

## **2017 Management's Discussion & Analysis (MD&A) CFO Agency Financial Reports**

1. Agriculture - USDA
2. Commerce
3. Defense - DOD
4. Education
5. Energy
6. Health and Human Services - HHS
7. Homeland Security - DHS
8. Housing and Urban Development - HUD
9. Interior
10. Justice
11. Labor
12. State
13. Transportation - DOT
14. Treasury
15. Veterans Affairs - VA
16. Environmental Protection Agency – EPA
17. National Aeronautics and Space Administration - NASA
18. US Agency for International Development - AID
19. General Services Administration - GSA
20. National Science Foundation - NSF
21. Nuclear Regulatory Commission - NRC
22. Office of Personnel Management - OPM
23. Small Business Administration - SBA
24. Social Security Administration - SSA

# 2017 AGENCY FINANCIAL REPORT



*Take care of the land  
and the land will take care of you.*



United States Department of Agriculture

# Section I

## Management's Discussion and Analysis (Unaudited)

### About USDA

---

President Abraham Lincoln founded the U.S. Department of Agriculture (USDA) in 1862 with the goal of providing effective leadership to the Nation on food, agriculture, natural resources, and related issues. Since 1862, the dedicated public servants at USDA help millions of Americans every day. As Americans, you are part of the USDA story that has had a tradition of excellence in public service for over 150 years.

We would like you to learn more about USDA and the Agencies and Offices that touch every American, every day. More information about the Department, our history, and our leaders can be found at [www.usda.gov](http://www.usda.gov).

### Mission Statement

---

USDA provides leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management. As public servants, our greater understanding of these important rules help serve USDA's motto to "Do Right and Feed Everyone" so that we enhance the American public's confidence in the integrity and important work of USDA.

### Vision Statement

---

To remove every obstacle possible and give farmers, ranchers, and producers every opportunity to prosper; to prioritize customer service every day for American taxpayers and consumers; to ensure the food we put on the table to feed our families meets the strict safety standards we have established; to be good stewards of the land, owned or rented, and leave it better than we found it; and to "Do Right and Feed Everyone."

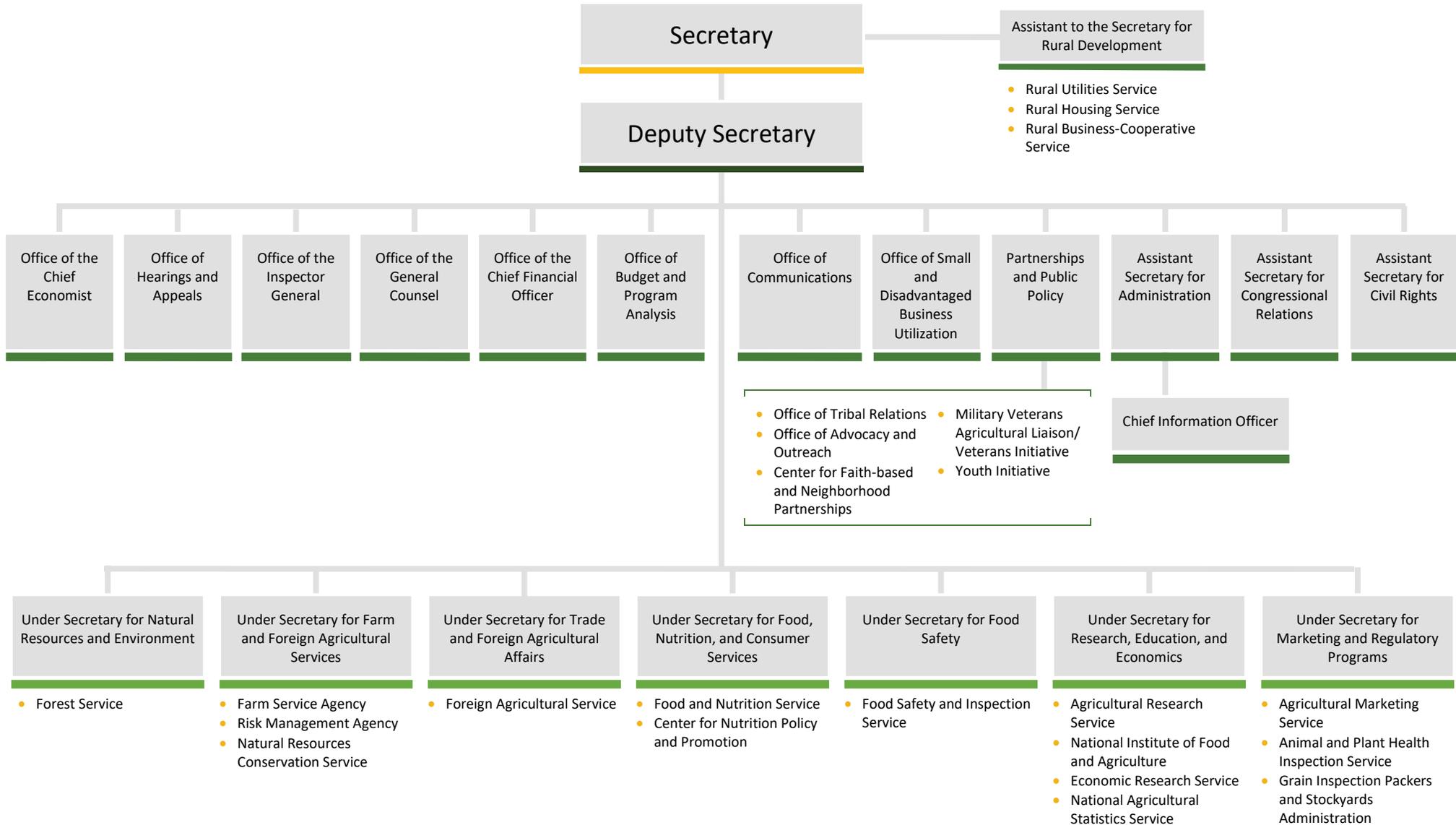
### Core Values

---

Our success depends on the following:

- Ensuring USDA programs are delivered efficiently, effectively, and with integrity
- Maximizing the ability of American agricultural producers to prosper by feeding and clothing the world
- Promoting American agricultural products and exports
- Facilitating rural prosperity and economic development
- Strengthening the stewardship of private lands through technology and research
- Ensuring productive and sustainable use of our national forest system lands
- Providing all Americans access to a safe, nutritious, and secure food supply.

# USDA ORGANIZATION CHART



## USDA Mission Areas

---

### RURAL DEVELOPMENT

Rural Development (RD) is committed to helping improve the economy and quality of life in all of rural America by providing financial programs to support essential public facilities and services such as water and sewer systems, housing, health clinics, emergency service facilities, and electric and telephone service. RD promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

- [Rural Housing Service](#)
- [Rural Utilities Service](#)
- [Rural Business Cooperative Service](#)

### TRADE AND FOREIGN AGRICULTURAL AFFAIRS

Trade and Foreign Agricultural Affairs (TFAA) is American agriculture's unapologetic advocate and chief salesman around the world. With a sharp focus on foreign markets, the TFAA ensures that American producers are well equipped to sell their products and feed the world.

- [Foreign Agricultural Service](#)

### FOOD, NUTRITION, AND CONSUMER SERVICES

Food, Nutrition, and Consumer Services (FNCS) works to harness the Nation's agricultural abundance to end hunger and improve health in the United States. FNCS administers Federal domestic nutrition

assistance programs. The Center for Nutrition Policy and Promotion (CNPP) links scientific research to the nutritional needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education.

- [Food and Nutrition Service](#)
- [Center for Nutrition Policy and Promotion](#)

### FARM AND FOREIGN AGRICULTURAL SERVICES

Farm and Foreign Agricultural Services (FFAS) is focused on domestic agricultural issues by providing a simplified one-stop shop for USDA's primary customers, the men and women farming, ranching, and foresting across America. FFAS helps to keep America's farmers and ranchers in business as they face the uncertainties of weather and markets and delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength of the agricultural economy.

- [Farm Service Agency](#)
- [Risk Management Agency](#)
- [Natural Resources Conservation Service](#)

### NATURAL RESOURCES AND ENVIRONMENT

Natural Resources and Environment (NRE) oversees efforts to do the following: get our forests working again, to make them more productive, as well as create more jobs. The focus of NRE is on ensuring we are good neighbors and are managing our forests

effectively, efficiently, and responsibly, as well as working with states and local governments to ensure the utmost collaboration.

- [Forest Service](#)

## FOOD SAFETY

The Office of Food Safety ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and properly labeled and packaged. Food Safety serves in the critical role of ensuring the food we put on the table to feed our families meets the strict safety standards we have established.

- [Food Safety and Inspection Service](#)

## RESEARCH, EDUCATION, AND ECONOMICS

Research, Education, and Economics (REE) is dedicated to the creation of a safe, sustainable, competitive U.S. food and fiber system, as well as strong communities, families, and youth through integrated research, analysis, and education.

- [Agricultural Research Service](#)
- [National Institute of Food and Agriculture](#)
- [Economic Research Service](#)
- [National Agricultural Statistics Service](#)

## MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Programs (MRP) facilitates domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP agencies are active participants in setting national and international standards.

- [Agricultural Marketing Service](#)
- [Animal and Plant Health Inspection Service](#)
- [Grain Inspection Packers and Stockyards Administration](#)

## USDA Program Performance

### USDA PERFORMANCE AND RESULTS FOR FY 2017

The U.S. Department of Agriculture's (USDA) mission is to provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.

For purposes of the Agency Financial Report (AFR), a performance summary is provided using the Department's key performance indicators as a mechanism to gauge progress in achieving its mission. In fiscal year (FY) 2017, USDA had 37 key performance indicators.

The following tables and discussion provide a high-level description of key focus areas for the Department that are being tracked and managed through USDA's performance management process, in alignment with the Department's mission areas. The tables provide key performance indicator historical

results, and include FY 2017 preliminary results indicating anticipation in meeting/not meeting performance targets.

Final performance information and a detailed discussion of the Department's FY 2017 performance results, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the FY 2017 USDA Annual Performance Report. The report is planned to be released with the President's 2019 budget in February and will be available on the [USDA Performance Improvement and Accountability](#) Web site.

The data used by the Department to measure performance is collected using standardized methodology. This methodology has been vetted by federally employed scientists and policymakers, and, ultimately, the leadership and Under Secretaries of each respective mission area. All attest to the completeness, reliability, and quality of the data.

### FARM AND FOREIGN AGRICULTURAL SERVICES

Farm and Foreign Agricultural Services (FFAS) is the Department's focal point for the nation's farmers and ranchers and other stewards of private agricultural lands and non-industrial private forest lands. FFAS agencies implement programs designed to mitigate the significant risks of farming through crop insurance services, conservation programs and technical assistance, and commodity, lending, and disaster programs.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Conservation Reserve Program (CRP) restored wetland acreage (millions of acres)	2.09	2.00	1.93	2.09	1.9	Meet

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Percentage of Direct and Guaranteed lending to Socially Disadvantaged Farmers (SDA)	13.60	14.20	15.00	15.90	17	Meet
Percentage of Direct and Guaranteed lending to Beginning Farmers (BF)	70	79.2	85.6	95.5	100	Meet
Normalized value of risk protection provided to agricultural producers through the Federal Crop Insurance Program (\$ in billions)	66.00	67.90	68.7	74.0	63.6	Meet
Conservation Technical Assistance (CTA) land with conservation applied to improve water quality (millions of acres)	N/A	18.2	18.1	15.8	15.8	Meet
CTA cropland with conservation applied to improve soil quality (millions of acres)	N/A	6.2	6.0	6.0	5.9	Meet
CTA grazing and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	13.1	13.1	11.1	13.0	Meet
Environmental Quality Incentives Program (EQIP) land with conservation applied to improve water quality (millions of acres)	N/A	12.3	12.7	10.5	13.5	Meet
EQIP cropland with conservation applied to improve soil quality (millions of acres)	N/A	3.1	3.0	2.8	3.0	Meet

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
EQIP grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	14.8	13.9	12.6	13.5	Meet
EQIP non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres)	N/A	1.4	1.4	1.0	0.9	Meet

## FOOD, NUTRITION, AND CONSUMER SERVICES

Food, Nutrition, and Consumer Services (FNCS) works to harness the Nation's agricultural abundance to end hunger and improve health in the United States. Within FNCS, the Food and Nutrition Service administers Federal domestic nutrition assistance programs, and the Center for Nutrition Policy and Promotion links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Prevalence of food insecurity in households with children (percentage)	19.5	19.2	16.6	16.5	18.5	Deferred <sup>1</sup>
Annual percentage of eligible people participating in the Supplemental Nutrition Assistance Program (SNAP)	85	85	N/A	Deferred <sup>2</sup>	85	Deferred
SNAP payment accuracy rate (percentage)	96.8	96.3	N/A	N/A	96.34	Deferred <sup>3</sup>

<sup>1</sup> FY 2017 data will be released in the first quarter of FY 2018.

<sup>2</sup> FY 2016 data will be available in 2018. FY 2017 data will be available in 2019.

<sup>3</sup> FY 2017 data will be available in June 2018.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
SNAP benefits redeemed annually at farmers markets and direct marketing farmers (\$ in millions)	17.5	18.8	19.4	20.2	20	Deferred <sup>4</sup>
Annual percentage of eligible people participating in the National School Lunch Program	55.7	54.8	55.4	54.7	58.3	Deferred <sup>5</sup>
Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs	16.3	17.5	17.1	16.7	17.4	Deferred <sup>6</sup>

## FOOD SAFETY

USDA protects public health by ensuring the safety of the Nation's commercial supply of meat, poultry, and egg products. This mission area also plays a key role in supporting Healthy People 2020 goals<sup>7</sup> and other crosscutting and targeted activities that promote food safety with partner agencies, including the U.S. Department of Health and Human Services' Food and Drug Administration and Centers for Disease Control and Prevention.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Percentage of establishments that meet pathogen reduction performance standards <sup>8</sup>	N/A	N/A	N/A	N/A	77.0	Deferred
Percentage of establishments whose non-compliance rate decreases 120 days after receiving an early warning alert <sup>9</sup>	N/A	N/A	N/A	N/A	74.0	Deferred

<sup>4</sup> FY 2017 data will be available Q1, 2018.

<sup>5</sup> FY 2017 data will be available Q1, 2018.

<sup>6</sup> FY 2017 data will be available Q1, 2018.

<sup>7</sup> See [Healthy People 2020. Work is underway to develop Healthy People 2030 goals.](#)

<sup>8</sup> This is a new performance measure for FY 2017; actual data from 2013-2016 is not available.

<sup>9</sup> This is a new performance measure for FY 2017; actual data from 2013-2016 is not available.

## MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Programs facilitate domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP agencies are active participants in setting national and international standards.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Cumulative number of biotechnology products deregulated by USDA based on scientific determinations that they do not pose a plant pest risk to agriculture	102	109	117	124	127	Meet

## NATURAL RESOURCES AND ENVIRONMENT

Natural Resources and Environment ensures the health of the land through sustainable management. Its agency works to prevent damage to natural resources and the environment, restore the resource base, and promote good land management.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Annual acres of public and private forest lands restored or enhanced (millions of acres)	2.53	2.91	3.10	3.22	2.90	Meet
Volume of timber sold (billion board feet)	2.610	2.831	2.867	2.942	3.200	Meet
Percentage of National Forests and Grassland watersheds in properly (class 1 watersheds) functioning condition	52	52	52	53	53	Deferred <sup>10</sup>
Acres of Wildland Urban Interface hazardous fuels treated to reduce the risk of catastrophic wildfire (millions of acres)	1.737	1.725	1.577	2.016	1.80	Meet

<sup>10</sup> Results are not available for this measure until after the end of FY 2017.

## RURAL DEVELOPMENT

Rural Development is committed to helping improve the economy and quality of life in all of rural America by providing financial programs to support essential public facilities and services as water and sewer systems, housing, health clinics, emergency service facilities, and electric and telephone service. Rural Development promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of jobs created or saved through USDA financing of businesses	44,419	41,202	52,697	51,286	39,764	Meet
Homeownership opportunities provided	170,055	146,388	141,314	123,817	173,678	Meet
Health Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	5.4	6.8	12.0	11.7	5.0	Meet
Safety Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	3.4	3.7	7.2	5.0	3.2	Meet
Educational Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	9.3	6.2	7.9	14.9	5.0	Meet
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	8.7	4.6	5.5	5.5	5.1	Meet

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of borrowers/subscribers receiving new or improved telecommunications services (millions)	.120	.084	.095	.079	.100	Meet
Number of population receiving new or improved service from agency-funded water facilities (millions)	1.8	2.2	2.4	2.2	1.7	Meet

## TRADE AND FOREIGN AGRICULTURAL AFFAIRS

Trade and Foreign Agricultural Affairs' (TFAA) role is to provide our farmers and ranchers with opportunities to compete in the global marketplace. TFAA is the Department's lead on trade policy with the primary responsibility to ensure that USDA speaks with a unified voice on international agriculture issues domestically and abroad. It oversees and facilitates foreign market access and promotes opportunities for U.S. agriculture through various trade programs and high-level government negotiations.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (\$ in billions)	1.48	1.50	1.52	1.28	1.5	Meet
Value of trade preserved annually through USDA staff intervention leading to resolution of foreign market access issues such as U.S. export detainment, restrictive Sanitary/ Phytosanitary or Technical Barrier to Trade issues and trade regulations (\$ in billions)	3.80	6.40	3.6	5.0	3.8	Meet

## DEPARTMENTAL MANAGEMENT

Departmental Management (DM) provides management leadership to ensure that USDA's administrative programs, policies, advice, and counsel meet the needs of USDA program organizations, consistent with laws and mandates. DM is also tasked to provide safe and efficient facilities and services to customers.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of employees participating in core telework	9,723	10,455	11,798	12,342	12,240	Deferred <sup>11</sup>
Amount of leased office and warehouse space controlled by USDA (millions of square feet)	25.6	24.9	23.9	23.2	23.2	Deferred <sup>12</sup>

<sup>11</sup> Results are not available for this measure until after the end of FY 2017.

<sup>12</sup> Results are not available for this measure until after the end of FY 2017.

## Future Demands, Risks, Uncertainties, Events, Conditions, and Trends

---

Farmers and ranchers operate in highly competitive markets, both domestically and internationally. Rapid shifts in consumer demands associated with quality, convenience, taste, and nutrition dictate that farming, ranching, and marketing infrastructures become more fluid and responsive. National security is a significant, ongoing priority for the U.S. Department of Agriculture (USDA). USDA science research, education, and extension services will continue to be the foundation for understanding developments and making advances in solving agricultural and societal challenges. USDA is working with the U.S. Department of Homeland Security to help protect agriculture from intentional and accidental acts that might impact America's food supply or natural resources.

### EXTERNAL FACTORS THAT CHALLENGE USDA'S ABILITY TO ACHIEVE ITS GOALS INCLUDE THE FOLLOWING:

- Weather-related hardships, including disasters related to the increasing intensity and duration of extreme weather and climate change, both domestically and internationally;
- The risk of catastrophic fire, depending on weather, drought conditions, and the expanding number of communities in the wildland-urban interface;
- Non weather-related hardships and other uncontrollable events, both domestically and internationally;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage debt;
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across domestic and international boundaries;
- Potential exposure to hazardous substances, which may threaten human health as well as the environment; and
- The ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts.

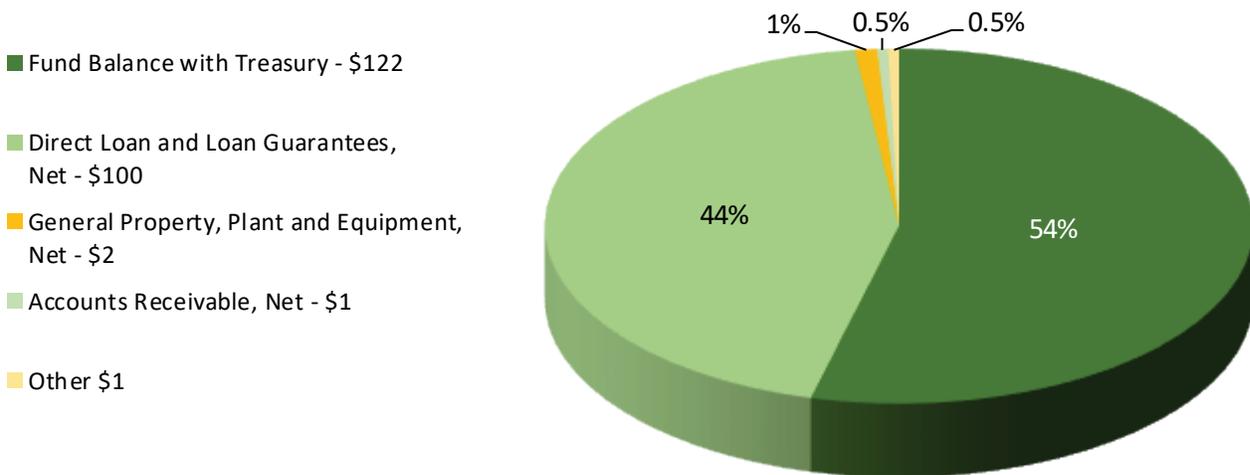
# Financial Statement Highlights

## BALANCE SHEET

### TOTAL ASSETS

Total assets for FY 2017 were \$226 billion. The following exhibit presents FY 2017 total assets.

**EXHIBIT 1:** Total Assets (\$ in billions)

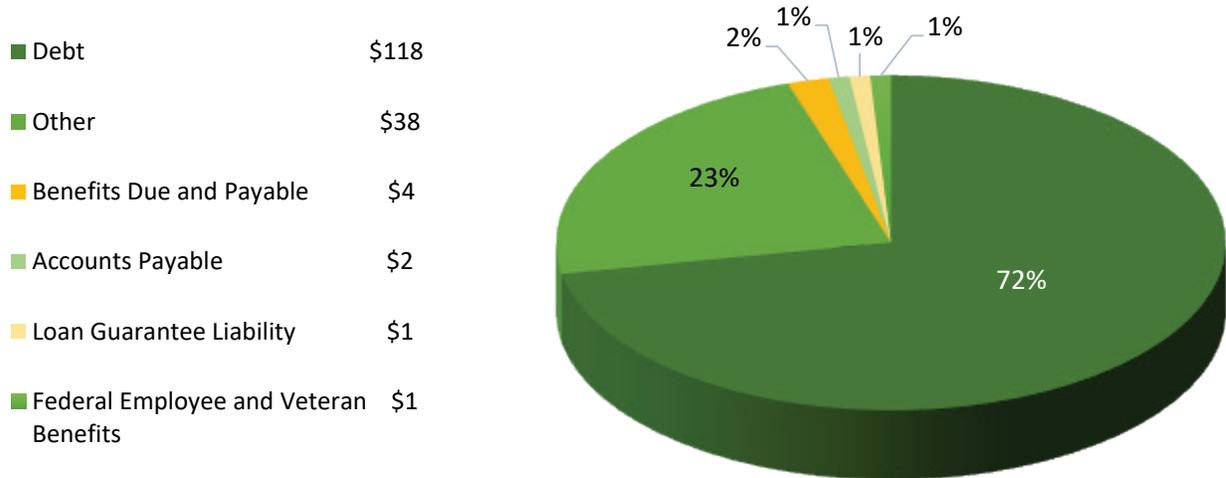


Direct Loan and Loan Guarantees, Net, is one of the largest assets on the USDA Balance Sheet. RD offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These products represent 87 percent of the total Department loan programs. Loan programs administered by FSA represent 10 percent of the total. FSA supports farmers who are temporarily unable to obtain private, commercial credit. The remaining 3 percent represents commodity loans and credit programs administered by the Commodity Credit Corporation (CCC). These loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide international food assistance, expand international markets, and provide domestic low cost financing to protect farm income and prices.

## TOTAL LIABILITIES

Total liabilities for FY 2017 were \$164 billion. The following exhibit presents FY 2017 total liabilities.

EXHIBIT 2: Total Liabilities (\$ in billions)



Debt is the single largest liability on USDA’s balance sheet. It represents amounts owed primarily to Treasury by CCC, FSA and RD. For CCC, the debt primarily represents financing for price support, export credit guarantees, disaster programs and loans related to farm storage facilities. For FSA, the debt primarily represents financing to support direct and guaranteed loan programs, with the majority supporting operating, ownership, and emergency loans. For RD, the debt primarily represents financing to support electric and housing loan programs.

## Statement of Assurance

---

The U.S. Department of Agriculture (USDA) is providing modified assurance that USDA's systems of internal control comply with the Federal Managers' Financial Integrity Act (FMFIA) objectives. USDA's systems of internal control meet the objectives of the FMFIA and the Federal Financial Management Improvement Act (FFMIA), with the exception of two material weaknesses in internal control, one financial system non-conformance, and three instances of non-compliance with laws and regulations. Management is providing reasonable assurance that the internal controls over operations are effective. The details of the exceptions are provided in the FMFIA, FFMIA, and Summary of Financial Statement Audit and Management Assurances sections of this report.

USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2017, and financial reporting as of June 30, 2017. The assessment included the safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

No other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2017, and (2) financial reporting as of June 30, 2017.



Sonny Perdue  
Secretary of Agriculture

November 14, 2017

# Federal Managers' Financial Integrity Act Report on Management Control

---

## BACKGROUND

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse, and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles, and other requirements to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

The U.S. Department of Agriculture (USDA) evaluated its internal controls in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular No. A-123, Appendices A through D. All USDA managers must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws,

standards, principles, and related requirements. In conjunction with the Office of Inspector General and the Government Accountability Office, USDA's management works decisively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

USDA remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA and other applicable laws and regulations.

## FISCAL YEAR 2017 RESULTS

The Department has two existing material weaknesses in internal controls over financial reporting: Information Technology (IT) and financial management. The material weakness for financial management is due to improvements needed in accounting and internal controls related to the Natural Resources Conservation Service (NRCS) and the Commodity Credit Corporation (CCC). USDA also has one existing system non-conformance related to Funds Control Management within the CCC, which will be resolved by the end of fiscal year (FY) 2019.

The Food and Nutrition Service and the Farm Service Agency (FSA) are non-compliant with laws and regulations related to the Improper Payments Elimination and Recovery Act of 2010, as amended.

USDA has identified violations or potential violations with the Anti-deficiency Act (ADA). USDA has reported all of its ADA

violations to the President and Congress with the exception of the ADA violation for Office of Advocacy and Outreach (OAO) that is still in the process of being reported. A detailed description and summary of the Department’s ADAs, as well as, additional USDA non-compliances with laws can be found in the Compliance with Laws and Regulations section of this report.

The Secretary’s Statement of Assurance provides modified assurance that USDA’s system of internal control complies with FMFIA objectives. For additional details on the results reported in USDA’s Consolidated Financial Statements Audit Report, see the [Summary of Financial Statement Audit and Management Assurances](#) section of this report.

## SUMMARY OF OUTSTANDING MATERIAL WEAKNESSES

The following exhibit provides FY 2017 accomplishments and FY 2018 planned actions toward resolving the outstanding material weaknesses.

### EXHIBIT 3: Summary of Outstanding Material Weaknesses

<b>1. USDA Information Technology (IT)</b>	
<b>Material Weaknesses Existing</b>	The Department lacks an effective information security program. Unimplemented recommendations that address many longstanding weaknesses (related to risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response and contingency planning) remain outstanding. (Department)
<b>Overall Estimated Completion Date</b>	FY 2020
FY 2017 Accomplishments:	FY 2018 Planned Actions:
<p><b>During FY 2017 The Office of the Chief Information Officer (OCIO):</b></p> <ul style="list-style-type: none"> <li>▪ Continued the monitoring and closing of outdated Plan of Actions and Milestones (POA&amp;Ms) identified as part of the IT Material Weakness, and reported progress to USDA leadership. Ensured proper and full remediation of weaknesses across the USDA enterprise;</li> <li>▪ Continued to perform security assessments to analyze component agencies’ information architecture and related processes to develop a threat profile;</li> <li>▪ Continued to perform penetration testing: OCIO in collaboration with the U.S.</li> </ul>	<p><b>OCIO will:</b></p> <ul style="list-style-type: none"> <li>▪ Continue to track outdated POA&amp;Ms identified as part of material weakness and report progress to USDA leadership on a weekly basis. Leveraging the department’s biweekly scorecard reports and weekly meetings with our agencies, OCIO will continue our effort to work with specific agencies to achieve proper and full remediation of weaknesses across USDA;</li> <li>▪ As FY 2018 funding permits, perform security assessments on select agencies;</li> <li>▪ Perform penetration testing of all</li> </ul>

### 1. USDA Information Technology (IT) Continued

FY 2017 Accomplishments:	FY 2018 Planned Actions:
<p>Department of Homeland Security (DHS) continued their vulnerability scans under the Binding Operational Directive, and the Agriculture Security Operations Center continued integration with the DHS Continuous Diagnostics Mitigation (CDM) program;</p> <ul style="list-style-type: none"> <li>▪ Continued to enhance centralized configuration management monitoring tools (currently IBM BigFix, formerly known as Tivoli Endpoint Manager) to monitor agency assets running specific operating systems;</li> <li>▪ Continued to formalize its internal monitoring processes into a Standard Operating Procedure (SOP);</li> <li>▪ Continued to implement the ASOC Change Advisory Board processes to document and control access of personnel to systems; document and control configuration changes to systems on a risk basis; document, evaluate and make risk-based recommendations to leadership regarding US Government Configuration Baseline waivers;</li> <li>▪ USDA continued working on the finalization of the DHS' CDM, which will further enhance OCIO's configuration management oversight function and timely coordination with subcomponents to ensure policy compliance;</li> <li>▪ Continued to further enforce Personal Identity Verification (PIV)/Homeland Security Presidential Directive (HSPD) 12 mandatory compliance for privileged and nonprivileged users to meet published FY 2017 Cross-Agency Priority (CAP) and Federal Information Security Management Act (FISMA) goals; and continued to develop additional implementation guidance for multi-factor authentication for network and application access, as needed.</li> </ul>	<p>USDA agencies in FY 2018; OCIO will also continue to assess DHS' Cyber Hygiene Assessment reports and work with agencies to remediate findings of critical vulnerabilities in 30 days or less; and OCIO plans to continue its integration of CDM;</p> <ul style="list-style-type: none"> <li>▪ Continue to enhance centralized configuration management monitoring by leveraging CDM Phase 1 tools;</li> <li>▪ Continue to formalize its internal monitoring processes into an SOP;</li> <li>▪ Continue to mature and evolve the Change Advisory Board roles and responsibilities to meet the needs of the organization, including evolving to a paperless electronic process conducive to seamless customer service;</li> <li>▪ Transition CDM Phase 1 tools and CDM dashboard to full operations in Q2 FY 2018. As FY 2018 funding permits, OCIO plans to maintain operations of CDM Phase 1 tools and CDM dashboard through Q4 FY 2018; and</li> <li>▪ In collaboration with USDA agencies and mission areas OCIO will define a: <ul style="list-style-type: none"> <li>○ high-level strategy for "further enforcing" PIV authentication for logical system access throughout USDA,</li> <li>○ set of high level milestones for accomplishing that strategy, and</li> <li>○ process to oversee and measure progress.</li> </ul> </li> </ul>

<b>2. Financial Management — Natural Resources Conservation Service (NRCS)</b>	
<b>Material Weakness Existing</b>	NRCS needs improved controls over obligations and undelivered orders, as well as, accounting and controls over expenses.
<b>Overall Estimated Completion Date</b>	FY 2018
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 NRCS:</b></p> <ul style="list-style-type: none"> <li>Monitored the activity of upward and downward adjustments to ensure balances were appropriate;</li> <li>Monitored open obligations to ensure they are recorded and liquidated timely; and</li> <li>Enhanced policy and control procedures for period-end accruals.</li> </ul>	<p><b>NRCS will:</b></p> <ul style="list-style-type: none"> <li>Re-engineer the process for reviewing data files to ensure that invalid upward and downward adjustments are identified and negated in a timely manner;</li> <li>Improve the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ezFedGrants and ServiceNow; and</li> <li>Implement a confirmation process, including negative confirmations, for all divisions to ensure direct-entry expense accruals are recorded.</li> </ul>

<b>2. Financial Management – Commodity Credit Corporation (CCC)</b>	
<b>Material Weaknesses Existing</b>	CCC needs to address material weaknesses related to accounting estimates and maintenance of accounting records.
<b>Overall Estimated Completion Date</b>	FY 2018
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 CCC:</b></p> <ul style="list-style-type: none"> <li>Continued to update Standard Operating Procedures (SOPs), policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing, recording, and performing look-backs of accounting estimates;</li> <li>Developed effective information and communication processes to ensure policies and procedures, that may give rise to the recognition of accounting, are</li> </ul>	<p><b>CCC will:</b></p> <ul style="list-style-type: none"> <li>Continue the implementation of processes, procedures, and controls to improve the accuracy and timeliness of the FBWT reconciliation, including reconciliations of related child agency FBWT accounts;</li> <li>Implement an independent review and reconciliation of Fund Balance with Treasury for USAID and monitor internal controls regarding FBWT reconciliations in accordance with guidelines in the</li> </ul>

## 2. Financial Management – Commodity Credit Corporation Continued

FY 2017 Accomplishments:	FY 2018 Planned Actions:
<p>communicated and applied throughout the agency. Also ensured that technical accounting issues are identified, analyzed, and resolved in a timely manner;</p> <ul style="list-style-type: none"> <li>■ Implemented processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions;</li> <li>■ Provided updated status to the Office of Management and Budget (OMB) A-123, Appendix A Corrective Action Plans;</li> <li>■ Designed and implemented Business Portfolio Manual (BPM) to document business procedures including program accounting flow and key internal controls;</li> <li>■ Designed and implemented policies, procedures, and controls to accept, track, and monitor agreements entered into with other agencies (customers);</li> <li>■ Continued to refine the reconciliation process for budgetary and proprietary balances with trading partners;</li> <li>■ Conducted training for the Financial Management Division staff and managers to provide an in-depth look at the U.S. Standard General Ledger and its practical uses in performing key activities that ultimately support data integrity and the agency’s ability to compile complete, accurate and reliable financial statements;</li> <li>■ Implemented reconciliation processes to ensure Fund Balance With Treasury (FWBT), Accounts Receivable, and Accounts Payable transactions are timely and accurately recorded in the general ledger system;</li> <li>■ Implemented a reconciliation process to assess and review CCC-related transactions and balances reported in</li> </ul>	<p>“Treasury Financial Manual;”</p> <ul style="list-style-type: none"> <li>■ Ensure the month-end reconciliations for significant accounts are performed timely and reviewed at appropriate precision levels through the implementation of dollar materiality thresholds that are monitored by management. Reconciled differences identified should be corrected timely in the subsidiary or General Ledger (GL). Research and identify existing unknown differences per Account Reconciliation and Analysis Policy;</li> <li>■ Continue to refine SOPs, policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing and recording, and performing look-backs of accounting estimates;</li> <li>■ Continue to develop effective information and communication processes to ensure that policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner;</li> <li>■ Continue to implement processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions;</li> <li>■ Continue with the execution of the existing OMB A-123, Appendix A Corrective Action Plan, Maintaining, Controlling, and Monitoring the CORE</li> </ul>

**2. Financial Management – Commodity Credit Corporation Continued**

<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p>the U.S. Agency for International Development (USAID) general ledger for FBWT;</p> <ul style="list-style-type: none"> <li>■ Implemented a process to calculate accruals and advances for CCC funded USAID grants;</li> <li>■ Expanded tie-point analysis process to include additional training and workshops to provide expert assistance with reconciliations, trial balance analytics, clean-up projects, abnormal balances, and variances; and</li> <li>■ Developed and implemented software modifications to the Commodity Loan Processing System and Automated Cotton Reporting System to incorporate Commodity Certificate Exchange (CCE) functionality, including providing the correct accounting entries to CCC’s General Ledger — CORE to remediate the condition.</li> </ul>	<p>General Ledger by further improving and enhancing CCC reconciliations and account analysis;</p> <ul style="list-style-type: none"> <li>■ Continually refine the accrual and advance calculation process for USAID grants funded by CCC; and</li> <li>■ Continue to refine the reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, undelivered orders, delivered orders, expended appropriations, and operating expenses.</li> </ul>

## SUMMARY OF OUTSTANDING SYSTEM NON-CONFORMANCE

Funds Control Management non-conformance is also reported as a system non-compliance, and is included in the Federal Financial Management Improvement Act (FFMIA) Report on Financial Management Systems ([Exhibit 4](#)). The weakness involves component agency-specific deficiencies for CCC.

