resources available through Services On-Line, a web platform that provides retirement services on demand (***https://www.servicesonline.opm.gov/***). Services On-Line enhancements (such as improved password resets and lockout functions) have made transactions easier; for example, allowing users to view the case status while in interim pay, update emails and/or addresses, and access 1099-R information.

OPM used the following measures to manage progress towards its related Agency Priority Goal to improve retirement claims processing. For additional details on OPM's progress, please refer to ***www.Performance.gov***.

Relative ratio of complete retirement submissions versus incomplete cases						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
82%	85%	90%	84%	87.7%	≥ 85%	Met

Claims Inventory						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
N/A*	17,719	37,086	12,767	14,706	≤ 13,142	Not Met

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

Percent of retirement claims processed within 60 days						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
N/A*	N/A*	N/A*	79%	70.1%	≥ 90%	Not Met

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

STRATEGIC GOAL 8: ENHANCED FEDERAL WORKFORCE INTEGRITY

In September 2014, OPM announced it would not extend the terms of its contracts with the contractor that performed the majority of its background investigations. The agency has continued its operations by assigning cases to its Federal staff and its two remaining investigative contractors. In addition, OPM signed an agreement with another contractor to take on a support services contract, which was effective October 1, 2014. Because of the reduction in investigative resources, the time to complete initial national security investigations has increased throughout FY 2015. To counter the loss of the contractor, OPM's Federal Investigative Services and its two fieldwork contractors increased their field staff. In addition to expanding existing resources, OPM extended a solicitation for new investigative resources to respond to its current workload. Actions that OPM has taken to expand investigative capacity are within budget constraints, while maintaining the high-quality of OPM's investigations. Until these new solicitations are all completed, OPM expects that investigation timeliness will continue to improve and inventory will continue to increase through FY 2016. OPM will continue to re-evaluate its position to determine if additional measures are needed to meet timeliness goals while continuing to deliver high quality investigations.

Also in FY 2015, OPM implemented the Tiers 1 and 2 investigation products. The new products are based on the 2012 Federal Investigative Standards that OPM and the DNI jointly issued in December 2012. Further, OPM began implementing the new Executive Branch-wide Quality Standards signed by OPM and the DNI on January 22, 2015.

To hold agencies accountable for maintaining efficient, effective, and compliant human capital programs and accountability systems. OPM issued 27 agency evaluation reports for FY 2015, 25 of which included required actions. In addition, 29 agency report responses were due to OPM by the end of the fiscal year, and all 29 were received. Based on these responses, 83 percent of the Human Capital or HR offices evaluated have demonstrated progress to date by addressing corrective actions. Agencies are expected to address required actions contained in OPM reports within specified timeframes. As of the end of FY 2015, 85 percent of the required actions were addressed within OPM timeframes.

OPM also aims to assure effective Human Capital management of Senior Executive Service (SES) and other senior employees. To automate the basic SES performance management system, OPM rolled out USA Performance. Six agencies started using USA Performance in FY 2015 to better manage the Senior Executive Service performance appraisal cycle. USA Performance deployed six releases with new enhancements to the system. Enhancements included plan notes, greater flexibility for HR administrators to manage performance plans, and ability to add agency specific performance requirements.

OPM has continued to support the implementation of the President's Management Agenda People and Culture Cross-Agency Priority goal, and has made significant progress in achieving the deliverables established for the goal - particularly with regard to SES reform and modernization, including SES onboarding. For example, agencies are currently piloting an enhanced SES onboarding framework, and OPM is meeting with agency SES onboarding program coordinators and program champions to share pilot details and materials, including the enhanced framework. For additional details on OPM's progress, please refer to ***www.Performance.gov***.

OPM used the following measures to manage progress towards its related Agency Priority Goal to improve the oversight and quality of background investigations processing.

Percent of investigations determined to be quality complete

FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
99.9%	99.9%	99.8%	99.9%	99.9%	≥ 99%	Met

Average number of days to complete the fastest 90 percent of all initial national security investigations

FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
40	36	35	35	67	≤ 40	Not Met

Average number of days to complete the fastest 90 percent of initial Secret national security investigations						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	30	58	≤ 40	Not Met

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

Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	75	147	≤ 80	Not Met

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

OPM used the following measures to manage progress towards its related Agency Priority Goal to close the skills gap for the HR workforce. For additional details on OPM's progress, please refer to ***www.Performance.gov***.

Percent of HR University workforce (GS-201s/203s) registered for HR University						
FY 2011 Results	**FY 2012 Results**	**FY 2013 Results**	**FY 2014 Results**	**FY 2015 Results**	**FY 2015 Target**	**Met/ Not Met**
N/A*	N/A*	N/A*	80%	98.2%	≥ 95%	Met

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

STRATEGIC GOAL 9: HEALTHIER AMERICANS

OPM administers the Multi-State Plan Program established under the Affordable Care Act, providing Americans more options for affordable coverage through ***http://www.healthcare.gov/***. For the 2015 plan year, OPM contracted with 13 Consumer Operated and Oriented Plans, and also contracted with 38 Blue Cross and Blue Shield plans. Collectively, they offered 179 individual plan options that consumers could purchase from the marketplace as well as 33 options available through the Small Business Health Options Program.

During FY 2015, OPM implemented an FEHB Health Plan Performance Assessment system to measure and reward FEHB plan performance through the use of common, objective, and quantifiable performance measures by the 2016 plan year. This is a new approach to assessing the annual performance of health plans contracted under the program. The performance assessment framework includes a discrete set of qualitative and quantifiable performance measures to assess key aspects of clinical quality, customer service, and resource use performance. Contracting officer's oversight is also included in the categories of plan performance. The overall assessment is then linked to health plan profit factors. There are three primary quantitative categories of health plan performance in the assessment: improving health outcomes through quality care, providing effective customer service, and controlling cost growth.

The *Bipartisan Budget Act of 2013* amended the FEHB statute to provide for a self plus one enrollment option in addition to the current self only and self and family enrollment options. During FY 2015, OPM worked with agencies, shared service centers, and Federal retirement programs to amend IT systems to accommodate the new enrollment option. OPM also worked closely with FEHB carriers to amend their IT systems and to submit rate proposals for the 2016 plan year that reflected the expected resource use of the self plus one enrolled population. Open Season, occurring in 2015, is the first opportunity for employees and retirees to enroll in Self-Plus One.

OPM used the following measures to manage progress towards its related Agency Priority Goal to improve FEHB accountability. Additionally, we used industry benchmarks. The industry measures for private sector premiums are released by PriceWaterhouseCoopers (which predicted an increase of 6.5 percent for the industry) and CalPERS (which predicted an increase of 7 percent for HMOs and 11 percent for PPOs). The FEHB premium increase falls below all three measures. The health industry standard satisfaction rate published in the Quality Compass released by the National Committee for Quality Assurance. For additional details on OPM's progress, please refer to ***www.Performance.gov***.

Percent increase in FEHB premiums less than or equal to private sector premium increases for comparable benefits

FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
3.8%	3.4%	3.7%	3.7%	6.4%	≤ Industry Trend	Met

Percent of FEHBP enrollees satisfied vs. health industry standard						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
76%	78%	79.2%	82%	N/A*	≥ Industry Standard	N/A

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

Percent of adults receiving flu shots based on CAHPS Effective Care						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
N/A*	52%	53%	50%	49%	Contextual	-

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

Percent of prenatal care visits that are timely						
FY 2011 Results	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2015 Target	Met/ Not Met
N/A*	N/A*	43.4%	39.8%	41%	Establishing New Baseline	Establishing New Baseline

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

QUALITY OF PERFORMANCE DATA

In accordance with the requirements of the Government Performance and Results Acts, OPM ensures the information in its AFR, as well as APR and SPFI, accurately reflects its performance and is based on reasonably complete, accurate and reliable data. To promote data quality, OPM's Office of the Chief Financial Officer works with other OPM offices to document and improve data collection, reporting, validation, and verification procedures for performance measures. Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2015 APR and the Summary of Performance and Financial Information in February 2016.

ANALYSIS OF OPM'S FINANCIAL STATEMENTS

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

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

BALANCE SHEET

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

Assets

At the end of FY 2015, OPM held $1.03 trillion in assets, an increase of 2.2 percent from $1.01 trillion at the end of FY 2014. 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 $851 billion, which represents 82.5 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and its total assets, in normal years, usually both grow. However, in FY 2015, as a result of the Debt Issuance Suspension Period (DISP) that began on March 16, 2015, and continued into the next fiscal year until November 2, 2015, the investment portfolio decreased by 13.3 percent, with the largest decrease for investments occurring in the Retirement Program.

Furthermore, for the DISP, the Treasury took steps on November 2, 2015, to restore principal not invested and interest foregone. See Note 1J and Note 16 in Section 2 of the AFR for further information.

In FY 2015, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $21.3 billion. When the net effect is favorable, the Retirement Program has the ability to reinvest interest earnings and apply the excess funds to the U.S. Treasury Transferred-In to subsidize the under funding of the Civil Service Retirement System (CSRS). The CSRS under funding was a total of more than $36.1 billion for FY 2015, which combined with the DISP, resulted in a decrease in the investment portfolio of $130.1 billion for FY 2015 from FY 2014.

Liabilities

At the end of FY 2015, OPM's total liabilities were $2,258 billion, an increase of 2.8 percent from $2,197 billion at the end of FY 2014. 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 many assumptions about the future economy and about the demographics of the future Federal employee and annuitant (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 $1,843 billion at the end of FY 2015, an increase of $33 billion, or 1.8 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 $352 billion at the end of FY 2015. This reflects an increase of approximately $27.4 billion from the amount at the end of FY 2014, or 8.4 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The *Actuarial Life Insurance Liability* is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.2 billion in FY 2015 to $48.7 billion, or 2.6 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, Dedicated Collections: Amending SFFAS No. 27, "Identifying and Reporting Earmarked Funds." This Statement among other provisions, adds "an explicit exclusion for any fund established to account for pensions, other retirement benefits (ORB), other postemployment (OPEB), or other benefits provided for federal employees (civilian and military)."

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

OPM's total liabilities exceeded its total assets at the end of FY 2015 by $1,227 billion, primarily due to the large actuarial liabilities. 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 $22.4 billion in FY 2015 to $1,018.0 billion.

TABLE 3 - Net Assets Available for Benefits

($ in Billions)	FY 2015	FY 2014	Change
Total Assets	$1,031.9	$1,009.4	$22.5
Less "Non-Actuarial" Liabilities	13.9	13.8	0.1
Net Assets Available to Pay Benefits	$1,018.0	$995.6	$22.4

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 2015 Net Cost of Operations was $86.8 billion, as compared with a net cost of $72.5 billion in FY 2014. The primary reasons for the increase in net cost are due to changes in the actuarial assumptions and a higher medical cost, which offset the actual COLA being lower than anticipated.

Net Cost to Provide CSRS Benefits

As presented in Table 4, OPM incurred a Gross Cost for the CSRS Benefits of $43.6 billion compared with $69.7 billion, a decrease of $26.1 billion from FY 2014. As reported on the SNC, there was a current year gain of $369 million for CSRS that was primarily due to changes in economic assumptions, such as decreases in assumed future long term rates of the annuitant Cost of Living Increase (COLA), and the general salary increase for the year.

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

Contributions by and for CSRS participants decreased in FY 2015 by $309 million from FY 2014 and OPM's earnings on CSRS investments declined by approximately $1.1 billion from the prior fiscal year.

TABLE 4 - Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2015	FY 2014	Change
Gross Cost	$43.6	$69.7	$(26.1)
Associated Revenues	15.0	15.7	(.7)
Net Cost	$28.6	$54.0	$(25.4)

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, SFFAS No. 33 requires gains and losses from changes in long term assumptions to be displayed on the statement of net cost separately from other costs. OPM's CSRS benefits expense was $50.7 billion in FY 2015, as compared to the $53.9 billion in FY 2014. 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 2015 increased by $20.9 billion from FY 2014. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category: the actuarially computed Pension Expense; and two categories of earned revenue: 1) contributions by and for participants, and 2) earnings on FERS investments. The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year, including net actuarial losses and interest costs on the accrued actuarial liability.

For FY 2015, OPM incurred a Pension Expense for FERS of $70.7 billion, as compared with $46.7 billion in FY 2014. The primary reasons for the increase in FERS pension expense were due to changes in actuarial economic assumptions, and actual salary expense was greater than expected. There was a gain of $5.8 billion in FY 2014, which was followed by a loss of $8.2 billion in FY 2015 due to changes in actuarial economic assumptions such as the decrease in the long term interest rate. This contributed to the increase in pension expense of $1.1 billion from FY 2014 to FY 2015. The FY 2015 Pension Expense also reflected an experience loss primarily due to the actual salary expense being greater than expected.

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

Contributions by and for FERS participants increased by $3,758 million, or 14.7 percent from the prior FY, also due to the increasing number of FERS participants.

TABLE 5 - Net Cost to Provide FERS Benefits

($ in Billions)	FY 2015	FY 2014	Change
Gross Cost	$70.7	$46.7	$24.0
Associated Revenues	45.7	42.6	3.1
Net Cost	$25.0	$4.1	$20.9

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and therefore, do not appear on the Statement of Net Cost. In FY 2015, OPM paid FERS benefits of $11.2 billion, compared with $9.7 billion in FY 2014. 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 2015 increased by $18.0 billion from that in FY 2014 (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 2015	FY 2014	Change
Gross Cost	$75.3	$56.5	$18.8
Associated Revenues	43.4	42.6	.8
Net Cost (Net Income)	$31.9	$13.9	$18.0

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

As such, there were two payments due from USPS in FY 2012, one for $5.5 billion by August 1, 2012, and a second payment of $5.6 billion due by September 30, 2012, a total of $11.1 billion. For FY 2013, another $5.6 billion payment was due by September 30, 2013. In addition, for FY 2014, the scheduled payment was $5.7 billion, and for FY 2015, the scheduled payment was $5.7 billion. As of September 30, 2015, the Postal Service has not indicated its intention regarding payment of the total $28.1 billion due. Furthermore, at this point in time, Congress has not taken further action on these payments due from USPS to the PSRHB Fund.

The Post-Retirement Health Benefits (PRHB) Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2015, OPM incurred a PRHB expense of $42.1 billion, as compared with $24.0 billion in FY 2014, due to an actuarial loss from assumptions in FY 2015 resulting from changes in trend and interest as compared to FY 2014; the actuarial loss from experience also was greater due to higher medical costs in FY 2015 as compared to FY 2014.

For the Actuarial gain/loss portion of the PRHB expense, the results were due primarily to population change, the higher medical cost increase, updated cost curve assumptions, and changes in the SFFAS No. 33 trend and interest assumptions; the interest assumption is a single equivalent rate of 4.1 percent.

Current Benefits and Premiums stayed level with FY 2014. However, the contributions (for and by participants) increased by $0.9 billion from FY 2014 to FY 2015. As discussed above, in FY 2015, a total of $28.1 billion in scheduled payments was due to the PSRHB Fund.

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 2015	Total FY 2014
Claims	$27.3	$11.0	$38.3	$36.8
Premiums	3.9	2.3	6.2	6.4
Administrative and other	$1.8	$1.4	$3.2	$2.9

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from $.1 billion in FY 2014 to $.6 billion in FY 2015. Gross cost increased $.5 billion due to the actuarial loss in FY 2015 as compared to FY 2014. 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 2015 and 2014. 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 2015 as compared to FY 2014. Associated revenues remained at the same level.

TABLE 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2015	FY 2014	Change
Gross Cost	$4.2	$3.7	$.5
Associated Revenues	3.6	3.6	.0
Net Cost (Net Income)	$.6	$.1	$.5

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 $247.5 billion in budgetary resources was available to OPM for FY 2015. OPM's budgetary resources in FY 2015 included $63.8 billion (25.8 percent) carried over from FY 2014, plus three major additional sources:

- Appropriations Received = $47.5 billion (19.2 percent)
- Trust Fund receipts of $96.6 billion, less $14.0 billion* not available = $82.6 billion (33.4 percent)
- Spending authority from offsetting collections (SAOC) = $53.6 billion (21.6 percent)

* Total budgetary resources do not include $14.0 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 $50.0 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 2015	FY 2014
Trust Fund Receipts	33.4%	33.1%
Balance Brought Forward from Prior Year	25.8%	25.8%
Spending Authority from Offsetting Collections	21.6%	21.8%
Appropriations	19.2%	19.3%

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

Obligations Incurred by Program	FY 2015	FY 2014
Retirement Benefits	64.6%	64.6%
Health Benefits	32.6%	32.5%
Life Insurance Benefits	1.7%	1.7%
Other	1.1%	1.2%

From the $247.5 billion in budgetary resources OPM had available during FY 2015, it incurred obligations of $183.0 billion less the $36.1 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 $50.0 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 2015 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 Management Act (FISMA) of 2002
- Compliance with Other Key Legal and Regulatory Requirements

Management Assurances

FMFIA and FFMIA Assurance Statement

The Office of Personnel Management (OPM) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM is able to provide a qualified assurance statement that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of three material weaknesses and one non-conformance. The details of the exception(s) are provided in Exhibit A and B of this report.

OPM conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, two material weaknesses were identified in internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2015. Other than the exceptions noted in Exhibit A, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, OPM has conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, one material weakness was identified in internal control over financial reporting as of June 30, 2015. Other than the exception noted in Exhibit A, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act* (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and use of the *United States Standard General Ledger* at the transaction level. One non-conformance with financial management system requirements is in Exhibit B as of September 30, 2015. Other than the exception noted, OPM can provide reasonable assurance that it complies with FFMIA Section 4.

Beth F. Cobert Acting Director	11-13-15 Date

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

FMFIA requires that agencies conduct evaluations of their systems of internal control and provide reasonable assurance annually to the President and the Congress on the adequacy of those systems. Internal control is an integral component of an organization's management that provides reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with laws and regulations.

OPM evaluated its systems of internal control by conducting an assessment of its internal control over Agency operations and compliance with applicable laws and regulations, specifically with FMFIA and OMB Circular No. A-123, *Management's Responsibility for Internal Control*. As part of the assessment, the CFO required office heads to submit an assurance statement detailing if their internal control systems met the requirements of the FMFIA. Office heads also submitted supporting documentation of internal control objectives and control activities in individual units under their purview and how they ensured that those controls were working effectively.

The Office of the Chief Financial Officer's (OCFO) Policy and Internal Control (PIC) reviewed those submissions along with applicable audit reports performed throughout the reporting period to determine if there were other material weaknesses that needed to be reported in the assurance statement. In addition, as in prior years' assessments, FY 2015 Appendix A planning, testing, evaluation, and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board (Board). The Board is co-chaired by the CFO and the Associate Director, Merit System Accountability and Compliance. The Board includes senior representatives from all major OPM organizations. PIC conducted testing and evaluation of financial reporting controls under the Board's oversight.

Significant Deficiency on OPM's Information Security Governance Closed

In its FY 2015 overall draft Federal Information Security Management Act (FISMA) report, the OIG closed the significant deficiency for FY 2014 because OPM was successful in filling the vacant Information System Security Officers (ISSO) positions, effectively centralizing IT security responsibility under the Chief Information Officer (CIO). Therefore, the audit recommendation was fulfilled.

- FMFIA Material Weakness and Non-Conformance
- EXHIBIT A - Material Weaknesses
- OPM reported three operational and financial material weaknesses for FY 2015.

Material Weakness on IT Security Systems Authorization Process

Based on OIG's FISMA audit, a material weakness on IT Security System Authorization continues to exist. The OIG found that management of the system Authorization has deteriorated even further than in FY 2014. In FY 2014, OIG reported that 11 of OPM's 47 systems were operating without valid Authorizations, a violation of OMB Circular A-130. In 2015, the CIO issued a memorandum that granted an extension of the previous Authorization to cover all systems operating under already expired Authorizations, and those systems scheduled to expire through September 2016. If the delay in Authorizations continues, the agency will have up to 23 systems that have not been subject to a thorough security controls assessment. OCIO is assessing the applicable systems and will develop an appropriately risk-based, cost effective plan to address the issue.

Material Weakness Office of the Inspector General (OIG) Investigations Tracking System Offline

The OIG's Office of Investigations' (OI) tracking system, known as CLEAR, was taken offline on June 22, 2015. Although the Security Assessment & Authorization (SA&A) for CLEAR was completed by the Department of the Treasury's

Fiscal Services on April 30, 2015, OPM's Office of the Chief Information Officer did not complete its assessment of the identified high risk vulnerabilities and associated remediation efforts prior to the May 22, 2015 expiration of CLEAR's Authority to Operate (ATO).

The OI's lack of an operational information management system violates the *Quality of Standards for Investigations*. An operational investigations tracking system is essential for the management of investigative information, to include complaint handling and case initiation, as well as the management of workload data, identification data, and investigative results data. OCIO has completed its assessment and granted OIG its ATO effective October 2015. The CLEAR system is operational and on-line.

Material Weakness OPM's Information System Control Environment

Since FY 2012, significant deficiencies have continued to exist in OPM's information system control environment. These deficiencies include incomplete security authorization packages, weaknesses in testing of information security controls, and inaccurate Plans of Action and Milestones (POAMs). Due to the continued existence of these deficiencies and due to a lack of formal system component inventory, the reported deficiencies, collectively, are being reported as a material weakness in OPM's information system control environment. Based on OPM's evaluation of the deficiencies, OPM agrees with the material weakness. OPM will actively pursue corrective actions to mitigate the deficiencies.

Exhibit B - Non-Conformance with Financial Management System Requirements

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

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

Financial Management Systems

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

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

As part of the audit of OPM's FY 2013 financial statements, it was reported that OPM made significant improvements in its Fund Balance with Treasury (FBWT) reconciliations for the Revolving Funds (RF) programs, and we continued to achieve improvements throughout FY 2014 and FY 2015, thereby improving the accuracy and timeliness of reporting for both Salaries and Expense (S&E) and RF reporting.

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2015, except for the financial management systems requirements, OPM substantially complies with all FFMIA requirements regarding Federal Financial Accounting Standard, and application of the USSGL. The objectives of our assessment were to ensure that our financial systems achieve their intended results. In addition, our resources were used consistent with OPM's mission and are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets; and reliable and timely information was maintained, reported, and used for decision making. The results indicated that the CFO was consistent with FFMIA guidelines and OPM's mission to provide reliable and timely information for agency decision making.

The agency continues to apply major improvements to its financial systems each year. The Consolidated Business Information System (CBIS) program continues to support OPM's strategic goal to "Establish responsive, transparent budgeting and costing processes" through implementation of an agency-wide Cost Accounting process and solution beginning in FY 2016. OPM is also finalizing its plan to replace its existing Federal Financial System (FFS) to improve and streamline Trust Funds (TF) business processes that support effective retirement and insurance benefits accounting and fiscal management.

