



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

November 15, 2024

Report No. 2024-IAG-017

MEMORANDUM FOR THE HONORABLE ROBERT H. SHRIVER
Acting Director

FROM: THE HONORABLE KRISTA A. BOYD
Inspector General

SUBJECT: Audit of the U.S. Office of Personnel Management's
Fiscal Year 2024 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the U.S. Office of Personnel Management's (OPM) consolidated financial statements. These comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statement of net costs, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements. KPMG's report also covers the financial statements of the OPM's Retirement, Health Benefits, and Life Insurance Programs, which comprise the balance sheets as of September 30, 2024, and the related statements of net costs, and changes in net position, and statements of budgetary resources for the years then ended, presented in the accompanying consolidating and combining financial statements, and the related notes to the financial statements. Lastly, we discuss the results of the Office of the Inspector General's (OIG) oversight of the audit and review of those reports.

Report on the Audit of the Financial Statements

The Chief Financial Officers (CFO) Act of 1990 (Public Law 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, 2024. The contract requires that the audit be performed 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 the Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report includes opinions on the consolidated financial statements and the individual statements for the three benefit programs. In addition, KPMG reported on internal control over financial reporting and compliance and other matters. The results of KPMG's audit included the following:

- The consolidated financial statements present fairly, in all material respects, the financial position of the OPM as of September 30, 2024, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.
- The financial statements present fairly, in all material respects, the financial position of the Retirement Program, Health Benefits Program, and Life Insurance Program as of September 30, 2024, and their respective net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.
- KPMG's report did not identify any material weaknesses.

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.

- KPMG's report identified one significant deficiency in OPM's internal control:

➤ Improvements Needed in Controls over Information Technology

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.

- The results of KPMG's tests of OPM's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996*, disclosed no instances in which the OPM's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) 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 2024 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 24-02, and other applicable professional auditing standards;
- documented oversight activities and monitored audit status;
- reviewed responses to audit reports 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 14, 2024, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS.

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

To help ensure that the timeliness requirement for resolution is achieved, we ask that the CFO coordinate with the OPM audit follow-up office, Internal Oversight and Compliance (IOC), to provide their initial responses to us within 90 days from the date of this memorandum. IOC should be copied on all final report responses. Subsequent resolution activity for all audit findings should also be coordinated with IOC. The CFO should provide periodic reports through IOC to us, no less frequently than each March and September, detailing the status of corrective actions, including documentation to support this activity, until all findings have been resolved.

In closing, we would like to thank OPM's financial management staff for their professionalism during 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, [REDACTED] or you may have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, [REDACTED]

Attachment

cc: David S. Marsh
Chief of Staff

Ryan S. Uyehara
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Independent Auditors' Report

Inspector General
U.S. Office of Personnel Management

Acting Director
U.S. Office of Personnel Management

Report on the Audit of the Financial Statements

Opinions

We have audited the consolidated financial statements of the U.S. Office of Personnel Management (OPM), which comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

We also have audited the financial statements of the OPM's Retirement Program, Health Benefits Program, and Life Insurance Program, which comprise the balance sheets as of September 30, 2024, and the related statements of net cost, changes in net position, and statements of budgetary resources for the year then ended, presented in the accompanying consolidating and combining financial statements, and the related notes to the financial statements (collectively, the program financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the OPM as of September 30, 2024, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Also in our opinion, the accompanying program financial statements present fairly, in all material respects, the financial position of the Retirement Program, Health Benefits Program, and Life Insurance Program as of September 30, 2024, and their respective net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), 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. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the OPM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matters

Financial Statements as of and for the Year Ended September 30, 2023

The accompanying financial statements of OPM as of September 30, 2023 and for the year then ended were audited by other auditors whose report thereon, dated November 13, 2023, expressed an unmodified opinion on those financial statements.



The accompanying financial statements of the OPM's Retirement Program, Health Benefits Program, and Life Insurance Program, presented in the accompanying consolidating and combining financial statements, as of September 30, 2023 and for the year then ended were audited by other auditors whose report thereon dated November 13, 2023 expressed unmodified opinions on those financial statements.

Interactive Data

Management has elected to reference information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements and program financial statements. Such information is not a required part of the consolidated financial statements and the program 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.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the program financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated and the program financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements and the program financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements and the program financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OPM's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements and the program financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



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 consolidated financial statements and the program financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements and the program 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 consolidated financial statements and program financial statements in an appropriate operational, economic, or historical context. With the exception of the combined statements of budgetary resources as of September 30, 2024 of the OPM's Retirement Program, Heath Benefits Program, and Life Insurance Program, on which we have expressed an opinion, that are presented in the combining statement of budgetary resources for the year ended September 30, 2024, we have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 consolidated financial statements and the program financial statements, and other knowledge we obtained during our audit of the consolidated financial statements and the program financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit for the year ended September 30, 2024 was conducted for the purpose of forming opinions on the consolidated financial statements and the program financial statements as a whole. The "Other Programs" and "Eliminations" columns presented in the consolidating balance sheet as of September 30, 2024 and the consolidating statements of net cost and changes in net position for the year then ended, and the "CSRS" and "FERS" columns presented in the consolidating statement of net cost for the year ended September 30, 2024 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements and the program financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements and the program financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and program financial statements for the year ended September 30, 2024 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements and the program financial statements or to the consolidated financial statements and the program financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements and the program financial statements as a whole for the year ended September 30, 2024.