The following exhibit provides FY 2017 accomplishments and FY 2018 planned actions toward resolving the Department's outstanding system non-conformance.

### EXHIBIT 4: Summary of Outstanding System Non-conformance

<b>1. Funds Control Management</b>	
<b>System Non-conformance Existing</b>	System improvements needed in recording obligations at the transactional level. (CCC)
<b>Overall Estimated Completion Date</b>	FY 2019
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 CCC:</b></p> <ul style="list-style-type: none"> <li>▪ Developed policy, procedures and systems functionality to support the budget execution process for CCC programs;</li> <li>▪ Worked with Deputy Administrator Farm Programs and Information Technology Services Division towards completing software modifications to ensure all program applications are in full compliance with the Funds Control/ Obligation Requirements (i.e., business events, establishments, liquidations, adjustments {downward and upward}, etc.) related to obligations at the transaction level; and</li> <li>▪ Completed the integration of two "material" CCC programs (the Non-Insured Crop Disaster Assistance Program and the Livestock Indemnity Program) with the electronic Funds Management System (eFMS)/County Operated Facility (COF) to achieve full funds control at a transaction level.</li> </ul>	<p><b>CCC will:</b></p> <ul style="list-style-type: none"> <li>▪ Continue to establish Funds Control Levels by Program;</li> <li>▪ Update policy, procedures and systems functionality to support the budget execution process for CCC programs;</li> <li>▪ Continue to partner with Deputy Administrator Farm Programs and Information Technology Services Division towards completing software modifications to ensure all program applications are in full compliance with the Funds Control/Obligation Requirements (i.e., business events, establishments, liquidations, adjustments {downward and upward}, etc.) related to obligations at the transaction level; and</li> <li>▪ Implement the ARC County Pilot Program with the eFMS/COF to achieve full funds control at a transaction level.</li> </ul>

## Compliance with Laws and Regulations

A summary of deficiencies and non-compliances are identified in the following table as well as in the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Federal Managers' Financial Integrity Act and Federal Financial Management Improvement Act sections of this report. For fiscal year (FY) 2017, the U.S. Department of Agriculture (USDA) has made progress in mitigating prior year non-compliances with laws and regulations. Despite the Department's efforts, USDA is non-compliant or potentially non-compliant with the following acts:

- Anti-deficiency Act (ADA);
- Digital Accountability and Transparency Act of 2014 (DATA Act); and
- Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015.

The Department will monitor to resolve and/or mitigate these violations during FY 2018.

The following tables provide further details of each violation.

### ANTI-DEFICIENCY ACT

#### ADA Violations Reported to the President and Congress During FY 2017

AGENCY	Violation	Year Identified	Description	Status
Farm Service Agency (FSA)	(ADA), 31 U.S.C. § 1517(a)	FY 2014	Office of Management and Budget (OMB) approved an apportionment request for \$1 million from FSA for the purchase of guaranteed loans in FY 2014. On February 25, 2014, FSA made several loan purchases, obligating \$1,302,823.57, thus exceeding the apportionment for such purchases. On March 7, 2014, FSA requested another apportionment to cover the deficiency. OMB approved the request and apportioned funds on March 31, 2014.	FSA's Farm Loan Operations Office completed corrective action to ensure future payments are obligated only within approved apportionment limits.

AGENCY	Violation	Year Identified	Description	Status
Forest Service (FS)	(ADA), 31 U.S.C. § 1341 (a) (1), and Government-wide General Provisions § 603 violation for FY 1990 through FY 2009	FY 2015	The violation related to the agency's employment in California of two citizens of Palau. The two Palauan employees did not, in 1990, fall within any of the categories that would have permitted payment of their salaries using Forest Service appropriations.	ADA violation was reported to Congress and the President on September 13, 2017.
Office of the Chief Financial Officer (OCFO)	(ADA) General Provision (GP) 706 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2016, Pub. L. 114–113, Div. A (Dec. 18, 2015)	FY 2016	USDA is prohibited from making certain obligations for Information Technology (IT) projects without the prior written approval of the Chief Information Officer (CIO). Specifically, GP 706 states "none of the funds available to the Department of Agriculture for information technology shall be obligated for projects, contracts, or other agreements over \$25,000 prior to receipt of written approval by the Chief Information Officer." OCFO obligated funds in excess of the \$25,000 on four occasions prior to an approved Acquisition Approval Request from CIO.	ADA violations were reported to the Congress and President on April 6, 2017.

### ADA Violation Not Reported to the President and Congress During FY 2017

AGENCY	Description of Potential Violation	Status
Office of Advocacy and Outreach (OAO)	<u>PRIOR YEAR:</u> The Office of Advocacy and Outreach (OAO) identified an ADA violation for fiscal years 2011 and 2012, under the Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008). OAO awarded more than \$19 million for “Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers” (Section 2501) Grants in excess of amounts permitted by the Farm Bill of 2008.	The ADA violation is in the process of being reported to Congress and the President.

Potential ADAs — In addition to the violations that were reported to the President and Congress during FY 2017, there was one potential ADA from the prior year that remains unresolved. Three potential ADAs were identified during FY 2017. These occurrences were in various stages during the fiscal year, and are pending results from research and investigation for a determination as to whether or not a violation actually occurred. This table provides a status.

AGENCY	Description of Potential Violation	Status
The Foreign Agricultural Service (FAS)	<u>PRIOR YEAR:</u> FAS identified a potential violation of an ADA that may have occurred in its FY 2009 appropriation.	FAS has completed its analyses and identified the causes of this potential violation. During FY 2017, the Office of the General Counsel (OGC) made a determination that FAS properly adjusted its accounts to correct the errors that had created the negative balance. With these account adjustments, there is no ADA violation.
Commodity Credit Corporation (CCC)	<u>PRIOR YEAR:</u> FY 2016, a potential ADA violation may have occurred in CCC’s expenditures. Expenditures for CCC interest to Treasury appear to have exceeded amounts initially apportioned by OMB. CCC expended approximately \$37 million in interest to Treasury, more than the apparently apportioned amount	FSA is seeking further review of the legal authority of CCC with respect to the apportionment requirements with the OGC in conjunction with the Office of Management and Budget.

AGENCY	Description of Potential Violation	Status
	of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury.	
Office of the Chief Financial Officer/ National Finance Center (OCFO/NFC)	<p><u>FY 2017</u>: The National Finance Center (NFC) has been managing web pages for the New Orleans chapter of the Association of Government Accountants (AGA), which is a non-governmental organization, on the NFC website at no cost to AGA. The services provided were minimal and were limited to basic maintenance of AGA web pages, and updates to contact information or changes of officers. An investigation into this situation determined that NFC has been maintaining the AGA web pages since 1999. NFC also maintains the Federal Executive Board (FEB) web pages in a similar manner to the AGA, and these services are performed at no cost to the FEB.</p>	OGC is reviewing for a determination.
Office of the Secretary (USDA/OSEC)	<p><u>FY 2017</u>: A recent decision by the U.S. Government Accountability Office (GAO) General Counsel determined that, under the previous administration, USDA/OSEC violated the purpose statute, improperly augmented several of its appropriations, and potentially violated the Anti-deficiency Act when it obligated several of its appropriations for the expenses of separately funded USDA components. Allegedly, USDA improperly relied on the Economy Act to enter into interagency agreements, under which the agency obligated its appropriations for (1) Rural Development Salaries and Expenses, (2) Food and Nutrition Service, Nutrition Programs Administration, and (3) Office of Civil Rights, for personnel details that GAO determined did not actually occur. Instead, these appropriations were used for the salaries and benefits of employees performing work for separately funded USDA components. The Economy Act was</p>	The Department will seek an OGC determination.

AGENCY	Description of Potential Violation	Status
	referenced as the authority to transfer the appropriations. The purpose statute was violated when the incorrect appropriation was used for the salaries and benefits in question and improperly augmented the appropriations of these other USDA components. If upon adjusting its accounts to charge the correct appropriations, USDA has incurred obligations in excess of those appropriations, and potentially violated the Anti-deficiency Act.	
Commodity Credit Corporation (CCC)	<p><u>FY 2017</u>: The prior year accounting treatment for obligations related to the Conservation Reserve Program - Annual Rental contracts was determined to be in error. Only the annual portion of the contract values was recorded as an obligation, whereas OMB Circular No. A-11, requires recognition of the obligation in the amount necessary to cover the full-term of the contractual obligation. As a result, CCC recorded approximately \$10 billion in obligations as a beginning balance adjustment, whereby apportioned authority may not have been available in prior years.</p>	CCC will seek an OGC determination.

## DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 (DATA ACT)

USDA was unable to submit complete, accurate and timely files required for DATA Act reporting by the deadline of April 30, 2017. USDA made improvements to the submissions in fiscal quarters 3 and 4.

## FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT IMPROVEMENTS ACT OF 2015

USDA has not updated the catch-up calculations in its draft rule from 2016 to 2017. The Department is in the process of revising the draft rule for submission and publication in the Federal Register.

## Improper Payments Elimination and Recovery Act of 2010 (IPERA)

The following exhibit provides a summary of agency programs not compliant with the Improper Payment Elimination and Recovery Act (IPERA). For FY 2017, two USDA agencies were non-compliant. The following exhibit identifies the non-compliance related to IPERA and target dates by which the deficiencies will be mitigated. The summary of corrective actions can be found in the Payment Integrity Management Section of this report.

### EXHIBIT 5: Outstanding Initiative to Achieve Compliance

Initiative	Section of Non-compliance	Agency/Program	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010, as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012	Publish improper payment estimates for all high-risk programs and activities	Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP)	11/15/2018
		FNS Child and Adult Care Food Program (CACFP)	11/15/2020
	Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments	FNS National School Lunch Program (NSLP)	11/15/2018
		FNS School Breakfast Program (SBP)	11/15/2018
		FNS Special Supplemental Nutrition Program; Women, Infants, and Children	11/15/2018
	Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR)	Farm Service Agency (FSA) Noninsured Assistance Program (NAP)	11/15/2018
		FNS National School Lunch Program (NSLP)	11/15/2020
		FNS School Breakfast Program (SBP)	11/15/2020

# Federal Financial Management Improvement Act Report on Financial Management Systems

## BACKGROUND

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply with (1) Federal Financial Management System (FFMS) requirements; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures, or practices to be substantially compliant with FFMIA. The information technology (IT) non-compliance is also reported as a material weakness and is included in the [Federal Managers' Financial Integrity Act Report on Management Control](#). Failure to resolve prior year recommendations identified by USDA's Office of Inspector General (OIG) has prevented the Department from mitigating repeated deficiencies and receiving a quality rating on the five Cybersecurity Framework security functions. More detailed information on the status of corrective actions planned and to be completed to comply with FISMA is also provided in the [Response to Management Challenges](#) section of this report.

The following exhibit contains the outstanding initiatives to achieve compliance.

### EXHIBIT 6: Initiatives to Be Completed

#### OUTSTANDING INITIATIVES TO ACHIEVE FFMIA COMPLIANCE

Initiative	Section of Non-compliance	Agency	Target Completion Date
Information Technology	Federal Financial Management System (FFMS) requirements, and information security policies, procedures, and/or practices.	Multiple	12/31/2020
Financial Management	Federal accounting standards, and U.S. Standard General Ledger (USSGL) at the transaction level.	NRCS	9/30/2018
	Federal accounting standards, and USSGL at the transaction level.	CCC	9/30/2019

## FISCAL YEAR 2017 RESULTS

During fiscal year (FY) 2017, the U.S. Department of Agriculture (USDA) evaluated its financial management systems to assess compliance with FFMIA. In assessing FFMIA compliance, USDA considered auditors' opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the FY 2016 Agency Financial Report. USDA is not compliant with Federal accounting standards and the USSGL at the transaction level due to deficiencies identified for the Commodity Credit Corporation and Natural Resources Conservation Service.

Additionally, as reported in the FFMIA section of this report, USDA continues to have weaknesses in IT controls and Federal Financial Management Systems requirements that result in non-compliance with the FISMA requirement. As part of its financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

### COMMODITY CREDIT CORPORATION (CCC)

Non-compliance with Federal accounting standards was noted for weaknesses in the accounting for budgetary transactions and accounting estimates. The financial management systems did not record certain accounting events, at the transaction level, in accordance with the U.S. Standard General Ledger.

During FY 2017, CCC continued their efforts to modernize their systems to become compliant with the funds control/obligation requirements related to recording obligations at the transactional level.

### NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

Deficiencies in applicable Federal accounting standards, including the USSGL at the transaction level, were noted for obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations as it relates to accrued expenses.

NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA.

# Financial Management Systems Strategy

The Financial Management Systems (FMS) component of OCFO is responsible for providing timely, accurate, and complete financial information to USDA agencies to enable them to execute the mission of USDA. Specifically, FMS provides cloud-based, Commercial Off the Shelf (COTS) Enterprise Resource Planning (ERP) software that provides USDA Agencies with the functionality they need to distribute, obligate, expend, and report on the funds entrusted to them by Congress.

FMS Operates as an Internal Shared Services Provider to USDA agencies, pooling resources to offer cost-effective systems and support through consolidation of functions, standard processing, and repeatable processes.

## FINANCIAL MANAGEMENT LINES OF BUSINESS

The COTS ERP Systems, Applications, and Products (SAP) offering is housed in the FMS Division. Under the Financial Management Modernization Initiative (FMMI), over the past eight years, this system has become the USDA Financial Management (FM) solution which covers almost all USDA accounting activity. Efforts are currently under way to migrate all remaining accounting activity that is not in FMMI over the next 3 years.

In addition, USDA has recently expanded its portfolio of services to include ezFedGrants (EFG), a SAP-based grants management tool that is fully integrated with the USDA core accounting system. Grants management is a major activity of many USDA Agencies and this system, integrated with FMMI, assists grants managers to run their grants programs efficiently and improve the accuracy of their accounting.

## MISSION

FMS' mission as an internal Financial Shared Service Provider is to provide reliable, cost-effective, employee-centric systems and services to USDA organizations, thus allowing

our customers to focus on serving this great Nation through their mission delivery. FMS' goal is to provide the necessary activities for executing the Financial Management Lines of Business vision. The three key components of this vision are communication, governance, and operations. By executing these components, USDA will deliver a successful shared service offering.

FMS' activities are focused on financial management services. The list of financial management services includes:

- Budget execution;
- General ledger accounting;
- Financial reporting;
- Audit support;
- Payroll accounting;
- Investment accounting;
- Commercial vendor payments;
- Temporary duty travel payments;
- Permanent change of station employee relocation payments;
- Grant payments;
- Purchase card payments;

- Lease accounting;
- Intragovernmental payments;
- Intragovernmental collections;
- Receivable management;
- Property accounting;
- Child care; and
- Grants management.
- More powerful and flexible financial management and reporting;
- Administrative payments, collections, and certifications;
- Editing/auditing capabilities that are 100-percent computerized; and
- The best possible customer focused service and support.

By offering a solution that is proven and operating, and which meets all compliance requirements, a customer is jump started in coming online with a state-of-the-art, fully configured ERP solution built for financials. FMS' primary objectives for this shared services effort are to provide the following:

- An enterprise financial management service that allows customers to reap the benefits of faster, less expensive, and less risky services as compared to starting with a new ERP or financial management implementation;
- Integration with the National Finance Center (NFC) payroll processing services;
- Budget status forecasting;
- An enterprise grants management service that allows customers to utilize a full life-cycle management tool for grants administration that provides visibility to both the government and the grant recipient;
- A complete audit-compliant financial solution with full documentation meeting financial requirements;
- Continuous process, operational, and organizational improvements for those shared services retained in the future state portfolio;

## PROVIDER STATUS

As a Federal Shared Service Provider (FSSP), USDA continues to work with Unified Shared Services Management (USSM) at GSA and the Office of Financial Innovation and Transformation (OFIT) at Treasury to ensure our FMS-based services adhere to the required guidelines with respect to services, pricing, governance, and service level metrics.

## SUCCESSSES

During fiscal year (FY) 2017, USDA succeeded in the following ways:

- Built a data extraction methodology and harmonized data model that allows future grants customers to develop reports using data from Estimated Construction Cost (ECC), Certified Reference Material (CRM), Pega, and agency repositories. This enhances the attractiveness of our grants management solution for USDA customers, as well as customers in other organizations;
- Completed high-level requirements gathering and planning to enable the Forest Service (FS) to begin deployment activities for EFG in 2018;
- Opened discussions with Rural Development (RD) about bringing loans into the USDA SAP corporate solution;

- Implemented an EFG interface with Grants.gov. Grants.gov is a clearinghouse that allows Federal agencies to get grant opportunities out to the public and receive applications from the public. The interface with EFG will streamline the process with a paperless flow;
- Implemented an enterprise version of EFG with the National Institute of Food and Agriculture (NIFA) and the Animal and Plant Health Inspection Service (APHIS);
- Converged existing EFG agencies into the enterprise solution (Foreign Agriculture Service [FAS], Agricultural Marketing Service [AMS], Office of Advocacy and Outreach [OAO], and the National Resources Conservation Service [NRCS]);
- Migrated several agencies into the Budget Status of Funds (BSF) tool (FAS, NRCS, RD, and the Risk Management Agency [RMA]);
- Deployed the Allotment Planning Module for NRCS;
- Migrated USDA's SAP-based financial management system to the cloud — This has improved performance, reduced risks and costs, increased flexibility, and improved testing and training. Stability and performance was improved by over 400 percent by this migration to a commercial cloud. By working in the cloud, we will be able to offer shared service customers a robust and reliable platform that allows them to focus on their core mission.

## FUTURE ROADMAP: SAP

USDA goals for the future include as follows:

- Roll the SAP grants solution out to all USDA agencies and to agencies outside USDA;
- Create a new line of business to specifically support grants management; and
- Begin the integration of loan programs into the SAP solution within USDA.

FY 2017 and planned FY 2018 releases and upgrades include the following:

- SAP software release;
- General Financial Management Modernization Initiative enhancements;
- High-Performance Analytic Appliance (HANA) business warehouse; and
- Financial Statement Data Warehouse (FSDW) migration.

## Other Management Information, Initiatives, and Issues

### DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT (DATA ACT)

In May 2014, the Digital Accountability and Transparency (DATA) Act was enacted. This Act extends Federal Funding Accountability and Transparency Act (FFATA) reporting by adding additional data elements to the previous FFATA reporting on financial assistance and procurements. The U.S. Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) and Federal agencies are responsible for implementing the Act. Federal agencies are required to produce seven files as listed below and report them to the Treasury Broker quarterly:

- File A: Appropriations data by Treasury Symbol
- File B: Appropriations by Treasury Symbol, Budget Object Classification Code (BOC), and Program Activity (PA). The total of File B should equal the total of File A.
- File C: Financial attributes from the General Ledger(s) (GL) for each financial assistance award and procurement contract over the micro purchase threshold.
  - This file is compared and reconciled with the D1 and D2 files. For each award reported on the D1 and D2 files, the corresponding GL transactions are reflected on File C.
- File D1: Procurement data from the Federal Procurement Data System (FPDS). (Daily to FPDS)
- File D2: Financial Assistance award attributes.
  - Agencies submit data to the repository, which conducts edits and then transmits all error-free data to [USAspending.gov](http://USAspending.gov). Records with errors are sent back to the agencies and staff offices for correction before resubmission.
- File E: Financial Assistance Subaward Reporting (Pulled by the broker from the Federal Funding Accountability and Transparency Act Subaward Reporting System [FSRS]).
- File F: Top five most highly compensated officers (Pulled by Broker from System for Award Management [SAM]).

USDA developed a DATA Act repository to store data from all the U.S. Department of Agriculture (USDA) agencies and staff offices. This repository contains the data necessary to create files A-C by pulling data from the Financial Management Modernization Initiative (FMMI) general ledger. The Rural Development (RD) and Farm Service Agencies (FSA) use separate GLs (RD and FSA also have FMMI activity) and submit file A-C data to the repository. USDA is also a Financial Shared Service Provider, servicing 23 small government agency clients. All USDA and customer data is held in the FMMI repository.

D1 file data is submitted as frequently as daily to FPDS. The repository pulls in all data submitted to FPDS at quarter end for reconciliation purposes.

File D2 is submitted from agencies and staff offices to the repository where the files are checked for errors. All records that are error-free are submitted to [USAspending.gov](http://USAspending.gov) for posting. Error records are sent back to the agencies and staff offices for correction and resubmission.

Files E and F are pulled by the Treasury broker quarterly, so the data is not maintained in the USDA DATA Act repository.

OMB and Treasury developed phased guidance for implementation of the DATA Act. Guidance to date includes OMB Memorandum 15-12,<sup>13</sup> Management Procedures Memorandum (MPM) 2016-03<sup>14</sup> and OMB Memorandum 17-04.<sup>15</sup> Treasury published version 1.1 of the Requirements Submission Specifications (RSS) and Interface Design Document (IDD) on June 30, 2017. It will be implemented in the fall of 2017. USDA is a government leader in the workgroups charged with the government-wide DATA Act implementation and in developing the guidance listed above.

The Office of the Chief Financial Officer (OCFO) leads the DATA Act implementation

---

<sup>13</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2015/m-15-12.pdf>

<sup>14</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/financial/memos/management-procedures-memorandum-no-2016-03-additional-guidance-for-data-act-implementation.pdf>

<sup>15</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2017/m-17-04.pdf>

for USDA. OCFO Financial Management Services (FMS) developed a data repository for the Department to collect all DATA Act elements. The repository connects to the Beta [USAspending.gov](http://USAspending.gov) Web site and will report the data using Treasury's data broker.

USDA's Senior Accountable Official, the Chief Financial Officer, established a USDA DATA Act implementation team. This group inventoried DATA Act elements in the USDA agency source systems and coordinated any needed system changes to become compliant. USDA has four main general ledgers and multiple awards systems where data resides. Despite significant challenges (including a tornado that left the National Finance Center in New Orleans, where the FMS is headquartered, without a facility), USDA submitted DATA Act reporting by the May 2017 deadline.

USDA submitted third quarter data to the [USAspending.gov](http://USAspending.gov) Web site in August 2017. The data quality had improved compared to the second quarter. Fourth quarter data will be reported in November 2017. USDA is focused on improving data quality. OCFO developed a tool to assist USDA Agencies and Staff Offices to report financial assistance and Procurement Award Identification (IDs) to its GLs, a new requirement as of January 1, 2017. As Agencies address transactions and associate the correct Award ID or mark the transaction as not DATA Act reportable, matching transactions in the GLs to the Awards reported in files D1 and D2 will improve. OCFO began training agencies in August and will conduct several such trainings to assist the agencies with this task. The level of effort and research required to address transactions without Award IDs or marked as not reportable will take several reporting quarters to complete.



# U.S. DEPARTMENT OF COMMERCE

## AGENCY FINANCIAL REPORT



FISCAL YEAR

# 2017



# MANAGEMENT'S DISCUSSION AND ANALYSIS

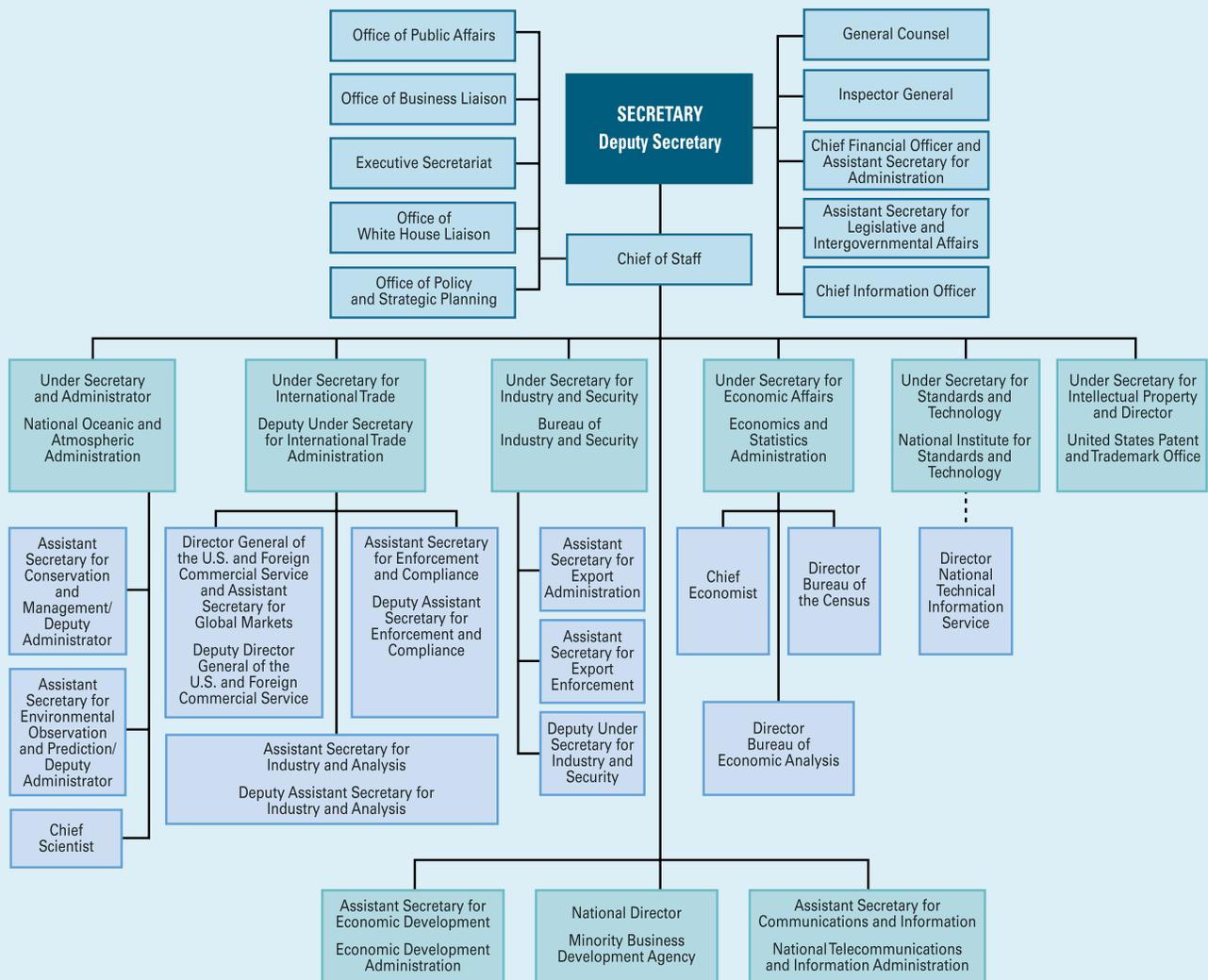


# MISSION AND ORGANIZATION

## MISSION

TO CREATE THE CONDITIONS FOR ECONOMIC GROWTH AND OPPORTUNITY.

## U.S. DEPARTMENT OF COMMERCE



# THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

## BACKGROUND ON FEDERAL AGENCY STRATEGIC PLANNING

---

FY 2017 was exceptional in many ways. Mid-fiscal year a new administration moved into the White House and assumed leadership of federal agencies. FY 2017 is also the first year that all major federal agencies are developing and issuing new strategic plans on the same schedule. The Government Performance and Results Modernization Act (GPRMA) of 2010 requires agencies to publish new strategic plans one year after a new administration begins. The process of developing the plans for FY 2018 – FY 2022 began in the spring of calendar year 2017. Drafts were provided to the Office of Management and Budget (OMB) in September 2017. Final FY 2018 – FY 2022 plans will be published in February of 2018.

The FY 2014 – FY 2018 Strategic Plan broadly guides activities through FY 2017. However, the focus after the inauguration in January was on defining and refining the priorities and policies of the new administration. Some priorities were articulated during the campaign; others are being developed as the new team governs. Many leadership positions are filled well into the administration's first year and new principals will modify and refine plans as they work with the agencies they lead.

GPRMA also requires agencies to establish Agency Priority Goals (APGs). APGs set two-year targets for initiatives that are significant and would benefit from a well-orchestrated sprint. Most major departments have three to five APGs that are selected by top leadership and approved by OMB, an extension of the White House. APGs belong to an administration and may or may not be a priority of a new team. However, they typically are significant and continue to be monitored but may lose the APG designation. During the summer of 2017, new APGs were proposed, but they will not be formally adopted until 2018.

The Strategic Plan and APG implementation monitoring process described later in this section continued through the end of calendar year 2016. Progress and barriers to progress are important information to use in the development of new plans and APGs. However, in 2017, emphasis and executive attention has focused on creating a program/policy framework for the next four years. With the exception of top priority actions, strategic plan monitoring will be more bureau-based until a new plan is adopted. When a new plan is published, the Department-level review process will be modified to accommodate the preferences of the Secretary and Deputy Secretary.

## ORGANIZATION OF THE DEPARTMENT OF COMMERCE STRATEGIC PLAN

---

The FY 2014 – FY 2018 Department of Commerce Strategic Plan, the plan in effect during FY 2017, is organized by goal areas, strategic objectives, strategies, and performance indicators. This structure is standard for federal agencies and is established in guidance from OMB. The goal areas are major elements of the Department mission, i.e., Trade and Investment, Innovation, Environment, Data, and Operational Excellence. Strategic objectives (three to five per goal area) state specific important outcomes the Department aims to achieve, e.g., "Strengthen fair competition in international trade." Strategies are approaches that will be used to achieve a strategic objective, e.g., "Monitor and ensure compliance with trade agreements." Performance indicators are measures of success, e.g., "Number of trade agreement compliance cases resolved successfully."

The FY 2018 – FY 2022 Strategic Plan that is being developed will have the same structure, but goal area, strategic objective, strategy, and performance indicator content will change.

## ROUTINE MONITORING OF THE STRATEGIC PLAN

---

The Department's Strategic Plan Review and Implementation (SPRI) meetings have been one forum for monitoring the strategic plan and refining strategies and tactics on an ongoing basis. Monthly SPRI meetings included the administration-appointed bureau leaders, the Deputy Secretary, and principals of the Office of the Secretary. The Secretary attended intermittently. The Deputy Secretary chaired the reviews. At every meeting, a goal area and related objectives and priorities were discussed. Progress, challenges, and risks were identified and benefited from the collective talents and resources of the group. Strategies and tactics were at times revised or enhanced to accelerate progress or reduce risks.

The Strategic Plan was also monitored and advanced through weekly Operating Committee meetings. These meetings included the Secretary, the Deputy Secretary, policy principals, and the bureau leaders responsible for results under discussion. Discussion and reporting followed a prescribed format and follow-up actions were assigned.

Performance indicator data on APGs and Cross-Agency Priority Goals (address multi-agency priorities) have been posted to a public website [www.performance.gov](http://www.performance.gov). This is a legal requirement, and will continue into the new administration. Before the data and explanations are published, the tracking information is reviewed by bureau leadership and OMB.

Internal bureau-centric metric review processes vary in approach and schedule but are systematic. Data on mission support initiatives (Human Resources, Acquisition, Financial Management, etc.) are tracked on an online dashboard and reviewed at quarterly meetings with the Chief Financial Officer/Assistant Secretary for Administration (CFO/ASA). The various "CXO" Councils (Human Resources, Information Technology, Acquisition, CFO) also review dashboards of metrics.

## ANNUAL STRATEGIC REVIEW PROCESS

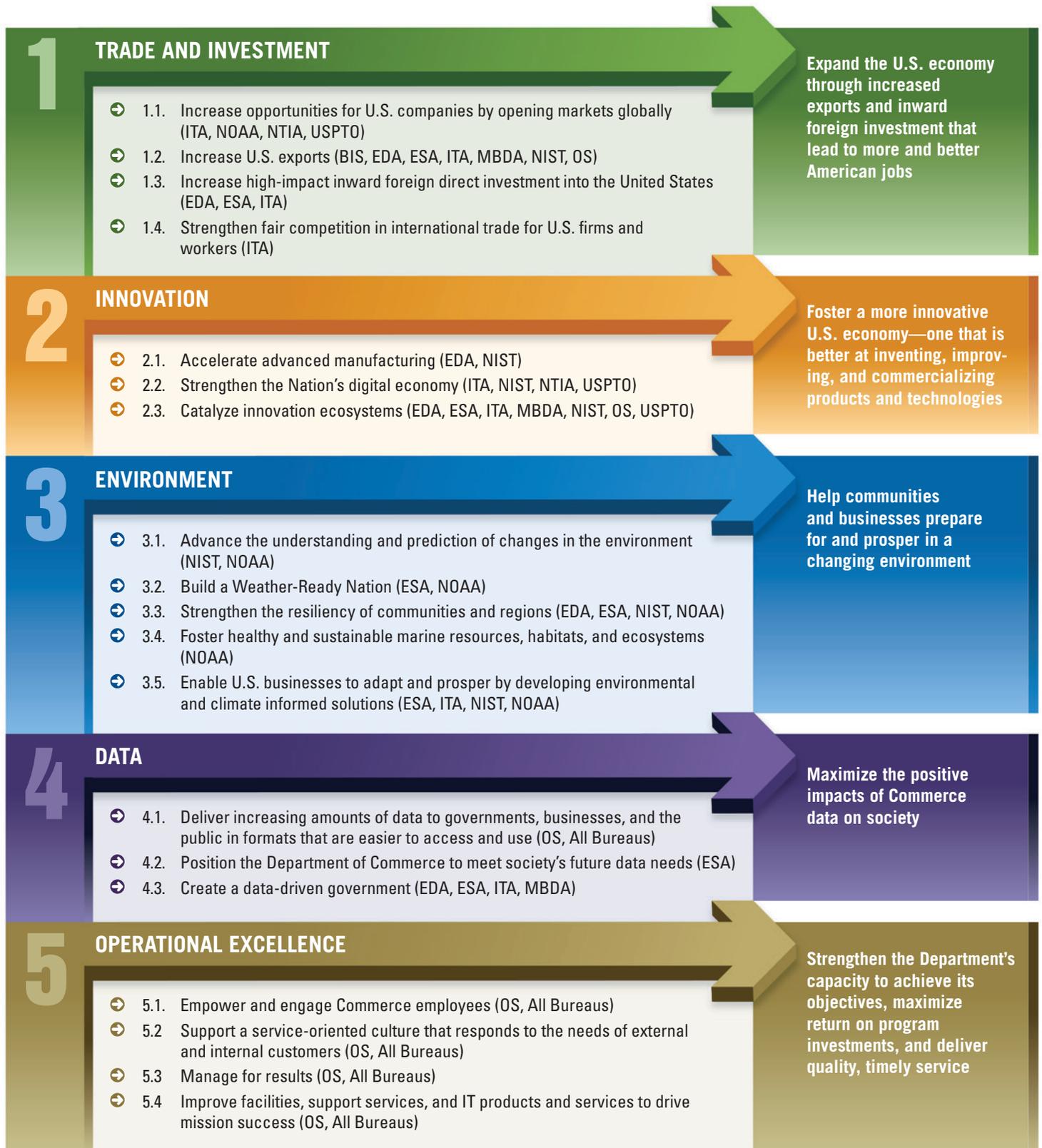
---

As required by OMB guidance, in the spring of FY 2016, the Department conducted a review of progress on the 19 strategic objectives in the FY 2014 – FY 2018 Strategic Plan. The results of the reviews are summarized in the Annual Performance Report that will be issued in FY 2018. The strategic reviews generated an "evidence agenda" that sets priorities for research and program evaluation needed to evolve service delivery and increase return on investment in programs. Evidence (research) on the quality of service and program impact is informing the development of the new strategic plan.