In FY 2014, OPM began efforts to conduct and complete an assessment of the TF systems that included an Analysis of Alternatives (A of A) study to determine the viability in its replacement. The study rendered a recommendation on three (3) alternatives for OPM's consideration. In FY 2015, OPM conducted a detailed cost benefit analysis of each of the three alternatives that resulted in a final recommendation for senior leadership approval. A final decision of this approval is expected in quarter two of FY 2016.

In addition, the CBIS project under the guidance of the CFO is addressing a key agency goal to acquire and implement an enterprise managerial cost accounting system solution that will support full costing of services and products that each segment produces in alignment with OPM strategic goals. This acquisition is also expected to be complete by the end of quarter two of FY 2016 with implementation commencing in quarter three.

OPM views its compliance to FFMIA through furthering its relationship with certified Federal Shared Service Providers (FSSP) that provide assurances related to their systems of controls and compliance with Federal guidelines and policy. OPM is further benefiting from its "blended approach" to shared services as directed in OMB's 25-Point Implementation Plan through the use of a Shared Services Provider for transaction processing. Furthermore, OPM is exploring options to further implement OMB's Memorandum 13-08 requiring agencies to utilize FSSP's for IT Hosting, Development, and Software support.

In FY 2016, OPM will continue to optimize functions, processes, and service delivery across the financial management components and workflows to further its compliance with FFMIA. These include: integration, reporting and analysis, transaction processing, and continuous training.

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 (OIG). OPM is reporting on audit follow-up activities for the period October 1, 2014, through September 30, 2015. 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 2015	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2014	1	$-0.0[2]
New reports requiring management decisions	22[1]	68.1
Management decisions made during the year	22	63.6
Costs disallowed	-	63.7
Costs not disallowed	-	-0.1[2]
Reports with no management decision on September 30, 2015	1	$4.5

FY 2014	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2013	2	$(1.5)
New reports requiring management decisions	20[1]	57.2
Management decisions made during the year	21	55.7
Costs disallowed	-	55.0[2]
Costs not disallowed	-	0.6[2]
Reports with no management decision on September 30, 2014	1	$-0.0

[1] The number of new reports requiring a management decision represents reports with monetary recommendations. The total number of new reports issued during the fiscal year is 68, of which 46 included only procedural recommendations, or were without any recommendations.

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

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2014 through March 31, 2015 and April 1, 2015 through September 30, 2015.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

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 detailed results of this review conducted for the FY 2015.

In FY 2015, the Office of the Chief Information Officer (OCIO) has implemented significant changes related to information security governance. These changes include the hiring of eight additional System Security Officers (ISSO) positions to support the centralization of the security management structure under OCIO, bringing the total to 12. With these positions filled, the ISSO's security responsibility now covers 100 percent of OPM information systems. The OCIO has submitted the significant deficiency identified in FY 2014 for closure and expects its review as part of the FY 2015 Annual FISMA Audit. The OCIO has begun an effort to aggressively close audit findings. At this time, 73% of audit findings issued by the OPM Office of the Inspector General (OIG) are closed. An additional 2% of the OIG audit findings have been submitted for closure for which the OCIO expects acceptance. This constitutes 75% of OIG audit findings resolved by OCIO.

In addition, in FY 2015 the OCIO expanded the Security Operations Center (SOC) that provides continuous centralized support for OPM's security incident prevention / management program. The SOC deployed multiple tools to strengthen the security of the overall environment. Together with infrastructure teams, many accomplishments have been achieved and reported during FY 2015, including:

- Enforced the use of the Personal Identity Verification (PIV) card for authentication to the network for 100% of Privileged Users and 97% of Unprivileged Users;
- Improved endpoint protection to detect and prevent malicious and unauthorized software from installing and running on endpoints and servers;
- Network Access Control to detect and limit unauthorized access from devices that do not meet OPM policy;
- Inspection of inbound and outbound network traffic to audit and monitor encrypted malicious traffic; and
- Implemented anti-phishing and anti-malware inspection and prevention of email traffic.

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

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

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

OPM continues to comply with the Digital Accountability and Transparency Act (DATA Act), 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, 180 days per the DCIA).

On October 3, 2014, the Office of Management and Budget, in coordination with the National Security Council (NSC) staff and the DHS, released annual guidance to agencies on improving the security of Federal information and networks, in accordance with the Federal Information Security Management Act (FISMA) of 2002.

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

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

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

GOALS AND STRATEGIES

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

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

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

LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

SECTION 2

FY 2015 Financial Information

A Message from the Chief Financial Officer

This is the eighth year the United States (U.S.) Office of Personnel Management (OPM) has chosen to produce an Agency Financial Report (AFR), which provides details on relevant financial data within 45 days of the fiscal year end in accordance with Office of Management and Budget (OMB) guidelines. Under a separate cover, OPM will submit the Annual Performance Report in conjunction with its Congressional Budget Justification for submission of the President's Fiscal Year (FY) 2017 Budget to Congress, and a Summary of Performance and Financial Information which provides a concise briefing of the past year's outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management and stakeholders.

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

OPM issued a qualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123, *Management's Responsibility for Internal Control*. This was due to the raising of the significant deficiency regarding OPM's information systems control environment to a material weakness. OPM's Office of the Chief Information Officer (OCIO) has action plans and continues to make significant progress on resolving the information systems control environment and security issues noted.

Additionally, OCIO has taken steps to mitigate the widely reported cybersecurity data breaches. For data that impacts our financial statements, our validation efforts demonstrated the data files and relevant financial analysis were reliable.

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

For the FY 2016 Congressional Budget Submission, OPM continued to clearly align financial resources with the agency's updated strategic plan. This provides all of our stakeholders, to include the American taxpayer, with detailed information into the distribution and focus of agency resources necessary to accomplish our mission. We will continue to submit agency budgets that provide full transparency into resource utilization in alignment with agency goals and strategies, to shape our future.

OPM's Revolving Fund (RF) Programs continue to adapt to the changing Federal landscape as it relates to the demand for reimbursable services and our ability to deliver those services in the most efficient and cost-effective manner possible. The RF programs are streamlining processes and right-sizing operations, while also developing new and improved business models that better serve stakeholders. To further support full transparency into the fees charged by OPM's reimbursable programs, we are continuing to be fully engaged in the implementation of an enterprise-wide managerial cost accounting effort. During FY 2015, cost accounting methodologies were developed. An objective is to have program and agency-wide cost accounting methodologies fully linked to our accounting system, the Consolidated Business Information System (CBIS), to provide a more thorough understanding of the cost of activities and the subsequent fees charged for OPM services.

Furthermore, OPM's Earned Benefit Trust Fund Programs successfully provided financial services while accounting for another Debt Issuance Suspension Period instated by the Treasury Department from March 16, 2015, into the new fiscal year, through November 2, 2015. In FY 2015, OPM conducted a detailed cost benefit analysis of alternatives for replacement of its existing Federal Financial System (FFS) to improve and streamline Trust Funds (TF) business processes.

OPM is also improving its financial management by continuing to work with our stakeholders, shared services providers and contractors to enhance the current financial processes, business intelligence tools, and systems. We will continue to actively engage service organizations to ensure internal controls are operating efficiently and effectively. Considerable progress was made in FY 2015 to further the use of CBIS in a data driven manner for decision making, as evidenced by our utilization of the most current version of the software. CBIS provides efficient and effective transmissions of data for Government-wide Accounting (GWA) and Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting, and will enable OPM to implement requirements for the Digital Accountability and Transparency Act (DATA).

We continue to carry out our responsibilities over the $1 trillion in assets in the Federal employees earned-benefit trust and other funds with pride. On behalf of Federal employees, retirees, their families, and survivors, we are honored to safeguard these assets against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY 2015 AFR documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds.

Sincerely,

Dennis D. Coleman
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 13, 2015

Report No. 4A-CF-00-15-027

MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: PATRICK E. McFARLAND
Inspector General

Patrick E. McFarland

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2015 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2015 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 KPMG to audit OPM's consolidated financial statements as of September 30, 2015 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2015 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG found:

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

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Honorable Beth F. Cobert 2

- KPMG'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.

- KPMG's report identified one significant deficiency:

  - Entity Level Controls Over Financial Management

  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.

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

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG'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 KPMG's audit of OPM's Fiscal Year 2015 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- provided oversight, technical advice, and liaison to KPMG auditors;
- ensured that audits and audit reports were completed timely and in accordance with the requirements of Generally Accepted Government Auditing Standards (GAGAS), OMB Bulletin 15-02, and other applicable professional auditing standards;
- documented oversight activities and monitored audit status;
- reviewed responses to audit reports and reported significant disagreements to the audit follow-up official per OMB Circular No. A-50, Audit Follow-up;
- coordinated issuance of the audit report; and,
- performed other procedures we deemed necessary.

Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 12, 2015, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

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

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

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

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

cc: Dennis D. Coleman
Chief Financial Officer

Daniel K. Marella
Deputy Chief Financial Officer

Donna K. Seymour
Chief Information Officer

Janet L. Barnes
Director, Internal Oversight and Compliance

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Director and Inspector General
United States Office of Personnel Management:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Office of Personnel Management (OPM), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). Additionally, we have audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2015 and 2014, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Programs' "individual financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements and these Programs' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements and the Programs' individual financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and Programs' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and Programs' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and Programs' individual 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 entity'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 consolidated financial statements and the Programs' individual 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Office of Personnel Management of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Programs' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the Programs as of September 30, 2015 and 2014, and their net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements and the Programs' individual financial statements. Such information, although not a part of the basic consolidated financial statements and the Programs' individual financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements and the Programs' individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 consolidated financial statements and the Programs' individual financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements and the Programs' individual 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 and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements and on the Programs' individual financial statements as a whole. The information in the Revolving Fund (RF) Program financial statements in the consolidating financial statements (Schedules 1 through 4), the Salaries and Expense (S&E) Fund financial statements in the consolidating financial statements (Schedules 1 through 4), the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) information in the consolidating statements of net cost (Schedule 2), the Message from the Director, Message from the CFO, Transmittal from OPM's Inspector General, Other

Information Section, and Appendix A are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements and the Programs' individual financial statements.

The information in the RF Program financial statements, the S&E Fund financial statements, and the CSRS and FERS information in the consolidating statements of net cost is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the RF Program financial statements, the S&E Fund financial statements, and the CSRS and FERS information is fairly stated in all material respects in relation to the basic consolidated financial statements and the Programs' individual financial statements as a whole.

The information in the Message from the Director, Message from the CFO, Transmittal from OPM's Inspector General, Other Information Section, and Appendix A have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and the Programs' individual financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements and the Programs' individual financial statements as of and for the year ended September 30, 2015, we considered OPM's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and the Programs' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control. Accordingly, we do not express an opinion on the effectiveness of OPM's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness and the deficiencies described in Exhibit II to be a significant deficiency.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in Exhibit I to be a material weakness.

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. We consider the deficiencies described in Exhibit II to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OPM's consolidated financial statements and the Programs' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02 as discussed in the following paragraph.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, as described in finding A of Exhibit I, in which OPM's financial management systems did not substantially comply with the Federal financial management systems requirements. The results of our tests of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level.

OPM's Responses to Findings

OPM's responses to the findings identified in our audits are described in Exhibits I and II. OPM's responses were not subjected to the auditing procedures applied in the audits of the consolidated financial statements and the Programs' individual financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by **Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of OPM's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 12, 2015

Exhibit I. Material Weakness

A. Information Systems Control Environment

Management is charged with the oversight and accountability for the governance of the information technology (IT) control environment, including general IT controls, and has not taken appropriate action to address ongoing pervasive deficiencies that have been identified in multiple information systems and reported to management as a significant deficiency or material weakness since fiscal year 2007.

Despite concerted efforts by OPM's Office of the Chief Information Officer (CIO) to make progress in addressing these long-standing findings, in fiscal year 2015, we continued to observe these long–standing findings in addition to other control weaknesses, as outlined below. Due to the persistence of a number of long-standing control weaknesses in OPM's information security control environment, collectively, we considered these matters to be a material weakness in internal control.

1. The current authoritative guidance regarding two-factor authentication has not been fully applied.
2. Access rights in OPM systems are not documented and mapped to personnel roles and functions to ensure that personnel access is limited only to the functions needed to perform their job responsibilities.
3. The information security control monitoring program was not fully effective in detecting information security control weaknesses. We noted access rights in OPM systems were:
    a) Granted to new users without following the OPM access approval process and inconsistently reviewed as part of the quarterly review process to confirm access approvals.
    b) Not revoked immediately upon user separation and inconsistently reviewed as part of the quarterly review process to confirm access removals.
    c) Granted to a privileged account without following the OPM access approval process.
4. A formalized system component inventory of devices to be assessed as part of vulnerability or configuration management processes was not maintained.
5. The Plan of Action & Milestones (POA&M) or similar tracking log did not track weaknesses identified from vulnerability scans.

Federal Information Process Standards 200, *Minimum Security Requirements for Federal Information and Information Systems,* and National Institute of Standards and Technology Special Publication 800-53 Revision 4, *Recommended Security Controls for Federal Information Systems,* in combination, provide a framework to help ensure that appropriate security requirements and security controls are applied by agencies to all federal information and information systems. This framework includes an organizational assessment of risk by agencies that validates the initial security control selection and determines if any additional controls are needed to protect organizational operations. The resulting set of security controls establishes a level of security due diligence for the organization. These conditions, mentioned above, reduce OPM's ability to have an effectively managed IT security program. Therefore, this may continue to increase the risk of IT systems being compromised.

Recommendations

We recommend that the OCIO, in coordination with the Office of the Chief Financial Officer (OCFO) and system owners in Program offices, develop and effectively implement the necessary corrective actions to:

1. Fully implement the current authoritative guidance regarding two-factor authentication.
2. Document and map access rights in OPM systems to personnel roles and functions, following the principle of "least privilege".

Enhance OPM's information security control monitoring program to detect information security control weaknesses by:

a) Implementing and monitoring procedures to ensure system access is appropriately granted to new users, consistent with the OPM access approval process.

b) Monitoring the process for the identification and removal of separated users to ensure that user access is removed timely upon separation; implementing procedures to ensure that user access, including user accounts and associated roles, are periodically reviewed based on the nature and risk of the system, and promptly modifying any accounts as necessary.

c) Monitoring the process for granting privileged access to ensure that accounts with elevated privileges are approved based on business needs and enforce the concept of least privilege.

4. Continue to perform, monitor, and improve its patch and vulnerability management processes, to include maintaining an accurate inventory of devices.

Management Response

Management concurs with the finding and recommendation. OPM will develop and implement a corrective action plan to address these deficiencies in this new fiscal year.

Exhibit II. Significant Deficiency
B. Entity Level Controls Over Financial Management

Entity-level controls encompass the overall control environment throughout the entity. This includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance, and management concerning the entity's internal control and its importance in the entity. Entity-level controls are often categorized as environmental controls, risk assessment, monitoring, and information and communications, as defined by the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO) (2013 version), and the Government Accountability Office (GAO) *Standard of Internal Control in the Federal Government*. These controls must be effective to create and sustain an organizational structure that is conducive to reliable financial reporting.

During fiscal year 2015, OPM reported a data breach which affected millions of Federal employees and government contractors. Based on our procedures to evaluate the potential impact of the data breach on OPM's financial statements, we noted a number of control deficiencies that are pervasive throughout the agency. Specifically, we noted:

1. OPM's risk assessment process is not designed appropriately to handle non-routine events and transactions. As a result, non-routine events and transactions that have a greater likelihood of resulting in a material misstatement in the financial statements are not always receiving an appropriate level of attention. Specifically, OPM did not fully assess and identify the risks associated with using a third party to store and maintain personally identifiable information that is a significant part of the underlying data used in calculating OPM's actuarial liabilities. The use of a service provider extends the financial reporting control environment and OPM's responsibilities for those relevant controls.
2. OPM's risk assessment processes do not have a mechanism in place to identify internal and external factors/events that would prompt OPM management to perform an evaluation of non-routine events or transactions and assess the impact on the financial statements: Specifically, we noted:
   a) The OCFO did not identify the data breach as a significant risk to the financial statements as some of the information compromised during the data breach is used in the development of the population used in the calculation of OPM's actuarial liabilities.
   b) The OCFO did not effectively communicate and coordinate with other OPM components regarding the initial evaluation of the potential impact of the data breach to the financial statements.
   c) Roles and responsibilities of OPM components that provide key financial and non-financial information for financial statement purposes were not clearly defined.
   d) The roles, responsibilities, and end-to-end processes activities between OPM components and shared-service providers are not clearly documented, communicated and monitored. In addition, there was no Authority to Operate a relevant system belonging to a shared-service provider for the period from November 29, 2014 through May 13, 2015.
   e) The OCFO did not properly apply Federal accounting standards when accounting for the liability related to identity monitoring, credit monitoring, identity restoration, and identity theft insurance.

As a result of our observations, OPM performed an analysis to determine whether the data breach compromised the integrity of the underlying data in calculating OPM's actuarial liabilities.

Weaknesses in entity-level controls may have a pervasive effect on how OPM responds to non-routine events and transactions that have a likelihood of resulting in material misstatements in the financial statements. Consequently, misstatements in the financial statements from non-routine events and transactions may not be prevented and/or detected and corrected on a timely basis.

Recommendation

We recommend that OPM perform a thorough review of their entity-level controls over financial reporting and relevant activities to identify the underlying cause of these deficiencies and take the appropriate corrective actions to strengthen controls to mitigate the risk of material misstatement when non-routine events occur.

Management Response

Management concurs with the finding and recommendation. OPM will develop and implement a corrective action plan, including skills gap analysis and a shared services governance structure, to address these deficiencies in the first quarter of this new fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2015 and 2014
(In Millions)

	FY 2015	FY 2014
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$147,440	$1,917
Investments [Note 3]	851,179	981,247
Accounts Receivable [Note 4]	30,930	24,055
Total Intragovernmental	**1,029,549**	**1,007,219**
Accounts Receivable from the Public, Net [Note 4]	1,486	1,361
General Property and Equipment, Net	10	6
Other [Note 1L]	823	829
Total Assets	**$1,031,868**	**$1,009,415**
LIABILITIES		
Intragovernmental [Note 6]	$870	$735
Federal Employee Benefits:		
Benefits Due and Payable	11,470	11,633
Pension Liability [Note 5A]	1,843,200	1,810,600
Postretirement Health Benefits Liability [Note 5B]	352,819	325,456
Actuarial Life Insurance Liability [Note 5C]	48,673	47,449
Total Federal Employee Benefits	**2,256,162**	**2,195,138**
Other [Notes 6 and 7]	1,540	1,380
Total Liabilities	**$2,258,572**	**$2,197,253**
NET POSITION		
Unexpended Appropriations	49	60
Cumulative Results of Operations	(1,226,753)	(1,187,898)
Total Net Position - Other Funds	**(1,226,704)**	**(1,187,838)**
Total Liabilities and Net Position	**$1,031,868**	**$1,009,415**

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, 2015 and 2014
(In Millions)

		FY 2015	FY 2014
Provide CSRS Benefits	Gross Costs	$43,963	$44,551
	Less: Earned Revenue	14,596	15,721
	Net Cost	**29,367**	**28,830**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5A]	(369)	25,198
	Net Cost of Operations [Notes 8 and 9]	**$28,998**	**$54,028**
Provide FERS Benefits	Gross Costs	$62,438	$52,508
	Less: Earned Revenue	45,731	42,605
	Net Cost	**16,707**	**9,903**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5A]	8,238	(5,771)
	Net Cost of Operations [Notes 8 and 9]	**$24,945**	**$4,132**
Provide Health Benefits	Gross Costs	$66,509	$54,461
	Less: Earned Revenue	43,416	42,603
	Net Cost	**23,093**	**11,858**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5B]	8,834	2,032
	Net Cost of Operations [Notes 8 and 9]	**$31,927**	**$13,890**
Provide Life Insurance	Gross Costs	$3,841	$3,895
	Less: Earned Revenue	3,581	3,588
	Net Cost	**260**	**307**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Note 5C]	361	(163)
	Net Cost of Operations [Notes 8 and 9]	**$621**	**$144**
Provide Human Resource Services	Gross Costs	$1,748	$1,538
	Less: Earned Revenue	1,411	1,281
	Net Cost of Operations [Notes 8 and 9]	**$337**	**$257**
Total Net Cost of Operations	Gross Costs	$178,499	$156,953
	Less: Earned Revenue	108,735	105,798
	Net Cost	**69,764**	**51,155**
	(Gain)/Loss on Pension, ORB, or OPEB		
	Assumption Changes [Notes 5A, 5B, and 5C]	17,064	21,296
	Net Cost of Operations [Notes 8 and 9]	**$86,828**	**$72,451**

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, 2015 and 2014
(In Millions)

	FY 2015	FY 2014
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	**($1,187,898)**	**($1,161,996)**
Budgetary Financing Sources:		
Appropriations Used	47,950	46,522
Other Financing Sources	23	27
Total Financing Sources	**47,973**	**46,549**
Net Cost of Operations	86,828	72,451
Net Change	**(38,855)**	**(25,902)**
Cumulative Results of Operations - Ending Balance	**($1,226,753)**	**($1,187,898)**
UNEXPENDED APPROPRIATIONS		
Beginning Balance	**$60**	**$93**
Budgetary Financing Sources:		
Appropriations Received	48,220	46,598
Appropriations Used	(47,950)	(46,522)
Other Budgetary Financing Sources	(281)	(109)
Total Budgetary Financing Sources	**(11)**	**(33)**
Total Unexpended Appropriations - Ending Balance	**49**	**60**
Net Position - Other Funds	**($1,226,704)**	**($1,187,838)**

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, 2015 and 2014
(In Millions)

	FY 2015	FY 2014
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$63,809	$62,420
Recoveries of Prior Year Unpaid Obligations	118	56
Other Changes in Unobligated Balance	(15)	(3)
Unobligated Balance, from Prior Year Budget Authority, Net	**63,912**	**62,473**
Appropriations	130,052	126,334
Spending Authority from Offsetting Collections	53,581	52,637
Total Budgetary Resources	**$247,545**	**$241,444**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$181,280	$175,995
Reimbursable	1,733	1,640
Total Obligations Incurred	**183,013**	**177,635**
Unobligated Balance, End of Year:		
Apportioned	321	239
Unapportioned	64,211	63,570
Total Unobligated Balance, End of Year	**64,532**	**63,809**
Total Budgetary Resources	**$247,545**	**$241,444**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$15,145	$14,500
Obligations Incurred	183,013	177,635
Less: Outlays, Gross	183,018	176,934
Less: Recoveries of Prior Year Unpaid Obligations	118	56
Unpaid Obligations, End of Year	**$15,022**	**$15,145**
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	$3,178	$2,967
Change in Uncollected Payments, Federal Sources	(6)	211
Uncollected Payments, Federal Sources, End of Year	**$3,172**	**$3,178**
Memorandum (Non-add) Entries:		
Obligated Balance, Start of Year	$11,967	$11,533
Obligated Balance, End of Year	$11,850	$11,967
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$183,633	$178,971
Less: Actual Offsetting Collections	53,589	52,428
Less: Change in Uncollected Customer Payments from Federal Sources	(6)	211
Budget Authority, Net	**$130,050**	**$126,332**
Outlays, Gross	$183,018	$176,934
Less: Actual Offsetting Collections	53,589	52,428
Outlays, Net	**129,429**	**124,506**
Less: Distributed Offsetting Receipts	37,694	36,588
Agency Outlays, Net	**$91,735**	**$87,918**

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

U.S. OFFICE OF PERSONNEL MANAGEMENT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

[$ in millions]

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

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

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees' Health Benefits Fund and the Retired Employees' Health Benefits Fund. Title 5, USC, Chapter 89 provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health-care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMO), which provide or arrange for services on a pre-paid basis through designated providers. Most of the contracts with carriers that provide fee-for-service benefits are *experience-rated*, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated*, so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

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

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 investigations and employee training. These activities are financed through an intra-governmental revolving fund.

