MEMORANDUM FOR BETH F. COBERT
Acting Director

FROM: NORBERT E. VINT
Deputy Inspector General

SUBJECT: Audit of the Office of Personnel Management’s Fiscal Year 2016 Closing Package Financial Statements

This memorandum transmits Grant Thornton LLP’s (Grant Thornton) report on the Office of Personnel Management’s (OPM) Fiscal Year 2016 Closing Package 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 Closing Package Financial Statement Reports include the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2016, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended, and the related notes to the financial statements (hereinafter referred to as the closing package financial statements). The notes to the financial statements comprise the following:

- the GTAS Closing Package Lines Loaded Report,
- the accompanying Additional Note No. 28.

These closing package financial statements link the agency’s audited consolidated financial statements to the Financial Report of the United States Government.

We contracted with the independent certified public accounting firm Grant Thornton to audit OPM’s closing package financial statements as of September 30, 2016. The contract requires that the audit be done in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 15-02, Audit Requirements for Federal Financial Statements.
Grant Thornton reported that OPM’s closing package financial statements present fairly, in all material respects, the financial position of OPM as of September 30, 2016, and its net cost and changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton noted no matters involving the internal control over the financial process for the closing package financial statements that are considered a material weakness or significant deficiency. Grant Thornton disclosed no instances of noncompliance or other matters that are required to be reported.

The objective of Grant Thornton’s audit of the closing package financial statements did not include expressing an opinion on internal controls or compliance with laws and regulations, and Grant Thornton, accordingly, does not express such opinions.

**OIG Evaluation of Grant Thornton’s Audit Performance**

In connection with the audit contract, we reviewed Grant Thornton’s report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the Chief Financial Officers Act for ensuring the quality of the audit work performed, we conducted a review of Grant Thornton’s audit of OPM’s Fiscal Year 2016 closing package financial statements in accordance with Government Auditing Standards. Specifically, we:

- provided oversight, technical advice, and liaison to Grant Thornton auditors;
- ensured that audits and audit reports were completed timely and in accordance with the requirements of auditing standards generally accepted in the United States of America, 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 generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM’s closing package financial statements. Grant Thornton is responsible for the attached auditor’s report dated November 15, 2016, and the conclusions expressed in the report. However, our review disclosed no instances where Grant Thornton did not comply, in all material respects, with auditing standards generally accepted in the United States of America.
If you have any questions about Grant Thornton’s audit or our oversight, please contact me, at 606-1200, or you may have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at [REDACTED].

Attachment

cc: Dennis D. Coleman
Chief Financial Officer

Daniel K. Marella
Deputy Chief Financial Officer

David L. DeVries
Chief Information Officer

Janet L. Barnes
Director, Internal Oversight and Compliance
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the United States Office of Personnel Management (OPM), which comprise the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2016, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended, and the related notes to the financial statements (hereinafter referred to as the closing package financial statements). The notes to the financial statements comprise the following:

- the GTAS Closing Package Lines Loaded Report,
- the accompanying Additional Note No. 28.

Management’s Responsibility for the Closing Package Financial Statements

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

Our responsibility is to express an opinion on these closing package financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. 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 closing package financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

We draw attention to Additional Note No. 28 to the closing package financial statements, which describes that the accompanying closing package financial statements were prepared to comply with the requirements of the U.S. Department of the Treasury’s Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700 (TFM Chapter 4700) and Treasury’s Supplemental Guidance to the TFM Chapter 4700 dated October 19, 2016 (Supplemental Guidance) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the Financial Report of the U.S. Government, and are not intended to be a complete presentation of the consolidated balance sheet of OPM as of September 30, 2016, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the year then ended (hereinafter referred to as “general-purpose financial statements”). Our opinion is not modified with respect to this matter.
Other Matters

Opinion on the General-Purpose Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02 the general-purpose financial statements of OPM as of and for the year ended September 30, 2016, and our report thereon, dated November 10, 2016, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information (except for such information entitled “2015 – September”, “Prior Year”, “PY”, “Previously Reported”, “Line Item Changes”, and “Threshold” and the information as of and for the year ended September 30, 2015 included in the “Other Text Data” of the Other Data Report) included in the Other Data Report Nos. 1 (Other Data Info Section A and B only), 3 through 9, 12 (Other Data Info Section A only), 14, 17, and 18 be presented to supplement the basic closing package financial statements.

Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic closing package 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 closing package financial statements, and other knowledge we obtained during the audit of the closing package financial statements. Although our opinion on the closing package financial statements is not affected, Other Data Report Nos. 9, 17 and 18 contain material departures from the prescribed guidelines because the information in these Other Data Reports presents the required information for the Financial Report of the U.S. Government and not the required information for OPM’s 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.

Management has omitted the Management’s Discussion and Analysis and the combining schedule of budgetary resources by major budgetary account that accounting principles generally accepted in the United States of America require to be presented to supplement the closing package financial statements. Such missing information, although not a part of the closing package financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the closing package financial statements in an appropriate operational, economic, or historical context. Our opinion on the closing package financial statements is not affected by this missing information.
Other Information

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information other than that described in the first paragraph and the paragraph labeled Required Supplementary Information are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and Supplemental Guidance and are not a required part of the closing package financial statements. We read the other information included with the closing package financial statements in order to identify material inconsistencies, if any, with the audited closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements as of and for the year ended September 30, 2016, and, accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use of the Report on the Closing Package Financial Statements

This report is intended solely for the information and use of management of OPM, U.S. Department of the Treasury, OMB, and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 15-02, we have also issued reports dated November 10, 2016 on our consideration of OPM’s internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters that are required to be reported under with Government Auditing Standards. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and OMB Bulletin No. 15-02 in considering OPM’s internal control and compliance, and should be read in conjunction with this report in considering the results of our audit of the closing package financial statements.