The chart on the following page summarizes the strategic goals and objectives established in the FY 2014 – FY 2018 Strategic Plan. The complete plan can be viewed online at [https://www.commerce.gov/sites/commerce.gov/files/media/files/2014/doc\\_fy2014-2018\\_strategic\\_plan.pdf](https://www.commerce.gov/sites/commerce.gov/files/media/files/2014/doc_fy2014-2018_strategic_plan.pdf).

The FY 2018 – FY 2022 Department of Commerce Strategic Plan will build on what the Department achieved and learned in FY 2014 – FY 2018.

## SUMMARY OF STRATEGIC GOALS AND OBJECTIVES



Note: ESA includes the Bureau of Economic Analysis and the Census Bureau.

# FY 2017 PERFORMANCE SUMMARY

## OVERVIEW

The performance indicators below are a representative sample of the 170 measures that are tracked at the Departmental level. The indicators presented in this report were selected based on significance, the availability of FY 2017 data, and accessibility (easy to understand without a technical background). Full year data on FY 2017 were not available for all measures by the publication deadline. The Department's full set of performance metrics, trends, and results can be found in the Annual Performance Plan and Report that is part of the annual budget submission to Congress. (<http://osec.doc.gov/bmi/budget/>)

### 1. TRADE AND INVESTMENT

The Agency Priority Goal (APG) in the Trade and Investment goal area has been "Percentage of Global Markets' clients that achieved their export objectives." Global Markets is a business unit of the International Trade Administration (ITA). It assists U.S. businesses (ITA's clients) to start exporting or increase exports. This measure reflects Global Markets' emphasis on customer service. In FY 2017, the target of 73 percent was exceeded; 78 percent of clients achieved their objectives. The percentage of clients highly likely to recommend Global Markets assistance, 86 percent, compares favorably to the service ratings of well-regarded private sector companies.

In FY 2017, ITA increased emphasis on enforcement of trade agreements and conventions. They far exceeded their target of responding to 298 business petitions regarding unfair practices; they worked with over one thousand businesses. Results on this measure will vary a lot year to year depending on the demand for counseling. "Commercial advocacy wins" are instances where ITA has helped a U.S. business win a contract with a foreign government or used diplomacy to remove a barrier to U.S. exports. There were 459 "wins" in FY 2017.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Percentage of Global Markets clients that achieved their export objectives	67%	73%	73%	78%	73%	78%
Percentage of clients highly likely to recommend Global Markets	78%	83%	84%	86%	82%	86%
Number of clients assisted by Global Markets	18,126	17,593	25,029	26,852	28,000	30,110
Number of antidumping and countervailing duty petition counseling sessions	N/A	N/A	N/A	655	298	1,038
Number of commercial advocacy wins	N/A	343	287	472	330	459

N/A = Not Available

### 2. INNOVATION

The Department supports innovation with cutting-edge research by the scientists at the National Institute of Standards and Technology (NIST). NIST also makes its facilities available to researchers from industry. In FY 2017, 442 businesses used NIST equipment to test ways to improve their products. The National Telecommunications and Information Administration (NTIA)

provides highly used research and information on broadband use and developments. One way NTIA measures its reach is by counting document downloads. It also provides consulting to communities on how broadband can be leveraged to expand their business base. In FY 2017, NTIA assisted 400 communities.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Number of businesses using NIST research facilities	N/A	514	444	435	325	442
Number of times NTIA research publications are downloaded	N/A	7,707	8,960	8,800	8,000	8,089
Communities that NTIA assisted in gaining economic benefits from broadband	N/A	N/A	337	449	250	400

N/A = Not Available

The U.S. Patent and Trademark Office (USPTO) missed the target for reducing the time for first action on a patent application; this will be addressed by increased use of technology and process improvements. USPTO has continued to reduce the patent backlog and the time required for a final patent determination (an APG). USPTO's efforts to improve cycle-time and patent quality help reduce the time from invention to commercialization of a product.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Patent first action pendency (months)	18.2	18.4	17.3	16.2	14.8	16.3
Patent total action pendency (months)	29.1	27.4	26.6	25.3	24.8	24.2
Patent backlog	584,998	605,646	553,221	537,655	485,300	526,579

### 3. ENVIRONMENT

The National Oceanic and Atmospheric Administration (NOAA) advances U.S. resilience to extreme weather and works with individual communities toward that end. As shown in the metric below many hometowns are benefiting from increased resilience. NOAA has an admirable record for peer-reviewed research; NOAA research focuses on weather, climate, and the oceans. As indicated in the last measure in the matrix below, they also have an admirable record of success supporting populations of endangered species. The Fish Stock Sustainability Index measures progress in maintaining fishing at levels that will permit future generations to fish.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Percentage of U.S. coastal states and territories demonstrating annual improvement in resilience to weather and climate hazards	57%	54%	60%	74%	66%	69%
Annual number of peer-reviewed publications related to environmental understanding and prediction	1,676	1,759	1,860	1,697	1,700	1,678
Number of protected species designated as threatened, endangered or depleted with stable or increasing population levels	30	37	31	31	30	30
Fish Stock Sustainability Index	719.0	746.0	761.5	754.0	754.0	756.5

NOAA skill and lead time for predicting weather can and does save lives. The “skill score” is a measure of accuracy and it hit an all-time high for temperature forecasts. Lead time for warnings is very important for extreme weather. Winter storm warning lead time is now 22 hours. NOAA is using “super-computing” to perfect the models and extend warning lead times. Accurate flash flood predictions are also needed for public safety. NOAA is working to improve the models that predict dangerous flooding. To this end, it opened the National Water Center in 2014. The National Water Center leverages interagency (U.S. Geological Survey, Army Corps of Engineers) expertise to improve water resource forecasts.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
U.S. temperature forecast skill	26	26	25	24	26	34
Winter storm warning – Lead time (hours)	22	22	21	21	20	22
Severe weather warnings for flash floods – Accuracy	78%	78%	79%	80%	76%	78%

#### 4. DATA

The FY 2014 – FY 2018 Strategic Plan presents data as a national asset that can increase competitiveness and save lives (e.g., weather data). In FY 2017, the Department continued to make more of its data sets available in API format, i.e., a format that facilitates linking data sets. NOAA and the Census Bureau data support industries that package the information for local and regional consumption.

The Census Bureau is planning a 2020 Decennial Census that will hinge on a centralized, state of the art information technology (IT) architecture. This IT investment will eventually support all of the Census Bureau’s survey products. The Census Bureau and the Bureau of Economic Analysis (BEA) continue to meet their deadlines for data releases that are the basis of critical government and business decisions.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Percentage of data processed and delivered to the user community (relative to all data transmitted to NOAA from NOAA-managed satellites)	99.5%	99.7%	99.35%	99.3%	98.5%	99.49%
Percentage of key activities for cyclical census programs completed on time to support effective decision-making by policymakers, businesses, and the public	90%	90%	100%	100%	90%	100%
Percentage of key data products for Census Bureau programs released on time to support effective decision-making of policymakers, businesses, and the public (Economic Indicators)	100%	100%	100%	100%	100%	100%
Percentage of key data products for Census Bureau programs released on time to support effective decision-making of policymakers, businesses, and the public (Other Key Products: Econ, Geo, and Demo)	90%	86%	87%	84%	90%	85%
BEA timely releases of economic statistics	62	65	65	74	74	74

## 5. OPERATIONAL EXCELLENCE

There are many granular measures in the Operational Excellence goal area that help identify support services that need improvement, e.g., measures of customer satisfaction with individual processes and services, cycle-times, and cost effective new practices. Strategic level measures are often milestones for implementing new approaches to major functions, e.g., organizational development, IT architecture, and acquisition. New approaches reflect government-wide initiatives/reforms in the President's Management Agenda, which states the administration's priorities for improved operations.

As these proceed, the Department monitors employee survey results (see below) to assess if the culture supports excellence. The survey data below is the percent of staff who responded positively on the questions in the index. Both index scores are above the federal averages (69 for engagement; and 58 for results).

One-way environmental responsibility is monitored is by tracking the Department's use of renewable energy. There has been steady improvement for five years. Enterprise acquisition practices are assessed in part through savings. That measure shows notable progress.

Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual
Federal Employee Viewpoint Survey – Employee Engagement Index	70	70	68	69	69	71
Federal Employee Viewpoint Survey – Results Oriented Culture Index	61	61	60	60	61	62
Commerce use of renewable energy as a percentage of total facility electricity use	4.9%	6.2%	7.7%	10%	7.5%	14.6%
Savings achieved through effective acquisition practices	\$21M	\$18M	\$17M	\$35M	\$18M	\$36M

## LOOKING FORWARD

The Department of Commerce is committed to creating the conditions for economic growth and opportunity. Much work has been completed and the Department remains committed to addressing continuing challenges, as well as new and emerging issues, as it strives to achieve the Department's strategic objectives.

Despite many gains and achievements, the Department recognizes areas of major potential impact on the effectiveness and efficiency of its programs and operations. The Department has undertaken and planned extensive actions to address these challenges, and is committed to making further progress.

As a new decade draws closer on the horizon, the Department will continue to work with businesses, universities, communities, and the Nation's workers to promote job creation, economic growth, and sustainable development. Departmental leadership is dedicated to making informed decisions when establishing program priorities as the Nation navigates familiar territories, and builds on core achievements; all while facing great uncertainty and emerging challenges. Balancing risk and opportunity in key programs, operations, and strategies will be a key contribution to the overall improved standards of living for Americans.

### BALANCING RISK AND OPPORTUNITY

---

Departmental managers and leaders handle complex and risky mission and mission support activities, such as preparing for and responding to natural disasters, and managing safe information technology (IT) systems. While it is not possible to eliminate all uncertainties in these types of projects, there are strategies that can help plan and manage them.

One such strategy used at the Department is Enterprise Risk Management (ERM). Recognized and cited by the U.S. Government Accountability Office (GAO) as a good practice for managing risk, the Department's ERM effort provides ways to better anticipate and manage risk across the organization. Successful ERM programs find ways to develop an organizational culture that allows employees to openly discuss and identify risks, as well as potential opportunities to enhance organizational goals or value. For example, Departmental officials sought to embed a culture of risk awareness across the Department by defining cascading roles of leadership and responsibility for ERM across the Department and for its 12 bureaus. Additionally, the Department leveraged this forum to share bureau best practices; develop a common risk lexicon; and address cross-bureau risks, issues, and concerns regarding ERM practice and implementation. These roles should support the ERM program and promote a risk management culture. They also help promote transparency, oversight, and accountability for a successful ERM.

Consideration of the Department's changing priorities and emerging risks is particularly valuable in helping the Department to focus its oversight efforts. The Department's ERM Framework is designed to facilitate a risk-based approach to its day-to-day business. The Department annually utilizes several processes and sources to identify, manage, and mitigate fraud risks. These process and sources include, but are not limited to, the Agency Risk Profile, GAO High-Risk List, and Mission Critical Programs and Activities List.

## EMERGING CHALLENGES

---

The underlying strength of the Department is the ability of its bureaus to work together and share expertise to drive economic growth. This same collaborative effort is leveraged to address the challenging areas that remain a priority for Department leadership. Securing Department systems and information, deploying a Nationwide Public Safety Broadband Network, and modernizing the Department's legacy IT systems and improving data quality are examples of areas for improvement that benefit from collaborative solutions. The Department is dedicated to developing processes to facilitate this need, which include conducting Milestone Review Boards (MRBs). The MRB is a Department-level multi-disciplinary meeting that reviews performance indicators and progress against milestones. The board meetings direct further data collection and/or course corrections to keep critical projects on track. A balance of oversight and proactive risk management will be an ongoing process to address these challenge areas.

## MANAGEMENT CONTROLS

The Department's management 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). During FY 2017, the Department assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2017 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the Department 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 A-123. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over financial reporting as of June 30, 2017, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Furthermore, no material weaknesses related to internal control over financial reporting were identified between July 1 and September 30.

Based on reviews conducted by the Department, it has been able to determine that its financial systems are in conformance with government-wide requirements.



Ellen Herbst  
Chief Financial Officer and  
Assistant Secretary for Administration  
Department of Commerce  
November 14, 2017



Wilbur L. Ross, Jr.  
Secretary of Commerce  
November 14, 2017

## FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

---

The objective of the Department's management control system is to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to the Department's operations are properly recorded and accounted for, permitting accurate accounts, reliable financial reports, and full accountability for assets; and
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

During FY 2017, the Department reviewed its management control system in accordance with the requirements of FMFIA, and OMB and Departmental guidelines.

### SECTION 2 OF FMFIA – INTERNAL MANAGEMENT CONTROLS

Section 2 of FMFIA requires that federal agencies report, on the basis of annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. Based on their FY 2017 evaluations, the Department's 12 bureaus submitted, signed, and certified their Statements of Assurance and can provide reasonable assurance that its' internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the U.S. Government Accountability Office (GAO) and the Office of Inspector General (OIG), evaluations conducted by other federal agencies such as the Office of Personnel Management, and other specifically requested studies. The diverse reviews that took place during FY 2017 that were key to the organization provide assurance that Department systems and management controls comply with standards established under FMFIA. In FY 2017, the OIG conducted an examination of the Department's compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). The examination covered the Department's second quarter FY 2017 DATA Act submission. The DATA Act, in part, requires federal agencies to report financial and award data in accordance with government-wide financial data standards. These data are now publicly available on the website [beta.USASpending.gov](http://beta.USASpending.gov). The DATA Act also requires the OIG of each federal agency to review a sample of the submitted data and then report on the completeness, timeliness, quality, and accuracy of the data, as well as the agency's implementation and use of the required standards. The OIG found that the transactions in the examined files were not presented, in all material respects, in accordance with the data characteristics defined in the U.S. Department of the Treasury's *Inspectors General Guide to Compliance Under the DATA Act*. As a result, the OIG noted a material weakness related to controls over the DATA Act submission processes, and a significant deficiency related to access controls over the Department's grant and procurement systems.

### SECTION 4 OF FMFIA – INTERNAL CONTROLS OVER FINANCIAL MANAGEMENT SYSTEMS

The Department has reported no material weaknesses under FMFIA Section 4 in recent years. Based on reviews conducted by the Department and its bureaus for FY 2017, the financial systems in the Department are compliant with GAO principles and standards, the requirements of the Chief Financial Officers (CFO) Act, and OMB requirements.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

---

The Department has reported no material weaknesses under FMFIA Section 4 in recent years. Based on reviews conducted by the Department and its bureaus for FY 2017, the financial systems in the Department are compliant with GAO principles and standards, the requirements of the CFO Act, and OMB requirements.

## BIENNIAL REVIEW OF FEES

---

OMB Circular A-25 Revised, *User Charges* (July 8, 1993), requires the biennial review of agency programs to determine whether fees should be charged for government goods or services, and to ascertain that existing user charges are adjusted to reflect unanticipated changes in costs or market values.

The Department conducts a review of its programs at least biennially. With the exception of the International Trade Administration (ITA), the Department is in compliance with the requirement to adjust its fees to meet the OMB Circular A-25 Revised requirement of full-cost recovery for user charges.

OMB has granted ITA an exception to the full cost recovery provisions of OMB Circular A-25 Revised for the user fees that ITA charges to small and medium enterprises until September 30, 2018. As ITA continues to review and update its fee structure, it is working towards improving data collection capabilities with regard to sensitivity analysis and revenue projections, with the goal of moving toward a model that more fully recovers the costs of the services it provides.

## REPORT ON AUDIT FOLLOW-UP

---

This report shows audit follow-up activity on audits performed by the OIG, as well as the amount of potential monetary benefits that the OIG found could be achieved through implementing open recommendations in these reports. The report includes only audits for which there has been resolution, i.e., management and the auditor (OIG) have agreed on an action plan. Reports are closed when final action has been taken to implement all recommendations.

The Department has changed the reporting period to the current fiscal year (FY 2017). We are also including information on the prior fiscal year (FY 2016) because this information was not included in the FY 2016 AFR.

**SUMMARY OF ACTIVITY ON AUDIT REPORTS  
OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017**

	NUMBER OF REPORTS <sup>1</sup>	POTENTIAL MONETARY BENEFITS OF OPEN RECOMMENDATIONS <sup>2</sup>
Beginning Balance	40	\$ 103,162,879
New Reports	22	44,209,928
Total Reports Open During the Period	62	147,372,807
Reports Closed	34	(60,277,972)
Ending Balance	28	\$ 87,094,835

**SUMMARY OF ACTIVITY ON AUDIT REPORTS  
OCTOBER 1, 2015 THROUGH SEPTEMBER 30, 2016**

	NUMBER OF REPORTS <sup>1</sup>	POTENTIAL MONETARY BENEFITS OF OPEN RECOMMENDATIONS <sup>2</sup>
Beginning Balance	32	\$ 152,115,308
New Reports	28	78,568,161
Total Reports Open During the Period	60	230,683,469
Reports Closed	20	(127,520,590)
Ending Balance	40	\$ 103,162,879

<sup>1</sup> The tables include Performance Audits, Evaluations, and Inspections. Audits comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation.

<sup>2</sup> In some audits, the OIG identifies potential monetary benefits that could be realized when or if the recommendations are implemented. Potential Monetary Benefits of open recommendations include Questioned Costs and Funds to Be Put to Better Use.

- Questioned Costs: This is a cost questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.
- Funds to Be Put to Better Use: This dollar value results from an OIG recommendation that funds could be used more efficiently if Departmental Management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Department, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

# FINANCIAL MANAGEMENT AND ANALYSIS

## INTRODUCTION

---

Under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. Ensuring that there are strong internal controls throughout the Department remains a priority. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced with the Department continuing to receive unmodified audit opinions, maintaining a single integrated financial system, and continuing its compliance with the Federal Financial Management Improvement Act (FFMIA).

Highlights of accomplishments for FY 2017 and future initiatives are discussed further below.

## FINANCIAL MANAGEMENT SYSTEMS

---

The Department maintains an FFMIA-compliant financial management system, Commerce Business Systems (CBS), which provides reliable, timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CBS consists of a Core Financial System, including the Commerce Purchase Card System and the Budget and Execution Data Warehouse. CBS is interfaced with the Commerce Standard Acquisition and Reporting System, the U.S. Department of Agriculture's (USDA) National Finance Center (NFC) Payroll System, and the U.S. Department of the Treasury's (Treasury) Automated Standard Application for Payments.

The financial information from CBS is integrated in the Corporate Database for consolidated financial reporting, resulting in a single integrated financial management system. The Corporate Database is a commercial, off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database is an integrated solution that provides financial statements and Adjusted Trial Balances reported at the Department, bureau, and Treasury Appropriation/Fund Group level. It also provides the ability to perform data analysis and produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

The Department is currently participating in government-wide work groups for SmartPay3 and Government Invoicing (G-Invoicing), which are two initiatives that will require compliance in future fiscal years. SmartPay3 is a U.S. General Services Administration (GSA)-led initiative to transition government purchase and travel cards from the current provider to a new provider, and may require changes to the CBS to successfully implement the change. G-Invoicing is a Treasury-led initiative to standardize the inter-agency agreement process across the government. The Department participates in these work groups to help guide the implementation of the initiatives across the government as well as to plan for the changes needed to CBS so that the Department is ready to implement by the mandatory date. Additionally, the Department remains dedicated to providing quarterly submissions to meet the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements, as well as addressing any necessary modifications as required.

During FY 2017, the Department accomplished the following initiatives:

- Completed development and deployment of interfaces between CBS and Employee Travel System, version 2 (E2 or E2Solutions) travel management system in support of the Department-wide implementation of E2. These interfaces include authorizations, vouchers, centrally billed accounts, and audit functionality;

- Completed implementation of E2 to the National Institute of Standards and Technology (NIST), National Oceanic and Atmospheric Administration (NOAA), and the Census Bureau, and stood up Tier 2/production support operations;
- Gathered requirements for Mass Close functionality in E2, which provides the ability to close multiple E2 Travel open obligations in one batch process;
- Completed year-end interface for E2;
- Designed, developed, and deployed the DATA Act Broker and successfully lead the Department in second quarter and third quarter DATA submissions;
- Completed development of Federal Funding Accountability and Transparency Act New Unique Identifier to include Activity Address Codes (AAC);
- Completed technical CBS upgrades for CBS Technology Migration to Web Center-Multi-Node environment, Oracle 12C database, and WebCenter 12.2.1.1;
- Began development and configuration for TIBCO upgrade, which is software used to translate and validate XML documents from CSTARs (the Department's acquisition system) to be interfaced into CBS;
- Completed analysis and began installation/configuration for Java Runtime Environment/Java WebStart; and
- Conducted operations and maintenance activities for the Department's Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA) Dashboard application. The CFO/ ASA Dashboard provides a Department-wide, executive-level overview of the Department's highest priority and highest risk mission and administrative initiatives.

In FY 2018 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following:

- Continue working with the Office of Management and Budget (OMB) and Treasury to determine the next steps for the Business Application Solutions project;
- Gather requirements, design, develop, and implement SmartPay3 interface;
- Design, develop and implement NOAA Corp Retirement System interface changes to USDA's NFC interface;
- Conduct analysis and perform requirements gathering and design for G-Invoicing;
- Implement AAC and E2 year-end code synchronization;
- Develop Mass Close functionality for E2;
- Establish Business Intelligence solution to meet the Department's needs for DATA Act metrics reporting;
- Implement a Department-wide relocation system and its interface with CBS; and
- Complete technical upgrades for Oracle WebCenter 12.2.1.2, Oracle 12C Forms and Reports, and TIBCO upgrade.

## FINANCIAL REPORTING AND POLICY

---

The Department accomplished the following initiatives during FY 2017:

- Bureaus identified and reported improper payments data to the Department quarterly, including recaptures of improper payments data, identified reasons for improper payments, and continually implemented appropriate actions to minimize future improper payments. For more information on the Department's payment integrity efforts during FY 2017, see the *Payment Integrity* subsection included in *Other Information*;
- Each of the Department's bureaus/reporting entities updated or prepared their scheduled improper payment risk assessments covering all programs/activities as required by OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. These improper payment risk assessments of the entity's programs/activities also include assessments of the control, procurement, and grants management environments, and are now in the continuous process stage of being updated every three years, unless significant changes occur, in which case an assessment will be updated quicker. For more information on the Department's efforts during FY 2017 regarding improper payments risk assessments, see the *Payment Integrity* subsection included in *Other Information*;
- A contractor completed an annual payment recapture audit of Department-wide grants and other cooperative agreements, and completed an annual payment recapture audit of contracts/obligations for the National Telecommunications and Information Administration (payment recapture audits of contracts/obligations are performed annually for the Department's bureaus/reporting entities, on a rotational basis). The payment recapture audits did not identify any improper payments;
- A contractor prepared a Statistical Sampling and Estimation Plan for the NOAA Disaster Relief Appropriations Act FY 2016 disbursements in order to yield a statistically valid improper payments estimate, and the contractor and NOAA performed the FY 2016 disbursements testing, which yielded a statistically valid improper payments estimate of \$85 thousand and a statistically valid projected improper payments rate of 0.15 percent. For more information on the Department's statistical sampling efforts for funds received by NOAA under the Disaster Relief Appropriations Act, see the *Payment Integrity* subsection included in *Other Information*; and
- Adjusted the Department's civil monetary penalties for inflation in January 2017, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. For more information on the Department's civil monetary penalties as of January 15, 2017, see the *Civil Monetary Penalties' Adjustments for Inflation* subsection included in *Other Information*.

In FY 2018 and beyond, the Department plans to accomplish the following

- Adjust the Department's civil monetary penalties for inflation in January 2018, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015;
- Implement, effective FY 2018, the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, which sets forth guidance to include, in the Department's financial statements or as footnote disclosures, "all organizations (1) budgeted for by elected officials of the federal government; (2) owned by the federal government; or (3) controlled by the federal government with risk of loss or

expectation of benefits. In addition, SFFAS 47 establishes that an organization be included in the Department's financial statements if it would be misleading to exclude it even though it does not meet one of the three inclusion principles." Lastly, SFFAS 47 sets forth guidance on disclosure requirements on Departmental significant relationships with other parties. SFFAS 47 requires disclosures "if one party to an established relationship has the ability to exercise significant influence over the other party in making policy decisions, and the relationship is of such significance that it would be misleading to exclude information about it."

- Implement, effective FY 2019, SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, which "establishes principles to ensure that disclosures about Public-Private Partnerships (P3s) are presented in the reporting entity's general purpose federal financial reports (GPFRRs). The principles guide financial reporting by establishing a P3 definition and identifying risk-based characteristics that need to exist before considering the P3 arrangement or transaction for disclosure. SFFAS 49 exempts certain arrangements or transactions from the P3 disclosure requirements contained herein. Such exempt arrangements or transactions are subject to existing disclosure requirements in other SFFASs applicable to such arrangements or transactions."

## GRANTS MANAGEMENT

---

Under CFO/ASA, the Office of Acquisition Management (OAM) is responsible for the Department's enterprise-wide grants management policy, projects, and oversight. The Department's focus is to standardize policy and procedures for its grant and cooperative agreement programs to strengthen compliance. Additionally, OAM is overseeing the modernization of NOAA's fully automated grants management system, Grants Online, as well as, the migration of all its remaining grant-making units to Grants Online. Targeted efforts by OAM continue to transform the decentralized Department grants management community into an effective and efficient partnership.

OAM's Grants Management Division (GMD) coordinates the Department's implementation of all applicable statutes, regulations, Executive Orders, and OMB circulars, as well as the provisions of 2 CFR, Part 200 (Uniform Guidance), to establish more efficient and user-friendly requirements for both Department awarding units and recipients. OAM/GMD collaborates with partners in the Department's financial assistance community to review and update the Department's Grants and Cooperative Agreements Manual (Grants Manual) as well as develop updated Financial Assistance Standard Terms and Conditions (STC) consistent with the issued guidance—both the Grants Manual and the STCs undergo annual reviews and updates.

In support of the Department's focus in standardizing policies and procedures, OAM/GMD tracks the number of expired grants which remain unclosed for more than 180 days. The Department has made significant progress over the past five years, with the total number of unclosed grants in this category dropping from 703 in FY 2013 to 232 by August of 2017. The Department's timely and successful efforts to reduce unclosed expired grants directly supports the Grants Oversight and New Efficiency (GONE) Act, which was enacted on January 28, 2016 with the goal of improving the timely closeout of federal grant awards to strengthen grants management accountability and oversight.

To strengthen the implementation of Buy America Laws, the President signed Executive Order 13788, entitled "Buy American and Hire American" on April 18, 2017, with the goal of promoting U.S. economic and national security, stimulating economic growth, creating good jobs with decent wages, strengthening our middle class, and supporting the American manufacturing and defense industrial bases. On June 30, 2017, the Secretary of Commerce and the Director of OMB signed a memorandum to implement the Executive Order requiring that federal procurement and federal financial assistance awards maximize the use of goods, products, and materials produced in the United States, including iron, steel, and manufactured goods and OAM/GMD is coordinating this effort with the Department's grant-making bureaus.

Additionally, the Executive Order required the Secretary of Commerce, in consultation with the Secretary of State, the Director of OMB, and the U.S. Trade Representative to submit a report that includes findings from Section 3 (b) and (e) of the Executive Order, and include specific recommendations to strengthen implementation of Buy American Laws, including domestic procurement preference policies and programs. OAM/GMD, in collaboration with OMB's Office of Federal Financial Management, was assigned the lead in directing a government-wide analysis by all federal agencies to assess compliance with Buy American statutes and regulations for federal financial assistance awards.

## HUMAN CAPITAL

---

The Department of Commerce strives to be a model employer by building and maintaining a highly-skilled and diverse workforce. The Department takes pride in ranking 2nd out of 18 large federal agencies in the 2016 Best Places to Work, the most comprehensive and authoritative rating of employee satisfaction and commitment in the federal government produced by the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation. Internships, leadership development programs, technical training opportunities, telework, and succession plans are used by bureaus as vehicles for making progress in the recruitment, development, and retention of a highly-skilled and diverse workforce. Acknowledging that people are the key to mission accomplishment, Departmental leadership continues to implement and evaluate programs to ensure that there is succession planning for future workforce needs, including those in the area of financial management.

In FY 2017, the Department hosted approximately 360 Pathway Program interns, recent graduates, and Presidential Management fellows. Of these, approximately 19 served as accountants, budget analysts, and auditors, including two new hires and 13 who were converted to permanent positions, within finance and accounting offices in the Bureau of Economic Analysis, Census Bureau, International Trade Administration, NIST, NOAA, and the Office of Inspector General. To maintain a highly-skilled workforce, the Department's retention and succession strategies include the increased use of telework. In FY 2017, approximately 42 percent of Departmental employees (61 percent of accounting and budgeting employees) engaged in telework. Telework is used by the Department to position itself as an "employer of choice" in attracting qualified employees, facilitating employee work/life balance, increasing employee satisfaction and engagement, and potentially increasing employee productivity.

Also in FY 2017, the Department's Enterprise Services (ES) organization was stood up. ES is transforming the way the Department delivers mission-enabling services by implementing intra-departmental, multi-function enterprise service operations in the areas of Human Resources (HR), Information Technology (IT), Acquisitions, and Financial Management to the Office of the Secretary and the Department's 12 bureaus. In support of transforming the Department's HR program, ES migrated approximately 30 thousand employees to HRConnect, resulting in all Department bureaus being on a single, enterprise HR management system platform. ES also transitioned the first set of HR transactional services—Position Action Request (PAR) processing for two servicing HR offices—to its vendor for completion. Lastly, ES commenced providing Contact Center services related to HRConnect and PAR processing. Moving transactional work to ES allows HR professionals to focus on the high value, strategic services important to client bureaus in meeting their mission.

In addition, ES continued to be successful in delivering several critical services in the area of Acquisitions and IT, yielding enterprise-wide benefits and cost savings for the Department. Efforts will continue in FY 2018, and beyond, to transition additional HR services (e.g., Compensation and Benefits, Recruiting and Hiring, etc.) and functions (e.g., Financial Management) to the ES service delivery model. The focus and benefits of ES is on enabling improvements to its customers' experience, performance management, mission focus, and value.

On April 12, 2017, OMB issued memorandum 17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*. This OMB memorandum provided agencies guidance on fulfilling the requirements of the Reorganization Executive Order while aligning those initiatives with the federal budget and strategic plan. The Department submitted a proposal for the development of a long-term workforce reduction plan to OMB on September 11, 2017. This proposal included the following items such as using agency data to determine appropriate full-time equivalent baselines, examining the total personnel cost, reviewing and revising organization design and positions structures among other things. There will also be pilot projects that will be implemented to inform the Department-wide long-term workforce planning model. The implementation of this long-term workforce plan is still subject to final OMB approval and will require at least one year to develop a long-term workforce plan.

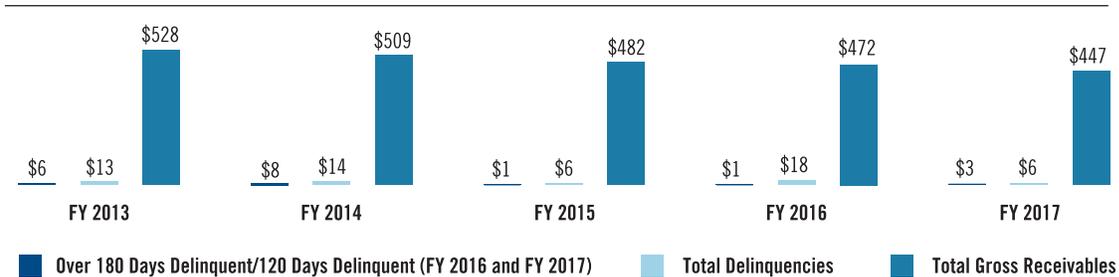
Furthermore, the U.S. Office of Personnel Management revised 5 CFR 250 subpart b, effective April 11, 2017, which included a new requirement to develop a Human Capital Operating Plan (HCOP), a four-year plan with annual reassessments. This tactical plan will provide processes and measures for the implementation of human capital strategies essential to successfully carryout the Department's Strategic Plan and Performance Plan. To ensure the HCOP is in alignment with the Department's Strategic and Performance Plans, Departmental teams leading the development of the three plans have worked together and remained involved throughout the development of each of the plans. The HCOP will include a task to examine talent management, especially the essential occupants required to execute strategies and meet performance measures identified in their respective plans. The initial HCOP is to be completed by November 30, 2017.

## RECEIVABLES WITH THE PUBLIC AND DEBT COLLECTION MANAGEMENT

The Department provides policies and procedures for the management and collection of non-tax debts owed to Departmental entities in its debt collection regulations, *Commerce Debt Collection*. These regulations adopt and incorporate all provisions of the Federal Claims Collections Standards (FCCS), which were jointly published by Treasury and the U.S. Department of Justice. The Department's debt collection regulations supplement FCCS by prescribing procedures, consistent with FCCS, as necessary and appropriate for Departmental debt collection management operations. FCCS clarifies and simplifies federal debt collection procedures and reflects changes under the Debt Collection Improvement Act of 1996 and the General Accounting Office Act of 1996. The Department also provides guidance for debt collection management in its *Credit and Debt Management Operating Standards and Procedures Handbook*, to ensure that consistent debt collection management practices are established and followed throughout the Department, and to establish and enhance Departmental debt collection management practices.

Applicable bureaus prepared, in 2014, Credit Management and Debt Collection Plans, which set forth their plans for effectively managing credit extension, account servicing, and debt collection management. These plans are updated at least every five years.

**GROSS RECEIVABLES WITH THE PUBLIC AS OF SEPTEMBER 30<sup>1</sup>** (In Millions)



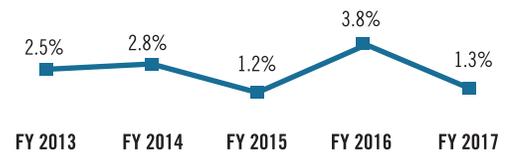
<sup>1</sup> The source for this table's data is the Department's Treasury Report on Receivables (TROR). There are reporting methodology differences between the gross receivables in TROR and gross receivables reported in the Department's notes to the financial statements; therefore, the amounts will not agree.

The DATA Act required, effective FY 2016, that agencies report to Congress any instance in which federal agencies fail to refer legally enforceable, non-tax debts that are greater than 120 days delinquent to the Treasury Offset Program for administrative offset.

The Department's total gross receivables with the public decreased \$25 million, or 5.3 percent, from \$472 million as of September 30, 2016 to \$447 million as of September 30, 2017, as reported on the Department's Treasury Report on Receivables, which is the primary means for the Department to provide comprehensive information to Treasury on its receivables with the public. Total delinquencies with the public, as a percentage of total gross receivables with the public, decreased from 3.8 percent as of September 30, 2016 to 1.3 percent as of September 30, 2017. Receivables with the public that were 120 days or more delinquent as a percentage of total gross receivables with the public, increased from 0.3 percent as of September 30, 2016 to 0.7 percent as of September 30, 2017.