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

B. BASIS OF ACCOUNTING AND PRESENTATION

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of OPM as required by the CFO Act and GMRA. These financial statements have been prepared from the books and records of OPM in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and Office of Management Budget (OMB) Circular No. A-136, "Financial Reporting Requirements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. OPM, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control the OPM's use of budgetary resources.

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

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

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

C. USE OF MANAGEMENT'S ESTIMATES

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

D. FINANCIAL STATEMENT CLASSIFICATIONS

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

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

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

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

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

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

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

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

E. NET COST OF OPERATIONS

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

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

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

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

F. PROGRAM FUNDING

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. OPM's Office of Actuaries has determined that the service-cost for most or "regular" CSRS participants is 33.4 percent and 32.8 percent of basic pay for FY 2015 and FY 2014, respectively. For FERS, the service cost for most or "regular" FERS participants is 14.8 percent and 15.1 percent of basic pay for FY 2015 and FY 2014, respectively.

CSRS. Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both FY 2015 and 2014. 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 2015 and 2014, this amount was $32.9 billion and $32.7 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 2015 and 2014, this amount was $3.2 billion and $2.3 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 2015 and 2014).

2) For participants, the Middle Class Tax Relief and Job Creation Job Act of 2012, P.L. 112-96, Section 5001 – Federal Employees Retirement, increased by 2.3 percent the employee pension contribution for Federal employees entering service after calendar year 2012, who have less than 5 years of creditable civilian service. The employees applicable under P.L. 112-96 are referred to as "FERS-Revised Annuity Employees (FERS-RAE)." As noted above, due to P.L. 112-96, for most FERS-RAE participants, the participant contribution rate is 3.1 percent of pay.

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

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

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

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis; OPM contributes the "employer" share for Retirement Program annuitants via an appropriation. The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A small portion, 0.02 percent of the pay of participating employees in FY 2015 and 2014, of post-retirement life insurance coverage is not funded.

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

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

G. FINANCING SOURCES OTHER THAN EARNED REVENUE

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

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

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

H. BUDGETARY RESOURCES

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

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

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

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

I. FUND BALANCE WITH TREASURY

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

J. INVESTMENTS

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

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

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

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

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

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

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

K. ACCOUNTS RECEIVABLE, NET

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

L. OTHER ASSETS

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM. As of September 30, 2015, Other Assets - Non-intragovernmental for the Health Program and Life Programs were $171 million and $652 million, respectively.

M. GENERAL PROPERTY AND EQUIPMENT

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

N. BENEFITS DUE AND PAYABLE

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

O. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

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

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

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

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

P. CUMULATIVE RESULTS OF OPERATIONS

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

Q. TAX STATUS

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

R. PARENT-CHILD REPORTING ALLOCATION TRANSFER

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

NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balances. OPM's FBWT balances by account type for September 30, 2015 and 2014 are:

September 30, 2015 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$140,620	-	-	-	$140,620
Revolving Fund	-	-	-	$626	626
General Funds	-	$1,273	$6	68	1,347
Trust Revolving Funds	-	4,841	6	-	4,847
Total	**$140,620**	**$6,114**	**$12**	**$694**	**$147,440**
September 30, 2014 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Trust Fund	$27	-	-	-	$27
Revolving Fund	-	-	-	$503	503
General Funds	-	$1,210	$6	70	1,286
Trust Revolving Funds	-	96	5	-	101
Total	**$27**	**$1,306**	**$11**	**$573**	**$1,917**

Status of Fund Balance with Treasury. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at September 30, 2015 and 2014:

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

September 30, 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$27	$1,306	$11	$573	$1,917
Investments	857,169	72,011	43,176	-	972,356
Total, Unexpended Balance	**$857,196**	**$73,317**	**$43,187**	**$573**	**$974,273**
STATUS OF FUND BALANCES					
Unobligated:					
Available	-	-	-	$239	$239
Unavailable	-	$20,839	$42,622	109	63,570
Obligated not yet Disbursed	$7,171	4,006	565	225	11,967
Precluded (See Note 10)	850,022	48,468	-	-	898,490
Temporary Reduction	3	4	-	-	7
Total, Status of Fund Balances	**$857,196**	**$73,317**	**$43,187**	**$573**	**$974,273**

During the DISP, OPM was restricted in the amounts to invest in Government securities. The amount suspended, $140.6 billion for the CSRDF and $4.8 billion for the PSRHBF, have been recorded in FBWT instead of Investments in Government Securities as of September 30, 2015. See Note 1J and Note 16 Subsequent Events for further information.

NOTE 3 - INVESTMENTS

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

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

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $113 billion invested as of September 30, 2015. The majority of these securities are market-based and have market value risk.

During the DISP, OPM was restricted in the amounts to invest in Government securities. The amounts suspended, $140.6 billion for the CSRDF and $4.8 billion for the PSRHBF, have been recorded in FBWT instead of Investments in Government Securities as of September 30, 2015. See Note 1J and Note 16 Subsequent Events for further information.

The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2015 and 2014.

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

As of September 30, 2014 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$13,612		$121	$13,733		$13,612
Non-Marketable: (PAR)						
Par-value GAS securities	806,190		7,197	813,387		806,190
Certificates of Indebtedness	$37,367		10	37,377		37,367
Total Retirement Program	**$857,169**		**$7,328**	**$864,497**		**$857,169**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$24,222	($318)	$164	$24,068	$346	$23,938
Non-Marketable: (PAR)						
Par-value GAS securities	48,468		382	48,850		48,468
Certificates of Indebtedness						
Total Health Benefits Program	**$72,690**	**($318)**	**$546**	**$72,918**	**$346**	**$72,406**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$44,424	$(938)	$346	$43,832	$273	$43,689
Total Life Insurance Program	**$44,424**	**$(938)**	**$346**	**$43,832**	**$273**	**$43,689**
Total Investments	**$974,283**	**$(1,256)**	**$8,220**	**$981,247**	**$619**	**$973,264**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2015 and 2014 are:

September 30, 2015 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,248	$28,791	$18	-	$30,057
Other	683	24	-	$166	873
Total	**$1,931**	**$28,815**	**$18**	**$166**	**$30,930**
September 30, 2014 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Employer contributions receivable	$825	$23,015	$14	-	$23,854
Other	-	-	-	$201	201
Total	**$825**	**$23,015**	**$14**	**$201**	**$24,055**

P.L. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from approximately $5.4 to $5.8 billion no later than September 30th per year from FY 2007 through FY 2016 according to the legislation. The Postal Service has not made its annual payment from FY 2011 through FY 2015; as of September 30, 2015, a total of $28.1 billion is due from the Postal Service.

During the DISP, OPM was restricted in the amounts to invest in Government securities. In accordance with Section 8348 (j)(4), the Federal Government is required to pay both the CSRDF the amount of the "foregone principal" and "foregone interest" and the PSRHBF the amount of the "foregone interest" the funds would have otherwise earned had such extraordinary measures not been taken. As of September 30, 2015, OPM had a receivable of $231.1 million and $452.1 million for the amount owed to the CSRDF as "foregone principal" and "foregone interest," respectively. As of September 30, 2015, OPM had a receivable of $24.0 million for the amount owed to the PSRHSF as "foregone interest."

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2015 and 2014 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2015 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$113	$841	$154	-	$1,108
Overpayment of benefits [net of allowance of $108]	308	-	-	-	308
Due from carriers [net of allowance of $0]	-	70	-	-	70
Other	-	-	-	-	-
Total	**$421**	**$911**	**$154**	**-**	**$1,486**
September 30, 2014 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Participant contributions receivable	$96	$789	$143	-	$1,028
Overpayment of benefits [net of allowance of $106]	297	-	-	-	297
Due from carriers [net of allowance of $0]	-	36	-	-	36
Other	-	-	-	-	-
Total	**$393**	**$825**	**$143**	**-**	**$1,361**

NOTE 5 - FEDERAL EMPLOYEE BENEFITS

A. PENSIONS

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

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related Pension Expense under Statement of Federal Financial Accounting Standards (SFFAS) No. 33 are based on 10-year historical averages. See Note 1. O. for further information. These economic assumptions differ from those established by OPM under guidance from the CSRS Board of Actuaries for the determination of certain statutory funding payments for CSRS and FERS. The following presents the significant economic assumptions used under SFFAS No. 33 to compute the Pension Liability in FY 2015 and 2014:

Economic Assumptions	FY 2015		FY 2014	
	CSRS	FERS	CSRS	FERS
Interest rate	3.7%	4.1%	3.9%	4.3%
Cost of Living Adjustment*	2.3%	1.8%	2.5%	1.9%
Rate of increases in salary	1.7%	1.7%	1.9%	1.9%

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

Pension Expense. The following tables present Pension Expense by cost component for September 30, 2015 and 2014:

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

FY 2014 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$5,550	$30,606	$36,156
Interest cost	48,342	25,213	73,555
Actuarial (gain)/loss - Experience	(9,341)	(3,311)	(12,652)
Actuarial (gain)/loss - Assumptions	25,198	(5,771)	19,427
Pension Expense	**$69,749**	**$46,737**	**$116,486**

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

FY 2015 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2014	**$1,210,900**	**$599,700**	**$1,810,600**
Plus: Pension Expense			
Normal Cost	4,724	30,679	35,403
Interest on the Liability Balance	45,957	26,200	72,157
Actuarial (gain)/loss:			
From experience:	(6,718)	5,559	(1,159)
From changes in actuarial assumptions:	(369)	8,238	7,869
Net Loss	(7,087)	13,797	6,710
Total Expense:	**43,594**	**70,676**	**114,270**
Less: Costs applied to Pension Liability	(70,394)	(11,276)	(81,670)
Pension Liability at September 30, 2015	**$1,184,100**	**$659,100**	**$1,843,200**
FY 2014 ($ in millions)	**CSRS**	**FERS**	**TOTAL**
Pension Liability at October 1, 2013	**$1,210,800**	**$562,700**	**$1,773,500**
Plus: Pension Expense			
Normal Cost	5,550	30,606	36,156
Interest on the Liability Balance	48,342	25,213	73,555
Actuarial (gain)/loss:			
From experience:	(9,341)	(3,311)	(12,652)
From changes in actuarial assumptions:	25,198	(5,771)	19,427
Net Loss	15,857	(9,082)	6,775
Total Expense:	**69,749**	**46,737**	**116,486**
Less: Costs applied to Pension Liability	(69,649)	(9,737)	(79,386)
Pension Liability at September 30, 2014	**$1,210,900**	**$599,700**	**$1,810,600**

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in FY 2015 and 2014:

FY 2015 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$69,985	$11,083	$81,068
Refunds of contributions	287	149	436
Administrative and other expenses	122	44	166
Costs applied to the Pension Liability	**$70,394**	**$11,276**	**$81,670**
FY 2014 ($ in millions)	**CSRS**	**FERS**	**TOTAL**
Annuities	$69,264	$9,552	$78,816
Refunds of contributions	279	146	425
Administrative and other expenses	106	39	145
Costs applied to the Pension Liability	**$69,649**	**$9,737**	**$79,386**

B. POST-RETIREMENT HEALTH BENEFITS

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

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

Economic Assumptions	FY 2015	FY 2014
Interest rate[(1)]	4.1%	4.3%
Increase in per capita cost of covered benefits[(2)]	6.0%	4.2%
Ultimate medical trend rate	3.9%	4.2%

1 The single equivalent annual interest rate for FY 2015 is derived from a yield curve based on the average of the last 40 quarters through March 2015. The single equivalent annual interest rate for FY 2014 was derived from a yield curve based on the average of the last 40 quarters through March 2014.

2 The increase in per capita cost of covered benefits for FY 2015 represents a variable trend which begins at 6.0% and then declines to 3.9% by FY 2075. Last year, the increase in per capita cost of covered benefits represented a variable trend that began at 4.2%, increased for a period, and ultimately declined to 4.2%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2015 and 2014:

($ in millions)	FY 2015	FY 2014
Service cost	$11,655	$11,169
Interest cost	13,995	13,873
Actuarial (gain)/loss - Experience	7,575	(3,114)
Actuarial (gain)/loss - Assumptions	8,834	2,032
PRHB Expense	**$42,059**	**$23,960**

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

($ in millions)	FY 2015	FY 2014
PRHB Liability at the beginning of the year	$325,456	$315,295
Plus: PRHB Expense		
Normal Cost	11,655	11,169
Interest on the Liability Balance	13,995	13,873
Actuarial (gain)/loss:		
From experience:	7,575	(3,114)
From assumption changes:	8,834	2,032
Total Expense:	**42,059**	**23,960**
Less: Costs applied to PRHB Liability	(14,696)	(13,799)
PRHB Liability at the end of the year[3]	**$352,819**	**$325,456**

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in FY 2015 and 2014:

($ in millions)	FY 2015	FY 2014
Current benefits	$11,013	$10,388
Premiums	2,289	2,163
Administrative and other expenses	1,394	1,248
Total costs applied to the PRHB Liability	**$14,696**	**$13,799**

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 2015 and 2014:

($ in millions)	FY 2015		FY 2014	
	One Percent Increase	*One Percent Decrease*	*One Percent Increase*	*One Percent Decrease*
PRHB Liability	$404,235	$310,059	$372,592	$286,243

(In $)	FY 2015			FY 2014		
	Per Capita Normal Cost at Valuation Date	*One Percent Increase*	*One Percent Decrease*	*Per Capita Normal Cost at Valuation Date*	*One Percent Increase*	*One Percent Decrease*
	$5,755	$7,307	$4,523	$5,141	$6,539	$4,035

C. LIFE INSURANCE

Actuarial Life Insurance Liability. The Actuarial Life Insurance Liability (ALIL) is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the EPV of future contributions to be collected from those participants. In applying SFFAS No. 33 for calculating the ALIL, OPM's actuary uses salary increase and interest rate yield curve assumptions that are consistent with those used for computing the CSRS and FERS Pension Liability in FY 2015 and 2014. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

ALIL Interest Rate	FY 2015	FY 2014
Interest rate	4.0%	4.2%
Rate of increases in salary	1.7%	1.9%

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

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for FY 2015 and 2014:

($ in millions)	FY 2015	FY 2014
New Entrant Expense	$334	$136
Interest cost	1,988	2,001
Actuarial (gain) / loss - Experience	(910)	(699)
Actuarial (gain) / loss - Assumptions	361	(163)
Life Insurance Expense	**$1,773**	**$1,275**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2015 and 2014 is:

($ in millions)	FY 2015	FY 2014
Life Insurance Expense	$1,773	$1,275
Less: Net Costs applied to Life Insurance liability	(549)	(563)
Future Life Insurance Benefits Expense	**$1,224**	**$712**

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

($ in millions)	FY 2015	FY 2014
Actuarial LI Liability at the beginning of the period	$47,449	$46,737
Plus: Expense		
New Entrant Expense	334	136
Interest on the Liability Balance	1,988	2,001
Actuarial (gain)/loss:		
From experience:	(910)	(699)
From assumption changes:	361	(163)
Total LI Expense:	**1,773**	**1,275**
Less: Costs applied to Life Insurance Liability	(549)	(563)
Actuarial LI Liability at the end of the period	**$48,673**	**$47,449**

NOTE 6 - INTRAGOVERNMENTAL AND OTHER LIABILITIES

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2015 and 2014:

September 30, 2015 ($ in millions)	Accounts Payable	Other	Total
Retirement	$53	-	$53
Health Benefits	304	-	304
Life Insurance	10	-	10
Revolving Fund	-	610	610
Salaries and Expenses	-	3	3
Eliminations	(107)	(3)	(110)
Total Intragovernmental Liabilities	**$260**	**$610**	**$870**
September 30, 2014 ($ in millions)	**Accounts Payable**	**Other**	**Total**
Retirement	$50	-	$50
Health Benefits	293	-	293
Life Insurance	7	-	7
Revolving Fund	7	468	475
Salaries and Expenses	1	1	2
Eliminations	(90)	(2)	(92)
Total Intragovernmental Liabilities	**$268**	**$467**	**$735**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2015 and 2014:

September 30, 2015 ($ in millions)	Withheld from Benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative Expenses	Contingencies	Total
Retirement Program	$936	-	-	$10	$946
Health Benefits Program	-	$261	-	-	261
Life Insurance Program	-	43	-	-	43
Revolving Fund Program	-	-	$254	-	254
Salaries and Expenses	-	-	35	1	36
Total Other Liabilities	**$936**	**$304**	**$289**	**$11**	**$1,540**
September 30, 2014 ($ in millions)	**Withheld from Benefits**	**Accrued Carrier Liabilities Other Than Benefits**	**Accrued Administrative Expenses**	**Contingencies**	**Total**
Retirement Program	$910	-	-	$10	$920
Health Benefits Program	-	$307	-	-	307
Life Insurance Program	-	57	-	-	57
Revolving Fund Program	-	-	$81	-	81
Salaries and Expenses	-	-	14	1	15
Total Other Liabilities	**$910**	**$364**	**$95**	**$11**	**$1,380**

NOTE 7 - CONTINGENCIES

Health Benefits Program. In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements. As such, OPM has accrued $260 million as of September 30, 2015 and September 30, 2014 in Intragovernmental Liabilities due to Treasury.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. For FY 2015, OPM has recorded a total liability of $10.8 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $0.6 million, for the Revolving Fund the estimated amount of probable losses is $0.1 million, and for the Retirement Fund the estimated amount of probable losses is $10.1 million. There are no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund.

For FY 2014, OPM recorded a total liability of $11.3 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $1.2 million. For the Revolving Fund, the estimated amount of probable losses was $0.1 million. Lastly, for the Retirement Fund, the estimated amount of probable losses was $10 million. There were no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund for FY 2014.

In addition, OPM has determined, at September 30, 2015, it is reasonably possible that losses ranging from an additional $107.3 million to $679.4 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $6.0 million to $62.7 million, for the Revolving Fund the total of all reasonably possible losses ranges from $16.3 million to $26.7 million, for the Retirement Fund, the total of all reasonably possible losses ranges from $85.0 million to $590.0 million. For FY 2015, both the Health Benefits Fund and the Life Insurance Fund did not have any reasonably possible losses. OPM is also involved in other legal and administrative proceedings arising from the cyber intrusions involving OPM employment and background investigation records in FY 2015. Based upon the opinion of its General Counsel, OPM management believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations. Unasserted claims are possible from the cyber intrusions, however at this time, OPM cannot reasonably estimate such claims.

NOTE 8 - INTRAGOVERNMENTAL GROSS COSTS AND EARNED REVENUE

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" for September 30, 2015 and 2014:

FY 2015 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra - governmental	With the Public	Total	Intra - governmental	With the Public	Total
Provide CSRS Benefits	-	$43,963	$43,963	$13,507	$1,089	$14,596
Provide FERS Benefits	-	62,438	62,438	43,564	2,167	45,731
Provide Health Benefits	-	66,509	66,509	29,409	14,007	43,416
Provide Life Insurance Benefits	-	3,841	3,841	793	2,788	3,581
Provide Human Resources Services	$265	1,483	1,748	1,409	2	1,411
Total	**$265**	**$178,234**	**$178,499**	**$88,682**	**$20,053**	**$108,735**
FY 2014 ($ in millions)	**Intra - governmental**	**With the Public**	**Total**	**Intra - governmental**	**With the Public**	**Total**
Provide CSRS Benefits	-	$44,551	$44,551	$14,459	$1,262	$15,721
Provide FERS Benefits	-	52,508	52,508	40,801	1,804	42,605
Provide Health Benefits	-	54,461	54,461	28,938	13,665	42,603
Provide Life Insurance Benefits	-	3,895	3,895	861	2,727	3,588
Provide Human Resources Services	$158	1,380	1,538	1,281	-	1,281
Total	**$158**	**$156,795**	**$156,953**	**$86,340**	**$19,458**	**$105,798**

NOTE 9 - NET COST BY STRATEGIC GOALS

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

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

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

Strategic Goals 2015 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	-	-	-	-	1	**1**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	1	**1**
Goal 2	Total program cost	-	-	-	-	5	**5**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	5	**5**
Goal 3	Total program cost	-	-	-	-	8	**8**
	Less earned revenue	-	-	-	-	-	**-**
	Net program cost	-	-	-	-	8	**8**
Goal 4	Total program cost	9	4	6	-	214	**233**
	Less earned revenue	-	-	-	-	197	**197**
	Net program cost	9	4	6	-	17	**36**
Goal 5	Total program cost	-	1	1	-	5	**7**
	Less earned revenue	-	-	-	-	-	-
	Net program cost	-	1	1	-	5	**7**
Goal 6	Total program cost	-	-	-	-	118	**118**
	Less earned revenue	-	-	-	-	109	**109**
	Net program cost	-	-	-	-	9	**9**
Goal 7	Total program cost	43,576	70,667	34	3	-	**114,280**
	Less earned revenue	14,596	45,731	-	-	-	**60,327**
	Net program cost	28,980	24,936	34	3	-	**53,953**
Goal 8	Total program cost	-	-	-	-	1,383	**1,383**
	Less earned revenue	-	-	-	-	1,105	**1,105**
	Net program cost	-	-	-	-	278	**278**
Goal 9	Total program cost	9	4	75,302	4,199	14	**79,528**
	Less earned revenue	-	-	43,416	3,581	-	**46,997**
	Net program cost	9	4	31,886	618	14	**32,531**
Total	**Total program cost**	**$43,594**	**$70,676**	**$75,343**	**$4,202**	**$1,748**	**$195,563**
	Less earned revenue	**14,596**	**45,731**	**43,416**	**3,581**	**1,411**	**108,735**
	Net program cost	**$28,998**	**$24,945**	**$31,927**	**$621**	**$337**	**$86,828**

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

NOTE: The following chart summarizes OPM's Strategic Goals for 2010 - 2015 under its former Strategic Plan.