OPM's consolidated financial statements and the program financial statements for the year ended September 30, 2023 were audited by other auditors whose report thereon dated November 13, 2023 expressed unmodified opinions on the consolidated financial statements and the program financial statements. The report of the other auditors dated November 13, 2023 stated that the "Revolving Fund Programs", "Salaries and Expenses", and "Eliminations" columns presented in the consolidating financial statements for the year ended September 30, 2023, and the "CSRS" and "FERS" columns presented in the consolidating statement of net cost for the year ended September 30, 2023 were subjected to the auditing procedures applied in the audit of the consolidated financial statements and the program financial statements for the year ended September 30, 2023 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements and the program financial statements or to the consolidated financial statements and the program financial statements themselves, and other additional procedures in accordance with GAAS and, in their opinion, were fairly stated, in all material respects, in relation to the consolidated financial statements and the program financial statements as a whole for the year ended September 30, 2023. The "Revolving Fund" and "Salaries and Expenses" columns were combined into the "Other Programs" column presented in the consolidating balance



sheet as of September 30, 2023 and the consolidating statement of net cost and changes in net position for the year then ended that are included in the FY 2024 Agency Financial Report.

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Message from the Director, Message from the Chief Financial Officer and Transmittal from OPM's Inspector General, Other Information in Section 3, and Appendices, but does not include the consolidated financial statements and the program financial statements and our auditors' report thereon. Our opinions on the consolidated financial statements and the program financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements and the program financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements and the program financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements and the program financial statements as of and for the year ended September 30, 2024, we considered the OPM's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and the program financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPM's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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*.

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.

Our consideration of internal control was for the limited purpose described in the first 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. We identified certain deficiencies in internal control, described in the accompanying Exhibit I, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OPM's consolidated financial statements and the program financial statements as of and for the year ended September 30, 2024 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements and the program financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.



We also performed tests of the OPM's 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 disclosed no instances in which the OPM's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

OPM's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the OPM's response to the findings identified in our audit and described in Exhibit I. The OPM's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and the program financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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 OPM's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2024

Significant Deficiency

This section contains our discussion of the significant deficiency that we identified in internal control over financial reporting.

Improvements Needed in Controls over Information Technology

In fiscal year (FY) 2024, the U.S. Office of Personnel Management (OPM) management made progress on remediation efforts of prior year control deficiencies in information technology general controls. However, key corrective actions to fully address previously identified information system deficiencies were not completed as of September 30, 2024. The information technology controls were not consistently designed, implemented, or operating effectively to protect three primary source systems supporting OPM's benefits programs, including the system used in the calculation of retirement payments, the system used to record and issue payments for initial retirement and recurring annuities, and the system used to receive and record revenue from employee withholdings and employer contributions. Our findings are summarized as follows:

Logical Access:

OPM did not consistently design, implement or operate logical access controls for the three aforementioned systems. Specifically, we found the following:

- Periodic recertifications to validate the continued appropriateness of system access were not performed in accordance with OPM policy.
- Access to systems were not appropriately provisioned or deactivated.
- OPM could not provide system-generated listings of system users with their associated roles and responsibilities/functions, account creation date or account deactivation date.
- OPM has not developed and documented incompatible role assignments.

The conditions described above primarily occurred because time and resource constraints prevented management from implementing corrective actions to remediate previously identified deficiencies. Also, one application did not have the functionality to produce reports on user roles and responsibilities for analysis.

These conditions increase the risk of unauthorized or inappropriate access to systems and data that are used to prepare the consolidated and Retirement Programs' financial statements.

Criteria:

The U.S. Government Accountability Office's Standards for Internal Controls in the Federal Government ("Green Book") provides standards for management's responsibilities for internal control. Specific relevant principles include: 10 – Design Control Activities; 12 – Implement Control Activities; 13 – Use Quality Information; and 17 – Evaluate and Remediate Deficiencies.

National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 5 – Security and Privacy Controls for Information Systems and Organizations provides minimum information security requirements for federal systems. Specific relevant controls include AC-2 – Account Management, AC-6 – Least Privilege, AC-6(7) – Least Privilege/Review of User Privileges, and AC-5 – Separation of Duties.

Configuration Management:

OPM did not consistently design, implement or operate configuration controls. Specifically, we found that OPM was unable to provide a system-generated listing of configuration changes implemented during the fiscal year.

The condition described above occurred because the application did not have the functionality to produce a list of changes migrated to the production environment.

The condition increases the risk that unauthorized or inappropriate configuration changes are implemented into system production environments without detection by management and could impact financially relevant transactions and data used to prepare the consolidated and the Retirement Program financial statements.

Criteria:

Specific relevant Green Book principles include: 10 – Design Control Activities; 13 – Use Quality Information; and 17 – Evaluate and Remediate Deficiencies.

Specific relevant NIST Special Publication 800-53 controls include AU-11 Audit Record Retention and AU-12 – Audit Record Retention

Recommendations:

We recommend that OPM:

1. Perform and formally document periodic reviews of system access in accordance with agency defined frequencies to validate the appropriateness of user access.
2. Establish, enforce, and communicate system access provisioning and deactivation policies.
3. Document and enforce system roles and functions for each system, identify and de-conflict incompatible role assignments, and implement changes to enable the ability to generate complete and accurate listings of users from all systems.
4. Establish an ability to systematically track configuration changes that have been implemented into system production environments for auditability and monitoring purposes.

Management's Response:

OPM is pleased to have achieved an unmodified "clean" audit opinion for the 25th consecutive year and have the long-standing IT material weakness audit issue (identified pre-2010) downgraded to the significant deficiency status. As OPM concurs with the IT audit recommendations, the agency remains committed to making continuous improvements to internal control environment to achieve OPM's mission. Office of the Chief Financial Officer will continue to collaborate with Office of the Chief Information Officer to remediate the remaining IT system deficiencies that could increase the risks of financial misstatements.