Prescreening procedures, account-servicing standards, determined collection of delinquent debt, and extensive referrals of delinquent debt to Treasury have all contributed to effective Departmental debt collection management. The Debt Collection Improvement Act of 1996 established Treasury as the debt collection agency for eligible federal agency debts. Once receivables are delinquent by 120 days (effective FY 2016) or more, in accordance with Treasury requirements, such receivables are referred to Treasury's Bureau of the Fiscal Service for collection through its Cross-servicing Program and/or its Treasury Offset Program.

**TOTAL DELINQUENCIES WITH THE PUBLIC AS A PERCENTAGE OF TOTAL GROSS RECEIVABLES AS OF SEPTEMBER 30**



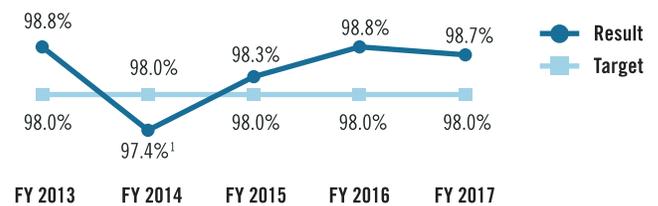
## PAYMENT PRACTICES

### PROMPT PAYMENT

The Prompt Payment Act of 1982 generally requires agencies to pay their bills to vendors on a timely basis (within 30 days of receipt of relevant documents), and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and the bureaus submit quarterly reports of prompt payment performance to the Deputy CFO.

The Department's prompt payment performance decreased slightly from 98.8 percent in FY 2016 to 98.7 percent in FY 2017. The number of invoices paid late increased from 3,064 in FY 2016 to 3,534 in FY 2017. The Department continues to focus on improving its prompt payment percentage by working closely with its bureaus to identify opportunities for new or improved business processes. Per OMB Memorandum M-15-19, *Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing* (July 17, 2015), federal agencies are required to transition to electronic invoicing for appropriate federal procurements by the end of FY 2018. The Department is currently exploring options to transition off its primary financial management system used by most of the bureaus and adopt a commercial off-the-shelf (COTS) product for those bureaus. As such, the Department would in large

**TIMELY VENDOR PAYMENTS (Percentage)**



<sup>1</sup> FY 2014 prompt payment performance was lower than all other fiscal years due to unusual processing delays caused by the October 2013 furlough of financial management staff.

part adopt the COTS product's solution for an electronic invoice processing system, if available. In 2017, the U.S. Patent and Trademark Office reviewed various electronic invoicing options and made a selection. The solution is planned to be in place by the end of FY 2018.

OMB Memorandum M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda* (June 15, 2017), encourages agencies to accelerate payments, to the best of their ability, to small businesses and prime contractors with small business subcontractors. This did not change an agency's responsibility to comply with the Prompt Payment Act and OMB's implementing regulations thereto (5 CFR Part 1315, *Prompt Payment*).

## BANKCARDS

The Department remains committed to the use of bankcards (purchase cards) as a means to improve mission support by streamlining the procurement and payment processes and by reducing administrative costs. Based on the results of FY 2013 testing of purchase card processes under OMB Circular A-123, Appendix A, *Internal Control Over Financial Reporting*, the Department implemented a pilot data analytic program in FY 2015 that reviews Department-wide purchase and travel card transactions in an effort to identify patterns, trends, and anomalies for possible further investigation. The Department continued to work with the bureaus in implementing corrective actions, monitoring internal controls, performing data analytics, and conducting necessary reviews and testing to ensure proper internal controls are in place during FY 2017. The Department also continues to carry out initiatives which have been implemented in the last few fiscal years, including more effective training, oversight, and risk management reviews in order to enhance the purchase card program. These enhancements have led to, among other things, a steady decrease in the number of purchase cards issued and in use by the Department.

## LIMITATIONS OF THE FINANCIAL STATEMENTS

---

The principle financial statements in the financial section have been prepared to report the overall financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the generally accepted accounting principles (GAAP) for federal entities and the formats prescribed in OMB Circular A-136, *Financial Reporting Requirements*, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

# ANALYSIS OF FY 2017 FINANCIAL CONDITION AND RESULTS

## FINANCIAL HIGHLIGHTS

<i>(Dollars in Thousands)</i>	Percentage Change	FY 2017	FY 2016	
<b>Condensed Balance Sheets:</b>				
<b>As of September 30, 2017 and 2016</b>				
<b>ASSETS:</b>				
Fund Balance with Treasury	-3%	\$ 25,030,940	\$ 25,872,055	
General Property, Plant, and Equipment, Net	9%	15,402,997	14,134,191	
Advances and Prepayments	358%	788,892	172,394	
Direct Loans and Loan Guarantees, Net	-5%	431,619	453,956	
Investment	0.3%	334,106	333,013	
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network	N/A	288,000	-	
Other	-4%	271,436	281,683	
<b>TOTAL ASSETS</b>	<b>3%</b>	<b>\$ 42,547,990</b>	<b>\$ 41,247,292</b>	<b>TOTAL ASSETS</b> <i>(In Billions)</i> 
<b>LIABILITIES:</b>				
Unearned Revenue	-2%	\$ 1,455,417	\$ 1,485,260	
Federal Employee Benefits	1%	885,936	876,111	
Accounts Payable	0.3%	599,637	598,009	
Accrued Payroll and Annual Leave	3%	577,272	557,966	
Debt to Treasury	-9%	430,313	475,207	
Liability to General Fund of the U.S. Government for Deficit Reduction	1%	336,188	334,054	
Accrued Grants	8%	135,995	125,498	
Other	5%	298,179	284,949	
<b>TOTAL LIABILITIES</b>	<b>-0.4%</b>	<b>\$ 4,718,937</b>	<b>\$ 4,737,054</b>	<b>TOTAL LIABILITIES</b> <i>(In Billions)</i> 
<b>NET POSITION:</b>				
Unexpended Appropriations	2%	\$ 5,973,837	\$ 5,840,085	
Cumulative Results of Operations	4%	31,855,216	30,670,153	
<b>TOTAL NET POSITION</b>	<b>4%</b>	<b>\$ 37,829,053</b>	<b>\$ 36,510,238</b>	<b>TOTAL NET POSITION</b> <i>(In Billions)</i> 
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>3%</b>	<b>\$ 42,547,990</b>	<b>\$ 41,247,292</b>	
<b>Condensed Financing Sources:</b>				
<b>For the Years Ended September 30, 2017 and 2016</b>				
Appropriations Received, Net of Reductions	2%	\$ 9,364,774	\$ 9,200,011	
Imputed Financing Sources from Cost Absorbed by Others	-19%	200,225	247,277	
Transfers In of Auction Proceeds from Federal Communications Commission	-100%	-	8,430,058	
Transfer Out to General Fund of the U.S. Government for Deficit Reduction	-100%	-	(7,781,010)	
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	-99%	(2,134)	(334,054)	
Other	209%	133,984	(122,742)	
<b>TOTAL FINANCING SOURCES</b>	<b>1%</b>	<b>\$ 9,696,849</b>	<b>\$ 9,639,540</b>	<b>TOTAL FINANCING SOURCES</b> <i>(In Billions)</i> 

(continued on next page)

(continued from previous page)

<i>(Dollars in Thousands)</i>	Percentage Change	FY 2017	FY 2016
<b>Condensed Statements of Net Cost:</b>			
<b>For the Years Ended September 30, 2017 and 2016</b>			
<b>Condensed Statements of Net Cost:</b>			
Gross Departmental Costs	2%	\$ 12,413,842	\$ 12,164,110
Less: Earned Revenue	0.0%	(4,035,808)	(4,033,926)
<b>NET COST OF OPERATIONS</b>	<b>3%</b>	<b>\$ 8,378,034</b>	<b>\$ 8,130,184</b>

		NET COST OF OPERATIONS <i>(In Billions)</i>	
		\$8.38	\$8.13
			
		FY 2017	FY 2016

**Selected Budgetary Information:**

**For the Years Ended September 30, 2017 and 2016**

				<b>NEW OBLIGATIONS AND UPWARD ADJUSTMENTS</b> <i>(In Billions)</i>	
				\$15.97	\$15.46
					
				FY 2017	FY 2016
				<b>OUTLAYS, GROSS</b> <i>(In Billions)</i>	
				\$15.32	\$14.85
					
				FY 2017	FY 2016

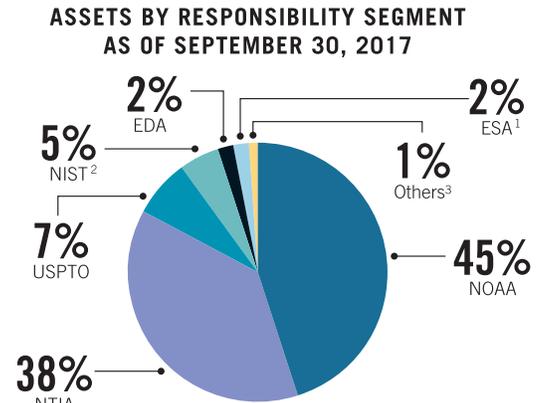
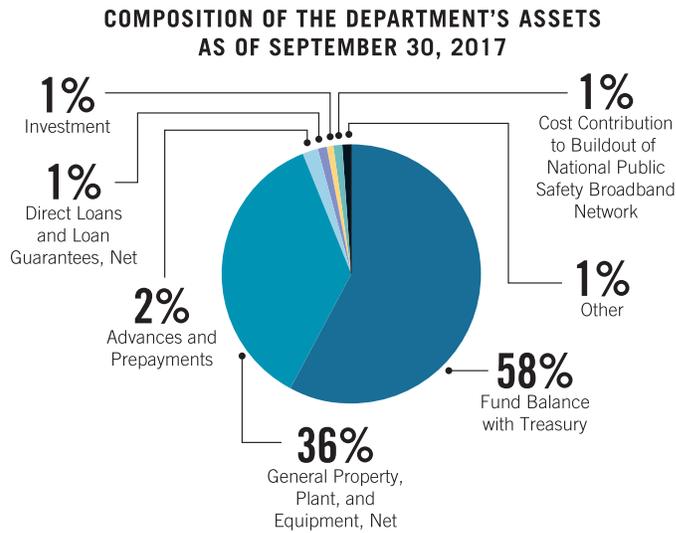
  

New Obligations and Upward Adjustments	3%	<u>\$ 15,970,699</u>	<u>\$ 15,459,852</u>
Outlays, Gross	3%	<u>\$ 15,323,401</u>	<u>\$ 14,853,358</u>

## COMPOSITION OF ASSETS AND ASSETS BY RESPONSIBILITY SEGMENT

The composition (by percentage) and distribution (by responsibility segment) of the Department's assets remained consistent from September 30, 2016 to September 30, 2017.

Departmental assets amounted to \$42.55 billion, as of September 30, 2017. Fund Balance with the U.S. Department of the Treasury (Treasury) of \$25.03 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment (PP&E), Net of Accumulated Depreciation, of \$15.40 billion, includes \$5.69 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; \$1.54 billion of Structures, Facilities, and Leasehold Improvements; \$6.64 billion of Satellites/Weather Systems Personal Property; and \$1.54 billion of other General PP&E. Advances and Prepayments of \$788.9 million is primarily comprised of \$672.0 million related to the NTIA Network Construction Fund. Direct Loans and Loan Guarantees, Net of Allowances for Subsidy Cost (Present Value) and Loan Losses, of \$431.6 million, primarily relates to the NOAA direct loan programs. Investment of \$334.1 million represents NTIA Public Safety Trust Fund's investment in federal securities, consisting of an interest-bearing, market based Treasury note purchased from Treasury. Cost Contribution to Buildout of Nationwide Public Safety Broadband Network (NPSBN) of \$288.0 million is a new asset, as of September 30, 2017, that captures NTIA's cumulative cost contributions for the buildout of the NPSBN. Other Assets of \$271.4 million primarily includes Accounts Receivable, Net of Allowance for Uncollectible Accounts, of \$146.9 million; and Inventory, Materials, and Supplies, Net of Allowance for Excess, Obsolete, and Unserviceable Items, of \$108.1 million.

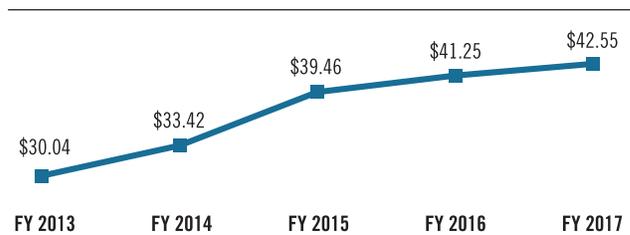


<sup>1</sup> Economics and Statistics Administration (ESA) includes ESA, the Bureau of Economic Analysis (BEA), and the Census Bureau.  
<sup>2</sup> NIST includes NIST and the National Technical Information Service (NTIS).  
<sup>3</sup> Others includes Departmental Management (DM), the Bureau of Industry and Security (BIS), the International Trade Administration (ITA), and the Minority Business Development Agency (MBDA).

## TRENDS IN ASSETS

Departmental assets increased \$1.30 billion, or 3 percent, from \$41.25 billion, as of September 30, 2016, to \$42.55 billion, as of September 30, 2017. Fund Balance with Treasury decreased \$841.1 million, or 3 percent, from \$25.87 billion to \$25.03 billion. General PP&E, Net increased \$1.27 billion, or 9 percent, from \$14.13 billion to 15.40 billion, primarily due to (a) an increase in Satellites/Weather Systems Personal Property of \$5.18 billion, in large part due to capitalization of the Geostationary Operational Environmental Satellites (GOES) 16 satellite and ground system, and capitalization of the Joint Polar Satellite System (JPSS); and (b) a decrease of \$4.05 billion in Construction-in-progress, primarily due to the capitalization of the GOES 16 satellite and ground system, and the capitalization of the JPSS ground system Block 2.0. Advances and Prepayments increased \$616.5 million, or 358 percent, from \$172.4 million to \$788.9 million, primarily due to NTIA's Network Construction Fund having an advance of \$672.0 million, as of September 30, 2017, to the U.S. Department of the Interior (DOI) for the advance funding of certain task orders to buildout, operate, and maintain NPSBN, whereas there was no such balance, as of September 30, 2016. Cost Contribution to Buildout of NPSBN is a new asset, as of September 30, 2017, as previously discussed.

### TRENDS IN TOTAL ASSETS AS OF SEPTEMBER 30 (In Billions)

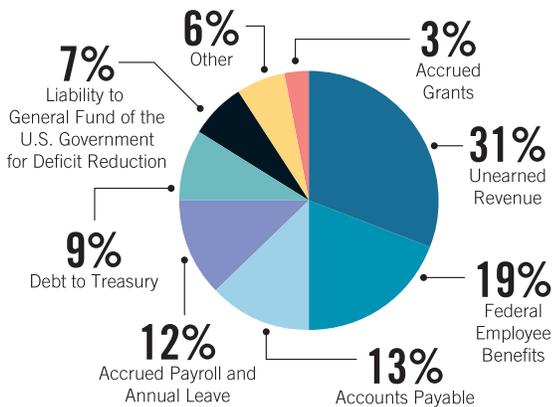


## COMPOSITION OF LIABILITIES AND LIABILITIES BY RESPONSIBILITY SEGMENT

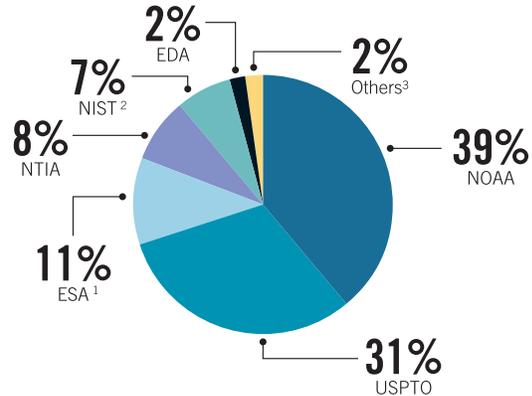
The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities remained consistent from September 30, 2016 to September 30, 2017.

Liabilities of the Department amounted to \$4.72 billion, as of September 30, 2017. Unearned Revenue of \$1.46 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department, including customer deposits. This line primarily relates to patent and trademark application and user fees that are pending action, and it also includes monies collected in advance under reimbursable agreements. Federal Employee Benefits Liability of \$885.9 million is comprised of the actuarial present value of projected benefits for the NOAA Corps Retirement System of \$644.2 million, the NOAA Corps Post-retirement Health Benefits of \$41.4 million, and the Department's Actuarial Federal Employees' Compensation Act (FECA) Liability of \$200.3 million, which represents the actuarial liability for future workers' compensation benefits. Accounts Payable of \$599.6 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Payroll and Annual Leave of \$577.3 million includes salaries and wages earned by employees, but not disbursed, as of September 30, 2017. Debt to Treasury of \$430.3 million represents debt for NOAA's direct loan programs. Accrued Grants of \$136.0 million relates to a diverse array of financial assistance programs and projects, including the Economic Development Administration's (EDA) accrued grants of \$49.6 million for its grant investments that help communities generate jobs, retain existing jobs, and stimulate industrial and commercial growth; NOAA's accrued grants of \$46.9 million for grants awarded to state and local governments, non-profit research institutions, and colleges and universities for research and conservation initiatives; and National Institute of Standards and Technology's (NIST) accrued grants of \$29.5 million for its grant investments and cooperative agreements that fund programs in a variety of fields such as energy, food safety, and electronics research, strategic manufacturing technology, and the Hollings Manufacturing Extension Partnership. NTIA's Public Safety Trust Fund has a Liability to General Fund of the U.S. Government for Deficit Reduction of \$336.2 million—Priority 8 of Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 specifies that any remaining funds deposited in NTIA's Public Safety Trust Fund be deposited in the General Fund of the U.S. Government for deficit reduction after the end of FY 2022. Other Liabilities of \$298.2 million primarily includes Environmental and Disposal Liabilities of \$145.1 million, including \$73.0 million for asbestos-related cleanup costs, and \$60.7 million for a nuclear reactor operated by NIST; Accrued Benefits of \$55.2 million; Contingent Liabilities of \$39.5 million for claims to be paid out of Treasury's Judgment Fund; Accrued FECA Liability of \$26.4 million; and ITA's Foreign Service Nationals' Voluntary Separation Pay Liability of \$11.6 million.

**COMPOSITION OF THE DEPARTMENT'S LIABILITIES AS OF SEPTEMBER 30, 2017**



**LIABILITIES BY RESPONSIBILITY SEGMENT AS OF SEPTEMBER 30, 2017**



<sup>1</sup> ESA includes ESA, BEA, and the Census Bureau.

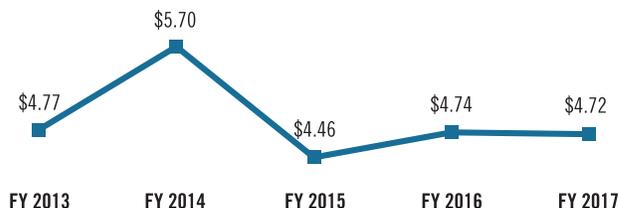
<sup>2</sup> NIST includes NIST and NTIS.

<sup>3</sup> Others includes DM, BIS, ITA, and MBDA.

## TRENDS IN LIABILITIES

Liabilities of the Department decreased \$18.1 million, or 0.4 percent, from \$4.74 billion, as of September 30, 2016 to \$4.72 billion, as of September 30, 2017. Debt to Treasury decreased \$44.9 million, or 9 percent, from \$475.2 million to \$430.3 million, primarily due to repayments made to Treasury in September 2017 by NOAA's Fisheries Finance direct loan program. Accrued Grants increased by \$10.5 million, or 8 percent, from \$125.5 million to \$136.0 million, mainly due to increases in NTIA First Responder Network Authority's Spectrum Relocation Grant Program, which started expending funds in FY 2017, and increases in NTIA's State and Local Implementation Fund, as grantees have not expended funds as quickly as anticipated.

TRENDS IN TOTAL LIABILITIES AS OF SEPTEMBER 30 (In Billions)

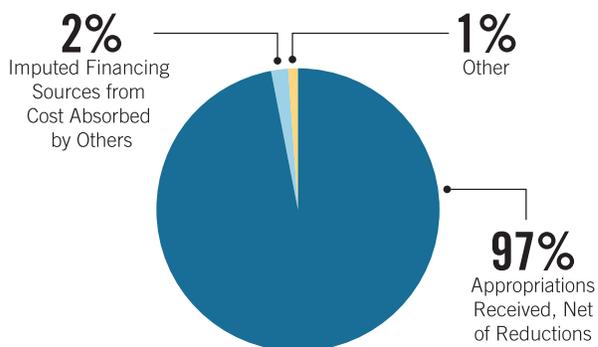


## COMPOSITION OF AND TRENDS IN FINANCING SOURCES

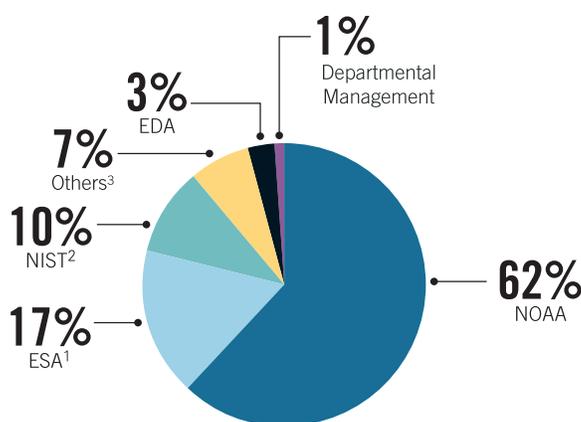
The composition by percentage of the Department's financing sources, as reported in the Department's *Consolidated Statements of Changes in Net Position*, changed somewhat from FY 2016 to FY 2017. For FY 2017, there were not any NTIA Public Safety Trust Fund transfers in of auction proceeds from the Federal Communications Commission, as compared to \$8.43 billion in FY 2016; and for FY 2017, there were not any NTIA Public Safety Trust Fund transfers out to General Fund of the U.S. Government for deficit reduction, as compared to \$7.78 billion in FY 2016.

Total financing sources of the Department increased \$57.3 million, or 1 percent, from \$9.64 billion in FY 2016 to \$9.70 billion in FY 2017. Appropriations Received, Net of Reductions increased \$164.8 million, or 2 percent, from \$9.20 billion in FY 2016 to \$9.36 billion in FY 2017. Imputed Financing Sources from Cost Absorbed by Others decreased \$47.1 million, or 19 percent, from \$247.3 million to \$200.2 million, primarily due to (a) a revision in cost factor(s) for USPTO imputed

COMPOSITION OF THE DEPARTMENT'S FY 2017 FINANCING SOURCES



FY 2017 FINANCING SOURCES BY RESPONSIBILITY SEGMENT



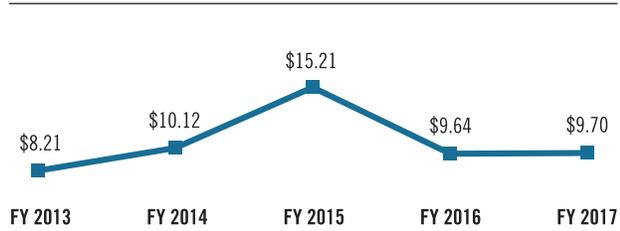
<sup>1</sup> ESA includes ESA, BEA, and the Census Bureau.

<sup>2</sup> NIST includes NIST and NTIS.

<sup>3</sup> Others includes BIS, ITA, MBDA, NTIA, and USPTO.

post-employment benefit costs; and (b) a decrease in Departmental Management (DM) imputed costs related to Treasury's Judgment Fund. Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction decreased \$331.9 million, or 99 percent, from \$(334.1) million to \$(2.1) million, because in FY 2017 there was only a slight increase in excess funds (Priority 8) over the fund priorities 1 through 7, per the originating Public Law 112-96.

TRENDS IN TOTAL FINANCING SOURCES (In Billions)



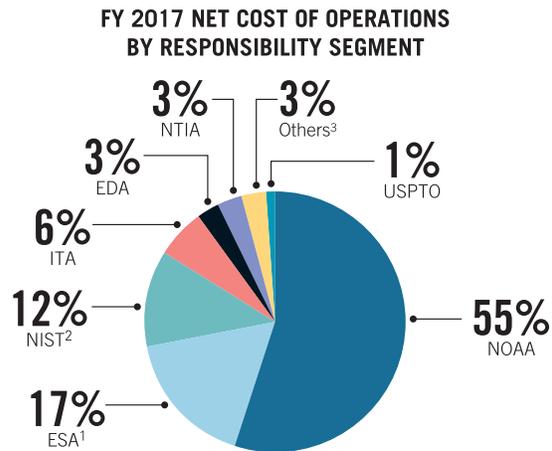
Other Financing Sources increased by \$256.7 million, or 209 percent, from \$(122.7) million in FY 2016 to \$134.0 million in FY 2017, primarily due to (a) a decrease in cancellations of funds from FY 2016 to FY 2017 for Census Bureau's Periodic Censuses and Programs fund group of \$78.9 million; (b) the Department's transfers out in FY 2016 include NOAA transfer(s) out of Construction-in-progress costs of \$78.5 million related to the Solar Irradiance, Data and Rescue/Total Solar Irradiance to the National Aeronautics and Space Administration, whereas there was no similar transfer(s) out in FY 2017; and (c) the Department's transfers out in FY 2016 included NTIA Public Safety Trust Fund transfer(s) out to the National Highway Traffic Safety Administration (NHTSA) of \$104.4 million for Priority 6, which is for the Administrator of NHTSA to carry out NHTSA's portion of the grant program of Next Generation 9-1-1, whereas in FY 2017, only \$7.8 million was transferred to NHTSA for Priority 6 to fully complete this priority.

## COMPOSITION OF FY 2017 NET COST OF OPERATIONS AND NET COST OF OPERATIONS BY RESPONSIBILITY SEGMENT

In FY 2017, the Department's Net Cost of Operations amounted to \$8.38 billion, which consists of Gross Costs of \$12.41 billion, less Earned Revenue of \$4.04 billion.

The distribution (by responsibility segment) of the Department's Net Cost of Operations remained consistent from FY 2016 to FY 2017.

**Note: The Gross Costs and Earned Revenue amounts presented in the following paragraphs include transactions with other Departmental entities (intra-Departmental transactions). As a result, the Gross Costs amounts discussed below may not agree with the Gross Costs presented on the Department's FY 2017 Consolidated Statement of Net Cost, which excludes intra-Departmental transactions.**



<sup>1</sup> ESA includes ESA, BEA, and the Census Bureau.

<sup>2</sup> NIST includes NIST and NTIS.

<sup>3</sup> Others includes DM, BIS, and MBDA.

NOAA's FY 2017 Net Cost of Operations was \$4.62 billion (Gross Costs of \$4.88 billion less Earned Revenue of \$252.7 million). NOAA's mission relates to science, service, and stewardship—to understand and predict changes in climate, weather, oceans, and coasts; to share that knowledge and information with others; and to conserve and manage coastal and marine ecosystems and resources. NOAA's Gross Costs include costs related to improving weather, water quality, and climate reporting and forecasting; and enabling informed decision-making through an expanded understanding of the U.S. economy, society, and environment by providing data, standards, and services. NOAA

also develops and procures satellite systems, aircraft, and ships to provide information to determine weather patterns and predict weather forecasts. NOAA's Gross Costs also support its efforts to promote economically-sound environmental stewardship and science, including developing sustainable and resilient fisheries, habitats, and species; supporting climate adaptation and mitigation; and supporting coastal communities that are environmentally and economically sustainable.

USPTO's FY 2017 Net Cost of Operations of \$88.1 million (Gross Costs of \$3.19 billion less Earned Revenue of \$3.10 billion) relates to its patents and trademark programs. USPTO is the federal agency for granting U.S. patents and registering trademarks. The strength and vitality of the U.S. economy depends directly on effective mechanisms that protect new ideas and investments in innovation and creativity. USPTO advises the President, the Secretary of Commerce, and federal agencies on intellectual property (IP) policy, protection, and enforcement; and promotes the stronger and more effective IP protection around the world. USPTO furthers effective IP protection for the Nation's innovators and entrepreneurs worldwide by working with other federal agencies to secure strong IP provisions in free trade and other international agreements. It also provides training, education, and capacity building programs designed to foster respect for IP and encourage the development of strong IP enforcement regimes by the Nation's trading partners.

The Economics and Statistics Administration's (ESA) FY 2017 Net Cost of Operations was \$1.43 billion (Gross Costs of \$1.75 billion less Earned Revenue of \$323.0 million), which includes ESA, the Bureau of Economic Analysis (BEA), and the Census Bureau. ESA plays three key roles within the Department. ESA provides timely economic analysis, disseminates national economic indicators, and oversees BEA and the Census Bureau. BEA promotes a better understanding of the Nation's economy by providing timely, relevant, and accurate economic accounts data in an objective and cost-effective manner. The Census Bureau's FY 2017 Net Cost of Operations was \$1.32 billion (Gross Costs of \$1.65 billion less Earned Revenue of \$325.7 million). The Census Bureau serves as the leading source of quality data about the Nation's people and economy. Data that the Census Bureau collects includes the Population and Housing Census (every 10 years), Economic Census (every 5 years), Census of Governments (every 5 years), American Community Survey (annually), economic indicators, and demographic and economic surveys provided to survey sponsors.

NIST's FY 2017 Net Cost of Operations was \$990.6 million (Gross Costs of \$1.28 billion less Earned Revenue of \$289.9 million), which includes NIST and the National Technical Information Service (NTIS). NIST's FY 2017 Net Cost of Operations was \$982.7 million (Gross Costs of \$1.14 billion less Earned Revenue of \$157.0 million). NIST promotes American innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve the Nation's quality of life. NIST's Gross Costs include costs for its NIST Laboratories program. The NIST Laboratories conducts world-class research, often in close collaboration with industry, which advances the Nation's technology infrastructure and helps American companies continually improve products and services. NTIS serves as the largest central resource for government-funded scientific, technical, engineering, and business-related information available today. For more than 60 years, NTIS has assured businesses, universities, and the public timely access to approximately 3 million publications covering over 350 subject areas. NTIS promotes the Nation's economic growth by providing access to information that stimulates innovation and discovery.

ITA's FY 2017 Net Cost of Operations was \$484.0 million (Gross Costs of \$494.0 million less Earned Revenue of \$10.0 million). ITA fosters economic growth and prosperity through global trade by strengthening the competitiveness of American industry, promoting trade and investment, and ensuring fair trade through the rigorous enforcement of the Nation's trade laws and agreements. ITA leads the Department's export and investment platform, working with several other bureaus, inside and outside the Department, including working with the U.S. Trade Representative, to provide greater access to markets and customers by removing trade barriers.

EDA's FY 2017 Net Cost of Operations was \$285.7 million (Gross Costs of \$291.4 million less Earned Revenue of \$5.7 million). EDA leads the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. EDA plays a critical role in fostering regional economic development efforts in communities across the United States. Through strategic investments that foster job creation and attract private investment, EDA supports development in economically distressed areas of the United States. EDA works directly with local economic development officials to make grant investments that are well-defined, timely, and linked to a long-term, sustainable economic development strategy.

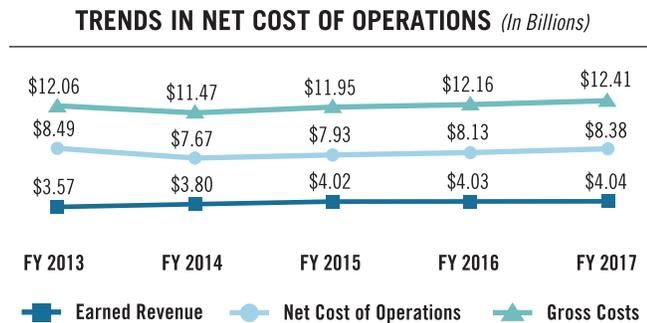
NTIA's FY 2017 Net Cost of Operations was \$222.1 million (Gross Costs of \$261.2 million less Earned Revenue of \$39.1 million). NTIA is the federal agency that is principally responsible for advising the President on telecommunications and information policy issues. NTIA's programs and policymaking focus largely on expanding broadband Internet access and adoption in America, expanding the use of spectrum by all users, and ensuring that the Internet remains an engine for continued innovation and economic growth. NTIA's activities include managing the federal use of spectrum and identifying additional spectrum for commercial use, and administering grant programs that further the deployment and use of broadband and other technologies in America.

FY 2017 Net Cost of Operations for DM was \$108.6 million (Gross Costs of \$117.1 million less Earned Revenue of \$8.4 million), which includes Gifts and Bequests, Herbert C. Hoover Building Renovation Project, Office of Inspector General, Salaries and Expenses, and Working Capital Fund. DM's objective is to develop and provide policies and procedures for administrative planning, oversight, coordination, direction, and guidance to ensure implementation of the Department's mission.

FY 2017 Net Cost of Operations for the other Departmental bureaus was \$146.3 million (Gross Costs of \$148.8 million less Earned Revenue of \$2.5 million), which is comprised of the Bureau of Industry and Security (BIS) and the Minority Business Development Agency (MBDA). BIS advances the Nation's national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued strategic technology leadership by the United States. MBDA helps to create and sustain American jobs by promoting the growth and global competitiveness of businesses owned and operated by minority entrepreneurs.

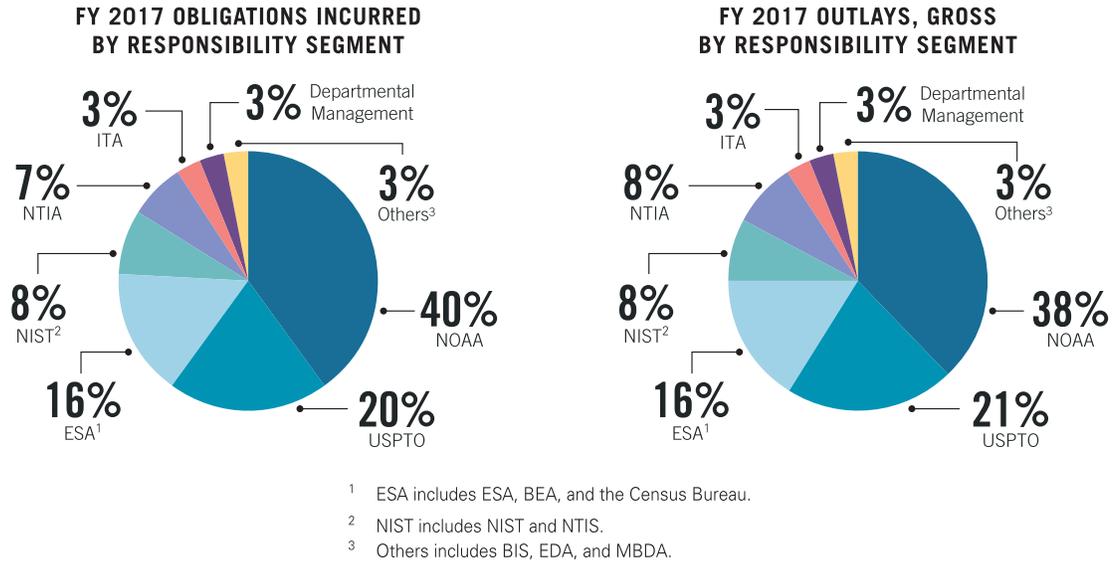
## TRENDS IN NET COST OF OPERATIONS

The Department's Net Cost of Operations increased by \$247.9 million, or 3 percent, from \$8.13 billion in FY 2016 to \$8.38 billion in FY 2017. Gross Costs increased slightly by \$249.7 million, or 2 percent, from \$12.16 billion in FY 2016 to 12.41 billion in FY 2017. Earned Revenue increased slightly by \$1.9 million, or 0.0 percent, from \$4.03 billion in FY 2016 to \$4.04 billion in FY 2017.