Strategic Goal 1	Hire the Best - The Federal hiring process
Strategic Goal 2	Respect the Workforce - Employee retention through training and work-life initiatives
Strategic Goal 3	Expect the Best - Provide the necessary tools and resources for employees to perform at the highest level
Strategic Goal 4	Honor Service - Acknowledge Federal employee's service through well-designed compensation and retirement benefits
Strategic Goal 5	Improve Access to Health Insurance - Develop and administer programs that provide high-quality and affordable health insurance to uninsured Americans who are seeking health insurance through Affordable Care Act exchanges, uninsured Americans with pre-existing medical conditions who cannot otherwise purchase coverage, and employees of tribes or tribal organizations

Strategic Goals 2014 ($ 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	-	-	-	-	$942	$942
	Less earned revenue	-	-	-	-	815	815
	Net program cost	-	-	-	-	$127	$127
Goal 2	Total program cost	$53,021	$35,528	$42,944	$2,837	$(5)	$134,325
	Less earned revenue	11,950	32,387	32,385	2,728	(4)	79,446
	Net program cost	$41,071	$3,141	$10,559	$109	$(1)	$54,879
Goal 3	Total program cost	-	-	-	-	$445	$445
	Less earned revenue	-	-	-	-	356	356
	Net program cost	-	-	-	-	$89	$89
Goal 4	Total program cost	$15,332	$10,274	$12,418	$820	$67	$38,911
	Less earned revenue	3,456	9,365	9,365	788	49	23,023
	Net program cost	$11,876	$909	$3,053	$32	$18	$15,888
Goal 5	Total program cost	$1,396	$935	$1,131	$75	$89	$3,626
	Less earned revenue	315	853	853	72	65	2,158
	Net program cost	$1,081	$82	$278	$3	$24	$1,468
Total	**Total program cost**	**$69,749**	**$46,737**	**$56,493**	**$3,732**	**$1,538**	**$178,249**
	Less earned revenue	**15,721**	**42,605**	**42,603**	**3,588**	**1,281**	**105,798**
	Net program cost	**$54,028**	**$4,132**	**$13,890**	**$144**	**$257**	**$72,451**

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

NOTE 10 - AVAILABILITY OF UNOBLIGATED BALANCES

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

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2015 and 2014 (rounding may appear):

September 30 ($ in millions)	2015	2014
Temporarily precluded from obligation at the beginning of the year	$850,022	$835,682
Plus: Trust fund receipts during the year	96,588	94,182
Plus: Appropriations Received	36,115	34,988
Less: Obligations incurred during the year	118,213	114,830
Excess of trust fund receipts over obligations incurred during the year	14,490	14,340
Temporarily Precluded from Obligation at the End of the Year	**$864,512**	**$850,022**

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 2015 and FY 2014 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, 2015 and 2014:

September 30 ($ in millions)	2015	2014
Temporarily precluded from obligation at the beginning of the year	$48,468	$46,925
Plus: Special Fund receipts during the year	1,525	1,543
Excess of Special Fund receipts over obligations incurred during the year	1,525	1,543
Temporarily Precluded from Obligation at the End of the Year	**$49,993**	**$48,468**

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

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

NOTE 11 - APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS

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

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category as of September 30, during FY 2015 and 2014:

FY 2015 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$82,098	-	**$82,098**
Retirement Program	E	36,115	-	**36,115**
Subtotal		**$118,213**	**-**	**$118,213**
Health Benefits Program	B	48,013	-	**48,013**
Health Benefits Program	E	11,695	-	**11,695**
Life Insurance Program	B	2,973	-	**2,973**
Life Insurance Program	E	44	-	**44**
Revolving Fund Program	B	-	$1,654	**1,654**
Salaries and Expenses	A and B	342	79	**421**
Total		**$181,280**	**$1,733**	**$183,013**
FY 2014 Program/Fund ($ in millions)	**Category**	**Direct**	**Reimbursable**	**Total**
Retirement Program	B	$79,842	-	**$79,842**
Retirement Program	E	34,988	-	**34,988**
Subtotal		**$114,830**	**-**	**$114,830**
Health Benefits Program	B	46,407	-	**46,407**
Health Benefits Program	E	11,359	-	**11,359**
Life Insurance Program	B	3,024	-	**3,024**
Life Insurance Program	E	45	-	**45**
Revolving Fund Program	B	-	$1,563	**1,563**
Salaries and Expenses	A and B	330	77	**407**
Total		**$175,995**	**$1,640**	**$177,635**

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

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources (SBR) and for presentation in the "President's Budget." The President's Budget for FY 2017, which will contain the actual budgetary resources information for FY 2015, will be published in February 2016 and will be available on the OMB website. The President's Budget for FY 2016, which contains actual budgetary resource information for FY 2014, was released on February 2, 2015.

There are no material differences between the SBR and the SF-133s - "Reports on Budget Execution," for each FY 2015 and FY 2014. Additionally, there are no material differences between the actual amounts for FY 2014 published in the President's Budget and those reported in the accompanying FY 2014 Combined SBR.

NOTE 13 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amounts of budgetary resources obligated for undelivered orders at the end of September 2015 and 2014 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries and Expenses	Total
FY 2015	$1,008	$87	$1,095
FY 2014	$949	$89	$1,038

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

SFFAS No. 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2015 reconciliation and comparative FY 2014 reconciliation are as follows:

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

FY 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2014
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$114,830	$57,766	$3,069	$1,563	$407	$177,635
Less: Spending Authority from Offsetting Collections and Recoveries	-	46,456	4,370	1,547	322	52,695
Less: Appropriated Trust Fund Receipts	94,183	1,543	-	-	-	95,726
Obligations Net of Offsetting Collections and Recoveries	20,647	9,767	(1,301)	16	85	29,214
Less: Offsetting Receipts	35,042	1,543	-	3	-	36,588
Net Obligations	**($14,395)**	**$8,224**	**($1,301)**	**$13**	**$85**	**($7,374)**
Other Resources	-	-	-	20	15	35
Total Resources Used to Finance/ Generated From Activities	**($14,395)**	**$8,224**	**($1,301)**	**$33**	**$100**	**($7,339)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$34,988	-	-	-	-	$34,998
Other	54	1,225	738	94	7	2,118
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**35,042**	**1,225**	**738**	**94**	**7**	**37,106**
Total Resources Used to Finance/Generated From the Net Cost of Operations	**$20,647**	**$9,449**	**($563)**	**$127**	**$107**	**$29,767**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$37,100	$10,161	$712	-	-	$47,973
Exchange Revenue Not in the Budget	451	(5,706)	(5)	-	-	(5,260)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**37,551**	**4,455**	**707**	**-**	**-**	**42,713**
Components Not Requiring or Generating Resources						
Other	(38)	(14)	-	21	2	(29)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**(38)**	**(14)**	**-**	**21**	**2**	**(29)**
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$37,513**	**$4,441**	**$707**	**$21**	**$2**	**$42,684**
NET COST OF OPERATIONS	**$58,160**	**$13,890**	**$144**	**$148**	**$109**	**$72,451**

NOTE 15 - HEALTH BENEFITS/ LIFE INSURANCE PROGRAM CONCENTRATIONS

During FY 2015 and 2014, 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.

NOTE 16 - SUBSEQUENT EVENT

Impact of Debt Issuance Suspension Period (DISP). During the DISP, which began on March 16, 2015 and continued through November 2, 2015, Treasury took extraordinary measures to avoid exceeding the statutory debt limit. Section 8348 of Title 5, U.S. Code, authorizes the Secretary of the Treasury to suspend additional investments of Treasury securities in the CSRDF if such additional investment could not be made without causing the public debt of the United States to exceed the public debt limit. In addition, the Postal Accountability and Enhancement Act of 2006 requires that investments of the PSRHBF be made in the same manner as investments of the CSRDF.

During the DISP, OPM was restricted in the amounts to invest in government securities. The amount suspended, was $140.6 billion for the CSRDF and $4.8 billion for the PSRHBF, as of September 30, 2015. The amount of "foregone principal" and "foregone interest" receivable was $231.1 million and $452.1 million for the CSRDF, respectively, as of September 30, 2015. The amount of "foregone interest" receivable was $24.0 million for the PSRHBF, as of September 30, 2015. "Foregone principal and foregone interest" receivable will be paid December 31, 2015.

The table below shows the effect on balances for Fund Balance with Treasury and Investments, net for the Retirement and Health Benefit Programs as a result of the DISP which ended on November 2, 2015.

($ in millions)	Balances as of September 30, 2015	End of DISP November 2, 2015 Transactions	Balances as of November 2, 2015
Fund Balance with Treasury			
Retirement Program	$140,620	$(136,433)	$4,187
Health Benefits Program	6,114	(4,757)	1,357
Life Program/Other	706	-	706
Total Fund Balance with Treasury	$147,440	$(141,190)	$6,250
Investments, Net			
Retirement Program	$737,734	$136,433	$874,167
Health Benefits Program	68,956	4,757	73,713
Life Program/Other	44,489	-	44,489
Total Investments, Net	$851,179	$141,190	$992,369

Debt Exchange. On October 15, 2015, the Secretary of the Treasury (the Secretary) authorized the exchange of the CSRDF's Treasury Special Investments with the Federal Financing Bank (FFB) 9(a) obligations. As a result, $2.7 billion special-issue obligations of the CSRDF, investments known as "Specified Treasury Specials," were exchanged for Federal Financing Bank (FFB) "Specified FFB 9(a) Obligations" having the exact same principal amounts, interest rates, and maturity dates as the Specified Treasury Specials. This debt exchange enabled the Secretary to discharge his investment responsibilities in respect to various federal trust funds which had been impeded by the facts that the amount of outstanding debt obligations subject to the existing statutory debt limit (the "Debt Limit") had reached the Debt Limit. However, Congress had not enacted an increase in the Debt Limit as of September 30, 2015.

With the $2.7 billion in FFB securities the CSRDF received on October 15, 2015 added to the $12.3 billion in FFB securities the CSRDF already held, the CSRDF is currently holding $15 billion in FFB securities. The table below shows the effect on Investments balances for the Retirement Program as a result of the debt exchange with FFB on the debt exchange transaction date of October 15, 2015:

($ in millions)	Investments, at Cost, as of September 30, 2015	Debt Exchange Transaction October 15, 2015	Investments, at Cost, as of October 15, 2015
Retirement Program			
Intragovernmental			
Retirement Program			
Marketable:			
FFB Securities	$12,315	$2,685	$15,000
Non-Marketable: (PAR)			
PAR Value GAS Securities	718,952	(2,685)	716,267
Total Retirement Program	**$731,267**		**$731,267**

CONSOLIDATING FINANCIAL STATEMENTS

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

Schedule 1

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

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2014
(In Millions)

Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2014
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$27	$1,306	$11	$503	$70	-	$1,917
Investments [Note 3]	864,497	72,918	43,832	-	-	-	981,247
Accounts Receivable [Note 4]	825	23,015	14	202	91	($92)	24,055
Total Intragovernmental	**865,349**	**97,239**	**43,857**	**705**	**161**	**(92)**	**1,007,219**
Accounts Receivable from the Public, Net [Note 4]	393	825	143	-	-	-	1,361
General Property and Equipment, Net	-	-	-	6	-	-	6
Other [Note 1L]	-	172	657	-	-	-	829
Total Assets	**$865,742**	**$98,236**	**$44,657**	**$711**	**$161**	**($92)**	**$1,009,415**
LIABILITIES							
Intragovernmental [Note 6]	$50	$293	$7	$475	$2	($92)	$735
Federal Employee Benefits:							
Benefits Due and Payable	6,215	4,563	855	-	-	-	11,633
Pension Liability [Note 5A]	1,810,600	-	-	-	-	-	1,810,600
Postretirement Health Benefits Liability [Note 5B]	-	325,456	-	-	-	-	325,456
Actuarial Life Insurance Liability [Note 5C]	-	-	47,449	-	-	-	47,449
Total Federal Employee Benefits	**1,816,815**	**330,019**	**48,304**	**-**	**-**	**-**	**2,195,138**
Other [Notes 6 and 7]	920	307	57	81	15	-	1,380
Total Liabilities	**1,817,785**	**330,619**	**48,368**	**556**	**17**	**(92)**	**2,197,253**
NET POSITION							
Unexpended Appropriations	-	-	-	3	57	-	60
Cumulative Results of Operations	(952,043)	(232,383)	(3,711)	152	87	-	(1,187,898)
Total Net Position - Other Funds	**(952,043)**	**(232,383)**	**(3,711)**	**155**	**144**	**-**	**(1,187,838)**
Total Liabilities and Net Position	**$865,742**	**$98,236**	**$44,657**	**$711**	**$161**	**($92)**	**$1,009,415**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

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

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2015
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$383	$278	($396)	$265
With the Public:									
Pension Expense [Note 5A]	$43,963	$62,438	$106,401	-	-	-	-	-	106,401
Postretirement Health Benefits [Note 5B]	-	-	-	$33,225	-	-	-	-	33,225
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$863	-	-	-	863
Current Benefits and Premiums	-	-	-	31,409	2,951	-	-	-	34,360
Other	-	-	-	1,875	27	1,340	143	-	3,385
Total Gross Costs with the Public	**43,963**	**62,438**	**106,401**	**66,509**	**3,841**	**1,340**	**143**	**-**	**178,234**
Total Gross Costs [Notes 8 and 9]	**43,963**	**62,438**	**106,401**	**66,509**	**3,841**	**1,723**	**421**	**(396)**	**178,499**
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	866	27,139	28,005	27,827	503	-	-	-	56,335
Earnings on Investments	12,340	16,042	28,382	1,558	290	-	-	-	30,230
Other	301	383	684	24	-	1,489	316	(396)	2,117
Total Intragovernmental Earned Revenue	**13,507**	**43,564**	**57,071**	**29,409**	**793**	**1,489**	**316**	**(396)**	**88,682**
With the Public:									
Participant Contributions	1,089	2,167	3,256	14,003	2,782	-	-	-	20,041
Other	-	-	-	4	6	-	2	-	12
Total Earned Revenue with the Public	**1,089**	**2,167**	**3,256**	**14,007**	**2,788**	**-**	**2**	**-**	**20,053**
Total Earned Revenue [Notes 8 and 9]	**14,596**	**45,731**	**60,327**	**43,416**	**3,581**	**1,489**	**318**	**(396)**	**108,735**
Net Cost	**29,367**	**16,707**	**46,074**	**23,093**	**260**	**234**	**103**	**-**	**69,764**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	(369)	8,238	7,869	8,834	361	-	-	-	17,064
Net Cost of Operations [Notes 8 and 9]	**$28,998**	**$24,945**	**$53,943**	**$31,927**	**$621**	**$234**	**$103**	**-**	**$86,828**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2014
(In Millions)

Schedule 2

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2014
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	-	-	-	-	-	$272	$261	($375)	$158
With the Public:									
Pension Expense [Note 5A]	$44,551	$52,508	$97,059	-	-	-	-	-	97,059
Postretirement Health Benefits [Note 5B]	-	-	-	$21,928	-	-	-	-	21,928
Future Life Insurance Benefits [Note 5C]	-	-	-	-	$875	-	-	-	875
Current Benefits and Premiums	-	-	-	30,877	3,019	-	-	-	33,896
Other	-	-	-	1,656	1	1,236	144	-	3,037
Total Gross Costs with the Public	**44,551**	**52,508**	**97,059**	**54,461**	**3,895**	**1,236**	**144**	**-**	**156,795**
Total Gross Costs [Notes 8 and 9]	**44,551**	**52,508**	**97,059**	**54,461**	**3,895**	**1,508**	**405**	**(375)**	**156,953**
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,002	23,744	24,746	27,295	494	-	-	-	52,535
Earnings on Investments	13,457	17,057	30,514	1,643	367	-	-	-	32,524
Other	-	-	-	-	-	1,360	296	(375)	1,281
Total Intragovernmental Earned Revenue	**14,459**	**40,801**	**55,260**	**28,938**	**861**	**1,360**	**296**	**(375)**	**86,340**
With the Public:									
Participant Contributions	1,262	1,804	3,066	13,661	2,719	-	-	-	19,446
Other	-	-	-	4	8	-	-	-	12
Total Earned Revenue with the Public	**1,262**	**1,804**	**3,066**	**13,665**	**2,727**	**-**	**-**	**-**	**19,458**
Total Earned Revenue [Notes 8 and 9]	**15,721**	**42,605**	**58,326**	**42,603**	**3,588**	**1,360**	**296**	**(375)**	**105,798**
Net Cost	**28,830**	**9,903**	**38,733**	**11,858**	**307**	**148**	**109**	**-**	**51,155**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	25,198	(5,771)	19,427	2,032	(163)	-	-	-	21,296
Net Cost of Operations [Notes 8 and 9]	**$54,028**	**$4,132**	**$58,160**	**$13,890**	**$144**	**$148**	**$109**	**-**	**$72,451**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

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

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2015
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	**($952,043)**	**($232,383)**	**($3,711)**	**$152**	**$87**	**($1,187,898)**
Budgetary Financing Sources:						
Appropriations Used	36,115	11,695	44	-	96	47,950
Other Financing Sources	(7)	-	-	18	12	23
Total Financing Sources	**36,108**	**11,695**	**44**	**18**	**108**	**47,973**
Net Cost of Operations	53,943	31,927	621	234	103	86,828
Net Change	**(17,835)**	**(20,232)**	**(577)**	**(216)**	**5**	**(38,855)**
Cumulative Results of Operations - Ending Balance	**($969,878)**	**($252,615)**	**($4,288)**	**($64)**	**$92**	**($1,226,753)**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	**-**	**-**	**-**	**$3**	**$57**	**$60**
Budgetary Financing Sources:						
Appropriations Received	36,115	$11,957	$48	-	100	48,220
Appropriations Used	(36,115)	(11,695)	(44)	-	(96)	(47,950)
Other Budgetary Financing Sources	-	(262)	(4)	-	(15)	(281)
Total Budgetary Financing Sources	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Total Unexpended Appropriations - Ending Balance	**-**	**-**	**-**	**3**	**46**	**49**
Net Position - Other Funds	**($969,878)**	**($252,615)**	**($4,288)**	**($61)**	**$138**	**($1,226,704)**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2014
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	**($928,863)**	**($229,852)**	**($3,612)**	**$279**	**$52**	**($1,161,996)**
Budgetary Financing Sources:						
Appropriations Used	34,988	11,359	45	-	130	46,522
Other Financing Sources	(8)	-	-	21	14	27
Total Financing Sources	**34,980**	**11,359**	**45**	**21**	**144**	**46,549**
Net Cost of Operations	58,160	13,890	144	148	109	72,451
Net Change	**(23,180)**	**(2,531)**	**(99)**	**(127)**	**35**	**(25,902)**
Cumulative Results of Operations - Ending Balance	**($952,043)**	**($232,383)**	**($3,711)**	**$152**	**$87**	**($1,187,898)**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	**-**	**-**	**-**	**$3**	**$90**	**$93**
Budgetary Financing Sources:						
Appropriations Received	34,988	$11,463	$47	-	100	46,598
Appropriations Used	(34,988)	(11,359)	(45)	-	(130)	(46,522)
Other Budgetary Financing Sources	-	(104)	(2)	-	(3)	(109)
Total Budgetary Financing Sources	**-**	**-**	**-**	**-**	**(33)**	**(33)**
Total Unexpended Appropriations - Ending Balance	**-**	**-**	**-**	**3**	**57**	**60**
Net Position - Other Funds	**($952,043)**	**($232,383)**	**($3,711)**	**$155**	**$144**	**($1,187,838)**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