Our audit of the general-purpose financial statements as of and for the year ended September 30, 2016 disclosed the following material weakness, significant deficiency and compliance and other matters:

**Material Weakness – Information Systems Control Environment**

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

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

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

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

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

**Security Management**

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

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

• OPM does not have a centralized process in place to identify and generate a complete and accurate listing of terminated OPM contractors.

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

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

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

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

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

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

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

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

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

• For one key financial relevant system management does not review the invalid login report, which captures invalid activities, de-activated accounts and invalid login attempts.
Configuration Management
Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Such controls include, amongst others, effective configuration management policies, plans, and procedures, proper authorization, testing, approval, and tracking of all configuration changes, and routine monitoring of the systems configuration. We noted the following deficiencies during our review of OPM's IT configuration management:

- OPM has not developed comprehensive configuration management policies and procedures governing changes to the mainframe environment that is formally approved and disseminated to OPM personnel.
- OPM does not have the ability to generate a complete and accurate listing of all modifications made to configuration items to the mainframe and mid-range environments.
- OPM does not have the ability to generate a complete and accurate listing of all modifications made to a number of its financially relevant systems.
- OPM does not maintain a security configuration checklist for all known platforms.
- Access to the one of its financially relevant system’s production environment is not appropriately restricted.

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

Security Management

- Review, update and approve the security management policies and procedures at the organization defined frequency. Updates should incorporate current operational procedures and removal of outdated procedures and terminology.
- Create and/or update system documentation as follows:
  - System Security Plans – Update the plans and perform periodic reviews in accordance with the organization defined frequencies.
  - Risk Assessments – Conduct a risk assessment for financially relevant applications and systems and document comprehensive results of the testing performed.
  - Authority to Operate – Perform security assessment and authorization reviews in a timely manner and create up-to-date authority to operate packages for systems.
  - Information System Continuous Monitoring – Document results of continuous monitoring testing performed for systems.
- Enhance processes in place to track the inventory of the Agency’s systems and devices.
- Implement a system /control that tracks terminated contractors.
Establish a means of documenting a list of users with significant information system responsibility to ensure the listing is complete and accurate and the appropriate training is completed.

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

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

**Logical and Physical Access**

- Perform a comprehensive review of the appropriateness of personnel with access to systems at the Agency’s defined frequencies.

- Implement physical security controls over the datacenter so that users cannot gain unauthorized access and limit access to authorized individuals.

- Implement two-factor authentication at the application level in accordance with agency and federal policies.

- Document access rights to systems to include roles, role descriptions, and privileges/activities associated with each role and role or activity assignments that may cause a segregation of duties conflict.

- Ensure termination processes (e.g., return of PIV badges and IT equipment, completion of Exit Clearance Forms and completion of exit surveys) are followed in a timely manner and documentation of completion of these processes is maintained.

- Develop a process to systematically generate a listing of users that can input and approve journal vouchers to ensure users are user access is appropriately separated.

Review audit logs on a pre-defined periodic basis for violations or suspicious activity and identify individuals responsible for follow up or elevation of issues to the Security Operations Team for review. The review of audit logs should be documented for record retention purposes.

**Configuration Management**

- Establish a comprehensive configuration management plan that includes roles, responsibilities and outlines details supporting authorization, testing and documentation requirements.

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

- Enforce existing policy requiring mandatory security configuration settings, developed by OPM or developed by vendors or federal agencies, are implemented and settings are validated on a periodic basis to ensure appropriateness.
• Segregate duties between user roles with development responsibilities and user roles with access to the production environment. Implement and operate monitoring controls to verify only authorized and valid changes are implemented into the production environment.

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

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

Significant Deficiency – Monitoring Internal Controls

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

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

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

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

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

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

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

Recommendations
We recommend that OPM strengthen the annual internal assessments, testing and documentation based on OMB A-123, Appendix A guidance.
Agency’s response to findings
The Agency concurs with the findings and recommendations described above and will implement a corrective action plan to address these deficiencies in the new fiscal year.

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

Compliance and Other Matters

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

Internal Control over Financial Reporting Specific to the Closing Package Financial Statements

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2016 we also considered OPM’s internal control over the financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion of the effectiveness of OPM’s internal control. Accordingly, we do not express an opinion on the effectiveness of OPM’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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

**Compliance and Other Matters Specific to the Closing Package Financial Statements**

As part of obtaining reasonable assurance about whether OPM’s closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of *TFM Chapter 4700* and the Supplemental Guidance, noncompliance with which could have a material effect on the closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance with *TFM Chapter 4700* and the Supplemental Guidance disclosed no instances or noncompliance.

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

The purpose of the communication provided 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 results of that testing, and not to provide an opinion on the effectiveness of the agency’s internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

Arlington, Virginia

November 15, 2016