## SELECTED BUDGETARY INFORMATION BY RESPONSIBILITY SEGMENT

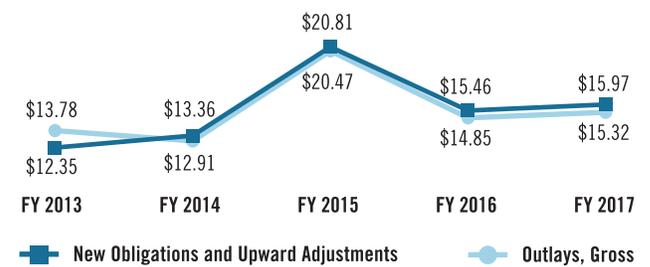
The distribution (by responsibility segment) of the Department's Obligations Incurred, and Outlays, Gross, as reported in the Department's *Combined Statements of Budgetary Resources*, remained consistent from FY 2016 to FY 2017.



## TRENDS IN SELECTED BUDGETARY INFORMATION

The Department's New Obligations and Upward Adjustments increased by \$510.8 million, or 3 percent, from \$15.46 billion in FY 2016 to \$15.97 billion in FY 2017, and the Department's Outlays, Gross increased by \$470.0 million, or 3 percent, from \$14.85 billion in FY 2016 to \$15.32 billion in FY 2017.

### TRENDS IN SELECTED BUDGETARY INFORMATION (In Billions)



# SUMMARY OF STEWARDSHIP INFORMATION

## STEWARDSHIP ASSETS

---

The Department has certain resources entrusted to it and certain stewardship responsibilities it assumes. The physical properties of Stewardship Assets resemble those of the General Property, Plant, and Equipment that is capitalized traditionally in the financial statements of federal entities. Given the nature of these assets, federal standard-setting bodies have determined that valuation is unduly burdensome and matching costs with specific periods is not meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. The National Oceanic and Atmospheric Administration (NOAA) is the primary bureau within the Department that maintains Stewardship Assets, while the National Institute of Standards and Technology (NIST) and the Census Bureau also maintains Stewardship Assets.

NOAA maintains the following Stewardship Assets: Heritage Assets (Galveston Laboratory; National Marine Fisheries Service (NMFS) St. George Sealing Plant; NMFS Cottage M, St. George; NMFS St. Paul Old Clinic/Hospital; NMFS Woods Hole Science Aquarium; and Great Lakes Environmental Research Laboratory, Lake Michigan Field Station); 13 National Marine Sanctuaries; 5 Marine National Monuments (Marianas Trench, Pacific Remote Islands, Rose Atoll, Papahānaumokuākea, and the Northeast Canyons and Seamounts); Aleutian Islands Habitat Conservation Area; NOAA Habitat Blueprint (10 Habitat Focus Areas); and Collection-type Heritage Assets, primarily included in the NOAA Central Library (mainly books, journals, publications, photographs, and motion pictures) and Thunder Bay Sanctuary Research Collection (data cards, photograph negatives, document copies, photographs, books, and other items).

NIST maintains Collection-type Heritage Assets under its Museum and History Program, which collects, preserves, and exhibits artifacts, such as scientific instruments, equipment, objects, and records of significance to NIST and predecessor agencies. The Census Bureau maintains Collection-type Heritage Assets that help illustrate the social, educational, and cultural heritage of the Census Bureau, including artifacts, artwork, books, films, instruments, records, publications, manuscripts, photographs, and maps.

## STEWARDSHIP INVESTMENTS

---

Stewardship investments are substantial investments made by the federal government for the benefit of the Nation, but are not physical assets owned by the federal government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment, so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the Nation.

**Investments in Non-federal Physical Property:** These investments are for the purchase, construction, or major renovation of physical property owned by state and local governments. The Economic Development Administration (EDA) and NOAA have significant investments in non-federal physical property. EDA's investments in FY 2017 totaled \$165.6 million and included its Public Works program (\$121.3 million), Disaster Recovery (\$7.7 million), Economic Adjustment Assistance program (\$16.3 million), and Assistance to Coal Communities (\$20.3 million). NOAA's investments in FY 2017 totaled \$1.2 million for the National Estuarine Research Reserves.

**Investments in Human Capital:** These investments are for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. The most significant investments in human capital are by NOAA, whose investments in FY 2017 totaled \$22.6 million and included the Educational Partnership Program (\$14.1 million), Ernest F. Hollings Undergraduate Scholarship Program (\$5.7 million), National Sea Grant College Program (\$1.1 million), National Estuarine Research Reserve Program (\$1.5 million), and Other Programs (\$0.2 million).

**Investments in Research and Development (R&D):** These investments include investments in basic research, applied research, and development, which are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic or societal benefits. The significant investments in R&D are by NIST and NOAA. NIST's R&D investments (basic, applied, and development) in FY 2017 totaled \$764.5 million and included \$734.2 million for its NIST Laboratories Program, \$8.6 million for its Manufacturing USA, Advanced Manufacturing Technology Consortia, and Technology Innovation Program, and \$21.7 million for its Public Safety Communications Research Program. NOAA's R&D investments (applied and development) in FY 2017 totaled \$625.0 million, which included Environmental and Climate (\$452.5 million), Fisheries (\$57.7 million), Marine Operations and Maintenance and Aircraft Services (\$26.0 million), Weather Service (\$20.7 million), and Other (\$68.1 million).

UNITED STATES DEPARTMENT OF DEFENSE  
**AGENCY FINANCIAL REPORT**

FISCAL YEAR 2017



**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS**

This Page Intentionally Left Blank

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DEPARTMENT OF DEFENSE OVERVIEW

The mission of the Department of Defense (DoD) is to provide the military forces needed to deter war and to protect the security of our country. The Department is firmly committed to safeguarding the national security of the United States and to ensuring that the U.S. military remains the best prepared and most lethal warfighting force in the world.

Today, the United States faces a dynamic and unpredictable security environment – one that is marked by the continued provocations of rogue states, the proliferation of violent extremist organizations, and the return of competition for global power. North Korea's pursuit of nuclear weapons and the means to deliver them has increased in pace and scope, presenting a threat to all, while the actions of an assertive China and a resurgent Russian Federation have placed the international order under assault. Moreover, the breakdown of the broader Mideast order has enabled the continued rise of terrorist groups, including Al-Qaeda and the Islamic State of Iraq and Syria, and produced security vacuums that have allowed a revolutionary Iranian regime to sow violence, provoke wider Sunni-Shia confrontation, and pursue regional hegemony.



Secretary of Defense Jim Mattis and Danish Minister of Defence Claus Hjort Frederiksen welcome Ine Eriksen Soreide, Norway's Minister of Defence, to a Global Coalition on the Defeat of ISIS meeting at Eigtveds Pakhus in Copenhagen, Denmark, May 9, 2017.

*Photo by Staff Sgt. Jette Carr*

In addition to these concerning geopolitical developments, we are confronted with rapid advances in commercial technologies such as big data analytics, artificial intelligence, robotics, and additive manufacturing that will assuredly shape the character of future wars and erode the conventional overmatch to which our nation has grown so accustomed. The resultant security environment is one that is more volatile than any experienced over the last four decades. Under such circumstances, the Department of Defense cannot afford to be complacent.

Indeed, the complexities of this security environment require a thorough and deliberate examination of the U.S. military's capabilities, capacity, posture, and readiness as well as the articulation of an effective strategy to address emerging challenges and provide for the common defense. To this end, the National Defense Strategy (NDS), which the Department is currently formulating and will submit to the Congress in early 2018, will outline the Department's

assessment of the threats facing our nation and serve as the key strategic document driving the Department's priorities, investments, and programmatic decisions. Consistent with the President's National Security Strategy, the NDS will guide the Department as it builds a larger, more capable, and more lethal joint force.

Despite the onerous budgetary limits imposed by the [\*Budget Control Act of 2011\*](#), the Department will seek to strengthen the military by improving readiness, increasing force capacity, and enhancing key warfighting capabilities to address the known risks the United States faces as a nation while also preparing for the demands of an uncertain future. In addition, the Department will place a greater emphasis on investments in research and development, leveraging innovation from both the traditional defense industry and the commercial sector to assist us in maintaining our competitive advantage well into the future. As a result of these measures, we will be better postured to execute the National Defense Strategy and uphold critical national security objectives, in turn leaving us with a stronger, more secure America.



Marines with the 11th Marine Expeditionary Unit conduct the obstacle course during Martial Arts Instructors Course (MAIC) 1-17 aboard Marine Corps Base Hawaii, May 1, 2017. The MAIC is a three week long course that puts applicants through rigorous training designed to instill teamwork and develop leadership abilities necessary for a Marine Corps Martial Arts Program instructor to teach classes. The Makin Island Amphibious Ready Group/11th MEU is currently underway on their Western Pacific 16-2 deployment.

*Photo by Cpl. Aaron S. Patterson*



An MQ-9 Reaper remotely piloted aircraft from the 163d Attack Wing performs a touch and go March 24, 2017, at March Air Reserve Base, California. A week earlier, the wing made its first successful touch and go at the base, marking a milestone in the effort to relocate the wing's flight operations to March ARB from Southern California's high desert.

*Photo by Airman 1st Class Crystal Housman*

## RESOURCES

In Fiscal Year (FY) 2017, the Department had discretionary budget authority of \$606 billion. Figure 1 displays the DoD FY 2017 budget authority by appropriation type. The Department’s priorities outlined in the National Security Presidential Memorandum on Rebuilding the U.S. Armed Forces were built and sustained through program and resources in the FY 2017 budget.

Key themes were:

- Seeking a balanced force,
- Managing enduring readiness challenges,
- Pursuing investments in military capabilities,
- Taking care of our people, and
- Supporting overseas contingency operations.

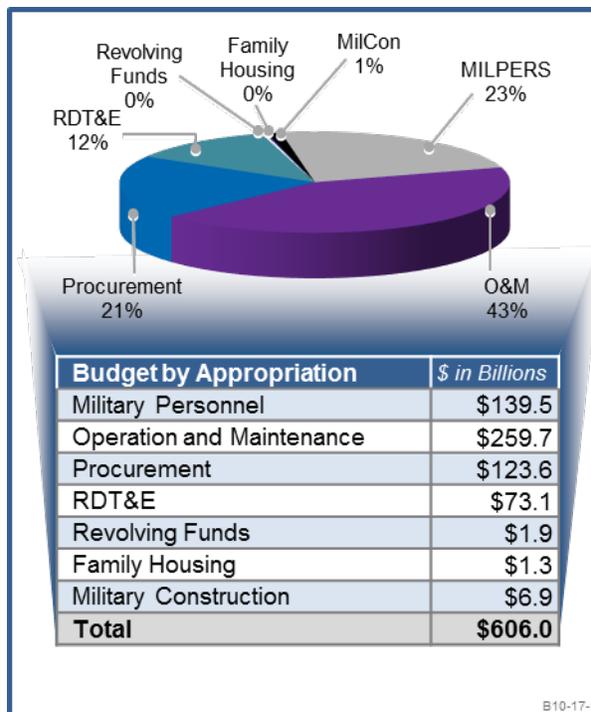
### Appropriation Categories

**Military Personnel** – Stopped the decrease in overall troop levels by supporting increases to the three components of the Army and adding Air Force personnel in critical mission areas of intelligence, surveillance, and reconnaissance and cyber. It also supported member’s ability to move between duty stations as manning levels required.

**Operation and Maintenance** – Provided additional training and readiness options including upgrades to Opposing Force (OPFOR) equipment to enable OPFOR to replicate the tactics and capabilities of potential adversaries; provide combat support operations funds; provide maintenance, equipment, and repair parts for the Navy’s expeditionary forces service in theaters of operation; increasing ship depot maintenance funding; and increasing flying hours to support tactical training.

**Procurement** – Included acquisition of equipment including unmanned aerial systems, Air and Missile Defense systems across the operational force, additional aircraft to replace combat worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter.

**Figure 1. DoD FY 2017 Budget Authority**



B10-17-1

Research, Development, Test, and Evaluation – Provided basic and applied research to ensure the United States maintains its technological edge including the development of tools required by the Cyber Mission Force to accomplish its mission.

Family Housing – Provided funding for care and maintenance of existing housing to include support services such as refuse collection and utility services.

Military Construction – Improved existing infrastructure and to provide new and improved facilities including airfields for all services, barracks, and other buildings to support the DoD mission around the world. This includes Planning and Design funding for European Reassurance Initiative projects.

### Seeking a Balanced Force

The United States continues to face a rapidly changing security environment as warfare evolves across all domains. The Department must maintain ready forces with superior capabilities to deter potential adversaries and defeat attacks across the full spectrum of conflict while addressing a wide range of security challenges. In addition, the Department must sustain robust investments in science, technology, and research and development in areas most critical to meeting future challenges, including areas with the potential for game-changing advances.

Secretary of Defense James Mattis defined three lines of effort: To restore military readiness as the Department builds a more lethal force, to strengthen alliances and attract new partners, and business reforms. The FY 2017 budget reflected the choices made to achieve a modern, ready, and balanced force to meet the full range of potential military requirements. As directed in the “National Security Memorandum on Rebuilding the U.S. Armed Forces,” dated January 27, 2017, the Department identified resources to (1) accelerate the defeat of the ISIS, al Qaeda, and their affiliated groups, (2) increase warfighting readiness, and (3) cover all known must-pay shortfalls. The FY 2017 budget is the vital first step in growing and maintaining a higher state of warfighting readiness in the future.

Reserve Components are an important element of the Total Force, and the Department is focused on optimizing the Active/Reserve force mix while sustaining readiness at appropriate levels. The reserves are trained, ready, and cost-effective forces that can be deployed on a periodic operational basis while ensuring strategic surge capabilities for large-scale contingencies or other unanticipated national crises. The Guard and Reserve maintained a total end strength of approximately 809,000 at the end of FY 2017. The National Guard and Reserves consistently demonstrate their readiness and ability to make sustained contributions to national security challenges.

Maintaining this balance is essential to the warfighting capabilities needed to maintain the military forces and to send U.S. personnel into combat with the best possible training and equipment.

### Managing Enduring Readiness Challenges

The DoD recognizes the importance of and commitment to maintaining ready and capable forces. The Department continued initiatives to transition from a force largely focused on current operations to one capable of meeting a broader mission portfolio. In FY 2017, U.S. Military Forces were postured globally to conduct counterterrorism, stability, and deterrence operations; maintain a stabilizing presence; conduct bilateral and multilateral training to enhance U.S. security relationships; and provide the crisis response capabilities required to protect U.S. interests. Readiness investments in training technologies; force protection; command and control; and intelligence, surveillance and reconnaissance systems strengthened the U.S. to stand as the most formidable military force in the world.

Since the enactment of the [\*Budget Control Act of 2011\*](#), the Department has absorbed significant budget reductions from the FY 2012 baseline while threats against U.S. vital interests have been growing. Terrorist organizations like ISIS as well as the actions of North Korea, China, and Russia threaten the United States and its friends and allies around the world. The first step in rebuilding the U.S. Armed Forces is increasing warfighting readiness. This means ensuring that the current forces are adequately manned, trained, and equipped to fight. The request for additional appropriations covered all of these areas – manning, training, and equipping – to produce improvements in near-term warfighting readiness.



U. S. Marine Corps Capt. Geoffrey Irving, legal assistant attorney, and his wife, Anna Chou, practice their Marine Corps Martial Arts techniques during J. Wayne Day on Camp Pendleton, Calif., April 28, 2017. J. Wayne Day is an event where spouses or loved ones have a chance to participate in multiple activities such as the Marine Corps Martial Arts, Pistol Range and the Fire Crash and Rescue followed by various demonstrations and displays.

*Photo by Lance Cpl. Betzabeth Y. Galvan*

### Pursuing Investments in Military Capabilities

The Department's research and development efforts are conducted by government laboratories, nonprofit research institutions, and defense companies both large and small. The FY 2017 resources included \$13.7 billion in science and technology to support groundbreaking work in the Military Services, DoD laboratories and engineering centers across the country, and the Defense Advanced Research Projects Agency to develop and advance technologies and capabilities. These investments in technologically advanced capabilities are designed to yield a military force that achieves the nation's security objectives and ensure that the United States remains a technologically superior global force to promote peace and security. Additionally, the Department leads a continuing effort to identify and invest in unique ways to advance U.S. military superiority by incentivizing industry and government productivity and innovation in: 1) a long-range research and development program designed to identify new technologies and their uses and push the envelope in new technologies like data science, biotech, cyber, and electronic warfare; 2) leadership practices; 3) war-gaming; 4) operational concepts; and 5) business practices. The Department continues to invest in new strategic approaches and capabilities, such as advancing undersea capabilities and developing new hypersonic missiles, artificial intelligence, and autonomy and robotics, to prevent and win conflicts against 21st century threats.

Moreover, the Department is investing in innovation by developing new partnerships with the private sector and technology communities across the country through collaborative outreach efforts such as that provided by the Defense Innovation Unit-Experimental (DIUx). In FY 2017, the Department directed \$60.5 million to support DIUx activities. Additional resources were provided to the Strategic Capabilities Office for their efforts to off-set the technological advances of U.S. foes through the identification and development of game-changing applications of existing and near-term technology to shape and counter emerging threats.

### Taking Care of Our People

America asks much of its All-Volunteer Force (AVF) and the civilians who support that force. The Department must preserve the quality of its most prized asset, the AVF, which is comprised of high quality, educated, motivated personnel who are committed to excellence in the defense of the nation. The FY 2017 budget kept faith with the men and woman in uniform and their families.

Comprising nearly half of the DoD budget, military and civilian personnel costs are the Department's single largest expense category. To meet the needs of our diverse workforce and mission set, the Department provides not only highly competitive monetary compensation but also manages the Military Health System (MHS); operates schools, commissaries, restaurants, and childcare facilities; and a myriad of other programs to support Service members and their families worldwide. The MHS is a complex system that incorporates health care delivery, medical education, public health, private sector partnerships, and cutting edge medical research and development. The MHS provides health care for 9.4 million eligible beneficiaries including all

Service members, retirees and their families, dependent survivors, and certain eligible Reserve Component members and their families.

The Department is vigilant in its efforts to ensure these costs are appropriately balanced against the Department's strategic goals. Specifically, the Department cannot allow its personnel costs to crowd out investments in readiness and modernization that are essential to providing the training and equipment needed to accomplish the vast array of missions undertaken around the globe. Balancing resources is essential as the Department reshapes the forces needed to remain effective, and providing a robust pay and benefits package must be sustained to execute the nation's defense strategy.



Capt. Manisha Mills, a 49th MDOS pediatrician, checks her patient's heart rate March 29, 2017 at Holloman Air Force Base, N.M. Mills' framework consists of about 20-23 appointments per day and in between those appointments, she takes walk-in clients.

*Photo by Airman 1st Class Ilyana A. Escalona*

Against the backdrop of a competitive military compensation and health benefit package, the Department has done a significant amount of work to explore how it can balance the rate of growth in military pay, benefit costs, and individual compensation incentives in a way that is both responsible and fair.

With the NDAA for FY 2016, Congress enacted the Blended Retirement System, a modified retirement system for military members that will be effective as of January 1, 2018. The system combines the traditional defined benefit of monthly retired pay with a defined contribution benefit through contributions to a member's Thrift Savings Plan account. While all currently serving members are grandfathered under the current retirement system, those with fewer than 12 years of service as of January 1, 2018 will have the opportunity to choose whether to remain under the current system or to opt into the Blended Retirement System. Members who join the military on or after January 1, 2018 will be automatically covered by the Blended Retirement System. Although only 19 percent of military members entering service today serve the full 20 years necessary to receive a retirement benefit under the current retirement system, under the Blended Retirement System a member will have the opportunity to achieve retirement benefits that are transferable if full retirement is not reached.

The military life cycle is complex, dynamic, and key to military readiness. The Department must attract nearly 250,000 qualified new recruits to replenish the military workforce each year. In addition, the Department is committed to combatting suicides and sexual assaults by dedicating resources to Department-wide training and prevention programs. Despite global and fiscal

challenges, the Department stands with Service members, their families, retirees, and the civilian workforce. However, 16 years of war have taken a toll on the All-Volunteer Force. Multiple deployments with less respite between them, extensive use of the Guard and Reserves, and force reductions all contribute to a more complex and demanding environment. Declining budgets make it harder to reset the Force while sustaining the readiness needed for requirements such as deterring the Islamic State of Iraq and Syria. Caring for the Department's people remains a top priority for the Department, Congress, and the Administration.

#### Supporting Overseas Contingency Operations

The Department requested \$69.7 billion of OCO funds primarily to conduct Operation Freedom's Sentinel and other missions outside of Afghanistan, such as those in the Horn of Africa and Operation Inherent Resolve against ISIS. These funds were also used to train and equip Iraqi security forces and vetted Syrian opposition forces, support European partners, and respond to terrorist threats. Additionally, Congress increased the Department's FY 2017 OCO funding request to fund certain readiness requirements transferred from the base budget request, National Guard and Reserve Equipment, and improve intelligence, surveillance, and reconnaissance.



A U.S. Army M109A6 Paladin deployed in support of Combined Joint Task Force – Operation Inherent Resolve, assigned to Bravo Battery, 2-82nd Field Artillery, 3rd Brigade, 1st Cavalry Division fires during training operation at Camp Manion Iraq, March 10, 2017. Bravo Battery provides base security in support of Combined Joint Task Force – Operation Inherent Resolve, the global Coalition to defeat ISIS in Iraq and Syria.

*Photo by Spc. Christopher Brecht*

## LOOKING FORWARD

The Department's first priority is continuing to improve military readiness as it builds a more lethal force. This will be accomplished through the execution of a multi-year plan to fill in the holes caused by trade-offs made during 16 years of war, nine years of continuing resolutions, and [Budget Control Act](#) caps as well as to prepare for sustained future investment. This effort prioritizes a safe and secure nuclear deterrent and the fielding of a decisive conventional force, while also retaining irregular warfare as a core competency. The Department is focused on strengthening the Military Forces to ensure that the American military edge remains and endures well into this century and beyond.

The Department's second priority is strengthening and attracting new partners. Alliances and multinational partnerships, such as the North Atlantic Treaty Organization and the Defeat-ISIS Coalition, provide avenues for peace and foster the conditions for economic growth with countries sharing the same vision. Strong alliances also serve to temper the plans of those who would attack other nations or try to impose their will over the less powerful. The Department must seek to engage and collaborate with nation states choosing to be strategic competitors, such as Russia and China, while also being prepared to confront inappropriate behavior should they choose to act contrary to American interests or threaten the security of U.S. allies.



A U.S. Air Force member cooks a snake during Cope North 17 survival training at Andersen Air Force Base, Guam, Feb. 17, 2017. Cope North is a long-standing Pacific Air Forces-led exercise designed to enhance multilateral air operations between the U.S. Air Force, U.S. Navy, Japan Air Self-Defense Force and Royal Australian Air Force.

*Photo by Airman 1st Class Christopher Quail*

The Department's third priority is bringing business reforms to the Department of Defense. This effort focuses on instilling budget discipline and effective resource management, developing a culture of rapid and meaningful innovation, streamlining requirements and acquisition processes, and promoting responsible risk-taking and personal initiative. Examples of current and upcoming business reform initiatives include the Department's preparations for its first full-scope financial statement audit in Fiscal Year 2018, the efforts to modernize the defense travel system, and the efforts to improve the efficiency of information technology business operations. With these and other efforts, the Department demonstrates its devotion to gaining full value from every taxpayer dollar spent on defense, thereby earning the trust of the Congress and the American people.

In the pursuit of these efforts, the Department recognizes that it is critical to preserve its most enduring and competitive advantage – the Department's people. The Department is fully committed to improving the recruitment and retention of the brightest and most committed young men and women to make the Department the most rewarding environment it can be for those who choose to serve.

## ORGANIZATION

The Department of Defense (DoD) maintains and uses military forces to support and defend the Constitution and protect the security of the United States, its possessions, and areas vital to its interest. This mission depends on our military and civilian personnel and equipment being in the right place, at the right time, with the right capabilities, and in the right quantities to protect our national interests. This has never been more important as the United States fights terrorists who plan and carry out attacks outside the traditional boundaries of the battlefield.

The Department is one of the nation's largest employers, with approximately 1.3 million personnel in the Active Component, more than 800,000 personnel serving in the National Guard and Reserve forces, and about 750,000 civilians. The Department's military Service members and civilians operate in every time zone and in every climate. There are also approximately 2.3 million military retirees and survivors receiving retirement payments.

The Department manages a worldwide real property portfolio that spans all 50 states, U.S. territories and many foreign countries. The Department's real property infrastructure includes more than 568,000 facilities (buildings, structures and linear structures) located in more than 4,800 sites worldwide. These sites represent more than 27.1 million acres that individually vary in size from training ranges with over 4 million acres, such as the White Sands Missile Range, to single weather towers or navigational aids isolated on sites of less than one one-hundredth (0.01) of an acre. Of the land the Department manages, only about 31 percent is held by the Department in fee interest. The remaining acres are controlled through other legal means such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond the mission-specific areas of installations such as runways, training areas, and industrial complexes, DoD installations also contain many facilities and operations found in municipalities or on university campuses such as hospital and medical facilities, public safety facilities, community support complexes, housing and dormitories, dining facilities, religious facilities, utility systems, and roadways. To protect the security of the United States, the Department operates over 14,000 aircraft and approximately 275 Battle Force ships.



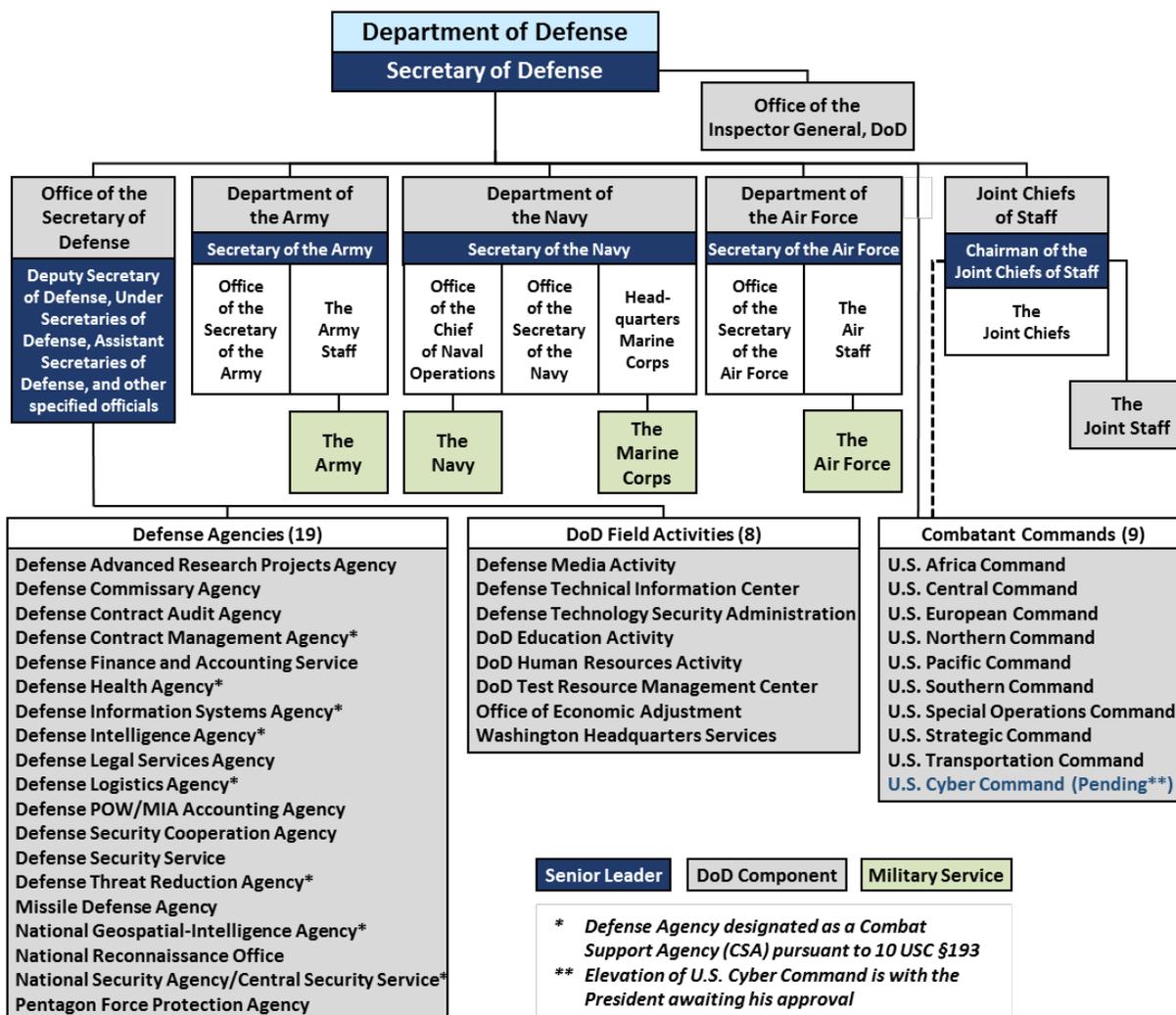
Secretary of Defense Jim Mattis speaks with representatives of key military and veteran support organizations at the Pentagon in Washington, D.C., April 12, 2017. To his left is Dana White, assistant to the Secretary of Defense for Public Affairs (ATSD), and to his right is U.S. Air Force Lt. Col. Kristi Beckman, director of community and public outreach for the Office of the ATSD.

*Photo by Air Force Tech. Sgt. Brigitte N. Brantley*

The Secretary of Defense is the principal assistant and advisor to the President in all matters relating to the Department, and he exercises authority, direction, and control over the Department. The Department (as seen in Figure 2) is currently composed of the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff, Joint Staff, DoD Office of the Inspector General (OIG), Military Departments, Defense Agencies, DoD Field Activities, Combatant Commands, and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense.

The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting to the Commanders of the Combatant Commands the orders of the President or the Secretary of Defense.

**Figure 2. Department of Defense Organizational Structure**



**Senior Leader**    **DoD Component**    **Military Service**

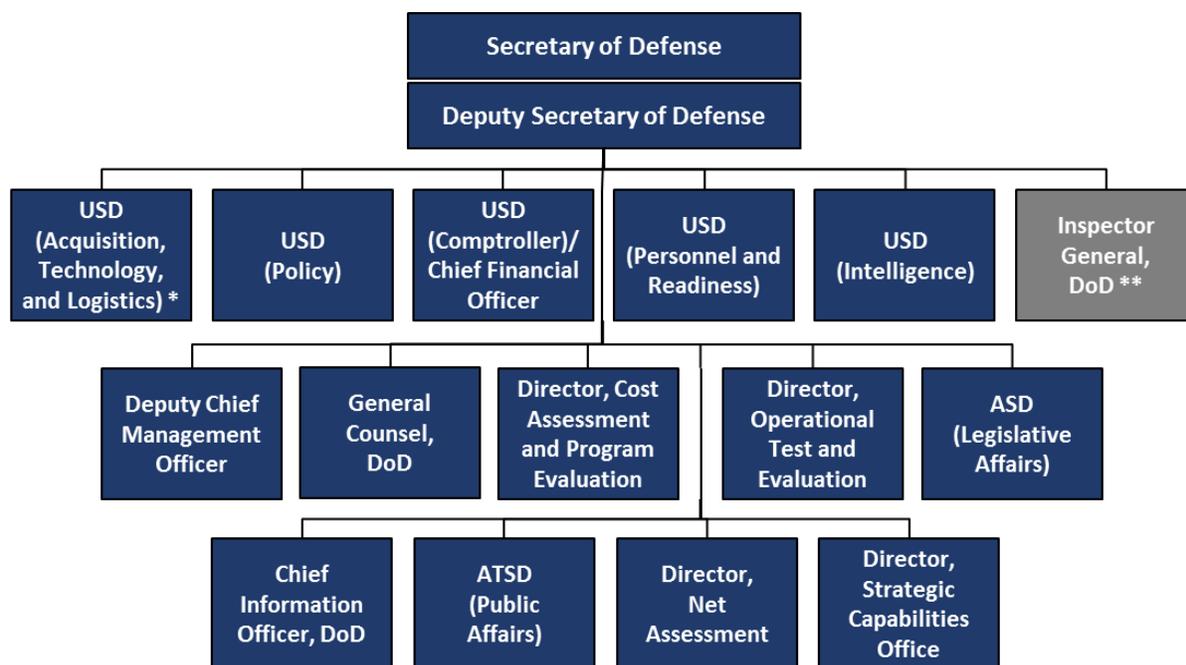
\* Defense Agency designated as a Combat Support Agency (CSA) pursuant to 10 USC §193  
 \*\* Elevation of U.S. Cyber Command is with the President awaiting his approval

The Office of the Secretary of Defense

The function of the OSD is to assist the Secretary of Defense in carrying out his duties and responsibilities and other duties as prescribed by law. The OSD is composed of the Deputy Secretary of Defense, who also serves as the Chief Management Officer and Chief Operating Officer; the Under Secretaries of Defense; the Deputy Chief Management Officer; the Department of Defense Office of the General Counsel; the Assistant Secretaries of Defense; the Assistants to the Secretary of Defense; the OSD Directors, and their equivalents; the Inspector General, Department of Defense; and other staff offices within OSD established by law or by the Secretary.

The OSD Principal Staff Assistants are responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing and managing the Defense Agencies and DoD Field Activities (Figure 3).

**Figure 3. Office of the Secretary of Defense Principal Staff Assistants**



\* The USD for Acquisition, Technology, and Logistics is being split into two offices on February 1, 2018  
 \*\* Although the IG DoD is statutorily part of OSD and is under the general supervision of the SD, the Office of the IG DoD (OIG) functions as an independent and objective unit of the DoD  
 Acronyms: USD—Under Secretary of Defense, ASD—Assistant Secretary of Defense, ATSD—Assistant to the Secretary of Defense

### The Joint Chiefs of Staff and the Joint Staff

The Joint Chiefs of Staff ([JCS](#)), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The Joint Chiefs of Staff consist of the Chairman ([CJCS](#)), the Vice Chairman ([VCJCS](#)), the Chief of Staff of the Army ([CSA](#)), Chief of Naval Operations ([CNO](#)), the Chief of Staff of the Air Force ([CSAF](#)), the Commandant of the Marine Corps ([CMC](#)), and the Chief of the National Guard Bureau ([CNGB](#)). The Joint Chiefs of Staff function as the military advisors to the President, the National Security Council, the Homeland Security Council, and the Secretary of Defense.

### Office of the Inspector General

The DoD [OIG](#) is an independent unit within the Department that conducts and supervises audits and investigations relating to the Department's programs and operations. The DoD Inspector General serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

### Military Departments

The Military Departments consist of the Departments of the [Army](#), the [Navy](#) (of which the [Marine Corps](#) is a Component), and the [Air Force](#). Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the [U.S. Coast Guard](#) becomes a special Component of the Navy; otherwise, it is part of the [Department of Homeland Security](#). The four Services and the U.S. Coast Guard are collectively referred to as the U.S. Armed Forces per title 10, United States Code, [section 101\(a\)\(4\)](#). The three Military Departments organize, staff, train, equip, and sustain America's military forces and are composed of four Military Services (Army, Navy, Marine Corps, and Air Force) or five when including the U.S. Coast Guard, when directed. These trained and ready forces are assigned or allocated to a Combatant Command responsible for maintaining readiness to conduct military operations.