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

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2015
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	-	$20,839	$42,622	$251	$97	$63,809
Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	118
Other Changes in Unobligated Balance	-	-	-	-	(15)	(15)
Unobligated Balance, from Prior Year Budget Authority, Net	**-**	**20,839**	**42,622**	**357**	**94**	**63,912**
Appropriations	$118,213	11,695	44	-	100	130,052
Spending Authority from Offsetting Collections	-	48,019	3,605	1,634	323	53,581
Total Budgetary Resources	**$118,213**	**$80,553**	**$46,271**	**$1,991**	**$517**	**$247,545**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 11]						
Direct	$118,213	$59,708	$3,017	-	$342	$181,280
Reimbursable	-	-	-	$1,654	79	1,733
Total Obligations Incurred	**118,213**	**59,708**	**3,017**	**1,654**	**421**	**183,013**
Unobligated Balance, End of Year:						
Apportioned	-	-	-	296	25	321
Unapportioned	-	20,845	43,254	41	71	64,211
Total Unobligated Balance, End of Year	**-**	**20,845**	**43,254**	**337**	**96**	**64,532**
Total Budgetary Resources	**$118,213**	**$80,553**	**$46,271**	**$1,991**	**$517**	**$247,545**
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$7,171	$5,996	$925	$957	$96	$15,145
Obligations Incurred	118,213	59,708	3,017	1,654	421	183,013
Less: Outlays, Gross	118,013	60,036	2,997	1,564	408	183,018
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	118
Unpaid Obligations, End of Year	**$7,371**	**$5,668**	**$945**	**$941**	**$97**	**$15,022**
Uncollected Payments:						
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$1,990	$360	$705	$123	$3,178
Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	(6)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,143**	**$252**	**$652**	**$125**	**$3,172**
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$7,171	$4,006	$565	$252	($27)	$11,967
Obligated Balance, End of Year	$7,371	$3,525	$693	$289	($28)	$11,850
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$118,213	$59,714	$3,649	$1,634	$423	$183,633
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	53,589
Less: Change in Uncollected Customer Payments from Federal Sources	-	153	(108)	(53)	2	(6)
Budget Authority, Net	**$118,213**	**$11,693**	**$44**	**-**	**$100**	**$130,050**
Outlays, Gross	$118,013	$60,036	$2,997	$1,564	$408	$183,018
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	53,589
Outlays, Net	**118,013**	**12,168**	**(716)**	**(123)**	**87**	**129,429**
Less: Distributed Offsetting Receipts	36,169	1,525	-	-	-	37,694
Agency Outlays, Net	**$81,844**	**$10,643**	**($716)**	**($123)**	**$87**	**$91,735**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2014
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	-	$20,792	$41,276	$267	$85	$62,420
Recoveries of Prior Year Unpaid Obligations	-	-	-	48	8	56
Other Changes in Unobligated Balance	-	-	-	-	(3)	(3)
Unobligated Balance, from Prior Year Budget Authority, Net	**-**	**20,792**	**41,276**	**315**	**90**	**62,473**
Appropriations	$114,830	11,359	45	-	100	126,334
Spending Authority from Offsetting Collections	-	46,454	4,370	1,499	314	52,637
Total Budgetary Resources	**$114,830**	**$78,605**	**$45,691**	**$1,814**	**$504**	**$241,444**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 11]						
Direct	$114,830	$57,766	$3,069	-	$330	$175,995
Reimbursable	-	-	-	$1,563	77	1,640
Total Obligations Incurred	**114,830**	**57,766**	**3,069**	**1,563**	**407**	**177,635**
Unobligated Balance, End of Year:						
Apportioned	-	-	-	221	18	239
Unapportioned	-	20,839	42,622	30	79	63,570
Total Unobligated Balance, End of Year	**-**	**20,839**	**42,622**	**251**	**97**	**63,809**
Total Budgetary Resources	**$114,830**	**$78,605**	**$45,691**	**$1,814**	**$504**	**$241,444**
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$6,973	$5,642	$859	$926	$100	$14,500
Obligations Incurred	114,830	57,766	3,069	1,563	407	177,635
Less: Outlays, Gross	114,632	57,412	3,003	1,484	403	176,934
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	48	8	56
Unpaid Obligations, End of Year	**$7,171**	**$5,996**	**$925**	**$957**	**$96**	**$15,145**
Uncollected Payments:						
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$1,821	$408	$636	$102	$2,967
Change in Uncollected Payments, Federal Sources	-	169	(48)	69	21	211
Uncollected Payments, Federal Sources, End of Year	**-**	**$1,990**	**$360**	**$705**	**$123**	**$3,178**
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$6,973	$3,821	$451	$290	($2)	$11,533
Obligated Balance, End of Year	$7,171	$4,006	$565	$252	($27)	$11,967
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$114,830	$57,813	$4,415	$1,499	$414	$178,971
Less: Actual Offsetting Collections	-	46,287	4,418	1,430	293	52,428
Less: Change in Uncollected Customer Payments from Federal Sources	-	169	(48)	69	21	211
Budget Authority, Net	**$114,830**	**$11,357**	**$45**	**-**	**$100**	**$126,332**
Outlays, Gross	$114,632	$57,412	$3,003	$1,484	$403	$176,934
Less: Actual Offsetting Collections	-	46,287	4,418	1,430	293	52,428
Outlays, Net	**114,632**	**11,125**	**(1,415)**	**54**	**110**	**124,506**
Less: Distributed Offsetting Receipts	35,042	1,543	-	3	-	36,588
Agency Outlays, Net	**$79,590**	**$9,582**	**($1,415)**	**$51**	**$110**	**$87,918**

The accompanying notes are an integral part of the financial statements. See accompanying Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION

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

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2015
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	-	$20,839	$42,622	$251	$97	-	$63,809
Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	-	118
Other Changes in Unobligated Balance	-	-	-	-	(15)	-	(15)
Unobligated Balance, from Prior Year Budget Authority, Net	**-**	**20,839**	**42,622**	**357**	**94**	**-**	**63,912**
Appropriations	$82,098	-	-	-	100	$47,854	130,052
Spending Authority from Offsetting Collections	-	48,019	3,605	1,634	323	-	53,581
Total Budgetary Resources	**$82,098**	**$68,858**	**$46,227**	**$1,991**	**$517**	**$47,854**	**$247,545**
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 11]							
Direct	$82,098	$48,013	$2,973	-	$342	$47,854	$181,280
Reimbursable	-	-	-	$1,654	79	-	1,733
Total Obligations Incurred	**82,098**	**48,013**	**2,973**	**1,654**	**421**	**47,854**	**183,013**
Unobligated Balance, End of Year:							
Apportioned	-	-	-	296	25	-	321
Unapportioned	-	20,845	43,254	41	71	-	64,211
Total Unobligated Balance, End of Year	**-**	**20,845**	**43,254**	**337**	**96**	**-**	**64,532**
Total Budgetary Resources	**$82,098**	**$68,858**	**$46,227**	**$1,991**	**$517**	**$47,854**	**$247,545**
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$7,170	$4,785	$921	$957	$96	$1,216	$15,145
Obligations Incurred	82,098	48,013	2,973	1,654	421	47,854	183,013
Less: Outlays, Gross	81,897	48,404	2,953	1,564	408	47,792	183,018
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	106	12	-	118
Unpaid Obligations, End of Year	**$7,371**	**$4,394**	**$941**	**$941**	**$97**	**$1,278**	**$15,022**
Uncollected Payments:				-			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$1,990	$360	$705	$123	-	$3,178
Change in Uncollected Payments, Federal Sources	-	153	(108)	(53)	2	-	(6)
Uncollected Payments, Federal Sources, End of Year	**-**	**$2,143**	**$252**	**$652**	**$125**	**-**	**$3,172**
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$7,170	$2,795	$561	$252	($27)	$1,216	$11,967
Obligated Balance, End of Year	$7,371	$2,251	$689	$289	($28)	$1,278	$11,850
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$82,098	$48,019	$3,605	$1,634	$423	$47,854	$183,633
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	-	53,589
Less: Change in Uncollected Customer Payments from Federal Sources	-	153	(108)	(53)	2	-	(6)
Budget Authority, Net	**$82,098**	**($2)**	**-**	**-**	**$100**	**$47,854**	**$130,050**
Outlays, Gross	$81,897	$48,404	$2,953	$1,564	$408	$47,792	$183,018
Less: Actual Offsetting Collections	-	47,868	3,713	1,687	321	-	53,589
Outlays, Net	**81,897**	**536**	**(760)**	**(123)**	**87**	**47,792**	**129,429**
Less: Distributed Offsetting Receipts	36,169	1,525	-	-	-	-	37,694
Agency Outlays, Net	**$45,728**	**($989)**	**($760)**	**($123)**	**$87**	**$47,792**	**$91,735**

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2014
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2014
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	-	$20,792	$41,276	$267	$85	-	$62,420
Recoveries of Prior Year Unpaid Obligations	-	-	-	48	8	-	56
Other Changes in Unobligated Balance	-	-	-	-	(3)	-	(3)
Unobligated Balance, from Prior Year Budget Authority, Net	**-**	**20,792**	**41,276**	**315**	**90**	**-**	**62,473**
Appropriations	$79,842	-	-	-	100	$46,392	126,334
Spending Authority from Offsetting Collections	-	46,454	4,370	1,499	314	-	52,637
Total Budgetary Resources	**$79,842**	**$67,246**	**$45,646**	**$1,814**	**$504**	**$46,392**	**$241,444**
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 11]							
Direct	$79,842	$46,407	$3,024	-	$330	$46,392	$175,995
Reimbursable	-	-	-	$1,563	77	-	1,640
Total Obligations Incurred	**79,842**	**46,407**	**3,024**	**1,563**	**407**	**46,392**	**177,635**
Unobligated Balance, End of Year:							
Apportioned	-	-	-	221	18	-	239
Unapportioned	-	20,839	42,622	30	79	-	63,570
Total Unobligated Balance, End of Year	**-**	**20,839**	**42,622**	**251**	**97**	**-**	**63,809**
Total Budgetary Resources	**$79,842**	**$67,246**	**$45,646**	**$1,814**	**$504**	**$46,392**	**$241,444**
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$6,972	$4,508	$854	$926	$100	$1,140	$14,500
Obligations Incurred	79,842	46,407	3,024	1,563	407	46,392	177,635
Less: Outlays, Gross	79,644	46,130	2,957	1,484	403	46,316	176,934
Less: Recoveries of Prior Year Unpaid Obligations	-	-	-	48	8	-	56
Unpaid Obligations, End of Year	**$7,170**	**$4,785**	**$921**	**$957**	**$96**	**$1,216**	**$15,145**
Uncollected Payments:				-			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	$1,821	$408	$636	$102	-	$2,967
Change in Uncollected Payments, Federal Sources	-	169	(48)	69	21	-	211
Uncollected Payments, Federal Sources, End of Year	**-**	**$1,990**	**$360**	**$705**	**$123**	**-**	**$3,178**
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$6,972	$2,687	$446	$290	($2)	$1,140	$11,533
Obligated Balance, End of Year	$7,170	$2,795	$561	$252	($27)	$1,216	$11,967
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$79,842	$46,454	$4,370	$1,499	$414	$46,392	$178,971
Less: Actual Offsetting Collections	-	46,287	4,418	1,430	293	-	52,428
Less: Change in Uncollected Customer Payments from Federal Sources	-	169	(48)	69	21	-	211
Budget Authority, Net	**$79,842**	**($2)**	**-**	**-**	**$100**	**$46,392**	**$126,332**
Outlays, Gross	$79,644	$46,130	$2,957	$1,484	$403	$46,316	$176,934
Less: Actual Offsetting Collections	-	46,287	4,418	1,430	293	-	52,428
Outlays, Net	**79,644**	**(157)**	**(1,461)**	**54**	**110**	**46,316**	**124,506**
Less: Distributed Offsetting Receipts	35,042	1,543	-	3	-	-	36,588
Agency Outlays, Net	**$44,602**	**($1,700)**	**($1,461)**	**$51**	**$110**	**$46,316**	**$87,918**

LEGEND:

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

SECTION 3

Other Information (Unaudited)

Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how and where Office of Personnel Management is spending its money. The SOS is presented on a budgetary basis, the same as the Combined Statement of Budgetary Resources (SBR). The amounts shown as "Total Amounts Agreed to be Spent" agree with amounts shown as "Obligations incurred" on the SBR.

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

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING SCHEDULE OF SPENDING (Unaudited)
For the Year Ended September 30, 2014
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
What Money is Available to Spend?						
Total Resources	$114,830	$78,605	$45,691	$1,815	$504	$241,445
Less: Amount Available but Not Agreed to be Spent	-	-	-	221	18	239
Less: Amount Not Available to be Spent	-	20,839	42,622	31	79	63,571
Total Amounts Agreed to be Spent	**$114,380**	**$57,766**	**$3,069**	**$1,563**	**$407**	**$177,635**
How was the Money Spent/Issued?						
Personnel Compensation and Benefits	$34,988	11,359	45	331	286	47,009
Contractual Services and Supplies	-	46,407	3,024	1,232	121	50,784
Acquisition of Capital Assets	-	-	-	-	-	-
Grant and Fixed Charges (Insur. Claims and Indemnities)	79,842	-	-	-	-	79,842
Total Amounts Agreed to be Spent	**114,830**	**57,766**	**3,069**	**1,563**	**407**	**177,635**
Who did the Money go to?						
Federal Government	$35,122	$11,415	$56	$281	33	$46,907
Non-Federal Government	79,708	46,351	3,013	1,282	374	130,728
Total Amounts Agreed to be Spent	**$114,830**	**$57,766**	**$3,069**	**$1,563**	**$407**	**$177,635**

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

October 30, 2015

MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Fiscal Year 2015 Top Management Challenges

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

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

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

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

The remaining challenges, while not currently considered material weaknesses, are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. There is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management. We have categorized the items included on our list this year as follows:

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Honorable Beth F. Cobert 2

Environmental Challenges

- Strategic Human Capital; and,
- Federal Health Insurance Initiatives.

Internal Challenges

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

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

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

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

- Improving the Federal Recruitment and Hiring Process, excluding the effort to close skills gaps, has been removed from the Strategic Human Capital challenge due to OPM's continued support of agencies' recruiting and hiring programs with tools, education, and direct support, including programs such as Pathways Programs for Students and Recent Graduates, Hiring Excellence Workshops, and Partnerships with Educational Institutions.
- The Veterans Employment Initiative has also been removed from the Strategic Human Capital challenge due to OPM's advancement of actions to improve employment opportunities, the establishment of the new Veteran Employment Performance Model for FY 2015-2017, the Feds Hire Vets website, and continued successes in hiring veterans.

- The Background Investigations challenge has been removed, in part, because the issues of capacity (the number of available resources) affecting the Federal Investigative Services' (FIS) capability to meet timeliness expectations and manage costs have been addressed through FIS's ability to fully staff its Federal investigator workforce by hiring new field investigators and retired annuitants to execute fieldwork training and other investigative support work; executing a contract to support the Federal investigative staff in Washington D.C.; and, working closely with its remaining contractor workforce to increase their resources and improve their processes and productivity to improve their capacity.
- The Information System Development challenge has been combined with the new IT Infrastructure Improvement Project challenge.

We have added the following challenges:

- Data Security was added due to the data breaches that OPM has recently experienced and the significant impact they have had on current and former Federal employees.
- The Information Technology Infrastructure Improvement Project is a large scale venture currently in process for the complete overhaul and migration of OPM's network infrastructure. The project includes implementing new IT security tools and creating a much more centralized and manageable architecture.
- Procurement Process Oversight was included this year due to recent events, such as the data breaches affecting millions of current and former Federal employees, that have focused a spotlight not only on OPM's IT system vulnerabilities, but also on the procurement oversight for the contract awarded in an effort to mitigate the impact of these events on affected individuals.

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. 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 call me, or have someone from your staff contact Michael R. Esser, Assistant Inspector General for Audits, or Michelle B. Schmitz, Assistant Inspector General for Investigations, at 606-1200.

Attachment

Attachment

FISCAL YEAR 2015 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

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

1. STRATEGIC HUMAN CAPITAL

Strategic human capital management remains on the U.S. Government Accountability Office's (GAO) high-risk list of Government-wide challenges requiring focused attention. In their fiscal year (FY) 2015 report, GAO suggests that OPM, the Chief Human Capital Officers (CHCO) Council, and agencies implement specific strategies and evaluate their results to demonstrate progress on addressing critical skills gaps.

A. Improving the Federal Recruitment and Hiring Process

In May 2010, President Obama issued a Memorandum, *Improving the Federal Recruitment and Hiring Process*, resulting in the launch of the largest reform of the Federal hiring process in over 30 years. OPM continues to make strides and has made significant progress in addressing its human capital efforts in closing skills gaps; however, challenges remain to meet the President's reform goals.

OPM has partnered with the CHCO Council to identify and close skills gaps across the Federal Government. During FY 2015, OPM states that several activities have taken place in order to address the skills gaps challenges. OPM has led and supported the CHCO Council's Executive Steering Committee (ESC)[1] for Skills Gaps. The group worked collaboratively to reassess Government-wide occupations and they have approved the use and modification of a multi-factor model as a tool that identifies Government-wide and agency-specific Mission-Critical Occupations (MCOs) with the likelihood for the greatest risk for experiencing skills gaps.

OPM has also worked with occupational leaders representing the current group of Government-wide MCOs, including Cybersecurity, Auditor, Economist, Acquisition, Human Resources, and Science, Technology, Engineering, and Math. Once the new set of MCOs is identified, OPM's Employee Services' Strategic Workforce Planning will identify occupational leaders in FY 2016 to lead the Government-wide effort to close skills gaps.

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[1] The CHCO ESC makes key decisions on the design and execution of the Government-wide and agency-specific skills gaps efforts, and brings recommendations and updates to the CHCO Council for review and approval. The CHCO ESC is co-chaired by the CHCOs from the Department of Treasury and the National Science Foundation, and staffed by subject matter experts from OPM's Employee Services' Strategic Workforce Planning Center.

1

Through HR University (www.hru.gov), the ESC agreed to create a rigorous curriculum framework that organizes courses by specialty disciplines and HR professional roles. They have designed a two-pronged approach to enhance agency participation in HRU, while assuring the curriculum provides valuable learning resources and developmental opportunities. The framework is managed by OPM and they are finalizing the technical competencies; both will be included in the development of courses in all curriculums to ensure all HR Professionals possess the necessary competencies to perform the job tasks within each identified role.

In 2012, a GAO report recommended OPM assist agencies with prioritizing training investments. OPM's collaboration with the Chief Learning Officers Council and other stakeholders initiated the idea of a Mentoring Hub. Building the Mentoring Hub is an ongoing multi-year project. It will serve as an online repository of mentoring materials and information available to all Federal employees and agencies.

While OPM has made great strides towards closing skills gaps within the Federal Government, as discussed above, there continue to be areas in which implementation of targeted goals is still in progress. GAO's FY 2015 high-risk series further confirms that while OPM and agencies have taken steps that show promise for identifying and addressing mission-critical skills gaps, additional efforts are needed to coordinate and sustain these efforts going forward, as well as to make better use of workforce analytics which can be used to predict newly emerging skills gaps.

B. <u>Phased Retirement</u>

Phased retirement is a human resources tool that will allow full-time employees to work a part-time schedule and draw partial retirement benefits during employment. Phased retirement was signed into law on July 6, 2012, as part of the Moving Ahead for Progress in the 21^{st} Century Act (MAP-21). The main purpose is to enhance the mentoring and training of the employees who will be filling the positions, or taking on the duties of more experienced retiring employees, but it may also be used for any learning activities that would allow for the transfer of knowledge and skills from one employee to others.

OPM published final regulations implementing phased retirement on August 8, 2014, and began accepting applications on November 6, 2014. As part of the rollout, OPM designed and issued a variety of instructional materials, Frequently Asked Questions, and comprehensive implementation/operational guidance, and provided training to agencies to support them in understanding how this tool can be used as part of their workforce planning, retention, and knowledge transfer strategy. In addition, OPM has continued to provide interested agencies with technical assistance to support their implementation plans.

While OPM has fulfilled its primary role of providing implementing regulations and comprehensive guidance to agencies, to date, a number of agencies are working toward implementation and only a small number of phased retirement applications have been received by OPM's Retirement Services. We realize, as OPM states, that phased retirement is just one tool in the arsenal of strategies that agencies may choose to adopt to meet their human capital needs, and that, while some agencies will find it useful, the program was never intended to be a prescribed solution that agencies would be expected to adopt regardless of their unique human capital and workforce needs. However, due to the significant impact of the aging of the Federal workforce on the continuity of agencies' services, OPM's efforts should continue to ensure that agencies that have already implemented a phased retirement program, as well as those working toward implementation, have the necessary administrative and procedural assistance during the process.

2. FEDERAL HEALTH INSURANCE INITIATIVES

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

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

As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to over eight million federal employees, retirees, and their families. While the ever-increasing cost of health care is a national challenge, cost increases in the FEHBP have been relatively modest in recent years. However in 2016, the average FEHBP premium increase is 6.4 percent, which is double last year's increase of 3.2 percent.

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

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

3

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

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

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

Planning and Policy Analysis (PPA) has collaborated with the Office of the Chief Information Officer (OCIO) to provide expertise in the areas of system administration, database administration, and networking. PPA and OCIO have completed the development of the HCDW system, and it has been authorized by the CIO to run in a production environment. Although the challenges related to system development have been largely overcome, PPA's primary challenge going forward relates to the difficult and time consuming process of getting health claims data into the system in a manner that can facilitate the types of data analysis and manipulation needed to achieve the system's envisioned benefits. PPA and the OCIO also face the challenge of ensuring that this highly sensitive data remains secure. The data security section below highlights the issues that OPM faces in regard to protecting sensitive information from data breaches.

2) Prescription Drug Benefits and Costs

For the past two years, Federal employees and the American taxpayer (who pays almost 75 percent of the FEHBP health care costs) have spent at least 26 percent of each health care dollar on prescription drugs. Considering that the industry average is approximately 18 percent, it would appear that there is room for OPM to negotiate a better arrangement for the eight million Federal employees, retirees, and their family members, especially considering that the FEHBP is one of the largest employer-sponsored health care programs in the world. The question merits additional study, though, because of the rising costs of prescription drugs and the way the FEHBP is structured, a unique aspect of which is the health coverage of retirees who pay the same premium amounts as the active population.

Currently, participating FEHBP carriers are either administering their pharmacy benefits internally or contracting with pharmacy benefit managers (PBM). This is because OPM is precluded from contracting with PBMs under the laws governing the FEHBP. Unfortunately, the consequences of this are twofold:

- Instead of leveraging the purchasing power of our over eight million members to negotiate a single PBM contract, our membership is split amongst the hundreds of participating carriers; and,
- Since OPM is not a party to the contracts negotiated between the carriers and the PBMs and the carriers are reimbursed 100 percent by the FEHBP for all costs charged to them by the PBMs, we have concerns whether the fees and benefits negotiated by the carriers are providing the best value to the FEHBP members.

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

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

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

We applaud the agency for these efforts and believe they should have a positive impact on the program; however, we encourage OPM to work with its Office of Congressional and Legislative Affairs to make the proposed statutory authority language change a priority initiative to advance to Congress for its approval. Allowing OPM to have direct contracting authority with the PBMs will help to ensure that the benefits and fees negotiated are in the best interest of the FEHBP members, and will strengthen the controls and oversight of the FEHB pharmacy program. OPM should also either position itself and gain the expertise it will need to implement this contractual change or should consider delegating this responsibility to another organization, for example TRICARE, to administer should the proposed statutory language become law.

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

3) Health Benefit Carriers' Fraud and Abuse Programs

FEHBP insurance carriers must have programs to prevent fraud and abuse (F&A), including policy, procedures, training, fraud hotlines, education, and technology. Without such programs, there are likely to be increased costs and a greater risk of harm to FEHBP members.

Recent OIG audits have determined that carriers were not in compliance with the applicable FEHBP contract clauses and FEHBP Carrier Letters relating to F&A programs. Specifically, carriers have not appropriately reported fraud and abuse cases to OPM and the OIG, and some carriers have not implemented procedures to address fraud and abuse issues in their pharmacy programs. Furthermore, most carriers did not accurately report recoveries, savings, and cost avoidance achieved as a result of their F&A programs.

OPM recognized the importance of FEHBP carriers having effective F&A programs and partnered with the OIG to develop new, comprehensive F&A guidance. Carrier Letter 2014-29 has new definitions, training guidance, and updated reporting requirements. The new Carrier Letter also requires carrier management to certify to the completeness and accuracy of the fraud and abuse information submitted on the annual report.

However, after reviewing the fraud and abuse reports submitted under the new Carrier Letter, it is apparent that the carriers still require additional guidance from OPM. We have also found that some carriers are still not reporting fraud and abuse cases appropriately. In the past year there has been an enormous increase in the number of case notifications received from the carriers. This is a direct result of our audit work and the collaboration with OPM. While the quantity of these notifications has increased dramatically, the carriers still require guidance on submitting *quality* referrals.

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

- Analyzing carrier reports to get a better understanding of carriers' fraud and abuse programs, and to determine if carriers need further guidance.
- Continuing to partner with the OIG to resolve open fraud-related audit recommendations.
- Monitoring notifications, referrals, recoveries, and overall compliance as carriers adopt updated guidance and reporting requirements.