U.S. Marines with Lima Company, 3rd Battalion, 8th Marine Regiment, take cover after setting off a donut charge for an urban assault breaching range during a deployment for training exercise at Fort Pickett, Blackstone, Va., Dec. 9, 2016. The range was an opportunity for the Marines to practice the fundamentals of their job to better prepare them for deployment.

*Photo by Sgt. Clemente C. Garcia*

Military Departments include Active and Reserve Components. The Active Component is composed of units under the authority of the Secretary of Defense manned by active duty Military Service members. The Reserve Component includes the Reserve Forces of each Military Service and the *National Guard*, which has a unique dual mission with both Federal and State responsibilities (Figure 4). When commanded by the governor of each state or territory, the National Guard can be called into action during local, statewide, or other emergencies such as storms, drought, civil disturbances, and in some cases supporting federal purposes for training or other duty (non-federalized service).

When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve Forces of the Military Services are placed under operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve forces are recognized as indispensable and integral parts of the Nation’s defense and fully part of the applicable Military Department.

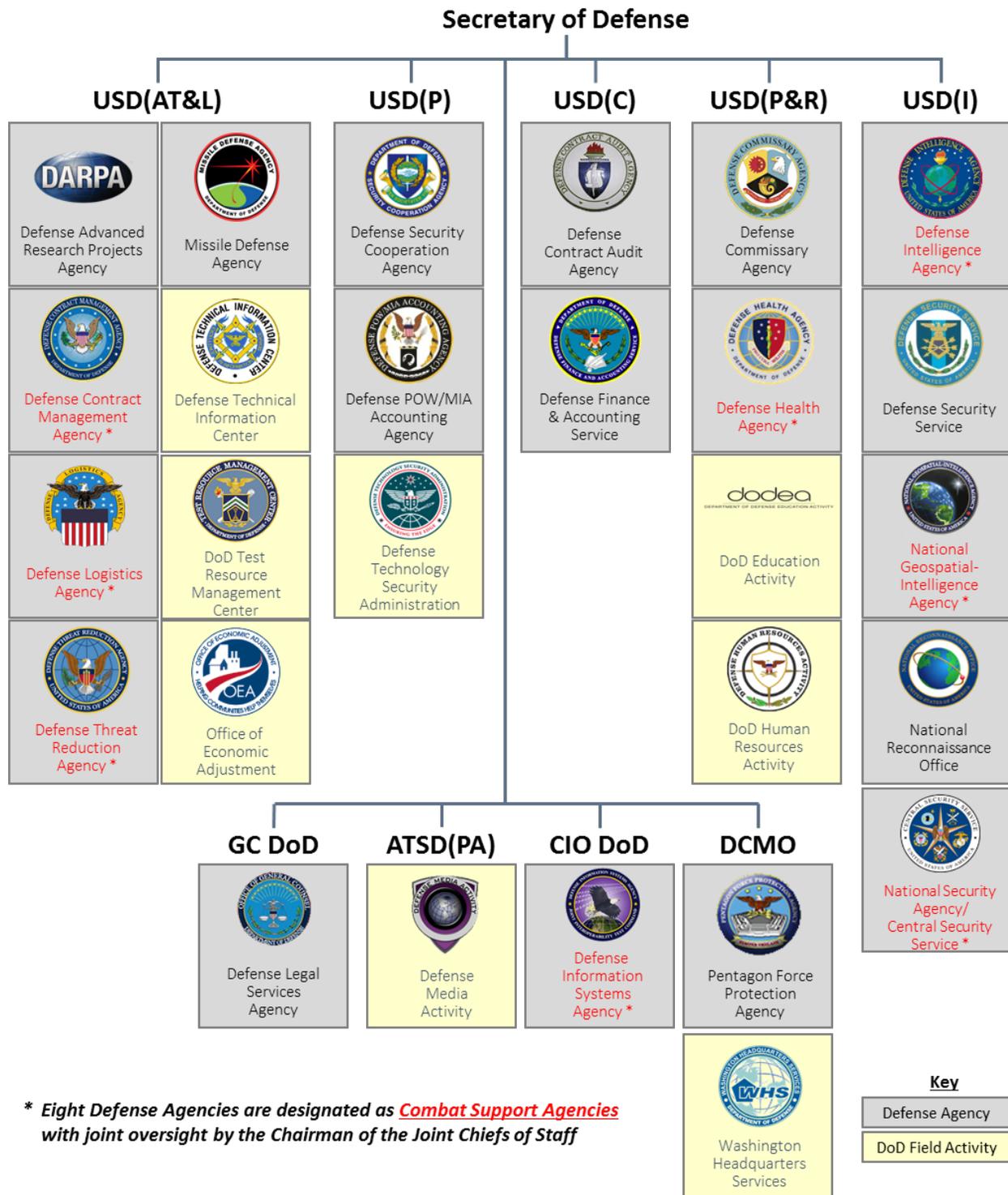
**Figure 4. Reserve Components: Reserves and National Guard**



Defense Agencies and DoD Field Activities

Defense Agencies and DoD Field Activities (Figure 5) are established as DoD Components by law, the President, or the Secretary of Defense to provide, on a Department-wide basis, a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies to support the Combatant Commands directly. Each of the 19 Defense Agencies and 8 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD Principal Staff Assistant.

Figure 5. Defense Agencies and DoD Field Activities



## Combatant Commands

The Commanders of the Combatant Commands (Figure 6) are responsible for accomplishing the military missions assigned to them. Combatant Commanders exercise command authority over assigned and/or allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

**Figure 6. Combatant Commands**



The U.S. Strategic Command ([\*USSTRATCOM\*](#)), U.S. Transportation Command, ([\*USTRANSCOM\*](#)), and U.S. Special Operations Command ([\*USSOCOM\*](#)) are functional Combatant Commands, each with unique functions as directed by the President in the Unified Command Plan. Among Combatant Commands, the USSOCOM has additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments and Defense Agencies, including programming, budgeting, acquisition, training, organizing, equipping, and providing Special Operations Forces (SOF), and developing SOF’s strategy, doctrine, tactics, and

procedures. The USSOCOM is reliant upon the Military Services for common support and base operating support.

In addition to supplying assigned and allocated forces and capabilities to the Combatant Commands, the Military Departments provide administrative and logistics support by managing the operational costs and execution of these commands. The USSOCOM is the only Combatant Command directly receiving congressional appropriations.



U.S. Air Force Airman 1st Class Christian Williams, 36th Airlift Squadron loadmaster, releases cargo from a U.S. Air Force C-130 Hercules during an airdrop operation during Cope North 2017, Feb. 22, 2017. The exercise includes 22 total flying units and more than 2,700 personnel from three countries and continues the growth of strong, interoperable relationships within the Indo-Asia Pacific region through integration of airborne and land-based command and control assets.

*Photo by Senior Airman Keith James*

## PERFORMANCE OVERVIEW

The [\*Deputy Secretary of Defense\*](#), as the Department of Defense's (DoD) Chief Management Officer and Chief Operating Officer, is responsible for performance management and improvement within the Department. Each year, in accordance with the [\*Government Performance and Results Act of 1993\*](#) and Office of Management and Budget [\*Circular No. A-11\*](#), the Department develops and tracks performance goals and measures to meet DoD strategic priorities.

The [\*Government Performance and Results Modernization Act of 2010\*](#) requires the development of a DoD [\*Agency Strategic Plan\*](#) (ASP). The Department's Fiscal Years (FY) 2015 – 2018 ASP strategic goals were:

- Strengthen and enhance the health and readiness of the total force;
- Defeat our adversaries, deter attacks, deny enemy objectives, and defend the nation; and
- Achieve dominant capabilities through innovation, technical excellence, and defense institution reform.

The Department will publish and submit to Congress the FY 2018 – 2022 DoD Agency Strategic Plan with the FY 2019 President's Budget Request in February 2018. This plan will align to Secretary of Defense priorities and support the administration's management agenda.

This section provides an executive level overview of DoD's performance through Quarter 3, FY 2017, ending June 30, 2017. Complete FY 2017 results will be published in the Annual Performance Report ([\*APR\*](#)) section of the Department's FY 2019 President's Budget Request in February 2018.



Sailors assigned to Explosive Ordnance Disposal Mobile Unit (EODMU) 11 ascend a rope to an MH-60S Sea Hawk helicopter, from the "Eightballers" of Helicopter Sea Combat Squadron (HSC) 8, while conducting helicopter, visit, board, search, and seizure (HVBSS) training during a composite training unit exercise (COMPTUEX) with the Nimitz Carrier Strike Group in preparation for an upcoming deployment. COMPTUEX tests the mission readiness of the strike group's assets through simulated real-world scenarios and their ability to perform as an integrated unit.

*Photo by Mass Communication Specialist 3rd Class Deanna C. Gonzales*

### Summary of Performance Results

At the end of Quarter 3, FY 2017, 50 percent of DoD quarterly performance measures were on track to meet the annual goals, while 50 percent did not meet third quarter targets and could be considered at risk of not achieving annual targets. Of the remaining performance measures, 36 measures will be reported after the close of FY 2017. A selection of Departmental successes and areas for improvement are highlighted below.

#### *Transition to Veterans*

Our Nation should provide the best support possible to those who keep our country free and strong as they transition to civilian life. The Department remains focused on how to achieve lasting success for transitioning Service members both in preparing them for careers beyond the military and ensuring a smooth transition from active duty. To effectively address these issues, the Department continues to implement policies and practices that focus on readiness and supporting Service members and their families.

The Department and other critical federal partners are working to ensure that all eligible Service members participate in an effective program of pre-separation planning and education through evidence-based learning. This support is delivered through curriculum, the “Transition GPS (Goals, Plans, Success)” within the DoD Transition Assistance Program (TAP), which is comprised of both core instructional blocks and individually selected tracks for accessing higher education, for obtaining career technical training, and for entrepreneurship. Through Quarter 3, FY 2017, more than 90 percent of known eligible active duty and Reserve Component Service members have met the TAP performance objectives.



U.S. Army veteran, David Iuli, throws a discus during the Warrior Care and Transition's Army Trials, competing for a chance to go to the Department of Defense level 2017 Warrior Games, at Fort Bliss, Texas, April 5, 2017. The Warrior Games is an annual event allowing wounded, ill and injured Service members and veterans to compete in Paralympic sports including archery, cycling, shooting, sitting volleyball, track and field, swimming and wheelchair basketball.

*Photo by Spc. Fransico Isreal*

Since 2007, the Department of Defense and the Department of Veterans Affairs (VA) have operated the Integrated Disability Evaluation System (IDES) to provide both DoD and VA disability benefits to Service members discharged due to medical disability. For the IDES performance goals, during Quarter 3, FY 2017, the equally weighted goal components of the average of IDES process timeliness; Service member customer service satisfaction; accuracy and

consistency of Military Department IDES dispositions; and Military Department compliance with case processing administrative requirements resulted in an overall 85 percent score for DoD IDES performance measure, which exceeded the third quarter target (80 percent). The Department will continue to evaluate the Military Departments' performance against all measures that comprise the IDES Performance Goal.

#### *Reform the DoD Acquisition Process*

As the [2016 Annual Report on the Performance of the Defense Acquisition System](#) illustrates, cost growth for Major Defense Acquisition Programs is at a 30-year low. The Department has achieved this success by observing several key tenets: setting reasonable requirements, putting trained professionals in charge, giving them the resources that they need, and providing strong incentives for success. With some exceptions, performance requirements and schedules are generally stable across major programs and the United States continues to field the most capable warfighting systems in the world.

Since the [Weapons System Acquisition Reform Act of 2009](#), major programs baselined reflect cumulative underruns in excess of \$30 billion. All three Military Departments are showing net improvements across their portfolios of programs with original baselines since 2009. This result comports with analysis indicating that cost growth has improved recently and that it is the programs started before 2009 that have higher cost growth. The Department has seen success in ensuring it is paying reasonable prices by tying contractor performance and risk to profit/fee. The Department has been monitoring operating margins of prime contractors to ensure that the net effect of these efforts – combined with other issues, such as sequestration – is not undermining the health of the defense industrial base. Results for the six largest prime contractors since 2009 show that they have performed consistently or slightly better, providing evidence that our efforts have not hurt the profit margins of these companies.

The annual report also describes the Department's significant progress in rebuilding the acquisition workforce. Congress made this success possible by enacting legislation for the Defense Acquisition Workforce Development Fund, Acquisition Demonstration Project (AcqDemo), and other special hiring authorities. The Department has rebuilt workforce size, reshaped the workforce to strengthen early and mid-career year groups, significantly improved certification and education levels, and expanded participation in the contribution-based AcqDemo personnel management system.

The Department has had many successes but will continue to review and improve work in delivering capability to the warfighter and protecting the American people. Average development timelines for major programs must be reduced to be more responsive to the force. Defense manufacturing costs continue to increase at rates greater than those of the larger economy. To some extent this is the result of the increasing complexity and performance requirements of the systems themselves, but the overall trends are unaffordable.

### *Innovation*

The Department-wide focus on technology innovation seeks to identify and invest in unique capabilities to sustain and advance the Department's military superiority for the 21st Century. The Department's research and engineering enterprise plays a vital role in maintaining the U.S. technological advantage despite the increased rate of investment in military research and development (R&D) from near-peers and easy proliferation of knowledge and technology that has eroded U.S. historic advantages. The Department's research and engineering enterprise is focused on providing the technologies to address current and future threats, reducing the cost of current systems while increasing their capability, and creating technological surprise for our adversaries. In the process of delivering capabilities into the warfighter's hands, we have leveraged all sources of innovation, both internal and external to the Department, and we used prototyping and experimentation to inform, evaluate, and accelerate technology development. The Department's continued R&D efforts contribute to the fielding of capabilities to the warfighter to ensure the Department is able to win today's fight and any future fights.



U.S. Army Sgt. Justin Carrington, an unmanned aircraft system repairer with Delta Company, 9th Engineer Battalion, 2nd Brigade Combat Team, 3rd Infantry Division, prepares to launch an RQ-7 Shadow unmanned aerial vehicle (UAV) at Evans Army Airfield near Fort Stewart, Ga., Jan. 25, 2017. Soldiers with Delta Company supported the battalion field training exercises with surveillance from UAVs.

*Photo by Spc. Efren Rodriguez*

### *Audit and Audit Remediation*

The [\*National Defense Authorization Act for FY 2014\*](#) mandates that the Secretary of Defense ensures a full audit is performed on the DoD financial statements beginning in FY 2018. The DoD Consolidated Audit will likely be the largest audit ever undertaken. It comprises more than 24 standalone audits and an overarching consolidated audit. The Department has notified the Department of Defense Inspector General and congressional committees that it has the necessary capabilities to start the full financial statement audit in FY 2018. The Department expects to receive a variety of audit findings and recommendations, which will help to establish the baseline and provide a benchmark against which progress can be measured.

Remediating audit findings from the full financial statement audits is at the core of the Department's audit strategy and is the most certain and cost-effective path to achieving a positive audit opinion. The audit assesses our financial process and systems and will bring to light areas where the Department can improve. Over the next year, the Department must support a number

of concurrent activities, including supporting the ongoing audits, addressing issues identified in earlier audits, and planning for future audits. This all directly supports the Department's strategic priority to transform business processes.

In order to standardize how audit results are reported and tracked, the Department has developed a common tool with standardized categories of deficiencies in order to capture critical elements of audit findings to drive change and accountability and to measure progress. The tool will support accountability of remediation activities across the Components. The FY 2017 Annual Performance Plan ([APP](#)), which will be published as part of the Department's FY 2019 President's Budget Request in February 2018, will represent self-reported progress against performance measures identified in prior years. In FY 2018, these performance measures and targets will be changed in response to expected feedback and Notifications of Findings and Recommendations received from the audit results.

### *Energy*

The Services and Combatant Commands have made strides in including the risks of energy disruptions in planning activities. Experiential learning through including operational energy in wargames, exercises, and operation plans allows the industrial base to bring capabilities they have developed and truly test them with the warfighter. This benefits the government-industry partnership and allows Concepts of Operation and new warfighting strategies to be developed.

The earlier we consider energy in the development process, the more we are able to effectively influence the design and capability of future systems. Underpinned by an analysis of how a system will be supported in a future warfighting scenario, the energy key performance parameter helps the Department make holistic decisions about future combat forces and the energy logistics and infrastructure needed to support those forces. The needs of the Combatant Commands will inform Department investments in people, equipment, and installations. Joint and Service wargames and scenario analyses will identify long-term risks to our combat capability that can be remedied through changes in how we consume and distribute energy in operations. These "demand signals" for operational energy improvements will then be integrated across requirements, acquisition, and innovation decision-making to quickly and effectively meet warfighter needs.

### *Competitively Awarded Contract Obligations*

When viable, competition is, perhaps, the single best way to motivate contractors to provide the best value (i.e., the best performance at the lowest price). To this end, the Department continues to set and strives to achieve competition goals. The Military Departments each analyze projections of future acquisitions to identify opportunities and creative strategies for future competitive awards.

Competition achievement by contracting organizations varies widely based upon the missions and type of supply or service being procured. Challenges to improving competition include high-value sole-source Foreign Military Sales, large on-going shipbuilding and aviation programs, and sustainment for major weapon systems that have already moved past the stage in

the lifecycle where competition is economically viable. Another challenge can be industry bid-protests of source selections results, which may require the Department to award sole-source bridge contracts for goods and services in the interim until the protests are resolved and the new contracts can be awarded.

Despite these challenges, the Department is continuing to pursue various approaches for breaking out system components for competition and take steps to increase competition for major systems by introducing competition during the sustainment phase of a product's life cycle through the use of open systems and open architectures. Beyond this kind of head-to-head competition, the Department is also expanding the types and use of other competitive environments to drive performance and cost savings. For example, the Navy's evolving Profit-Related-to-Offer techniques adjust profits and production share between two captive shipyards based on bidding and cost control. Finally, analysis is being used to continue to set goals based on what is achievable rather than on simply setting goals based on prior actuals.



U.S. Navy Flight Demonstration Squadron, The Blue Angels fly over Cinderella's Castle at Walt Disney World's Magic Kingdom en route to the Sun n' Fun Air Show in Lakeland, Florida. The Blue Angels are scheduled to perform more than 60 demonstrations across the U.S. in 2017.

*Photo by Petty Officer 2nd Class Ian Cotter*

### *Civilian Hiring End-to-End Timeline*

As reflected in the establishment of this performance goal, the capacity to hire quality candidates in a timely manner is critical in the Department's ability to build a larger, more capable, and more lethal joint force. Factors both within and beyond the control of the Department have contributed to the overall increase of time to hire for the previous quarters of FY 2017. Simply, there has been no single factor that can be identified as the sole contributor.

Some areas of ongoing assessment influencing the time to hire (TTH) include inconsistency in communications across Components, differences in Human Resources (HR) Information Technology systems, lack of consistent process execution, varying degrees of interpretations of the law, HR span of control in the hiring process, budget, and/or seasonality affects. Multiple internal and external forces can complicate both analysis in understanding and determining root causes, and in implementing successful action plans.

The Department has continued to work through these challenges and uncertainties through increased engagement with the Office of Personnel Management. The buildup of analytical capabilities and competency models in USA Staffing as well as the reestablishment of a DoD TTH Civilian Hiring working group have allowed for enhanced communications, sharing of best practices, and strengthening of targeted training and professional development opportunities within the HR community. Additionally, reemphasizing the importance of communication between the HR advisors and the hiring managers will continue to be a priority effort to improve TTH processes. To ensure progress in achieving timely hiring practices, objectives and targets that contribute to program success will be captured and monitored as part of the Human Capital Operating Plan. The Department will continue to review and assess the TTH process in order to minimize negative impacting factors, while seeking to achieve its ultimate goal of timely hiring.

### *Summary*

As outlined in the [DoD Annual Performance Report](#), the Department is a performance-based organization. The Department is committed to managing towards specific, measurable goals derived from a defined mission, using performance data to continually improve operations. These measurable goals include supporting veterans transitioning into the civilian workforce; reforming the DoD acquisition process; and pursuing improvement opportunities related to audit support and remediation, encouraging competition in the contract award process, and civilian TTH. The Department looks forward to working with the Administration and Congress to meet the challenge of creating more effective and efficient operations, while delivering a high-value return for the American taxpayers in carrying out its mission of protecting the country and its interests.

## FINANCIAL OVERVIEW

The preceding sections of this report provide a description of the Department of Defense’s (DoD) operations in Fiscal Year (FY) 2017 and a high-level overview of the Department’s performance against objectives as of Quarter 3, FY 2017. The FY 2017 final results for all Department performance measures will be reported in the Department’s Annual Performance Report, which will be available in February 2018. The Financial Overview will cover financial highlights and significant financial improvement initiatives.

### FINANCIAL HIGHLIGHTS AND ANALYSIS

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), pursuant to the requirements of Title 31, United States Code, [section 3515\(b\)](#). The statements have been prepared from the accounting records of the Department in accordance with Office of Management and Budget [Circular No. A-136](#), “Financial Reporting Requirements,” and, to the extent possible, U.S. Generally Accepted Accounting Principles for Federal Entities, and the [DoD Financial Management Regulation](#). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

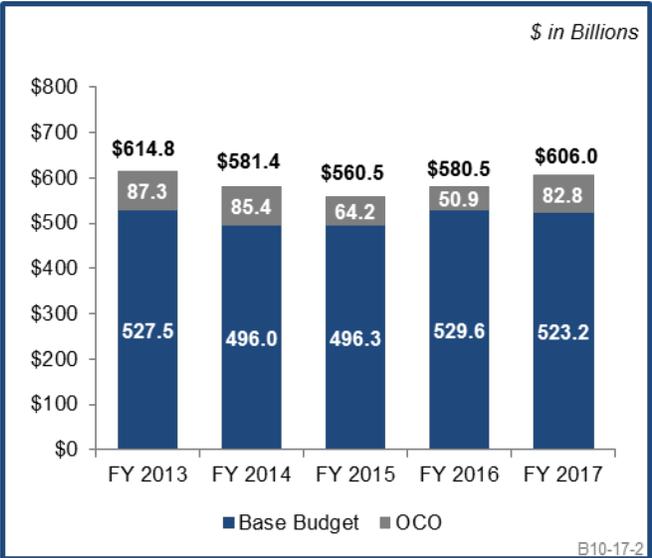
The Defense Finance and Accounting Service prepared the consolidated financial statements and explanatory notes, located in the Financial Information section of this report. The principal financial statements include:

- Statement of Budgetary Resources
- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position

#### Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) presents the Department’s total budgetary resources, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and implementing regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. As discussed in the Resources section of this report and as depicted in Figure 7, the Department’s Fiscal Year (FY) 2017 budget authority total is \$606 billion.

**Figure 7. Trend in DoD Budget Authority**



In FY 2017, the Department reported \$1.1 trillion in total budgetary resources (as shown in Figure 8). The total amount of “Appropriations (discretionary and mandatory)” (\$777.0 billion) reported on the SBR consists of appropriations enacted for the Department, contributions for DoD military retirement and health benefits made by the U.S. Treasury from the U.S. Treasury’s general fund, and appropriations to finance civil works projects managed by the U.S. Army Corps of Engineers. The Department also receives appropriations to finance civil work projects managed by the U.S. Army Corps of Engineers. Current year Trust Fund receipts, including the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund, are also included in the SBR “Total Budgetary Resources” line. Trust fund receipts, labeled “Temporarily not available,” represent budget authority the Department will execute in future years to pay the current unfunded liabilities carried in these large funds.

Additional budgetary resources include \$181.0 billion of unobligated balances stemming from prior year budget authority, \$105.7 billion in spending authority from offsetting collections, and \$76.5 billion of contract authority.

Of the \$1.1 trillion in total budgetary resources, \$981.5 billion was obligated and \$899.8 billion of obligations were disbursed. The remaining unobligated budgetary resources balance relates primarily to appropriations available to cover multi-year investment projects, which require additional time for completion. In addition, expired appropriations remain available for valid upward adjustments to prior year obligations but are not available for new obligations.

### Balance Sheet

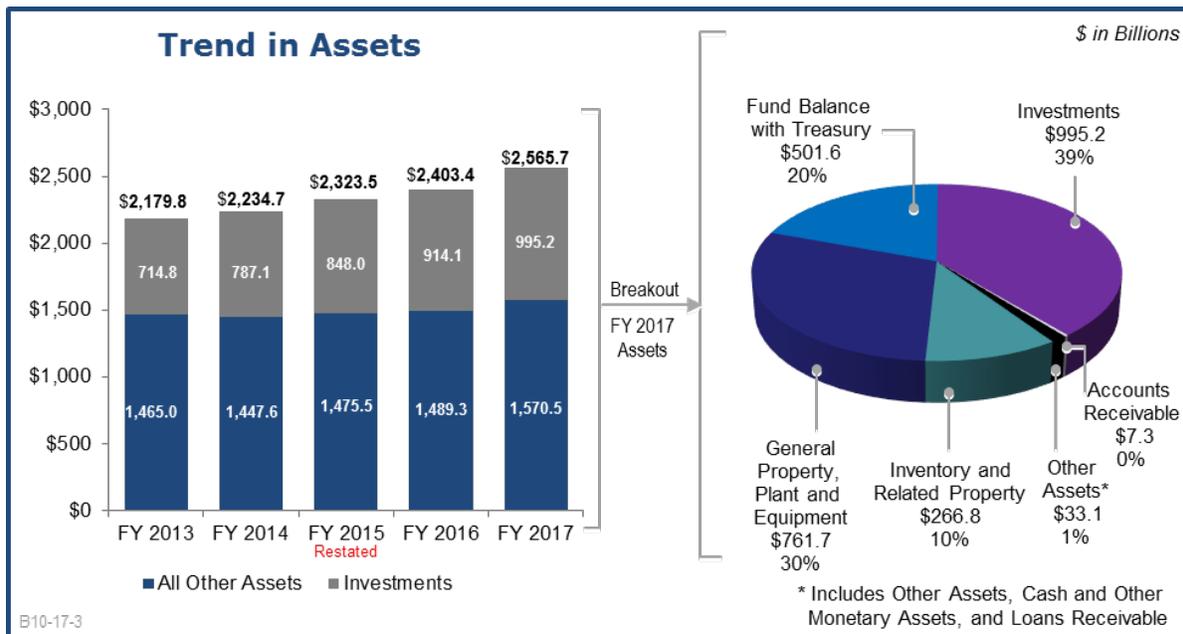
The Balance Sheet, which reflects the Department’s financial position as of September 30, 2017, reports probable future economic benefits obtained or controlled by the Department (Assets), claims against those assets (Liabilities), and the difference between them (Net Position).

The \$2.6 trillion in assets shown in Figure 9 represent amounts the Department owns and manages. Investments; General Property, Plant, and Equipment; and Fund Balance with Treasury represent 89 percent of the Department’s assets. General Property, Plant, and Equipment is largely comprised of military equipment and buildings, structures, and facilities used to support the Department’s mission requirements.

**Figure 8. Composition of DoD Total Budgetary Resources**

Description	FY 2017 (\$ in Billions)
DoD Enacted Appropriations *	\$606.0
U.S. Treasury contribution for Military Retirement and Health Benefits	94.3
Civil Works Projects executed by the USACE	5.8
Trust Fund Receipts	153.2
Trust Fund Resources Temporarily not Available	(82.3)
<b>Total Appropriations (discretionary and mandatory) Reported on SBR</b>	<b>\$777.0</b>
Unobligated Balances from Prior Year Budget Authority	181.0
Spending Authority from Offsetting Collections	105.7
Contract Authority	76.5
<b>Total Budgetary Resources</b>	<b>\$1,140.2</b>
* DoD FY 2017 Budget Authority from Figure 1	

**Figure 9. Summary of Total Assets**



Total Assets increased \$162.4 billion (7 percent) from FY 2016, largely due to increases in Investments in U.S. Treasury securities (\$81.1 billion) and General Property, Plant, and Equipment (\$50.0 billion). As displayed in Figure 9, the Department has realized growth in Investments over the last several years. The Investments increase was primarily due to normal growth in the Military Retirement Fund that resulted from investment of contributions from the U.S. Treasury and the Uniformed Services, net of benefits paid. Under the Department’s current strategy, invested balances will continue to grow to cover unfunded portions of future benefits. Funds not needed to cover current benefits were invested in U.S. Treasury Securities. The increase in General Property, Plant and Equipment was the result of the Department’s continued effort to establish opening balances and the revaluation of military equipment associated with the recently published Statement of Federal Financial Accounting Standards [\(SFFAS\) 50](#), “Establishing Opening Balances for General Property, Plant, and Equipment.” The Department expects additional changes in its beginning balance in future years as components continue to refine their accounting and valuation efforts in this area based on feedback from the Independent Auditors.

As seen in Figure 10, the Department’s total liabilities increased \$75.1 billion during FY 2017, largely due to adjustments in the estimated actuarial liability associated with military retirement benefits. This change is primarily attributable to changes in expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. The Department’s \$2.5 trillion of liabilities reported in FY 2017 are backed by the full faith and credit of the U.S. Government.

Figure 10. Summary of Total Liabilities

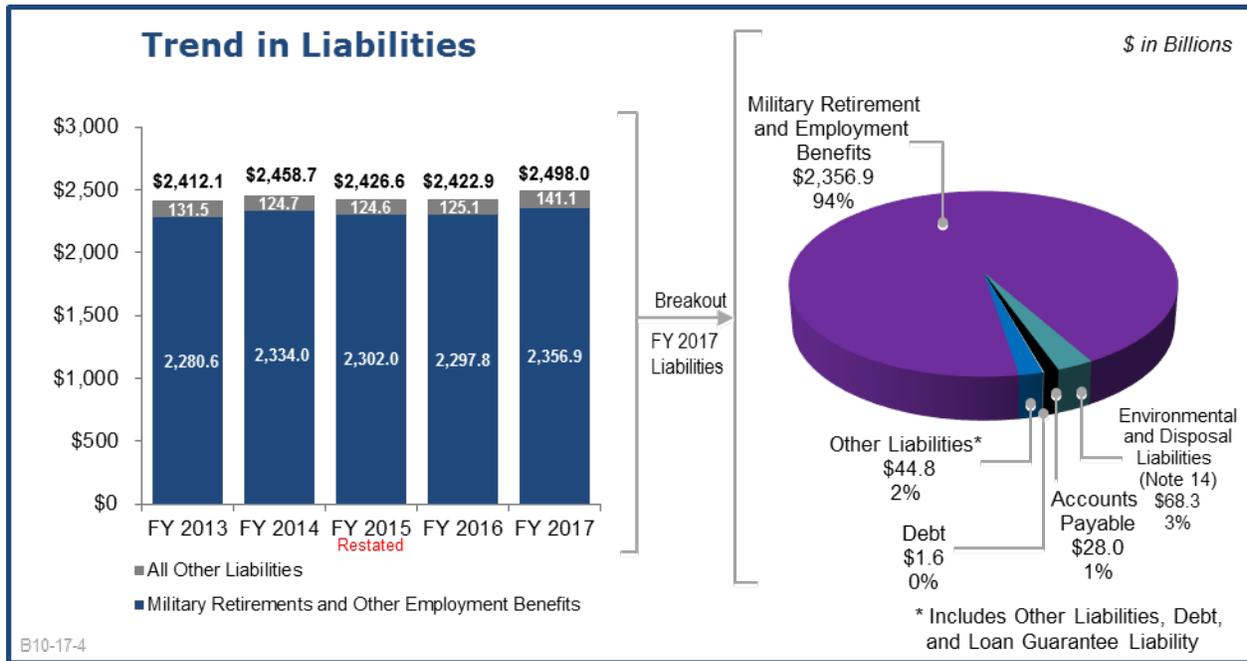
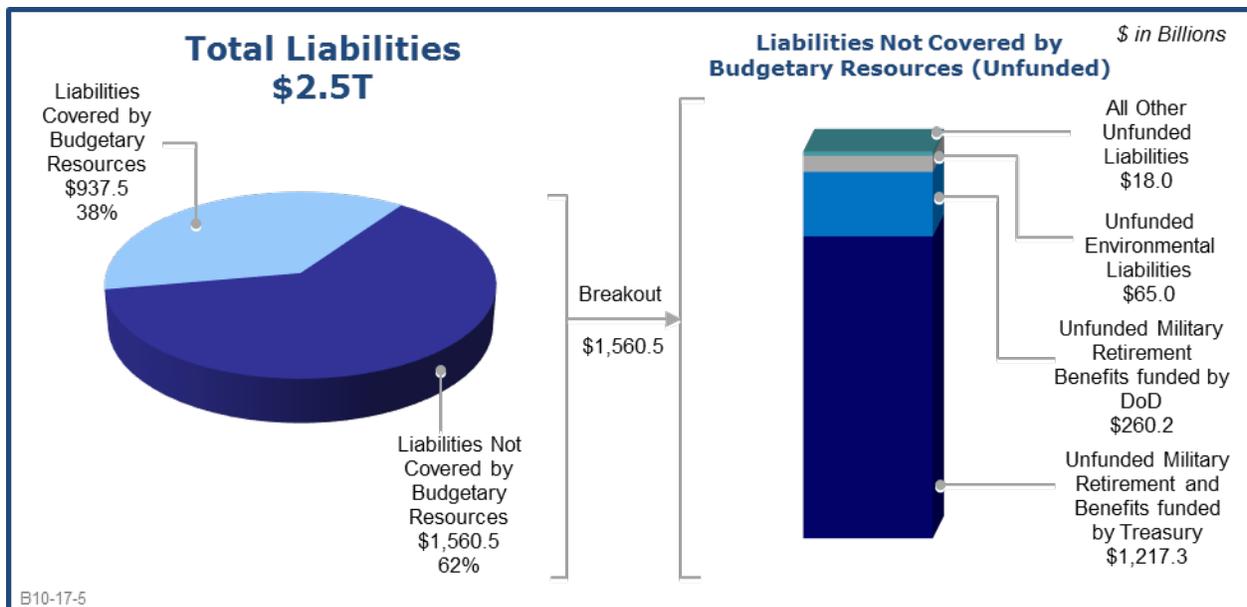


Figure 11 shows \$2.5 trillion total liabilities with \$1.6 trillion in liabilities not covered by budgetary resources (unfunded) that will require future resources. The U.S. Treasury is responsible for funding the \$1.2 trillion actuarial liability that existed at the inception of the military retirement pension and Medicare-eligible health care programs which is approximately 78 percent of the \$1.6 trillion.