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

4) Medical Loss Ratio Implementation and Oversight

The FEHBP Medical Loss Ratio (MLR) methodology is closely monitored by the OPM's Office of the Actuaries. For each community-rated FEHBP plan, Office of the Actuaries documents each year's MLR and the associated penalties or credits in a formal letter. The underlying data used in the letter is kept in a secure proprietary database so the following year's letter will reference any remaining credit.

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

As OPM's MLR methodology matures, and unique situations to the FEHBP MLR surface, the need for detailed criteria and carrier instructions is vital. During recent community-rated carrier audits, the OIG identified new areas of the MLR methodology that lack clear instruction from OPM. OPM's rate instructions currently refer community-rated carriers to the Department of Health and Human Services (HHS) MLR guidelines for issues not covered in the OPM instructions. However, in some instances this is not feasible or even applicable. Some areas identified during our MLR audits include Federal income tax allocation methods and the use of global capitations as claims cost in the MLR calculation. Failure to implement clear instructions may result in inaccurate or incomplete subsidization penalties. OPM must stop relying solely on HHS regulations and address these FEHBP-specific problems by providing the necessary guidance via the rate instructions to avoid continued confusion and ambiguity.

A pressing issue that the OIG is experiencing on MLR audits is the large variances between OPM's subscription income reports and the FEHBP premiums carriers track in their systems. The MLR rules state that carriers can choose to use their own premium numbers in the MLR calculation, but the carrier premiums will be subject to audit if used. Most carriers therefore use OPM's subscription income as the denominator in the MLR formula instead of their own premium numbers. However, carriers are frustrated with OPM's inability to support the accuracy of the subscription income numbers. OPM's subscription income is unsupported and has been for decades. This is concerning since the subscription income is now used in the vast majority of the carriers' MLR calculations. OPM should verify the accuracy of the subscription income reports and work to correct hindrances to the accurate reporting of carrier subscription income. With the denominator of the calculation being unsupportable by OPM, the whole validity of the MLR calculation is in question.

B. Affordable Care Act (ACA)

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

While implementing any new program represents a host of complex challenges, one of the greatest challenges continues to be securing sufficient resources for OPM's MSP function. The ACA does not specifically fund OPM for this new health care responsibility. In addition, the ACA mandates that resources essential to the management of the FEHBP cannot be used to start up and manage the MSP program.

Even with adequate resources, implementation of the ACA presents a unique set of challenges for OPM. Since this is a totally new and complex program, OPM must:

- Continue to develop a thorough understanding of complex laws and regulations governing the ACA, as well as state health care insurance;
- Develop and implement regulations, policies, and contracts supporting the MSPP;
- Work cooperatively with Administration Officials, Congress, and other Federal agencies/departments responsible for implementing the ACA;
- Recruit and hire employees with insurance and legal competencies related to health insurance;
- Initiate an outreach program with all stakeholders;
- Design and implement an internal control structure and management information system to ensure that MSPP goals and objectives are met, as well as to ensure compliance with all laws, regulations, and guidance; and,
- Create a comprehensive oversight program.

To continue to meet the goal of making MSPP health insurance options available for enrollment, OPM has accomplished the following:

- Contracted with the Blue Cross Blue Shield Association and several individual Co-Ops to offer MSPs in 36 marketplaces;
- Published an updated final rule on the MSP Program on February 24, 2015;
- Continued to develop relationships with state health care regulators to facilitate the exchange of information on MSP Program operations and various state requirements to sell insurance products in that state;
- Planned an MSP Issuer Conference for November 2015;
- Conducted outreach efforts to insurance issuers and other groups to raise awareness and potential participation in the MSPP;
- Continued to work with the Office of Management and Budget and HHS to develop standard operating procedures for collecting the MSP user fee;

- Compiled and transmitted information on each applicable state-level issuer to HHS for the Federally Facilitated Marketplace, to states that intend to operate their own exchange but utilize the prescribed HHS templates, and directly to those states who will operate their own marketplace;
- Reorganized OPM's National Healthcare Operations in June 2015 along four main functional areas to prepare for an expanded number of MSP issuers; and,
- Established an MSP Program Advisory Board to exchange information, ideas, and recommendations regarding the administration of the MSP Program.

OPM has made MSPs available in 36 marketplaces and is steadily establishing necessary processes for working with the various stakeholders. However, OPM's goal to increase both the number of Issuers and enrollment in MSP options continues to be a management challenge for OPM given the uncertainty about the ACA due to the many lawsuits and concerns with large premium rate increases in 2016.

INTERNAL CHALLENGES

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

1. INFORMATION SECURITY GOVERNANCE

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

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

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

Our FY 2014 FISMA report reduced the severity of the material weakness to a significant deficiency based on OPM's plan to fill enough positions to manage the security for all OPM information systems. Throughout FY 2015, OPM successfully filled the vacant ISSO positions, effectively centralizing IT security responsibility under the Chief Information Officer and fulfilling our audit recommendation. However, our FY 2015 FISMA audit demonstrated that system owners are still not in compliance with many FISMA requirements. While we are optimistic that with this new governance structure in place OPM can eventually improve FISMA compliance, we will continue to monitor its effectiveness in future years.

2. SECURITY ASSESSMENT AND AUTHORIZATION

Information System Security Assessment and Authorization (Authorization) is a comprehensive assessment that evaluates whether a system's security controls are meeting the security requirements of that system. FISMA requires the OCIO to conduct an annual agency security program review in coordination with agency program officials.

Previous FISMA audits identified a material weakness in OPM's Authorization process related to incomplete, inconsistent, and sub-par work products. OPM resolved the issues by implementing new policies and procedures to standardize the Authorization process. However, in FY 2014, we found that OPM program offices failed to conduct the appropriate Authorization process for 11 of OPM's 47 major information systems. The situation worsened in FY 2015 with 23 of 47 systems operating in the production environment without a valid Authorization. As a result, we reinstated the material weakness related to this issue.

In April 2015, OPM's OCIO issued a memorandum that granted an extension of the previous Authorizations for all systems whose Authorization had already expired, and for those scheduled to expire through September 2016. The justification was that OPM is in the process of modernizing its IT infrastructure, and that once this modernization is complete, all systems would have to receive new Authorizations anyway. However, the Office of Management and Budget's (OMB) Circular A-130, Appendix III mandates that all Federal information systems have a valid Authorization. A system must be Authorized every three years, and OMB does not recognize interim or temporary Authorizations such as those being used by OPM. Without subjecting its information systems to a routine and thorough security controls assessment, OPM is increasing the risk that IT security vulnerabilities will remain in its environment undetected.

The OCIO has also referenced other areas where controls have been strengthened as further justification. Significant changes related to information security and assessment have been put in place, including an effort to close OIG audit findings. In addition, OPM's Security Operations Center (SOC) provides continuous centralized support for OPM's security incident prevention and management program. The SOC deployed multiple tools to strengthen the security of the overall environment.

Furthermore, the OCIO has updated the continuous monitoring document that provides a high-level strategy for the implementation of information security continuous monitoring. The OCIO began implementation of the Department of Homeland Security's Continuous Diagnostic and Mitigation program (CDM) and believes that once fully implemented, Authorizations will no longer be necessary.

We agree that, eventually, a mature continuous monitoring program built around CDM will be sufficient to eliminate the need for Authorizations. However, OPM's continuous monitoring program has not reached that point, and with OPM's new technical environment potentially five years away from completion, it is clear that OPM must continue to conduct Authorizations for all systems that require them.

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Maintaining active Authorizations for all information systems is a critical element of a Federal information security program, and failure to thoroughly assess and address a system's security weaknesses increases the risk of a security breach. We believe that the volume and sensitivity of OPM systems that are operating without an active Authorization continues to represent a material weakness in the internal control structure of the agency's IT security program.

3. DATA SECURITY

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

In 2015, OPM was the victim of devastating data breaches in which the personal information of more than 20 million people was compromised. Personnel data of 4.2 million current and former Federal government employees was stolen. In addition, OPM discovered that the background investigation records of 21.5 million current, former, and prospective Federal employees and contractors had been compromised.

OPM's technical environment is complex and decentralized, characteristics that make it extremely difficult to secure. Over the past several years, the agency has increased the staffing levels of its network security team, and has procured a variety of tools to help automate efforts to secure the OPM network. However, our FY 2014 FISMA audit determined that not all of these tools are being utilized to their fullest capacity, as the agency was having difficulty implementing and enforcing the new controls on all endpoints of this decentralized infrastructure. In the wake of the data breach, OPM procured even more security tools to help further secure the network. We agree that these tools add value, but OPM continues to face the challenge of implementing them into a fragmented environment and fully leveraging their capabilities.

OPM's progress in centralizing IT security responsibility under the OCIO is a positive first step in gaining the ability to better control and secure its technical infrastructure. However, the agency still has significant work ahead to further secure the sensitive data it maintains.

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

The loss of this data has significantly damaged national security. It is critical that OPM continue to strengthen cyber defenses to prevent similar thefts in the future. OPM also has an obligation to make affected employees and other victims whole by providing identity theft protection and other necessary products for these breaches in data. Careful attention is needed to ensure proper management of the contract for identity theft protection services, as victims deserve the highest standards of customer service.

4. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT PROJECT

While working to implement new IT security tools into its decentralized technical environment, OPM determined that the network infrastructure ultimately needed a complete overhaul and migration into a much more centralized and manageable architecture. While we have serious concerns with the way in which this project was initiated and planned (see our Flash Audit Alert – Report No. 4A-CI-00-15-055), we agree in principle that this infrastructure improvement project outlines an ideal future goal for the agency's IT environment.

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

The first major challenge that OPM faces is to identify all of the information systems that must be migrated to the Shell. OPM's historically decentralized approach to IT management makes it very difficult to develop a single, comprehensive inventory of systems and applications. OPM has several initiatives underway to improve its inventory management program, but it is a monumental task.

The second major challenge relates to the complexity of migrating old information systems into a new environment. Many of OPM's systems are supported by legacy technology that will not be compatible with the new environment. These systems must be completely redesigned and rebuilt before they can be migrated to the Shell. OPM has implemented systems development lifecycle (SDLC) policies and procedures, but our audit work has repeatedly determined that the SDLC policy is not being enforced on all IT development projects, including this infrastructure improvement project. The OCIO acknowledges the need to enforce the SDLC policy on 100 percent of OPM's IT portfolio, and is currently implementing a reorganization that addresses this issue by assigning OCIO IT project managers as a direct point of contact for each of the agency's program offices.

Although these positions have been planned and funded, the staff necessary to properly enforce and oversee the SDLC process for all OPM systems is not in place at this time.

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In the interim, the OCIO continues to provide training to existing project managers through a Project Management Community of Practice designed to provide guidance on best practices in systems development. The best chance for a successful modernization of OPM's IT environment is to enforce disciplined SDLC and project management processes.

The third and most critical challenge is the fact that OPM does not have dedicated funding to support this project. Having not yet documented a comprehensive inventory of systems that need to be migrated to the Shell, OPM cannot even estimate how much this project will ultimately cost. OPM failed to adequately plan for this project before initiating it, and now faces great risk of not being able to finish it due to lack of funding. The results of running out of money in the middle of the project could be catastrophic. The agency could end up with half of its systems in the new Shell environment and half of its systems in the legacy environment. Neither of the environments would be fully secure, and OPM would be in a position where it is forced to pay indefinitely for the overhead costs of both infrastructures.

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

5. STOPPING THE FLOW OF IMPROPER PAYMENTS

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

Despite these changes, the improper payment of retirement benefits, specifically those to deceased annuitants, continues to be a significant problem at OPM. The retirement programs operated by OPM continue to meet OMB's definition of programs susceptible to significant improper payments because their annual improper payments are over $100 million per year. Indeed, the improper payments made to deceased annuitants alone regularly total over $100 million. Between FY 2011, when we first included this issue as a management challenge, and FY 2014, OPM has paid out over $430 million to deceased annuitants. We acknowledge that OPM's recapture rate for these improper payments has improved and they recover a large amount of these funds. However, the fact that they continue to make over $100 million of improper payments each year is a serious problem and indicates that there are still significant deficiencies in the internal controls designed to prevent improper payments from being paid in the first place.

OPM has recognized this problem and taken steps to address it, including the initiation of two special projects in FY 2015. First, it began a review of undeliverable 2014 Internal Revenue Service tax forms, an exercise which it has conducted two other times in the past (2006 and 2009 tax years). Second, the agency also instituted a program whereby it sends

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"happy birthday" letters to annuitants who turn 100 and older. If a tax form or letter is returned as undeliverable, OPM investigates the cause.

We are pleased to see this activity, but our concerns about the adequacy of OPM's prevention efforts continue. Our oversight work has identified multiple deficiencies and areas that require improvement. For example, OPM continues to rely primarily on the Social Security Administration's (SSA) death data to identify deceased annuitants. While the use of this data is very effective, both the SSA OIG and the Government Accountability Office have raised concerns about the completeness of these files, so it is important that OPM utilize a variety of additional detection methods to supplement the data match.

Another example is the failure to utilize data mining techniques to address improper payments to deceased annuitants. OPM did make an attempt at this by establishing a Data Mining Working Group (DMWG) in 2012. The stated purpose of the group was to use data analysis to identify specific improper payments and high-risk situations where improper payments may be likely to occur. The DMWG issued a report in 2014 and was then disbanded. This raises two concerns. First, the OIG has repeatedly recommended that such a group be a *permanent* part of OPM's ongoing efforts to combat improper payments. Second, while the DMWG's report contained excellent policy suggestions (illustrating the value of having such a group in place), the group did not perform any actual *data analysis*. We continue to believe the DMWG should be a permanent working group, and we reiterate that it should contain subject matter experts who can conduct both policy *and* data analysis.

A key problem with OPM's identification efforts is that they rarely require an annuitant to actively engage with the agency. Almost all benefit payments are deposited directly into annuitants' bank accounts through electronic funds transfer. OPM routinely sends mail to annuitants, such as information on new cost of living adjustments or changes in the FEHBP, but these mailings do not require any action by the annuitant. Although OPM does send biannual surveys to certain types of annuitants (such as those with representative payees), large segments of the elderly annuitant population do not receive these surveys. OPM proactively reaches out to older annuitants only through special projects conducted on an intermittent basis or if the agency has a specific reason to suspect an annuitant is deceased. Even OPM's new birthday letter is a passive effort as the annuitant is not requested to respond. It is true that the agency investigates undeliverable birthday letters, but the successful delivery of a letter, by itself, is not evidence that the annuitant is alive since the letters can simply be ignored.

Overall, based upon our oversight, we continue to believe that the deficiencies in OPM's improper payments prevention program are significant and it thus remains a top agency challenge.

6. RETIREMENT CLAIMS PROCESSING

OPM is responsible for processing in excess of 100,000 retirement applications a year for Federal employees. The timely issuance of full annuity payments to annuitants has been a long-standing challenge for OPM.

In January 2012, OPM released and began implementation of a strategic plan with the goal of adjudicating 90 percent of retirement cases within 60 days starting in July 2013. As of June 2015, only 68.7 percent of pending claims were processed in 60 days or less. On average, those cases processed in 60 days or less took 42 days to complete, while cases taking longer than 60 days to process took 87 days to complete. Quite often the delay occurred due to the need for additional information from the retiree's former agency or for the retiree to make an election.

OPM typically receives a surge of retirement claims at the beginning of the calendar year. In FY 2015, the surge included approximately 30,000 new claims, exceeding projections and stretching from January into February. In previous years, OPM has hired additional staff at the beginning of the fiscal year to offset the increased workload. Due to resource constraints, OPM was not able to use this approach in FY 2015, hindering their ability to address this influx of claims in a timely manner.

OPM remains committed to providing timely processing of retirement claims by making internal and external process improvements, and continues to implement the core components in the Retirement Services strategic plan, including people; productivity and process improvements; partnering with agencies; and partial, progressive information technology improvements. However, without proper resources, OPM's ability to meet its goal of processing 90 percent of retirement claims in 60 days is in jeopardy. In addition, if OPM does not receive funding for its IT initiatives, the ability to achieve sustained progress in meeting its processing goals will be severely impacted.

7. PROCUREMENT PROCESS FOR BENEFIT PROGRAMS

For the past two years our office has raised concerns about OPM's procurement processes over certain benefit programs. Specifically, these programs include the BENEFEDS benefits portal, the Federal Long Term Care Insurance Program (FLTCIP), and the Federal Flexible Spending Account Program (FSAFEDS). We would like to say that we have seen noticeable improvements in OPM's processes in the last two years; instead, we continue to have serious concerns with OPM's handling of the procurements for these benefit programs.

We initially raised our concerns to OPM's Federal Employee Insurance Operations (FEIO) group in FY 2012. At that time, our concerns were related to the FSAFEDS program, which by that point had been operating under its initial Federal Acquisition Regulation (FAR) contract for nine years without a re-competition. In addition to the fact that the FAR limits the period of performance for this type of procured service to a five year period, this contract is administered by only one contractor, thereby limiting competition that helps reduce costs, which is inherent in other benefit programs administered by OPM.

In late 2013, FEIO stated that policies and procedures were in place to ensure that future re-competitions for all programs administered by FEIO would be handled in a timely manner; however, the FSAFEDS contract has still not been re-competed. Instead, FEIO modified

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the contract twice to extend the periods of performance and did not demonstrate that either extension followed the protocols established by the FAR for the exercise of options. Despite raising our concerns to OPM's Chief of Staff, a new FSAFEDS contract has still not been awarded, and is in danger of being extended once again. In addition, due to resource limitations within FEIO, they can only handle one procurement action at a time. Therefore, as a result of the continued delays rebidding the FSAFEDS contract, the re-competition of the FLTCIP contract, which is the next contract due for procurement, is almost a year behind the target dates of its second procurement timeline.

We believe the delays can be attributed to a lack of oversight by OPM's Office of Procurement Operations and FEIO's desire for program continuity overriding its responsibilities for ensuring contracts are re-competed in accordance with the FAR.

OPM's Office of Procurement Operations (OPO), formerly the Contracting Office, is involved in the procurement process through contract award; however, after awarding the contract, it transfers its responsibilities to FEIO for contract administration. While this is understandable since FEIO staff are the program experts and are best able to address questions that typically arise in the administration of programs under their purview, this should not absolve the OPO from keeping abreast of the procurement's status. The contracting officer must be aware of modifications that have been issued, the options that have been exercised, and ensure appropriate and timely re-competition.

Along the same lines, while we understand the logic behind delegating responsibilities to FEIO to administer OPM's program contracts, unfortunately, FEIO's interest in ensuring program continuity has overridden its responsibilities to ensure that future procurements are properly planned, are awarded timely, and follow the protocols established by the FAR. From what we have observed with the current contract delays, there appears to be no sense of urgency to ensure the contracts are re-competed in a timely manner since FEIO can modify the contract to extend the period of performance, as was done multiple times with the FSAFEDS and BENEFEDS procurements.

While program continuity for these benefit programs is extremely important, and we are not suggesting that benefit programs be allowed to lapse while waiting for a new contract to be awarded, benefit continuity is but one of many factors that must be considered before extending a period of performance under the FAR. Another factor to be considered is whether the option to extend is the most advantageous to the Government. For a program like FSAFEDS, where there are constant changes in the market for this type of benefit and where there is a lack of built-in competition for enrollees that is inherent in other benefit programs administered by OPM, we would argue that allowing the FSAFEDS contract to continue for over 12 years without ever being re-competed was not the most advantageous option for the Government.

Because FEIO has been unable to demonstrate over the last several years that it is able to meet its responsibilities in the timely procuring and awarding of the benefit programs it administers, we strongly suggest that OPM consider consolidating all contract administration functions under its OPO and that these responsibilities no longer be

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delegated to the program offices. We also suggest that future contracting officers assigned to these contracts not have responsibilities for administering the benefit programs, as we believe that these dual roles are a conflict of interest and will result in continued delays to these contracts being re-competed, especially when program continuity is at risk.

8. PROCUREMENT PROCESS OVERSIGHT

OPM's Office of Procurement Operations is responsible for providing centralized contract management that supports the operations and Government-wide missions of OPM, as well as managing the Government-wide Purchase Card program. In FY 2014, OPO awarded $1.5 billion of contracts and processed almost 4,000 transactions, consisting of awards, modifications, and agreements.

Recent internal events, such as the data breach that affected 4.2 million current and former Federal employees, have focused a spotlight not only on OPM's IT system vulnerabilities, but on the contracts awarded in an effort to mitigate the impact of these recent events on current and former Federal employees.

During FY 2015, the OIG conducted a risk assessment of Facilities, Security, and Contracting (FSC), in which the OPO was identified as a high risk area. More specifically, the lack of proper management oversight and supervision, and contracting files not in compliance with the FAR, were identified as two of the key areas in need of improvement. While the lack of resources appears to be a main cause of the risks identified, OPM must ensure that the proper oversight is conducted over procurements to ensure that all contract awards meet regulation requirements.

During FY 2015, the OPO took steps to determine areas of improvement, by contracting with a consulting company to perform an independent strategic assessment of OPO's procurement compliance, procurement oversight, workload and staffing, and acquisition certification and training. The consulting group issued a report of its findings, including 16 recommendations. FSC is in the process of developing and implementing a plan to address the recommendations.

We have also completed a special review of OPM's award of a credit monitoring and identify theft services contract to Winvale Group LLC, and its subcontractor, CSIdentity (draft report has been issued, final report is forthcoming). The objective of the review was to determine if OPO awarded the Winvale contract in compliance with the FAR and OPM's policies and procedures. We determined that the OPO did not award the Winvale contract in compliance with the FAR and OPM's policies and procedures, which led to the OPO selecting the wrong contracting vehicle. While we are unable to determine whether the issues we uncovered are significant enough to have impacted the award of the contract to Winvale Group LLC, and its subcontractor, CSIdentity, it is evident that significant deficiencies existed in the OPO over the contract award process.

OPM recently implemented a reorganization of the FSC, which involved making the OPO a direct report to the Director, hiring key management officials, and working towards improving its procurement processes. While we recognize that OPM is working on improving the overall procurement process, the challenge still remains to ensure that the proper policies, procedures and controls are in place to ensure that staff are properly trained, internal OPM policies are routinely updated, contract files are complete and accurate, and procurements are awarded in compliance with FAR requirements.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

NOV 0 2 2015

Agency Response

MEMORANDUM FOR PATRICK E. McFARLAND
Inspector General

FROM: Dennis Coleman
Chief Financial Officer

SUBJECT: Agency Comments to the OIG Report – Top Management Challenges, dated October 30, 2015

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

We concur with the findings of your report, and OPM is committed to addressing these challenges. In FY 2014, OPM released and began implementing a new strategic plan to guide the agency's efforts. The strategic goals described in the plan reflect our priorities, among them improved retirement services and efficient and effective information technology systems. Our FY 2015 Annual Performance Report will show that, as a result of our focus on results, we're making great progress in achieving our goals. Still, the agency will work to continuously improve, addressing both the environmental and internal challenges identified in your report.