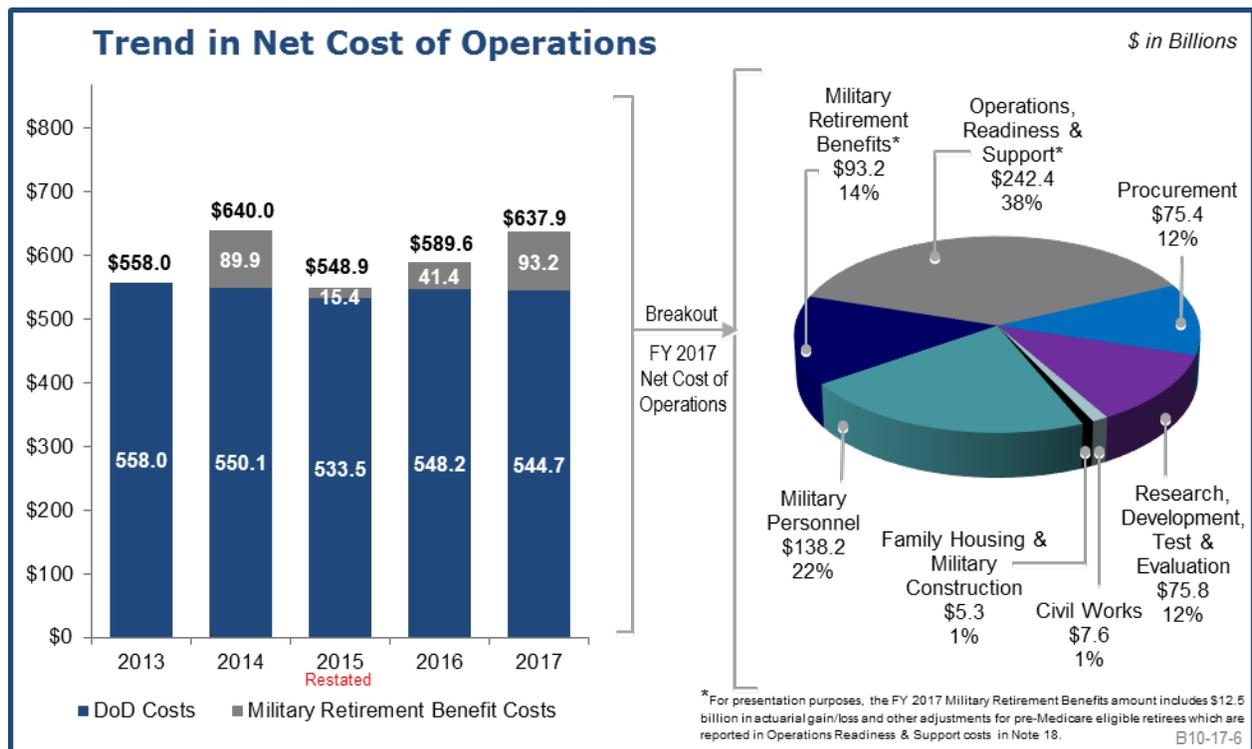
Figure 11. Liabilities Covered/Not Covered by Budgetary Resources



Statement of Net Cost

The Statement of Net Cost presents the net cost of all the Department’s programs, including military retirement benefits. The statement reports total expenses incurred less revenues earned from external sources to finance those expenses. Generally, the resulting balance of net cost is equivalent to the outlays reported on the SBR, plus (minus) the change in accrued liabilities, less the amount of assets purchased and capitalized on the Balance Sheet. The differences between reported outlays of the budgetary resources and reported net cost generally arise from when expenses are recognized.

**Figure 12. Summary of Net Cost of Operations**



The Department’s costs incurred relate primarily to operations, readiness, and support activities, military personnel cost, and costs related to the Department’s procurement programs. These costs were offset with investment earnings and contributions to support retirement and health benefit requirements, as well as earnings from reimbursed activities. This activity resulted in \$637.9 billion in net cost of operations during the fiscal year.

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of net position separately to enable the financial statement user to better understand the nature of changes to net position as a whole. The statement focuses on how the net cost of operations as presented on the Statement of Net Cost is financed, as well as displaying the

other sources financing the Department's operations. The Department's ending net position increased \$87.3 billion during FY 2017. The increase reflects primarily the increase in assets due to the normal growth in investments in the Military Retirement Fund. The growth results from investment of contributions from the U.S. Treasury and the Uniformed Services, net of benefits paid. Under the Department's current strategy, invested balances are expected to continue growing to cover unfunded portions of future benefits.

### Financial Performance Summary

The Department's financial performance is summarized in Figure 13. This table represents the Department's condensed financial position, results of operations, and budgetary resources, and includes comparisons of financial balances from the current year to the prior year. The lack of auditable financial data is a limiting factor in the ability of the Department to explain all material variances presented in the comparative statements. Nevertheless, the data underlying the amounts is used to manage the Department's operations successfully.

**Figure 13. Financial Performance Summary**

<i>Dollars in Billions</i>	<b>FY 2017</b>	<b>FY 2016</b>	<b>Change</b>	<b>% Change</b>
<b>ASSETS</b>				
Fund Balance with Treasury	\$ 501.6	\$ 474.3	\$ 27.3	5.8%
Investments	995.2	914.1	81.1	8.9%
Accounts Receivable	7.3	8.8	(1.5)	(17.0%)
Other Assets	33.1	39.2	(6.1)	(15.6%)
Inventory and Related Property, Net	266.8	255.3	11.5	4.5%
General Property, Plant and Equipment, Net	761.7	711.7	50.	7.0%
<b>TOTAL ASSETS</b>	<b>\$ 2,565.7</b>	<b>\$ 2,403.4</b>	<b>\$ 162.3</b>	<b>6.8%</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 28.0	\$ 20.2	\$ 7.8	38.6%
Other Liabilities	44.8	42.1	2.7	6.4%
Military Retirement and Other Federal Employment Benefits	2,356.9	2,297.9	59.0	2.6%
Environmental and Disposal Liabilities	68.3	62.7	5.6	8.9%
<b>TOTAL LIABILITIES</b>	<b>\$ 2,498.0</b>	<b>\$ 2,422.9</b>	<b>\$ 75.1</b>	<b>3.1%</b>
<b>TOTAL NET POSITION (ASSETS MINUS LIABILITIES)</b>	<b>\$ 67.7</b>	<b>\$ (19.5)</b>	<b>\$ 87.2</b>	<b>447.2%</b>
Total Financing Sources	\$ 680.0	\$ 699.4	\$ (19.4)	(2.8%)
Less: Net Cost	(637.9)	(589.6)	(48.3)	8.2%
<b>NET CHANGE OF CUMULATIVE RESULTS OF OPERATIONS</b>	<b>\$ 42.1</b>	<b>\$ 109.8</b>	<b>\$ (67.7)</b>	<b>(61.7%)</b>
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 1,140.2</b>	<b>\$ 1,101.3</b>	<b>\$ 38.9</b>	<b>3.5%</b>

## FINANCIAL MANAGEMENT IMPROVEMENT INITIATIVES

### Financial Improvement and Audit Readiness Initiative

In Fiscal Year (FY) 2017, the Department of Defense (DoD) concluded its preparation efforts and will undergo a full financial statement audit for FY 2018. The Department has the capabilities in place to allow an auditor to scope and perform a full financial statement audit that results in actionable feedback.

Currently, nine DoD Components and funds have positive opinions on their full financial statements. Eight DoD Components and funds are sustaining positive opinions on their full financial statements, i.e., the U.S. Army Corps of Engineers – Civil Works, the Defense Commissary Agency, Defense Contract Audit Agency, Defense Finance and Accounting Service, Defense Health Agency – Contract Resource Management, Military Retirement Fund, Medicare-Eligible Retiree Health Care Fund, and the DoD Office of the Inspector General. Additionally, the Defense Information System Agency achieved a positive opinion on their financial statements for the first time.

The Army expanded the scope of its audit in FY 2017 to cover additional primary financial statements and the Air Force continued to have its schedule of budgetary activities audited. The Navy was also under limited-scope audit in FY 2017. Several defense agencies also expanded the scope of their audit readiness examinations.

In FY 2018, the Department will undergo an audit of all four of its principal financial statements (i.e., Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources), including activity for both General Funds and Working Capital Funds. The audit of the Department's full financial statements comprises over 24 standalone audits and an overarching consolidated audit.

When full financial statement audits begin in FY 2018, the Department's focus will shift from preparing for audit to prioritizing and remediating audit findings with the goal of moving closer to a positive opinion. In order to standardize how audit findings are reported and tracked, the Department has developed a common tool with standardized categories of deficiencies in order to capture critical elements of audit findings to drive change. This tool will enable leaders to monitor completion of improvements, determine best practices, and identify common and systemic issues so that Department-wide solutions can be implemented.

Additional information on the (Financial Improvement and Audit Readiness) FIAR initiative is available in the semiannual [\*FIAR Plan Status Report\*](#), available on the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer website.

## Financial Management Certification Program

The Department of Defense (DoD) Financial Management (FM) Certification Program reached a steady state level of maturity in Fiscal Year (FY) 2017. The Certification Program, sponsored by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), was initially implemented in 2014 with the purpose of increasing the knowledge and competency level of the DoD FM workforce. As of September 30, 2017, more than 38,000 personnel achieved their required certification. This number represents 70 percent of the FM workforce, well above the FY 2017 goal of certifying 60 percent of the FM workforce.



The Certification Program is course-based rather than test based, with course hour requirements aligned to FM and leadership competencies and other specific courses, namely, audit readiness, ethics, and fiscal law. There are three levels of FM Certification, and each level includes FM experience requirements. The FM workforce must achieve certification within two years of assignment to an FM position. After meeting initial certification requirements, FM personnel must meet continuing education and training requirements every two years. The Comptroller team developed a comprehensive alignment process and aligned existing training and education courses (Federal government and commercial) to FM competencies. To date, 12,789 courses (3,528 training courses and 9,261 academic courses) have been aligned.

The biannual continuing education and training (CET) requirements range from 40 CET hours for certification level 1, to 60 CET hours for level 2, and 80 CET hours for level 3. In addition to existing and prior courses, in 2012, the Comptroller team developed a new set of FM web-based training courses. At the end of FY 2017, 80 new courses have been developed to support the FM Certification Program and are available to the workforce, resulting in improved, cost-free access to training in key FM subject areas. More than 500,000 FM web-based course completions have been recorded for the 80 courses and over 63,400 of these course completions are in the Financial Improvement and Audit Readiness area. This metric indicates that the Department is achieving one of its goals of improving employee knowledge and competency level in audit readiness.

The FM Certification Program reinforces the culture of professional development within DoD, ultimately increasing proficiency in technical and leadership disciplines and enabling the FM workforce to keep pace with evolving warfighter needs. OUSD(C) will continue to mature its training and development programs and provide support to warfighters globally.

## Institutional Reform

In the January 31, 2017, [Implementation Guidance for Budget Directives](#) memorandum to the Department of Defense (DoD), Secretary Mattis directed that the Department improve how it does business in order to increase the lethality, improve the readiness, and grow the capability and capacity of our forces. In support of this direction, the Department developed a comprehensive reform agenda, which will be included in the next [Agency Strategic Plan](#) to be published in February 2018. The focus of the reform agenda is pursuing cross-enterprise consolidation, reduction, and where appropriate, elimination of specific business activities or duplication of efforts to achieve greater efficiency, effectiveness, and savings. These efforts will free up resources for higher priority requirements that will contribute to the lethality of the Department. Implementation of the reform agenda and other Department priorities will be tracked through the DoD Agency Strategic Plan, which is based on the Secretary's priorities; the [Annual Performance Plan](#), which sets out specific goals and targets; and the [Annual Performance Report](#), which publishes the Department's performance results each year.



Engineering Aide 2nd Class Gabriel Jimenez, a native of Colombia assigned to Construction Battalion Maintenance Unit (CBMU) 202, high fives children from a Wayuu tribe in Mayapo, Colombia, during Continuing Promise 2017 (CP-17). CP-17 is a U.S. Southern Command-sponsored and U.S. Naval Forces Southern Command/U.S. 4th Fleet-conducted deployment to conduct civil-military operations including humanitarian assistance, training engagements, medical, dental, and veterinary support in an effort to show U.S. support and commitment to Central and South America.

*Photo by Mass Communication Specialist 2nd Class Shamira Purifoy*

In Fiscal Year (FY) 2017, the Department continued and expanded its reform efforts to reduce the cost of doing business. By identifying opportunities for management improvements and investments in high priority programs, the Department is striving to maximize the availability of its constrained resources for the optimal balance of force structure capacity and technological capabilities. This includes divesting lower priority or excess force structure and excess infrastructure as well as compensation reforms.

Current initiatives include service contract requirements reviews, reduction of Major DoD Headquarters Activities (MHA), leased space consolidation, information technology (IT) optimization, business optimizations including exchanges and commissaries, and military healthcare reforms.

Institutional reform will continue over the coming years as initiatives are developed through a set of cross-functional teams that have been established to champion the Department's reform agenda.

### Contract Management

The Department obligates over \$250 billion annually to contract for goods and services, including acquisition of major weapons systems, support for military bases, implementing new information technology, and other mission areas. The Department's leadership has taken significant steps to plan and monitor progress regarding the management and oversight of contracting techniques and approaches. In FY 2016, the Office of the Secretary of Defense (OSD) staff, Defense Agencies, and Field Activities institutionalized a requirements review process known as Service Requirements Review Boards (SRRB), complementing similar reviews already underway in the Military Departments. SRRBs focus on assessing, reviewing, and validating service contract requirements by senior leaders. The process requires organizations to review their service contract requirements and assess opportunities for efficiencies, to include elimination of non-value added services, identification and elimination of duplicative requirements, realignment of requirements to better align to mission, and identification of strategic sourcing opportunities. In addition, the OSD staff, Defense Agencies, Field Activities, via the SRRB process, were tasked with capturing savings of \$1.9 billion by 2021 for reinvestment in higher priority requirements. In FY 2017, 15 senior review panels were conducted for 25 organizations, with savings of \$141 million identified for FY 2017 alone. The projected savings for FY 2018 is approximately \$500 million.

### Major DoD Headquarters Activities

Section 346(b) of the National Defense Authorization Act ([\*NDAA for FY 2016\*](#)) directed a 25 percent reduction in the cost of MHA from FY 2016 baseline levels by FY 2020. In December 2015, the Deputy Secretary of Defense approved programmatic reductions of \$1.39 billion and 2,350 military and civilian manpower authorizations through FY 2021 to be incorporated into the FY 2017 President's Budget request. At the end of FY 2017, the Department of Defense achieved a 20.7 percent reduction in MHA and is on track to an overall 25.9 percent reduction by FY 2020. The budget request for FY 2018 is consistent with the plan submitted in

FY 2017. As the Department implements reform activities, we will continue to seek additional cost reduction opportunities in headquarters.

The NDAA for FY 2016 additionally prescribed a new definition for MHA which included all activities of the Office of the Secretary of Defense, the Joint Staff, and the offices of the Secretaries of the Military Departments, as well as the certain headquarters elements of the Combatant Commands, major and component commands of the Military Departments, the Defense Agencies, the DoD Field Activities, and the DoD Office of the Inspector General. The new definition essentially removes smaller organizations from consideration as MHA while counting more of the staff-like activity in the major DoD Components. The definition of MHA prescribed in the NDAA for FY 2016 is that used to establish the baseline for the purposes of reporting, tracking, and managing the mandated reductions. This baseline includes manpower (military and civilian) and operating costs of headquarters, including contractor support.

#### Leased Space

In FY 2014, the Department started with a baseline of 5.4 million square feet of DoD-occupied space in the National Capital Region (NCR). The Department set forth with a plan to reduce this footprint by 1.2 million square feet prior to FY 2020. To date, the Department has eliminated 267,000 square feet of leased space used in the NCR by making better use of government space, resulting in a savings to the Department of \$10 million per year beginning in FY 2016. The Department will release an additional 886,000 square feet by FY 2020 for a total saving of \$43 million per year thereafter. In addition to the FY 2014 planned efforts, the Department continues to look for additional leased space savings within the NCR, and will also look into opportunities nationwide.

#### Defense Resale

Recent budget proposals sought to reduce Defense Commissary Agency (DeCA) funding by more than 70 percent, or \$1 billion per year, beginning in FY 2017. In order to implement a phased approach, the Department requested an alternate plan in the FY 2017 President's Budget to achieve DeCA savings of \$1 billion per year by FY 2021. Consolidation of defense resale is an initiative being pursued through our reform agenda which will be published with the next Agency Strategic Plan.

#### Information Technology Optimization

The Department continues to make progress to ongoing efforts that are projected to result in approximately \$1.5 billion in IT savings in FYs 2017 – 2021. Reviews of the Military Health System IT resources have targeted more than \$440 million in potential savings. An additional \$1 billion in savings are expected by taking full advantage of the Department's purchasing power and aggressively identifying and pursuing opportunities to further optimize DoD's IT infrastructure, NCR and Defense Media Activity IT consolidation, enterprise licensing, and application rationalization.

### Business Operations Improvements

The Department identified IT net benefits resulting from current Fourth Estate investments to develop, modernize, or enhance business systems. These benefits will enable a \$310 million reduction of business operations costs resulting from IT modernization investments in Fourth Estate activities between FYs 2017 – 2021. Although the net benefits analysis and findings do not currently capture any Defense health savings, the Department continues to analyze this business area to determine if additional potential savings can be achieved in the future. Defense Travel Modernization is also underway and will leverage simplified and automated business rules with a projected savings of up to \$450 million over five years.

### Military Healthcare

The Department has proposed various ways to reform TRICARE, and the reforms currently reflected in the budget to give beneficiaries more simplicity and choice in how they manage their healthcare while also incentivizing the much more affordable use of military treatment facilities. These reforms will not only save money but will also maximize the workload and readiness of the Department's medical force; giving the doctors, nurses, medics, and corpsmen the experience they need to be effective in their mission. These reforms have the potential to generate over \$3 billion in savings over the Future Years Defense Program that can be reinvested in operational requirements without sacrificing quality, accessible health care for our people.



U.S. Soldiers, assigned to Public Health Command Europe, load a simulated casualty onto a UH-60 Blackhawk, operated by U.S. Soldiers, assigned to 12th Combat Aviation Brigade, as they conduct different types of Medical Evacuations, at the 7th Army Training Command's Grafenwoehr Training Area, Germany, Mar. 20, 2017. The Soldiers conducted MEDEVAC training to develop the ability to team up with flight medics to safely transport patients by a helicopter.

*Photo by Sgt. Sara Stalvey*

## INTERNAL CONTROLS OVERVIEW

### ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAM

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Office of the Deputy Chief Financial Officer and the Office of the Deputy Chief Management Officer, in compliance with the [Federal Managers' Financial Integrity Act of 1982](#), lead the Department's effort in fulfilling the Department's Enterprise Risk Management (ERM) and Internal Control Program (ICP) responsibilities. The Department of Defense (DoD) is committed to ensuring an effective system of internal controls for business processes to provide reasonable assurance that the Department's mission is met and to support the DoD Component objectives. The DoD ERM/ICP holds both operational and financial managers accountable to ensure they are effectively managing risks and internal controls in their areas of responsibility. In accordance with the Office of Management and Budget ([OMB Circular No. A-123](#), "Management's Responsibility for Enterprise Risk Management and Internal Control," and the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government ("[Green Book](#)"), the Department continuously strives to integrate risk management and effective internal control into existing business activities. All Components are required to conduct a robust programmatic approach to establish and assess internal controls for the conduct of all financial and non-financial mission-essential operations. DoD Components that produce stand alone financial statements are also required to provide financial reporting assurance.



U.S. Air Force Maj. Ryan Schenk, 621st Mobility Support Operations Squadron air mobility liaison officer assigned to the 101st Airborne Division at Fort Campbell, Ky., reviews the transfer of authority checklist with Capt. U.S. Army Capt. Travis Seale, a 101st Abn. Div. soldier, while waiting for the airfield to be cleared during a mobility exercise called WAREX at Joint Base McGuire-Dix-Lakehurst, N.J., March 13, 2017. AMLOs advise supported units on safe, effective use of air mobility assets from the tactical to strategic level, bridge the communication gap between supported units and U.S. Air Force air mobility command and control agencies, conduct landing zone feasibility analyses, act as landing zone safety officers, and liaison between supported units and deployed mobility forces to ensure supported unit objectives are met.

*Photo by Tech. Sgt. Gustavo Gonzalez*

The goal of the ICP is to support the DoD's mission by implementing appropriate operational controls to identify, prioritize, and mitigate operational and financial risk before it negatively impacts the mission. The Department advocates a "tone-at-the-top" approach, with emphasis on the importance of the internal control program, which permeates the entire DoD culture. Per DoD Instruction ([DoDI 5010.40](#)), each DoD Component uses its leadership's mission requirements as a baseline for executing assessments of key functional, operational and financial areas. DoD Components rely upon appointed assessable unit managers for each key operational and financial area to identify and report internal control opportunities for improvement as well as deficiencies for review and comment by leadership. Another goal of ICP is to integrate the audit and remediation teams to improve the Department's ability to effectively respond and mitigate risks.

The Department's ICP works to ensure that Department-wide deficiencies are reported timely and monitors the corrective action plan efforts through the DoD Components. The status of deficiencies are aggregated and reported in the DoD Statement of Assurance. This process leverages OMB Circular No. A-123 and ensures that the Department has the appropriate oversight to prioritize and mitigate the Department's systemic, operational, and financial risks.

#### Types of Material Weaknesses

The Department's management uses the following criteria to classify conditions as material weaknesses:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Hinders management's ability to prevent or detect a material misstatement of the financial statements;
- Impairs fulfillment of essential operations or mission;
- Identified as a "high risk" by GAO or as a "management and performance challenge" by the DoD Inspector General;
- High impact of occurrence in terms of loss of dollars and/or loss of life;
- Significantly weakens established safeguards against waste, loss, unauthorized use or appropriation of funds, property, other assets, or conflicts of interest;
- Constitutes noncompliance with laws and regulations;
- Nonconformance with government-wide, financial management system requirements; or
- Identified by independent public accountants as material weaknesses.

## STATEMENT OF ASSURANCE

The Department's leaders are responsible for establishing and maintaining effective internal controls to meet the Federal Managers Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). As the Department enters a full financial statement audit, and with several entities already sustaining positive financial statement audit opinions, considerable efforts are underway to strengthen the internal control environment. The Department will continue to improve controls over operations, financial reporting, and financial systems, and prioritize remediation of Fiscal Year (FY) 2017 material weaknesses. In FY 2018, we will leverage results from the full scope financial statement audit to assist in re-baselining the Department's material weaknesses and furthering our corrective actions.

The Department assessed its internal controls over financial reporting in accordance with the Office of Management and Budget (OMB) Circular No. A-123. While the Department continues to achieve measurable progress, the assessment found that controls in place on September 30, 2017, were not effective to provide reasonable assurance that FMFIA and FFMIA objectives were met. The Department's deficiencies, taken as a whole, in the design or operation of internal controls over financial reporting include: (1) ineffective processes and controls to post transactions to the general ledger and reconcile to the Treasury Department; (2) ineffective processes and controls to compile financial statements, reconcile data, and support entries, including journal vouchers; and (3) ineffective processes and controls to account for, value, and support Property, Plant and Equipment. Material weaknesses and corrective actions are further described in the Other Information section.

The Department assessed the effectiveness of internal controls over operations in accordance with the FMFIA and the OMB Circular No. A-123. Based on this assessment, the Department provides a modified statement of reasonable assurance that internal controls over operations are effective and efficient in ensuring compliance with applicable laws and regulations as of September 30, 2017. The Department continues to address material weaknesses with specific concerns in the areas of acquisition, contract administration, resource management, and cyber security, as well as other areas. Material weaknesses and corrective actions are further described in the Other Information section.

The Department realizes that properly planned and integrated systems, with strong internal controls, are critical to providing useful, timely, and complete financial information and achieving an unmodified audit opinion. FFMIA Section 803 (a) requires agencies to implement and maintain financial management systems that substantially comply with federal financial management system requirements, federal accounting standards, and the United States Standard General Ledger at the transaction-level. The Department conducted its evaluation of financial management systems for compliance with FMFIA in accordance with OMB Circular A-123, Appendix D. Due to various system limitations, the assessment found that the Department's financial management systems do not fully conform to the objectives of FMFIA, Section 4, and the Federal Financial Management Act of 1996.

The Department remains committed to significant and measureable improvements in its ability to provide reliable, timely, and useful financial and managerial information to support management decisions. Going under full-financial statement audit will give us the tools we need to realize these goals.



Patrick M. Shanahan  
Deputy Secretary of Defense

### Fiscal Year 2017 Improvements in Internal Controls

Strong internal controls are essential to achieving and sustaining a cost-effective, efficient, and effective organization. Despite many challenges, the Department is steadily improving internal controls. Some challenges and accomplishments are highlighted below.

#### *Intragovernmental Transactions*

The Intragovernmental Transaction (IGT) Initiative implements several internal controls to allow the Department to eliminate IGTs. The Department is mandating the use of the Treasury's G-Invoicing system. The G-Invoicing system will be the front-end application for users to originate General Terms and Conditions to ensure trading partners are in agreement on buy/sell roles and responsibilities. G-Invoicing will operate as broker between trading partners for reimbursable orders, invoices, receipt and acceptance, and funds transfer. This will give the Federal Government a single source of truth for supporting documentation and allow for a common data standards between trading partners. It will ensure that all steps in the process are followed by leveraging preventative controls to reject transactions or data that do not align to requirements. Further, DoD is working hand-in-hand with the Treasury to ensure G-Invoicing requirements are incorporated into the commercial off-the-shelf (COTS) software packages. This will ensure internal controls are consistent across the Federal Government and drive down cost and time associated with implementation.



U.S. Marines fire the FGM-148 Javelin missile during a live-fire range for exercise Platinum Lion at the Novo Selo Training Area, Bulgaria, Dec. 15, 2016. The exercise brought together eight NATO Allies and partner nations for a live-fire exercise aimed to strengthen security and regional defenses in Eastern Europe.

*Photo by Sgt. Michelle Reif*

### *Critical Accounting Policies*

The Department issued critical policies that represent practical and Generally Acceptable Accounting Principles-compliant solutions to address long-standing issues and to optimally position the Department for the full-scope financial audit. The policies provided standardization and consistency of reporting for the Department's various service providers. The policies also established the framework for the Department to develop an auditable, end-to-end process and streamline our efforts to improve internal controls around the supportability of transactions. During Fiscal Year (FY) 2017, the Department's policies addressed the following key areas:

- New Deposit Fund Accounts for Thrift Savings Plan (TSP) Contributions – The new deposit accounts will ensure appropriate accounting and reporting of TSP contributions and resolve the audit findings related to TSP contributions.
- Cash Accountability Initiative: Standard Processes, Systems Identification, and Data Standardization – Requires daily cash reporting with Treasury using common data standards and processes.
- U.S. Army Corps of Engineers Single Auditor Approach – Provides an efficient and effective mechanism for auditing funds sub-allotted to the U.S. Army Corps of Engineers.
- Opening Balance Valuation of Inventory and Related Property using Statement of Federal Financial Accounting Standards ([SFFAS 48](#)) – Addresses allowable valuation methodologies, required supporting documentation, and required accounting treatment of Inventory and Related Property and associated footnote disclosures.
- Opening Balance Valuation of General Property, Plant and Equipment using [SFFAS 50](#) – Addresses allowable valuation methodologies, required supporting documentation, and required accounting treatment of General Property, Plant, and Equipment and associated footnote disclosures.
- Estimating and Supporting Useful Life and Placed in Service Date for General Property, Plant, and Equipment (GPP&E) – Provides guidance on deriving and supporting Placed in Service date for GPP&E; also provides updated useful life tables that are more supportable than previous useful life guidance for the Department.
- Valuation and Reporting of Environmental Liabilities – Defines reporting responsibility, key inputs and assumptions, and validation procedures for calculating Environmental Liability Estimates, as well as revises Note 14 to achieve a more streamlined presentation.

In addition to the above policy changes developed in response to new Federal Accounting Standards Advisory Board (FASAB) Standards 48 and 50, the Department has participated in several FASAB-led working groups and Task Forces to provide input into future Accounting Standards and Technical guidance in the general area of property. The Department anticipates several FASAB pronouncements related to property in the upcoming year, and has begun the process of developing additional or updated guidance to supplement current policy.

### *Service Organization Integration*

The Department relies on a significant number of internal (DoD) and external (commercial and other federal agency) service organizations – entities that perform a business function or process on behalf of a DoD Component. In many cases, service organizations engage other organizations, known as subservice organizations, to provide specified support services. Because service and subservice organizations collectively perform or support key parts of the Department’s business processes, their internal controls have a direct and material bearing on the Department’s internal control over financial reporting and financial statement audits and examinations. In turn, service organization customers, known as user entities, typically have responsibility for certain aspects of the business functions or processes performed by service organizations and must implement effective controls to address them. Controls that are in place at service organizations and subservice organizations along with the customers’ own internal controls collectively comprise the DoD internal control catalogue.

To help strengthen the integration of service/subservice organization controls with DoD Components’ internal controls so that the objectives of both can be achieved simultaneously, the Department issued three policy memorandums. The memorandums covered:

- Implementing ten requirements to increase the reliance and usefulness of the Service Organization Controls (SOC) 1 report for user entities and customer auditors which would reduce redundant yearly testing,
- Addressing new American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements ([SSAE 18](#)) requirements and standards for SOC reports for Service Organizations and Subservice Organizations which links their controls with the user entities controls, and
- Establishing an infrastructure to support customer audits and examinations.

The Department continues to conduct tri-annual service organization working group meetings between service organizations and their Component customers to identify audit relevant dependencies, clarify roles and responsibilities, and report audit readiness progress, deficiencies, and corrective actions. For FY 2017, the Department achieved 12 positive opinions of service organization examinations whose controls are relevant to the customer’s control environment. The Department is expanding service organization integration by:

- Helping service organizations identify and explain to Component customers the complementary user entity controls (CUECs) expected to be included in the SSAE 18 examinations so that customers can implement controls needed to rely on SOC 1 reports.
- Proactively identifying dependencies on non-DoD service organizations, including other federal agencies and commercial organizations, and integrating CUECs and Complementary Subservice Organization Controls (CSOCs) into the existing internal control framework.

- Developing templates to assist the service organizations addressing the new SSAE 18 requirements, including updating baseline control descriptions and test plans to address CUECs and CSOCs.
- Reviewing service organization control examination reports to determine whether the examination scope was sufficient or additional examinations are needed to have complete coverage of audit relevant business processes and systems.
- Reviewing Notifications of Findings and Recommendations (NFRs) from SSAE No. 16/18 examinations to identify common issues and areas of enterprise-wide impact.
- Obtaining findings and recommendations from existing SSAE No. 16/18 examinations with modified opinions and tracking service provider corrective actions and testing to ensure the findings and recommendations are remediated.

#### *Treasury Index-97 Internal Control Management*

The Department continues to make progress in internal controls amongst the Treasury Index (TI)-97 entities. The TI-97 entities are DoD Components, such as Defense Agencies, that execute Defense-wide appropriations rather than appropriations to and for the Military Departments. During FY 2017 the OUSD(C)/Financial Improvement and Audit Readiness (FIAR) continued testing the audit infrastructure, key supporting documentation, and internal controls for select processes on a monthly basis. OUSD(C)/FIAR also maintains a NFR tracking tool which serves as a centralized database for monitoring the progress of remediation activities and corrective action plans for TI-97 entities. The tool allows increased visibility into the Department's audit readiness progress and overall risk. To support the goal of enhancing the Department's internal controls, OUSD(C)/FIAR also continues to provide the foundation for the audit of the Department's financial statements. This groundwork includes documenting Entity-Level Controls (ELCs) in accordance with the GAO Green Book's 17 principles of internal controls. OUSD(C)/FIAR maintains an ELC matrix for Components to use in documenting ELCs as part of the OMB Circular A-123 compliance effort to highlight deficient areas, improve cross communication, share best practices/lessons learned, and drive continuous process improvements.

The Department's ongoing efforts to improve internal controls amongst the TI-97 entities have achieved significant milestones to include remediation of issues identified during monthly testing, development of end-to-end documentation, and greater accountability towards corrective action plan remediation.

#### *Standard Financial Information Structure and Standard Line of Accounting*

The Standard Financial Information Structure (SFIS) and Standard Line of Accounting (SLOA) structure our financial data to improve financial information accuracy, transaction posting logic, general ledger balances, trial balances structure, and drive down the cost associated with audit. SFIS improves our systems' ability to interoperate through a common business language leveraging standard business rules which drive common usage, and relationships. This facilitates the reconciliation process by reducing crosswalks and removing gaps between individual

Component structures. SFIS leverages a complete internal control design by including preventative, detective, and compensating controls. SFIS provides system configuration guidance to prevent systems from supplying inaccurate data at the point of entry. It provides detective controls that validates financial data exchanges between business feeder systems and accounting systems in real-time and periodic system configuration reviews by the Joint Interoperability Test Command. Further, for legacy systems, it provides compensating control by cross-walking nonconforming data to reduce noncompliance and improve legacy systems to the maximum extent possible.

*Cash Accountability (Fund Balance with Treasury)*

The Cash Accountability initiative implements several internal controls for Fund Balance with Treasury. The Cash Accountability initiative standardizes the entire cash process from fund distribution through to cash reporting. Cash Accountability will move the Department to daily cash reporting to decrease the Fund Balance with Treasury differences that are the result of the current process. It will move the Department to Treasury shared services for disbursements, collections, and debt management. This ensures these processes and Treasury reporting are one in the same. This greatly reduces Fund Balance with Treasury differences. It provides common data standards for all critical information exchanges through the End-to-End Processes. Further, the Cash Accountability initiative drives down audit cost by leveraging commercial off-the-shelf software and the Treasury as a shared service provider (e.g. SSAE 16/18 costs).



U.S. Air Force 1st Lt. Brittany Trimbel, 36th Fighter Squadron pilot, secures her helmet before takeoff, Feb. 15, 2016, at Korat Royal Thai Air Force Base, Thailand. Trimbel has been flying F-16 Fighting Falcons actively since October 2015.

*Photo by Staff Sgt. Amber E. Jacobs*

*Information Technology System Initiatives*

To strengthen the IT internal controls environment and streamline the management of multiple concurrent financial statement audits/examinations and compliance assessments, the Department has taken the following actions:

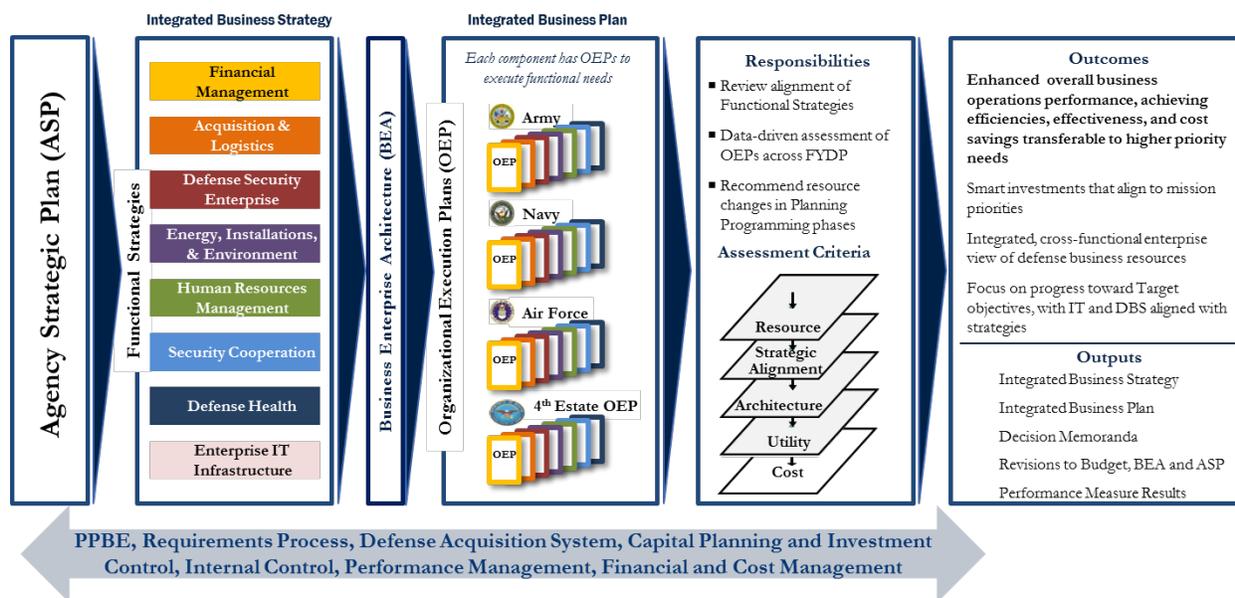
- Developed and deployed a centralized database to automate and standardize the collection and reporting of information about material IT systems, establishing a “single source of truth” about systems relevant to DoD financial statement audits and exams;
- Utilized information from the centralized database to assist the Components and non-SSAE 18 service organizations in identifying the portfolio of systems relevant to the Department’s financial statement audits, enabling a thorough understanding of systems interdependencies and the internal controls that must be implemented;
- Required all Components to maintain detailed information and milestones for material IT systems in the database throughout the year to monitor and track various metrics used to measure the status of internal controls over the Department’s IT systems;
- Developed a baseline rule set and guidance to address multiple audit findings about cross-application segregation of duties for 12 End-to-End business processes;
- Updated previously issued Risk Management Framework supplemental guidance to address changes to authorization and accreditation activities that impact audit and compliance requirements;
- Required Components and Service Providers to undergo SFIS Compliance Assessments for key accounting systems and DoD service provider systems;
- Implemented the Defense Agencies Initiative (DAI) at 20 Defense Agencies/Field Activities. The DAI is the target financial management enterprise resource planning system for the majority of the 4<sup>th</sup> Estate. The mission of DAI is to eliminate redundant and duplicative systems as well as to transform the budget, finance, and accounting operations for the Defense Agencies.
- Developed a Universe of Transactions (UoT) solution that is a secure big data platform that can ingest massive amounts of structured and unstructured financial data. The current scope is Defense Wide Appropriation General Fund which includes 19 accounting systems and 24 business feeder systems. Once ingested, the solution can apply business rules to standardize and tabulate the data in a format that any authorized data consumer can use. Using standard queries, visualization, or dashboards, a Component would be able to establish existence and completeness with the UoT solution and an auditor would be able to sample data for material accounts.