Thank you for the opportunity to offer management's perspective on the agency's challenges you identified. We look forward to a continued constructive exchange of ideas and information with you in each of these areas.

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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

TABLE 10 - Summary of Financial Statement Audit

Financial Statement Audit Opinion and Material Weaknesses					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information systems control environment	0	1	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**1**

TABLE 11 - Summary of Management Assurances

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

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Program Governance	1	0	1	0	0	0
IT Security Systems Authorization Process	1	0	0	0	0	1
OIG Office of Investigations Tracking System CLEAR, Offline	0	1	0	0	0	1
Total Material Weaknesses	**2**	**1**	**1**	**0**	**0**	**2**

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Systems Conform, conform except for the below non-conformance(s), or do not conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information systems control environment	0	1	0	0	0	**1**
Total Non-Conformances	**0**	**1**	**0**	**0**	**0**	**1**

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

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

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

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

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

In the AFR, OPM is reporting details on improper payments for FY 2015 in two major programs: Federal Retirement and the Federal Employees Health Benefits Program (FEHBP). FY 2015 improper payments for those two programs respectively are $304.2 million and $68.4 million, for a total of $372.6 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.

Based on OIG's FY 2012 audit of OPM's compliance with IPERA, a comprehensive improper payments plan was developed in November 2012. OPM has updated the plan including the most recent version in July 2015. OIG's May 2015 report on IPERA compliance found OPM compliant for FY 2014 improper payments reporting and identified areas of improvement concerning OPM's internal controls.

PROGRAM DESCRIPTIONS

OPM is reporting for FY 2015 improper payments for its two largest programs: Federal Retirement and FEHBP.

RETIREMENT PROGRAM

OPM paid $81.1 billion in defined-benefits to retirees, survivors, representative payees, and families during FY 2015 under the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Eligible retirees and survivors generally receive monthly benefits but, in some cases an applicant can also receive a lump-sum payment. Eligible employees who leave Federal service before qualifying for retirement under CSRS or FERS may request that their contributions be returned to them in a lump-sum refund payment.

HEALTH BENEFITS PROGRAM

FEHBP is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for their FEHBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. In 2015, ERCs incurred benefit and administrative expenses of over $41.8 billion on behalf of the FEHBP, and the FEHBP paid over $6.2 billion in premiums to CRCs.

I. RISK ASSESSMENT

OPM has been reporting annual improper payments for Retirement and FEHBP from the inception of IPIA. Therefore, no risk assessment is required under IPERA or the guidance for these programs.

OMB Circular A-123, Appendix C, requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to significant change in legislation or funding level. OPM conducted five risk assessments in FY 2015 for the following programs: Payroll, Travel Card program, Vendor Payment Process, Federal Employee Group Life Insurance (FEGLI), and Background Investigations (BI). OPM identified Background Investigations as a high risk program which should be assessed annually. The FEGLI program qualifies to continue on a three-year assessment period in compliance IPERA. As a result of the risk assessments, Payroll, the Travel Card program and the Vendor Payment Process were not identified as programs susceptible to improper payments.

II. STATISTICAL SAMPLING AND OTHER METHODOLOGY

RETIREMENT PROGRAM

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

The improper payment rate for retirement payments combines both underpayments (monies that OPM owes to the annuitant) and overpayments (monies that OPM has paid out to the annuitant erroneously or in excess of entitlement). Improper retirement payments are calculated by dividing the underpayments (determined by statistical sampling) and the overpayments (the actual value) by total outlays. Overpayments for the fiscal year are reported by OPM's OCFO using the actual overpayments determined by RS throughout the year. For underpayments, OPM uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases under the two retirement systems to determine the value. The full process for measuring and calculating the improper payment rate is detailed in the OCFO Work Instruction on *Reporting Improper Payments for the Agency Financial Report* dated September 23, 2015.

HEALTH BENEFITS PROGRAM

OPM uses the results of historical audits of OPM's premium payments and CRCs claims payments as well as the expenses paid on behalf of the Program by ERCs to estimate FEHBP improper payments. One hundred percent of FEHBP premium payments are subject to audit which exceeds the sample size required by OMB in Appendix C to OMB Circular No. A-123. These samples are generally judgmental, not random, targeting areas most likely to contain improper payments. The sample also includes plans which have not been audited recently as well as those plans and processes requested by agency management and contracting officers.

OPM's Healthcare and Insurance (HI) organization assesses OIG audit reports, comments and clarifications from the FEHB plans, the

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

An FEHB plan's response to an adverse monetary audit finding may indicate their agreement or disagreement with the finding. A plan's agreement with a finding does not necessarily mean that monies will be fully recovered. Plans are contractually required to exercise due diligence in recovering overpayments, and to provide reports on their progress toward remediating audit findings. Factors contributing to timely, successful closure of an audit recommendation include: the age of an overpayment when audited, whether due diligence was demonstrated by the plan, and the ambiguity or interpretation of contract provisions and other subsidiary laws or agreements in place. For example, a plan may agree that an overpayment was made, but after exhausting its recovery efforts declare it to be uncollectible. A plan may also contest the audit's findings by documenting its position with sound evidence or by asserting differences in the interpretation of contract language. Generally, most findings the plan agrees with result in full or partial recoveries. FEHB improper payments also includes recoveries from OIG's investigations of reported fraud and abuse. This category of improper payments is subject to wide fluctuations based on factors including the number, size, age, and timing of legal proceedings and settlements. More information pertaining to measuring and calculating HI improper payment rate can be found in the OCFO Work Instruction *Reporting Improper Payments for the Agency Financial Report* dated September 30, 2015.

III. IMPROPER PAYMENT REPORTING

OPM improper payments for FYs 2014 - 2015 and its targets for 2016 - 2018 are reported in Table 12.

RETIREMENT PROGRAM

Overpayments represented 79 percent of total improper payments in the Retirement Program during FY 2015. As a percentage of total outlays, the overpayment rate was .30 percent. Although OPM's overall improper payments rate for the Retirement program continues to be very low considering its size and complexity (.38 percent in FY 2015, based on Table 12), RS will continue working towards reducing improper payments in FY 2016 and beyond.

HEALTH BENEFITS PROGRAM

The FEHBP improper payments increased to $68.4 million in FY 2015. This year's overpayments were divided evenly between audit finding and fraud recoveries. FEHB's improper payment amounts are subject to substantial fluctuation from one year to the next. Audit findings and investigative recoveries reported in any given year typically represent an audit scope or investigative activity that may span several years, but are reported in the year in which the final audit report is issued, settled or recovered (investigative).

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

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

TABLE 12 - Improper Payment Reduction Outlook

Improper Payment Reduction Outlook ($ in millions)																		12 month Sampling Timeframe for FY 2015 data	
Program or Activity	FY 2014 Outlays	FY 2014 IP %	FY 2014 IP $	FY 2015 Outlays	FY 2015 IP %	FY 2015 IP $	FY 2015 Over-payment $	FY 2015 Under-payment $	FY 2016 Est. Outlays	FY 2016 Est. IP %	FY 2016 Est. IP $	FY 2017 Est. Outlays	FY 2017 Est. IP %	FY 2017 Est. IP $	FY 2018 Est. Outlays	FY 2018 Est. IP %	FY 2018 Est. IP $	Month and Year start date for data	Month and Year end date for data
Total Program Retirement	$78,816.40	0.38	$303.30	$81,067.70	0.38	$304.20	$240.30	$63.90	$83,383.30	0.37	$308.50	$85,765.10	0.36	$308.80	$88,214.80	$0.35	$308.80	October 2014	September 2015
FEHB - ALL carriers	$45,839.50	0.23	$104.80	$48,099.11	0.14	$68.43	$68.43	$-	$49,253.49	0.26	$127.20	$50,435.57	0.25	$127.20	$51,646.03	$0.25	$127.20		
CRC s Total	$6,379.20	0.11	$6.90	$6,283.30	0.81	$50.66	$50.66	$-	$7,388.02	0.67	$49.70	$7,565.34	0.66	$49.70	$7,746.90	$0.64	$49.70		
ERCs Total	$39,460.30	0.25	$97.80	$41,815.81	0.04	$17.77	$17.76	$-	$41,865.47	0.19	$77.50	$42,870.24	0.18	$77.50	$43,899.12	$0.18	$77.50		

Notes:

Totals in this table may not add due to rounding.

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

The FEHBP outyear projections for improper payments are based on audit findings, and investigative recoveries with contributing factors including the number, size, age, and timing of legal proceedings and settlements estimates. These activities may span across several years, but are reported as improper payments in the year the audit report is issued, or investigative case are settled, creating wide fluctuations in reported improper payments from year-to-year. Therefore, the outyear projections are based on reasonable historical averages.

CRCs and ERCs Totals are the sum of the FEHB ALL carriers amounts.

IV. IMPROPER PAYMENT ROOT CAUSE CATEGORIES

TABLE 13 - Improper Payment Root Cause Category Matrix ($ in millions)

Reason for Improper Payment		Retirement Services[1]		Federal Health Benefits		
		Overpay-ments	Under-payments	Overpay-ments	Under-payments	
Program Design or Structural Issue		-	-	-	-	1
Inability to Authenticate Eligibility		-	-	-	-	2
Failure to Verify:	Death Data	-	-	-	-	3
	Financial Data	-	-	-	-	4
	Excluded Party Data	-	-	-	-	5
	Prisoner Data	-	-	-	-	6
	Other Eligibility Data (explain)	-	-	-	-	7
Administrative or Process Error Made by:	Federal Agency	240.3	63.9	-	-	8
	State or Local Agency		-	-	-	9
	Other Party (e.g., participating lender, healthcare provider, or any other organization administering Federal dollars)	-	-	63.6	0.0	10
Medical Necessity		-	-	-	-	11
Insufficient Documentation to Determine		-		-		12
Other Reason (a) (explain) - Investigative (FWA) Recoveries		-	-	4.8	0.0	13
Other Reason (b) (explain)		-	-	-	-	13
TOTAL		**240.3**	**63.9**	**68.4**	**0.0**	
		A	B	A	B	

[1] Agency is developing a plan in FY 2016 to potentially use the adjudication review process to determine error type.

V. CORRECTIVE ACTIONS

RETIREMENT PROGRAM

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

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

1. Delayed Reporting

ISSUE

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

CORRECTIVE ACTIONS

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

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

SSA Death Master File (DMF)
OPM conducts yearly data matches between our annuity roll and the SSA DMF. These matches compare annuitant identifiers with current SSA death records. These matches supplement the weekly Consolidated Death Matches (CDM) and help identify reported deaths that might be missed in the CDMs due to timing differences.

Marital Survey
OPM conducts the marital survey annually to determine if surviving spouse is still eligible for benefits. The survey determines whether the surviving spouse remarried prior to age 55. The survivor annuity is terminated if the surviving spouse or former spouse was married to the employee for less than 30 years and remarries before age 55.

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

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

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

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

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

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

RS communicates with annuitants through various media, such as the annual annuity mailer, the benefits booklet, the Retirement Information Center portion of OPM's website, and Twitter. Topics in FY 2015 included tips on the availability of Services Online (the web portal for annuitants), safeguarding your annuity from fraudulent activity information on annual surveys, and life events for which annuitants may need to contact OPM.

Proof of Life
OPM has previously undertaken initiatives with the Department of State and the SSA to reduce improper payments made to annuitants who live overseas and whose deaths are not reported timely. Examples of actions OPM took to confirm that overseas annuitants were still eligible to receive benefits included hosting verification fairs and utilizing U.S. Embassy and Consulate staff to visit the homes of annuitants who did not attend the fair. OPM's verification efforts include direct deposit enrollment information for which annuitants are highly encouraged to enroll. The banking agreements for these payments make the banks responsible for reporting known deaths.

At this point RS has visited all of the countries where we believe a high potential of fraud existed. We have instituted procedures with the U.S. Embassies and the SSA Foreign Benefits Units (FBU) that have helped to identify the deaths and current status of our elderly populations. No further action was done in FY 2015.

Over 90 Project
OPM periodically investigates the status of retirees and survivors over the age of 90 to ensure their monthly annuity benefits are accurate and to identify unreported deaths. OPM initially conducted an "Over 90 Project" in October 2010 in response to the OIG recommendation that (in part) stated, "OPM perform a periodic analysis of all annuitants/survivors on the active annuity roll who are 90 years of age and older to validate whether they are alive or dead…." No further action was done in FY 2015.

UPDATE

The Retirement & Eligibility Service's mission is to protect the integrity of the annuity roll by conducting surveys and matches that allow OPM to discover and terminate improper payments. The Retirement Inspections Branch's Disability Earnings Match identified and documented $758,812 in overpayments. Annuity benefits were terminated based on earned income information from SSA. The Retirement Surveys and Students Branch's Disability Earnings Survey identified and documented $328,218.00 in cost savings. Regulations governing the Disability Earnings Survey require OPM to terminate disability benefits effective June 30th, each year. Because benefits are terminated timely, the Disability Earnings Survey does not report overpayments. The statistical data represents FY 2015.

The Consolidated Death Match identified and documented $62,214,026 in overpayments and the Death Master File identified and documented $29,642 in overpayments based on death reporting data from SSA. The statistical data represents FY 2015.

The Marital Certification Survey identified and documented $291,052 in overpayments due to remarriage of the survivor annuitant prior to age 55. The statistical data represents FY 2015.

2. Prohibited Dual Benefit Payments

ISSUE

Unauthorized dual benefits payments are those benefits for which an employee may qualify for one or the other but not both at once or in full. An example of the potential for unauthorized dual benefit payments occurs when individuals apply for FERS disability while applying for SSA disability benefits. Federal Law prohibits payment of full, unreduced FERS disability annuity benefits and SSA disability benefits for the same period of time. Since FERS disability annuity benefits are sometimes approved years before the SSA determines an award, FERS annuitants can receive full, unreduced monthly annuities before SSA approves disability benefits. As a result, the annuitant will often owe OPM the cumulative amount of the SSA benefit that should have been withheld from the FERS annuity. FERS annuitants are informed at time of final adjudication of their FERS annuity of their obligation to repay the debt to the government if they are later approved for SSA disability benefits. OPM recovers overpayments through installment deductions from recurring annuities (on-roll collections), or, in certain cases, such as very small recurring FERS annuities, OPM must seek direct payments from debtors through off-roll collection processes.

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

CORRECTIVE ACTIONS

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

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

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

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

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

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

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

3. Errors or Omissions by OPM employees, Employing Agency, or Applicant

ISSUE

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

CORRECTIVE ACTION

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.

Audits

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

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

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

UPDATE

In FY 2015, 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 (CHCOs) is fundamental to improving the accuracy and completeness of incoming claims. The agency accuracy rate for retirement application submissions for FY 2015 (October 1, 2014-August 31, 2015) was 87.5 percent.

The current combined weighted average for CSRS and FERS annuity and survivor claims from October 1, 2014 through July 31, 2015 was 94 percent.

4. Fraud

ISSUE

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

CORRECTIVE ACTIONS

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

UPDATE

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

In addition, OPM emphasizes electronic funds transfer (EFT) for its annuitants. The enrollment rate increased slightly in FY 2015 (through June 30) from 99.1 percent in FY 2014 to 99.3 percent in FY 2015. OPM continues to work to increase the percentage of annuitants who receive their annuity payments through EFT. This helps OPM monitor accounts, recover payments from deceased annuitants, and prevent fraud.

Other Sources for Identifying and Correcting Improper Payments

Data Mining

RS established the Data Mining Working Group (DMWG) in November 2012 to identify areas in the retirement program where fraud, errors, or delays in reporting could result in RS making improper payments. The goal of the DMWG was to establish a set of regular reviews and comparisons of data sets to identify when a high likelihood of potential fraud, errors, or delays in reporting may exist. The group was comprised of subject matter experts from various operational and staff offices within and outside of RS.

RS established the DMWG in response to an OIG recommendation, *Establish a Working Group to Improve Program Integrity* within the OIG report entitled *Stopping Improper Payments to Deceased Annuitants*.

UPDATE

The DMWG previously came to closure on its discussions on data mining and released its recommendations to senior RS management. In FY 2015 senior management revisited these recommendations and while applauding the out-of-box thinking by our employees, virtually all of these were beyond the scope of the organization or not applicable to the annuitants we serve. We have disbanded the DMWG but have initiated a monthly meeting of RS senior managers to discuss current improper payment activities and means to capture the results.

Returned 1099Rs

- OPM reviewed approximately 30,000 2014 tax year 1099R's. The 1099R's were returned and classified into groups based on status. OPM has been able to ascertain that since the 1099R's were prepared and mailed some annuitants have died therefore these cases have been suspended for verification.
- Approximately 17,000 1099R's need further investigation to determine whether the customer has moved or conceivably died. OPM has not been notified.
- An OCR scanner and software is utilized to transfer data into a file/report output. This process was completed.
- October 2015, RS will be submitting the output to Lexis Nexis to obtain the current

address or possible date of death information. The end of the year spending freeze has caused a short term delay but RS is committed and will resume obtaining the information once the freeze is lifted.

- Next steps are:
  - to submit the output to Lexis Nexis to obtain the current address, or possible date of death information.
  - if OPM receives a date of death, we will suspend the case and attempt to confirm the death.
  - if OPM receives a new address, OPM will verify the new address and update customer records.

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

- Designed and implemented a report that identifies the annuity payments for which Treasury did not perform a collection via the reclamation process.
- Implemented a new letter to request last withdrawer or joint account holder information from the financial institution.
- Met with Treasury to discuss needed actions and timeframes to receive collection information for payments that were recovered through the reclamation process.

HEALTH BENEFITS PROGRAM

OPM recognizes several categories of improper payments across the FEHBP. FEHBP improper payments are generally administrative in nature. Addressing administrative improper payment's requires a multi-pronged approach. Additionally, OPM has updated and consolidating its Fraud, Waste, and Abuse (FWA) guidance to improve Carriers' efforts to prevent, detect, investigate, and report FEHBP-related fraud, waste, and abuse.

The Carrier Letter was released in the first quarter of FY 2015 which consolidated definitions, required mandatory information sharing, and required a certified annual FWA report. Based on an initial review of carriers' transition-year reporting against the new guidance, OPM has identified some areas requiring further clarification and is working with Plans and the OIG to clarify this guidance.

1. Defective pricing by community-rated health maintenance organizations (HMOs) (administrative and documentation error)

ISSUE

Community-rated carriers develop a premium price that does not ensure that the FEHBP is receiving "market price".

CORRECTIVE ACTIONS

FEHBP has incorporated the Medical Loss Ratio (MLR) for most HMOs to ensure that OPM is receiving the market rate, in conjunction with reviewing for compliance with community methodology. The MLR requires plans to pay at least 85 percent of premium dollars for medical claims and activities that improve the quality of health care or provide a rebate. FEHBP believes this approach may significantly reduce defective pricing issues. Previously (and for HMO audits encompassing 2012 and before), market price comparisons were performed based on when the premiums were negotiated and accepted. However, a FEHBP market price is not confirmed until a rate reconciliation review or full scope audit is performed, including an analysis of the rates paid by other employer groups (e.g. Similarly Sized Subscriber Groups).

2. Enrollment reconciliation between HMO carriers and participating agencies (administrative and documentation error).

ISSUE

Carriers are not timely notified of enrollment changes and therefore unnecessarily incur capitation charges yet are not receiving premium for terminated enrollments.

CORRECTIVE ACTIONS

The Centralized Enrollment Clearinghouse System (CLER) was created to facilitate reconciliation between the carriers' and the agencies' enrollment records. CLER has significantly reduced erroneous payments associated with enrollment discrepancies from fifteen percent to less than 1.5 percent.

In FY 2015, CLER was upgraded, further improving enrollment reconciliation by providing enrollment status for each employee, instead of aggregate enrollment data by payroll provider. This will facilitate carriers' ability to reconcile the premiums they receive which should reduce the number of enrollment discrepancies. Additionally, the upgrade will provide the capability to capture enrollment data on a per-pay-period basis which will provide a more real-time picture of enrollment and premium information. The results from this upgrade are still being evaluated and will be included in the next update of the FEHBP IP Plan. OPM is working with the carriers to help them better utilize CLER's new functionality.

3. Experience-rated carriers' benefit coordination with Medicare (administrative and documentation error)

ISSUE

Premium rates are negatively impacted when a carrier does not properly coordinate enrollee Medicare benefits, resulting in the FEHBP paying claims which Medicare should have paid as the primary payor.

CORRECTIVE ACTIONS

Enhanced carrier efforts along with robust contract oversight and coordination with OIG have combined to close some longstanding procedural audits and have reduced the negative impact on premium rates. The HI contracting officer and audit resolution (AR) have expanded resources and worked very closely with Blue Cross and Blue Shield and other ERCs to improve the timeliness, quality and responsiveness of submissions for review. Corrective action plans have been updated to address trends in OIG findings, which we expect will reduce audit findings in future engagements.

Plans have incorporated a variety of efforts aimed at strengthening internal controls through the identification, prevention, reduction and recovery of improper payments in claims processing in general, and coordination of benefits (COB) in particular. These efforts include system edits to reject claims or defer them for manual review; 100-percent review at certain claim thresholds; quality assurance training and testing; overpayment prevention; identification and collection protocols; and causal analysis of overpayment trends.

4. Effectiveness of experience-rated carrier claims processing, financial and cost accounting systems (administrative and documentation error)

ISSUE

Duplicate claim payments and incorrect pricing of benefit claims for payment negatively impacts premium rates.

CORRECTIVE ACTIONS

Carriers have initiated a variety of efforts to strengthen internal controls across the identification, prevention and recovery of improper payments. The OIG continuously conducts audits on both a plan-specific and "global" basis. Plan specific audits cover a broad scope of the plan's operations (e.g. administrative charges, cash management, fraud and abuse, claims, etc.) while global audits examine one type of finding across all plans in a related network. Plan efforts include activities such as the monitoring of routine and ad hoc reports, retroactive enrollment reports (includes Medicare COB) root cause analysis of all errors on a pre- and post payment basis, internal audit and random reviews, system scans, automatic offsets of future benefit payments where unrecouped overpayments exist and documentation maintenance to support plan actions.

VI. INTERNAL CONTROL OVER PAYMENTS

PIC utilized the Internal Control Standards below to assess the effectiveness of RS and FEHB programs' internal control framework. It was determined in the assessment that RS and FEHB programs foster an atmosphere in which the identification, reduction and recovery of improper payments is a priority for each Program. The programs have developed risk assessments which identify, evaluate, and estimate the levels of risks involved in payments. Also each program has oversight mechanisms to carry out its commitment in reducing and preventing improper payments. OPM has an Improper Payment Working Group that meets regularly to discuss and coordinate major improper payment issues and tasks. PIC concluded that internal controls are in place to prevent improper payments but found some room for improvement. Table 14 includes PIC determinations of RS and FEHB status of internal controls.

TABLE 14 - Status of Internal Controls

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

Legend:

4 = Sufficient controls are in place to prevent IPs

3 = Controls are in place to prevent IPs but there is room for improvement

2 = Minimal controls are in place to prevent IPs

1 = Controls are not in place to prevent IPs

VII. ACCOUNTABILITY

OPM developed and updated its overall improper payments plan as noted earlier. This plan included specific measurable goals for reducing the improper payments rate for the Retirement program and FEHBP and for recovering increasing percentages of improper payments to deceased annuitants. Inclusion of measurable goals has increased accountability within OPM. At the beginning of FY 2015, OPM assessed its performance against these goals and developed any appropriate new goals for FY 2015 and beyond, as appropriate. OPM notes that its improper payment rates for Retirement and FEHB are well below the OMB threshold of 1.5 percent and recoveries are also high. Therefore, it is difficult to implement ever-increasing cost-effective measures to continuously reduce improper payments or to increase recoveries significantly while maintaining cost-efficiency.

RETIREMENT PROGRAM

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

HEALTH BENEFITS PROGRAM

HI contracting officers and management are fully dedicated to the effective administration and oversight of the FEHBP, including accountability for improper payments. Both Standard and Information Systems timelines have been developed to expedite and facilitate the audit resolution process. Managers' performance standards reflect resolution timeliness, which focused on increased participation by contracting staff in their oversight responsibilities through continuous involvement across the entire audit and resolution process. They also require Plans to work more closely with the OIG during the draft audit phase to identify and resolve potential findings before the report is final. HI management leverages the use of incentive-based service charge agreements, penalty clauses and QA Surveillance Plans. These tools tie plan profits to performance and enable contracting officers (COs) to incentivize or penalize performance. This is being expanded with the implementation of the Plan Performance Assessment initiative, FEHBP takes accountability for improper payments earnestly, and COs discretion is a key aspect of HI's oversight of the FEHBP Improper payments are one of several factors considered. Collaborating with all stakeholders, including OIG, CO's must consider many technical, cost, and performance issues when resolving audit findings and making decisions on the allowability of monetary recommendations, including the closure of audit recommendations. The CO weighs not only the nature and severity of audit findings, but also costs to the program and reasonable timeframes for remediation. Furthermore, the size and reach of a benefit plan and the possible impact of a(n) audit finding on participants, some of whom reside in areas underrepresented by health care providers and options, must be weighed as well. In this context service availability and pragmatic considerations, may prove pivotal in a CO's decision regarding full or partial recovery of improper payments.

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

CHIEF FINANCIAL OFFICER

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

VIII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

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

IX. BARRIERS

RETIREMENT PROGRAM

RS continues to experience systemic improper payments when a FERS disability annuitant is awarded Social Security Disability Insurance benefits.

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 information. Frequently, OPM begins payment of a FERS disability before SSA completes processing of the SSA disability claim. In the absence of a decision on the SSA disability claim, OPM commences payment of the FERS disability without any reduction for SSA disability. The SSA disability award is paid retroactively in a lump-sum. As a result, OPM must re-compute the FERS disability annuity retroactively to apply the reduction for the retroactive SSA disability lump-sum award. RS is required to notify the annuitant of the overpayment and provide due process. These overpayments are sometimes uncollectible by OPM because some debtors are simply financially incapable of repaying OPM. As such, OPM must terminate collection in accordance with the provisions of Title 5 and Title 31, United States Code.

SSA Retroactive Awards

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

Overpayment Recovery

Currently, after due process, OPM recovers overpayments through installment deductions directly from annuities (on-roll collections), or, in certain cases, such as very small recurring annuities, OPM must seek direct payments from debtors through its "off-roll" collection processes. Although the FERS disability annuitants are notified of their obligation to repay a FERS overpayment debt to the government, some debtors are simply financially incapable of repaying OPM, And debt must be written off in accordance with Title 5 and Title 31, United States Code.

HEALTH BENEFITS PROGRAM

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

Since the OIG's audit agenda encompasses a core of large plans, supplemented by rotational audits of different carriers from year to year, amounts questioned can be significantly influenced by different types of audits, an audit's scope, the sampling methodology (e.g. the use of actual versus projected findings), and improper payments that are determined (e.g., receivable is set up) but later successfully contested by Plans.

OIG Investigative recoveries due to fraud also vary widely from year to year based on the number of cases opened, FEHB impact, successful prosecution, settlement terms and recovery. These variables challenge our ability to project linear improper payment amounts and targets and can result in obscuring or magnifying the effects of corrective actions.

X. RECAPTURE OF IMPROPER PAYMENT REPORTING

OPM has generally determined that it is not cost-effective to hire payment recovery auditors for either of its reported programs. Nevertheless, OPM has extensive internal recapture efforts for the Retirement program and FEHBP.

TABLE 15 - Improper Payment Recaptures with and without Audit Programs ($ in millions)

Program or Activity	Overpayments Recaptured through Payment Recapture Audits[1]																											Over-payments Recaptured outside of Payment Recapture Audits	
	Contracts					Grants					Benefits					Loans					Other					Total			
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Retirement Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	227.1	211.9
Federal Health Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68.4	35.0
TOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	295.5	246.9

[1] February 2011, OPM notified OMB that it was not cost-effective to conduct a payment recapture audit; therefore, OPM would be excluded from a payment recapture audit program. OPM firmly believes that the current benefit payment recapture processes are efficient and effective, make strategic use of highly skilled personnel, and remain the most cost-effective means for erroneous benefit payment recapture.

RETIREMENT PROGRAM

As a benefits paying agency, OPM has the ability to recover overpayments from the recurring annuity payments it makes to its debtors if OPM determines that the debtor has the ability to pay the debt. OPM refers to these recoveries as "on-roll" collections. If a debtor is not on the annuity roll or the debtor's entitlement to annuity from OPM is insufficient to recover the debt on a reasonable recovery schedule, OPM sets up an off-roll recovery.

OPM collects from on-roll debtors by withholding a portion of their monthly benefits until their entire debt is collected. Consequently, OPM has a very high degree of success in collecting debts owed by on-roll individuals. When the person is not currently receiving benefits (or off-roll), collection is more difficult and costly. In such cases, OPM uses an in-house billing, collecting, and follow-up system to collect amounts owed.

Standard Recapture

OPM works on reclamations with the Treasury and the financial institutions. RS sends a request for reclamation to Treasury. The request must arrive at the financial institution no more than 120 days after the death is discovered and the death notification entry is sent. The financial institution returns available funds. If only part of the funds remain at the financial institution, the financial institution returns the partial funds to Treasury and provides the name and address to OPM to contact the last withdrawer of the funds. When the account does not contain any funds OPM sends a letter to the last withdrawer requesting payment of the full amount within 45 days. If no funds are returned, the off-roll collection is certified. If the financial institution does not return timely information (within 60 days), Treasury debits the account of the financial institution or its correspondent bank at the Federal Reserve Bank and returns the funds to OPM. The financial institution can protest to Treasury if the reclamation request was sent by OPM more than 120 days after learning of the death. When Treasury determines OPM sent the request more than 120 days after learning of the death, the money goes back to the financial institution, if it has already been reclaimed. If Treasury determines that OPM sent the request within 120 days, the recapture process continues.

OIG Referrals

Recapture cases with large balances occur from time to time due to substantial delays in reporting the death of an annuitant and due to untimely entry into the automated clearing house (ACH). On accounts with large balances due, letters are mailed to the last withdrawer, joint account holder or the estate and the financial institution to collect the balances. If evidence supports a fraud determination, the cases are forwarded to the OIG.

In addition, cases are referred to the OIG whenever there may be a significant improper payment and recovery seems unlikely through the normal recapture process. This occurs when an annuitant's death is discovered by OPM instead of it being timely reported by someone with knowledge of the annuitant's death. Evidence and documentation is sent to the OIG for investigative referral. The OIG routinely accepts all fraud referrals from agency program offices and provides a decision on whether or not to further investigate.

HEALTH BENEFITS PROGRAM

The OIG, under the amended Inspector General Act of 1978, administers audits in partnership with the FEHBP. An audit resolution function validates audit findings and, in concert with the Contracting Officer (CO), determines whether questionable charges are allowable under FEHBP regulations. To comply further with the policy, OPM's OIG continually reviews the agency's cost effective financial and programmatic controls to identify contractor overpayments. These effective internal controls prevent, detect, and recover overpayments to contractors. All contracts negotiated by OPM are subject to audit and are included in the audit universe with comprehensive audits of the FEHBP carriers conducted to ensure compliance with contract provisions, provide program oversight, and minimize fraud, waste, and abuse. The costs for this program include salary, administrative, and other expenses spread across several organizations. As part of OPM's day-to-day program administration, corrective action plans are developed and implemented based upon the nature of the audit payment error identified. Corrective action plans are reviewed annually.

A payment recapture audit identifies contractor overpayments by examining agency information supporting payments. The OIG audits of the FEHBP typically rely on judgmental, not random, sampling, which provides a reasonable estimate of improper payments because carriers selected tend to have more payments that are improper. Improper Payment recovery criteria are in the contracts with each of the carriers. In general, improper payments must be identifiable and quantified, to include complete, timely and diligent notification, recovery, offset and reporting information, as appropriate. OPM staff reviews supporting documentation to ensure contract compliance.

Since the terms and conditions of all OPM's contracts with HI carriers provide for adjustments to determined amounts (improper payments), which may subsequently be reversed based on the Contracting Office's evaluation of plan support for Contested and Uncollectible Questioned Costs, OPM has excluded them from the requirement for recovery audits. Additionally, OPM does not pay a fee to OIG based on recoveries. This process overall has proven highly effective in detecting and recovering improper payments for the FEHBP.

OPM's ability to successfully recover questioned amounts in CRC audits often depends on the finding itself. For example, if the plan can not provide adequate support for its position in response to a questioned amount, our ability to recover the full questioned amount is understandably greater than if a finding is contested based on circumstances or documentation that was not evaluated during the audit. The FEHBP recovery process involves careful review and understanding of the audit finding and criteria, and working with the plan, Office of the Actuary, and Office of the General Counsel. If we can not secure payment we have the option to proceed to Final Decision, which is our intention to pursue reimbursement through legal action.

Recovery of ERC overpayments is largely done at the plan level, with plans recovering overpayments from providers and participants directly. Plan-collected overpayment recoveries are returned to the FEHBP fund via adjustments to the Letter of Credit. Our contracts with ERC's contain provisions that outline how OPM expects carriers to show due diligence in recovery efforts. If a plan has documented that its recovery efforts have been exhausted, OPM may allow all or a portion of the remaining balance, or may settle with the plan. In general, recovery of overpayments to ERCs has improved in recent years, with plans recovering a higher percentage of overpayments and audit findings being resolved and closed more timely.

XI. ADDITIONAL COMMENTS

We have no additional comments.

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE[1]

In FY 2015, OPM was unable to use the DNP Portal for the RS and FEHB due to technical issues. RS did not receive access to the DNP Portal until after the Treasury PAM implementation in April 2015 and was also interrupted due to the OPM's recent data security breach. Furthermore, due to the challenges of OPM's legacy payment files RS uses an alternative method for reporting DNP data.

RETIREMENT PROGRAM

OPM's Annuity Roll is checked weekly by RS against the Social Security death record and annually against the full DMF received from SSA to identify deceased annuitants. RS is also informed of deaths or potential disability fraud from outside individuals (e.g. family, friends, co-workers) and investigates these reports using online public databases such as LexisNexis and also by requesting medical records. Additionally, OPM's OIG uses a variety of approaches to identify potential cases for further investigation, including proactive reviews of on-line records to verify annuitant pay. RS routinely refers potential cases to OIG for further review and the two offices work collaboratively to address program vulnerabilities.

The following table represents statistics from the CDM and the DMF. The DNP list includes a version of the SSA DMF that is updated twice monthly. As with the DMF that OPM checks against annually, this list does not include all of SSA's available data. OPM already performs a weekly check of its annuity roll against all of SSA's data through the CDM. The weekly verifications conducted by OPM provide a more thorough review than is available currently with DNP.

While closing out our FY 2015 reporting, RS revisited prior agency-wide Do Not Pay (DNP) plans. These documents stated OPM is committed to using the DNP Portal to improve improper payments performance as part of pre-award, pre-payment and post-payment processes, as appropriate. While other programs can leverage some of the DNP tools for pre-award and pre-payments, RS is limited to post-payments since simply being on the DNP list does not disqualify an annuitant from being paid. Since RS has had limited access to the DNP Portal, our program has not had sufficient time to complete proper analysis on how we can best use the DNP tools. This was due to several factors; the biggest being RS did not receive access to the DNP Portal until after the Treasury PAM implementation in April 2015. Our access was also interrupted due to the OPM's recent data breach.

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1 In the FY 2014 AFR, the number of "all databases" payments reviewed for improper payment were overstated by 4, therefore overstating the improper payment amount by $13,558. As a result of using DNP data with an incorrect start period, the number of payments associated with "Reviews with the DMF only" were overstated by 3 totaling $8,490.

RS continues to strive to reduce improper payments and is working to explore the best use of the DNP portal. Since RS has an agreement with SSA, we already have access to the DMF in addition to the weekly CDM update. RS uses both these files regularly as part of our ongoing work to identify improper payments. Subsequently RS is authorized to have access to the larger Death Master file, which is more comprehensive than the smaller file Treasury loads to the DNP Portal; therefore RS find the value in DNP portal minimal at this time. However, RS will explore options and applications as we gain exposure.

TABLE 16 - FY 2015 Death Match Statistics

Type	Performed	Total Pop.[1]	Totals Hits[2]	Total Cases Overpaid	Overpayments Identified	% of Total Pop. as stated by hits[6]
CDM[3]	Weekly	3,111,003	47,979	10,398	$62,214,026	1.54%
DMF[4]	Yearly	103,485,428	223	2	$29,642	0.000215%

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. OPM was able to stop disbursements of 37,581 future payments for deceased annuitants based on the CDMs (total hits minus cases with overpayments).

[4] Death Master File is run on a yearly basis. Yearly Death Matches are conducted June – November; therefore, all results shown represent the Sept 30th totals. OPM was able to stop disbursement of 221 future payments for deceased annuitants based on DMF (total hits minus cases with overpayments).

[5] Statistical data represents October 1, 2014 – September 30, 2015

[6] In the FY 2014 AFR, OPM erroneously reported the CDM percentage of total population as stated by hits as 15.4 percent, the actual percentage was 1.54 percent.

HEALTH BENEFITS PROGRAM

Under the FEHBP, OPM contracts with carriers to provide health insurance benefits to eligible Federal employees, retirees, employees of federally recognized Indian tribes, tribal organizations, urban Indian organizations, and their eligible family members. OPM collects healthcare premiums and makes regular payments to carriers (community-rated) or holds the funds for carriers to draw from (experience-rated). OPM does not make direct payments to healthcare providers or reimbursements to individuals for healthcare expenses; these payments are made by the carriers. Because of this payment structure, OPM identified one of the DNP databases, the List of Excluded Individuals/Entities (LEIE), as a suitable verification for the application process for new health carriers.

The LEIE database has been used by HI as a pre-award check for carriers applying to contract with the FEHBP. Applications from carriers are due January 31 of the year prior to the start of the benefits period. As part of OPM's evaluation of the applications, the carriers' information is searched in the DNP online search portal. This search is typically performed in February, for all new carriers applying to the FEHBP. Due to technical issues that OPM was unable to resolve within the required timeframe for this verification, the LEIE database was not used in FY 2015 to search its three new plans. All three plans were reviewed by the CFO to ensure financial stability and, based on that review and other acceptance criteria, each was allowed to participate in the FEHB.

OPM believes that if FEHBP carriers were able to directly access the DNP data bases, they might be able to identify additional improper or questionable payments by searching payments made directly to providers or individuals who have received payments, with whom HI does not have a direct payment relationship.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

OPM is required to comply with other legal and regulatory financial requirements, such as the Debt Collection Improvement Act (DCIA) of 1996.

COMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT (DCIA)

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the DCIA of 1996, P.L. 104-134. The purpose of the DCIA was to strengthen overall controls over collections due to the Government from private parties, including Federal employees. The DCIA has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 17 summarizes OPM's debt management activity for September 2015 and 2014. 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).

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 $10.9 million via BFS cross servicing.

TABLE 17 - Debt Management Activity

Retirement Program ($ in Millions)		
Receivables Activity	**September 2015**	**September 2014**
Total receivables at beginning of year	$402.7	$360.1
New receivables and accruals	240.4	242.9
Less collections, adjustments, and amounts written-off	226.7	200.3
Total receivables at end of period	$416.4	$402.7
Total delinquent	$21.5	$17.4
Percent delinquent of total receivables	5.2%	4.3%
Health Benefits Program ($ in Millions)		
Receivables Activity	**September 2015**	**September 2014**
Total receivables at beginning of year	$36.1	$21.1
New receivables and accruals	68.9	115.7
Less collections, adjustments, and amounts written-off	34.9	100.7
Total receivables at end of period	$70.1	$36.1
Total delinquent	65.9	35.6
Percent delinquent of total receivables	94%	98.6%

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances for each that is 61 or more days old. Tables 18 and 19 compare OPM's percentages that are 61or more days old to Government-wide rates.

TABLE 18 - Travel Card Usage

($ in Thousands)	September 2015	September 2014
Outstanding Balance	$696.1	$594.2
Outstanding more than 61 days	$7.6	$1.2
% outstanding more than 61 days (OPM)	1.09%	0.24%
% outstanding more than 61 days (Government wide)	3.91%	4.50%

TABLE 19 - Purchase Cards

($ in Thousands)	September 2015	September 2014
Outstanding Balance	$238.4	$735.2
Outstanding more than 61 days	$0.0	$0.0
% outstanding more than 61 days (OPM)	0.00%	0.00%
% outstanding more than 61 days (Government wide)	0.19%	0.38%

As shown in the above charts, OPM's percentage of travel and purchase card outstanding balances that are outstanding 61 days or more, are less than the related Government-wide averages.

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 2014-02, the "Freeze the Footprint" policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline.

TABLE 20 - Annual Changes to Baseline

Year	OA	FRPP	Total	Annual Difference	Baseline Difference
2012	1,296,464	32,717	1,329,181	-	-
2013	1,292,784	26,265	1,319,049	-10,132	-10,132
2014	1,272,597	26,265	1,298,862	-20,187	-30,319
2015*	1,282,947	-	1,282,947	-15,915	-46,234

OPM terminated its direct leases effective December 31, 2014. The FY 2015 Operating Expense cost for the direct leases totaled $235,967.

In order to simultaneously comply with the Reduce the Footprint policy while continuing to effectively and efficiently 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 allocation standards for all of OPM's Field Office locations have been revised to reflect a smaller work area. We are implementing this in a phased approach, to occur during planned renovations or relocation to a new site for additional economy. Also, as renovations occur to OPM space nationwide, we are reviewing design options to improve utilization efficiencies. This will afford us greater flexibility with accommodating potential staffing increases, thus negating a requirement to acquire additional space, and will allow for additional reduction in space when feasible.
- **Co-location Opportunities.** To the greatest extent possible, OPM partners with the Department of Defense (DoD) to utilize available space for our Federal Investigative Services (FIS) division. Presently, we have agreements with DoD at 72 military installations whereby we occupy approximately 116,608 square feet of space. This is a mutually beneficial arrangement, as this is a significant amount of space that OPM does not acquire through commercial sources at a considerable cost, and DoD space utilization is further maximized. OPM will continue to explore co-location opportunities with DoD and other Federal Agencies prior to acquisition of new space.
- **Expansion of Telework and Workspace Sharing.** Whenever possible, we will continue to explore telework and workspace (i.e. hoteling) options in order to minimize OPM's footprint.

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
APR	Annual Performance Report
ARPS	Annuity Roll Processing System
ATO	Authority to Operate
BPD	Bureau of Public Debt
BFS	Bureau of the Fiscal Service
C&A	Certification and Accreditation
CBJ	Congressional Budget Justification
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CLEAR	Case Logging, Enforcement & Activity Reporting
CLIA	Congressional, Legislative, and Intergovernmental Affairs
CLCS	Center for Leadership Capacity Services
COLA	Cost of Living Adjustment factor

Acronym	Definition
COOP	Continuity of Operations Plan
COTS	Commercial Off-The-Shelf
CPL	Communications and Public Liaison
CRC	Community-Rated Carrier
CBIS	Consolidated Business Information System
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
CY	Calendar Year
DAD	Deputy Associate Director
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DoD	Department of Defense
DSS	Defense Security Service
EBS	Employee Benefits System
ECTS	Executive Correspondence Tracking System

Acronym	Definition
EHRI	Enterprise Human Resources Integration
eOPF	Electronic Official Personnel Folder
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
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FIS	Federal Investigative Services
FISMA	Federal Information Security Management Act

Acronym	Definition
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
FSC	Facilities, Security, & Contracting
FSM	Financial Systems Modernization
FTE	Full-time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
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

Acronym	Definition
HB	Health Benefits
HC	Human Capital
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
HDHP	High Deductible Health Plan
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRD	Human Resources Development
HR LOB	Human Resources Line of Business
HRS	Human Resources Solutions
HRSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IO	International Operations
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
ISPP	Information Security and Privacy Policy
IT	Information Technology

Acronym	Definition
IV&V	Independent Verification and Validation
LAIRS	Labor Agreement Information Retrieval System
LI	Life Insurance
MD&A	Management Discussion and Analysis
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MSP	MultiState Plan
MSPB	Merit Systems Protection Board
N/A	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OD	Office of the Director
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	U.S. Office of Management and Budget
O/P	Overpayment
OPM	U.S. Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PMF	Presidential Management Fellows

Acronym	Definition
POA&M	Plan of Action & Milestones
PRHB	Postretirement Health Benefits
PY	Prior Year
RBO	Reimbursable Business Operations
RF	Revolving Fund
RS	Retirement Services
RSM	Retirement Systems Modernization
SAOC	Spending Authority from Offset Collections
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SPFI	Summary of Performance and Financial Information
SSA	Social Security Administration
TBD	To Be Determined
TJF	Treasury Judgment Fund
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VA	Department of Veterans Affairs

"...Nobody cares how much you know until they know how much you care."

Theodore Roosevelt

U.S. Office of Personnel Management

Chief Financial Officer

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