## BUSINESS AND FINANCIAL MANAGEMENT SYSTEMS

The Department of Defense (DoD) is improving its business systems to successfully achieve and sustain improvements in our internal controls, financial management, and auditable financial reports. Modernization and improved interoperability of DoD business systems is critical to efficiently respond to Warfighter needs and sustain public confidence in our stewardship of taxpayer funds.

After [section 2222 of title 10](#), United States Code was amended by the National Defense Authorization Act ([NDAA for Fiscal Year 2012](#)), the Department significantly changed the requirements for investment reviews and the certification of defense business systems, which now must occur before funds are obligated (appropriated or non-appropriated). The Department’s investment review process ensures that decisions on investments in business systems align with the Defense-wide integrated business strategy (Figure 14). These decisions also include retirement plans for legacy and non-target financial systems and ensure that systems eliminate redundant activity and maximize operating efficiency through streamlining business processes and the availability of timely, accurate, and useful business information. (A legacy system has a retirement plan and date; a target system does not.)

**Figure 14. The Department’s Integrated Business Framework**

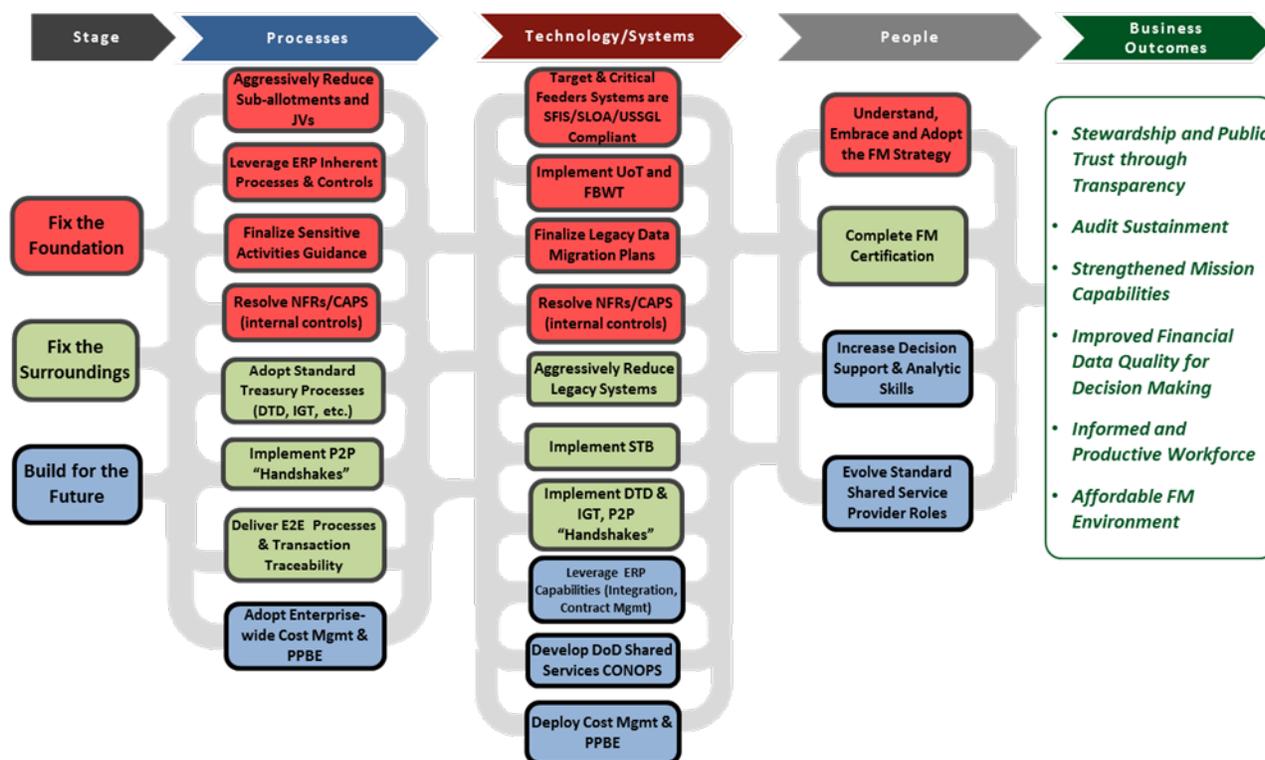


The Department’s Financial Management (FM) Functional Strategy provides the Department’s vision, initiatives, goals, target environment, and expected outcomes over the next five years. The strategy is designed to ensure the Department achieves and sustains auditability and financial management improvement objectives.

The key components of the FM Functional Strategy include establishing data and data exchange standards, standard business processes, and system controls and enhancements that support improved processes, and leveraging technology across the Department’s end to-end

processes. The primary objectives of the FM Functional Strategy are to achieve a fully integrated environment linked by standard processes and standard data with the fewest number of systems and interfaces. Ultimately, this strategy will lead to stronger internal controls impacting financial reporting and auditability, and improve end-to-end funds traceability and linkage between budget and expenditures. Current enterprise-level initiatives include the Standard Financial Information Structure (*SFIS*) the Department’s first ever Standard Line of Accounting to improve funds traceability and financial reporting. The Department also participates in federal government-wide process improvement initiatives, such as the President’s transparency and open government initiatives, Treasury’s government-wide accounting and Direct-to-Treasury disbursing initiatives. The Department also promotes the use of business analytics and maximizing existing Enterprise Resource Planning (ERP) systems.

**Figure 15. DoD Financial Management Improvement Initiatives**



### Enterprise Resource Planning Systems

The ERP systems are integral to implementing the strategic FM business process improvements, achieving the planned target environment and reductions in the number of legacy systems, and better enabling a sustainable audit environment. The ERPs provide a broad range of functionality to support DoD business operations in financial management, supply chain management, logistics, and human resource management. Some ERPs are fully fielded while others are in a state of development and deployment.

### *Army ERPs*

General Fund Enterprise Business System (GFEBS) is the General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

Logistics Modernization Program (LMP) is one of the world's largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the modernized, national-level logistics support solution. By modernizing both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP will permit planning, forecasting, and rapid order fulfillment to supply lines. It will also improve distribution, reduce theater footprint, and ensure a warfighter who is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (GCSS-A) is an acquisition system that provides enterprise-wide visibility into various logistic areas and is a key enabler for the Army in achieving auditability. The GCSS-A provides the tactical warfighter with supply, maintenance, property accountability, integrated materiel management center, management functionality, and support to tactical financial processes.

Integrated Personnel Pay System – Army (IPPS-A) is a hybrid solution using ERP software to deliver an integrated personnel and pay capability. The IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army Human Resources processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and supports soldiers and their families. The IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

### *Navy ERPs*

Navy Enterprise Resource Planning (Navy ERP) is an integrated business system that provides streamlined financial, acquisition, and supply chain management to the Navy's major systems commands.

Global Combat Support System – Marine Corps (GCSS-MC) is the core web-enabled, centrally managed ERP for the Marine Corps. The GCSS-MC is focused on the acquisition and implementation of the initial set of logistics capabilities to deliver improved supply and maintenance management services. As the technology centerpiece of the Marine Corps' overall logistics modernization effort, GCSS-MC will provide advanced expeditionary logistics capabilities to ensure future combat efficiency.

### *Air Force ERPs*

Defense Enterprise Accounting and Management System (DEAMS) is an automated accounting and financial management execution system for the Air Force and U.S. Transportation

Command. DEAMS is the core accounting and financial management solution for the Transportation Working Capital Fund and General Fund. It serves as the financial foundation for all enterprise business system modernization across the Department. DEAMS provides accurate and timely financial information using standardized business processes and complies with applicable federal laws, regulations, and policies.

Air Force Integrated Personnel and Pay System (AF-IPPS) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout the airman's career. A Federal Financial Management Improvement Act of 1996 ([FFMIA](#))-compliant system, AF-IPPS functionality will support audit readiness general and application controls.

#### *Other Defense Organization ERPs*

Defense Agencies Initiative (DAI) is a system dedicated to address financial management improvements through standard end-to-end business processes delivered by COTS software. Currently DAI provides Budget to Report, Proposal to Reward, Cost Management, Order to Cash, Procure to Pay, Acquire to Retire, and Hire to Retire capabilities for 22 of 26 Defense Agencies.

Enterprise Business System (EBS) uses a COTS product to manage the Defense Logistics Agency's (DLA) supply chain management business. EBS also includes Electronic Procurement, Real Property, Inventory Materiel Management and Stock Positioning, and Energy Convergence modules, providing DLA leadership with the tools to respond to new challenges and trends.



Sailors assigned to the littoral combat ship USS Coronado (LCS 4) swim in the South China Sea. Coronado is a fast and agile warship tailor-made to patrol the region's littorals and work hull-to-hull with partner navies, providing the U.S. 7th Fleet with the flexible capabilities it needs now and in the future.

*Photo by Mass Communication Specialist 2nd Class Amy M. Ressler*

## IMPROPER PAYMENT REPORTING

The Department of Defense (DoD) Financial Management Regulation ([FMR](#)) 7000-14-R, [Volume 4, Chapter 14](#), “Improper Payments,” defines improper payments as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. It also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

In accordance with the Improper Payments Information Act of 2002 ([IPIA](#)), as amended by the Improper Payments Elimination and Recovery Act of 2010 ([IPERA](#)); the Improper Payment Elimination and Recovery Improvement Act of 2012 ([IPERIA](#)); and the Office of Management and Budget Circular No. A-123, [Appendix C](#), “Requirements for Effective Estimation and Remediation of Improper Payments,” DoD Components are required to report the status and recovery of improper payments to the President and the Congress in the following categories:

- Civilian Pay
- Commercial Pay
- Military Health Benefits
- Military Pay
- Military Retirements
- Travel Pay

Each DoD disbursing activity is committed to identifying the root causes of improper payments, establishing an appropriate sampling methodology, developing and implementing corrective action plans, and monitoring to ensure future improper payments are reduced and/or eliminated.

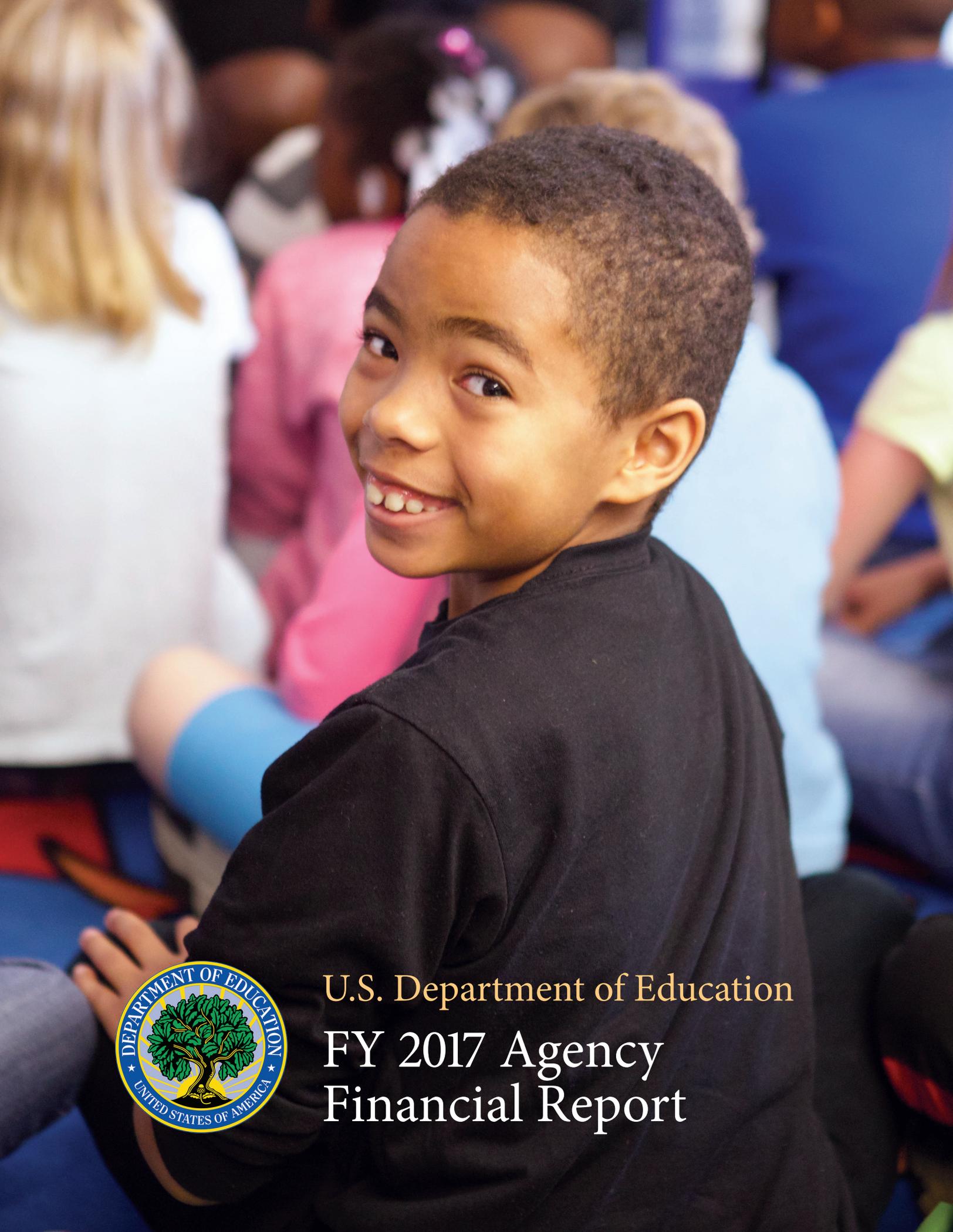
Several accomplishments during Fiscal Year (FY) 2017 include: revising the Defense Finance and Accounting Service sampling plans for their Civilian Pay, Military Pay, and Travel Pay programs from simple random sample designs to stratified random sample designs; revising the United States Army Corps of Engineers sampling plans for their Commercial Pay and Travel Pay programs from simple random sample designs to stratified random sample designs; and implementing the revised Travel Pay Remediation Plan by identifying Senior Accountable Officials for travel improper payments in each of the Military Services and major defense agencies, holding quarterly progress meetings, distributing detailed travel error reports for action, and developing corrective action plans. The Department’s remediation efforts resulted in a positive reduction in travel improper payments.

As the Department moves towards the congressional mandate to be audit ready by FY 2017 and undergo a full financial statement audit for FY 2018, the reduction and prevention of improper payments will help ensure the Department achieves Congress’ established goal. Detailed information regarding improper payments is located in the Other Information section of this report.



Sergeant Major Matthew R. Hackett, Marine Barracks Washington D.C. sergeant major, assumes the position of attention during Friends and Family Evening Parade at the Barracks, Apr. 28, 2017. The guest of honor for the parade was the Commandant of the Marine Corps Gen. Robert B. Neller and the hosting official was the Barracks' commanding officer, Col. Tyler J. Zagurski.

This Page Intentionally Left Blank



U.S. Department of Education  
FY 2017 Agency  
Financial Report



MANAGEMENT'S DISCUSSION AND ANALYSIS

# ABOUT THE MANAGEMENT'S DISCUSSION AND ANALYSIS

The U.S. Department of Education (the Department) continued to enhance the content quality, report layout, and public accessibility of the Fiscal Year (FY) 2017 Agency Financial Report (AFR) by providing additional graphics and more useful, balanced, and easily understood information about the Department's grant and loan programs, including additional cost and risk information. Additionally, we augmented information provided in the body of the AFR with relevant web content to provide users with additional information about the Department's operations and performance. To take advantage of the hyperlinks embedded in the report, the Department recommends reading it **on the Internet**. To help us continue to improve the quality and usefulness of information provided in our AFR, we encourage our public and other stakeholders to provide feedback and suggestions at [AFRComments@ed.gov](mailto:AFRComments@ed.gov).

This section highlights information on the Department's performance, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address select challenges.

## MISSION AND ORGANIZATIONAL STRUCTURE

This section provides information about the Department's mission, an overview of its history, and its structure. The active links include the organization chart and principal offices and a link to the full list of **Department offices** with a description of selected offices by function.

## DISCUSSION OF PERFORMANCE

This section includes an overview of performance reporting and a high-level discussion on the Department's focus areas for FY 2017. The results achieved from Department expenditures are discussed at a high level in the AFR. For more details about performance, please

refer to the Department's budget and performance web page and [performance.gov](http://performance.gov).

To view information on all Department programs, visit the **Department's website**.

## FORWARD-LOOKING INFORMATION

The Forward-Looking Information section describes the challenges that the Department aims to address to achieve progress on Direct Loans, Shared Services, and Enterprise Risk Management (ERM).

## FINANCIAL HIGHLIGHTS

The Department expends a substantial portion of its budgetary resources and cash on multiple loan and grant programs intended to support state and local efforts to improve learning outcomes for all prekindergarten through 12th grade (P-12) students in every community and to expand postsecondary education options and improve outcomes to foster economic opportunity and informed, thoughtful, and productive citizens. Accordingly, the Department included more high-level details about sources and uses of the federal funds received and net costs by program.

## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The Department's internal control framework and its assessment of controls, in accordance with Office of Management and Budget (OMB) **Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control***, provide assurance to Department leadership and external stakeholders that financial data produced by the Department's business and financial processes and systems are complete, accurate, and reliable.

# ABOUT THE DEPARTMENT

---

## OUR MISSION

The U.S. Department of Education's mission is *to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

**Who We Are.** In 1867, the federal government recognized that furthering education was a national priority and created a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1980. Today, the Department supports programs in every area and level of education from preschool through postdoctoral research.

The **Department** makes funds and information available to individuals pursuing education, colleges and universities, state education agencies, and school districts by engaging in four major types of activities:

- establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds;
- supporting data collection and research on America's schools;
- identifying major issues in education and focusing national attention on them; and
- enforcing federal laws promoting equal access and prohibiting discrimination in programs that receive federal funds.

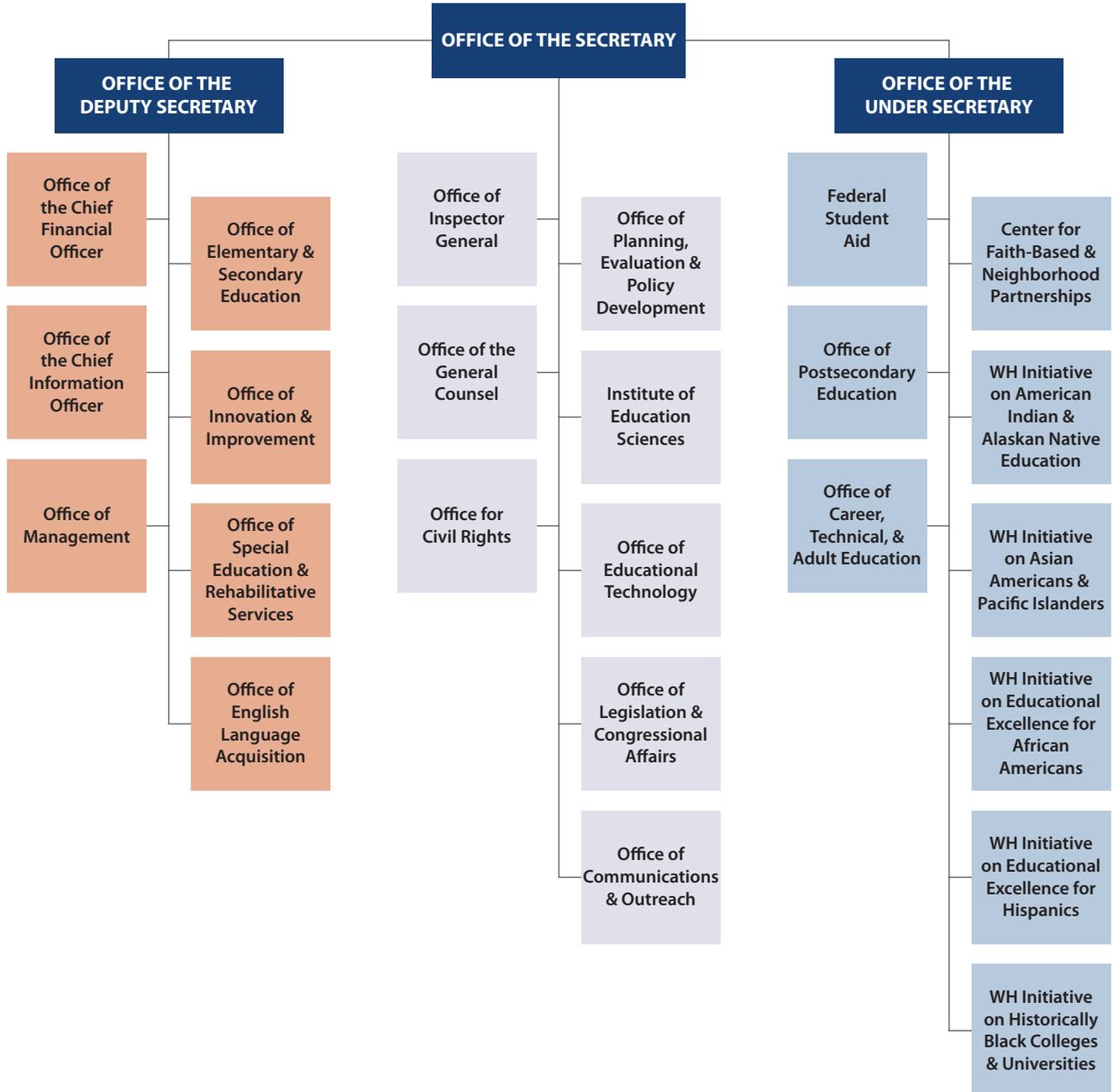
**Our Public Benefit.** The Department executes the laws passed by Congress to promote student academic achievement and preparation for global competitiveness. The Department works with students, parents,

educational institutions, school districts, and states to foster educational excellence and to ensure equal access to a high quality education for all students. While recognizing the primary role of states and school districts in providing high quality education, the Department is committed to helping ensure students throughout the nation develop skills to succeed in school, pursue postsecondary options, and transition to the workforce. The Department's vision is to improve educational outcomes for all students.

Many of the Department's programs involve awarding grants to state and local educational agencies and providing grants and loans to postsecondary students. The Department's largest outlays are for its portfolio of student loans (see the **Financial Highlights** and **Notes** sections). Grant programs constitute the second-largest driver of outlays. The grant programs include: student aid to help pay for college through Pell Grants, Work Study, and other campus-based programs; grants awarded based on statutory formulas mostly for elementary and secondary education (see the chart on page 5); and competitive grant programs to promote innovation (see **The Department's Approach to Performance Management** section). The Department also supports research, collects education statistics, and enforces civil rights statutes. We manage and spend financial resources on programs designed to support parents, teachers, principals, school leadership, institutions, and states in the pursuit of instilling knowledge and transferring skills to students.

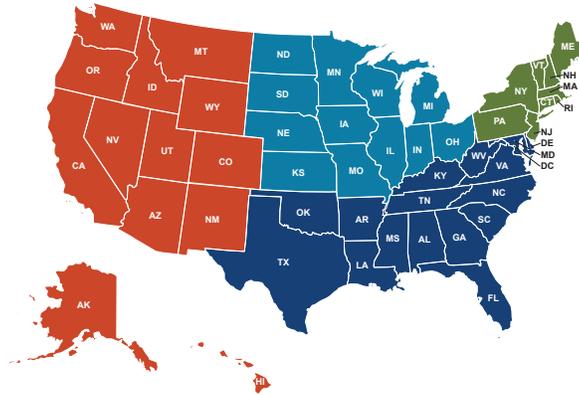
## OUR ORGANIZATION IN FISCAL YEAR 2017

This chart reflects the coordinating structure of the U.S. Department of Education. **Interactive** and **text versions** of the FY 2017 coordinating structure of the Department are available.



### FY 2016 ACTUAL FORMULA GRANT DISTRIBUTION BY REGION AND STATE

The figures in these tables are made up of funding from multiple programs allocated to states based on statutory formulas. These do not include discretionary grants, need-based grants, or federal loans. For more details, view the **Department's State Budget Tables**.



West	Grades K-12	Postsec	All Other
Alaska	\$ 258	\$ 36	\$ 12
Arizona	829	1,044	100
California	4,058	3,791	404
Colorado	440	418	51
Hawaii	165	75	16
Idaho	163	162	21
Montana	170	67	16
Nevada	253	133	24
New Mexico	348	181	30
Oregon	372	342	58
Utah	272	378	34
Washington	662	429	68
Wyoming	112	29	11
<b>TOTAL</b>	<b>\$ 8,103</b>	<b>\$ 7,086</b>	<b>\$ 844</b>

South	Grades K-12	Postsec	All Other
Alabama	\$ 538	\$ 496	\$ 74
Arkansas	352	268	53
Delaware	116	60	15
District of Columbia	93	132	18
Florida	1,865	1,807	227
Georgia	1,111	942	111
Kentucky	495	379	65
Louisiana	627	383	47
Maryland	535	378	53
Mississippi	401	325	52
North Carolina	986	803	129
Oklahoma	457	295	45
South Carolina	525	379	68
Tennessee	678	529	73
Texas	3,217	2,166	308
Virginia	725	668	92
West Virginia	217	206	37
<b>TOTAL</b>	<b>\$ 12,936</b>	<b>\$ 10,217</b>	<b>\$ 1,469</b>

**NOTES:** Dollars in millions. Detail may not add to totals due to rounding. Data are current as of September 13, 2017.

Midwest	Grades K-12	Postsec	All Other
Illinois	\$ 1,488	\$ 1,140	\$ 137
Indiana	660	724	71
Iowa	285	374	35
Kansas	332	237	28
Michigan	1,149	829	124
Minnesota	483	461	59
Missouri	620	532	78
Nebraska	212	132	24
North Dakota	120	46	12
Ohio	1,275	793	129
South Dakota	164	86	12
Wisconsin	564	390	73
<b>TOTAL</b>	<b>\$ 7,352</b>	<b>\$ 5,744</b>	<b>\$ 782</b>

Northeast	Grades K-12	Postsec	All Other
Connecticut	\$ 330	\$ 266	\$ 33
Maine	148	107	19
Massachusetts	656	518	71
New Hampshire	128	117	13
New Jersey	898	617	80
New York	2,478	1,923	204
Pennsylvania	1,280	937	166
Rhode Island	131	108	16
Vermont	95	48	14
<b>TOTAL</b>	<b>\$ 6,144</b>	<b>\$ 4,640</b>	<b>\$ 616</b>

Other	Grades K-12	Postsec	All Other
American Samoa	\$ 26	\$ 4	\$ 1
Freely Associated States	7	16	0
Guam	43	15	4
Indian set-aside	247	-	43
Northern Mariana Islands	18	4	1
Puerto Rico	682	890	69
Virgin Islands	25	5	3
All Other	329	-	2
<b>TOTAL</b>	<b>\$ 1,376</b>	<b>\$ 934</b>	<b>\$ 123</b>

# THE DEPARTMENT'S APPROACH TO PERFORMANCE MANAGEMENT

## PERFORMANCE MANAGEMENT FRAMEWORK

The ***Government Performance and Results Act Modernization Act of 2010 (GPRAMA)*** requires agencies to establish a strategic plan that presents the long-term goals that the agency intends to accomplish. GPRAMA requires agencies to establish a **four-year strategic plan** at the beginning of each Administration. The Strategic Plan describes the key policy and operational priorities for the agency, detailing the Department's strategic performance goals that will guide human capital and budget planning.

Throughout Fiscal Year (FY) 2017, the Department conducted a series of strategic planning meetings to develop the *FY 2018–22 Strategic Plan*. These meetings included a focus on capturing lessons learned and developing a framework for the new Strategic Plan. The Department also consulted with Congress and the **Office of Management and Budget (OMB)**. The Department plans to publish the *FY 2018–22 Strategic Plan* with the President's FY 2019 Budget in February 2018. Questions or comments about the Department's performance management framework and reporting should be e-mailed to **PIO@ed.gov**.

## INFORMATION IN THE AGENCY FINANCIAL REPORT

The Department has elected to produce separate financial and performance reports. The *Agency Financial Report* for FY 2017 provides a high-level description of performance measures and goals based on the *FY 2014–18 Strategic Plan*. A detailed discussion of performance information for FY 2017 will be provided in the Department's *Annual Performance Report* to be released at the same time as the President's FY 2019 Budget. The Department's annual performance reports for prior years are available **online**. We also urge readers to seek programmatic data as it is reported in the **Congressional Budget Justification**, as well as on the web pages of **individual programs**.

The high-level discussion of performance information in this year's AFR includes performance matters that inform decisions of the Department and its partners. Discussions about the most serious management

challenges the Department faces from the perspective of the Department's Office of Inspector General are provided in the Other Information section of the report.

## AGENCY ACHIEVEMENTS AND LOOKING AHEAD

The U.S. Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. This mission is manifested in the Department's efforts to continually improve the educational environment for all students, and address their education needs. The Department's **National Center for Education Statistics (NCES)** estimates that 50.7 million students are attending public elementary and secondary schools in the fall of 2017, with a projected 35.6 million in prekindergarten through grade 8 and a projected 15.1 million in grades 9 through 12. An additional 5.2 million students are expected to attend private elementary and secondary schools. In fact, NCES predicts that the total P–12 enrollment will continue to grow to an all-time high of 56.8 million by 2026, indicating the increasing need for the highest quality agency performance.

Looking to the future, the Department plans to focus in the key areas of: (1) supporting state and local efforts to improve learning outcomes for all P–12 students in every community; (2) expanding postsecondary education options and improving outcomes to foster economic opportunity and informed, thoughtful, and productive citizens; (3) strengthening the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency; and (4) reforming the effectiveness, efficiency, and accountability of the Department.

## SUPPORTING STATE AND LOCAL EFFORTS TO IMPROVE LEARNING OUTCOMES FOR P–12 STUDENTS

In March, the Department released a revised **consolidated state plan template** to support states in meeting the requirements of the ***Elementary and Secondary Education Act of 1965 (ESEA)***, as

amended by the *Every Student Succeeds Act* (ESSA). The Department worked with state educational agencies (SEAs), and other state and local stakeholders, to develop a revised template that is structured to reduce burden and promote innovation, flexibility, transparency, and accountability, while maintaining essential protections for all students. The revised template asks states only to provide detail on their plans in areas (a) explicitly required by law and (b) deemed absolutely necessary for consideration of such a plan, consistent with ESEA section 8302(b)(3), leveraging input of states, local educators, and parents. State plans have been submitted to the Department, peer-reviewed, and approved.

**Looking Ahead:** Every student—regardless of background or circumstance—deserves an opportunity to fulfill his or her potential. High-quality educational opportunities are critical when it comes to achieving that goal, especially for the most vulnerable students and communities. The **President's FY 2018 Budget** is an indication of the commitment to support the most vulnerable. Level funding of the **Title I Grants program** totaling \$14.9 billion would be allocated to local educational agencies' programs to support state and local efforts to ensure that more than 25 million students in high-poverty schools have access to rigorous coursework and teaching. Additionally, the federal investment in the **Individuals with Disabilities Education Act** formula grant programs at \$12.7 billion would support services to 6.8 million children with disabilities and to states to design and implement special education program improvement efforts under the Department's **Results Driven Accountability** framework. The **English Language Acquisition program** would receive \$736 million to implement effective language instruction programs designed to help English learners attain English language proficiency.

The Administration's education priority is to help ensure every student in America has an equal opportunity for a great education by giving parents more control and greater options. The proposed FY 2018 budget includes a \$167 million increase for the **Charter Schools Grants program** to strengthen state efforts to start new charter schools or expand and replicate existing high-performing charter schools while providing up to \$100 million to meet the demand for charter school facilities.

The Department is also focused on promoting evidence-based decision making with the intention to support states and districts in using and building evidence effectively. To this end, in FY 2017, the Department

published revised evidence definitions and related selection criteria for competitive grant programs in Education Department General Administrative Regulations that align with ESSA; disseminated nonregulatory guidance on evidence in ESSA, ***Using Evidence to Strengthen Education Investments***, which contains a five-step decision-making framework that shapes evidence as a mechanism for continuous improvement and recommends criteria for each of the four evidence levels in ESSA; awarded \$16 million to support rigorous evaluations and researcher-practitioner partnerships focused on state and local education priorities; and awarded 60-month contracts for nine Regional Educational Laboratories, which work in partnership with states and districts to bridge research, policy, and practice in education.

## EXPANDING POSTSECONDARY EDUCATION OPTIONS AND IMPROVING OUTCOMES

With the passage of the FY 2017 spending bill, year-round Pell grants were restored, and the Department announced that these grants would become available to college students beginning July 1, 2017. The **Department recommended** that unless a student had remaining eligibility from the 2016–17 award year, institutions should award Pell Grant funds for this past summer out of the 2017–18 award year since the additional funding will be available later in the year (e.g., spring or summer of 2018). The change allows an eligible student to receive up to 150 percent of the student's scheduled Pell Grant for an award year beginning with the 2017–18 award year. This change gives hundreds of thousands of college students more resources to finish their coursework in a timeframe meeting their individual needs. Students will be able to graduate more quickly and with less debt.

The Department is transforming how **Federal Student Aid** (FSA) provides customer service to more than 42 million student loan borrowers. FSA customers will transition to a new processing and servicing environment in 2019, providing a customer support system that will give a better experience for students and benefits for taxpayers. The **FSA Next Generation Processing and Servicing Environment** will provide for a single data processing platform to house all student loan information while also allowing for customer account servicing to be performed either by a single contract servicer or by multiple contract servicers. This approach is expected to require separate acquisitions for database housing, system processing, and customer account servicing, allowing

for maximum flexibility. These changes to the servicing and processing environment are expected to provide the opportunity for additional companies to submit proposals for contracting with FSA.

The Department **issued a reset**, or pause, regarding two postsecondary regulations—Borrower Defense to Repayment, concerning forgiveness of student loan debt, and Gainful Employment, concerning educational programs that prepare students for gainful employment in a recognized occupation. Two negotiated rulemaking committees have been established to rethink these two higher education regulations, with the intent to develop fair, effective, and improved regulations to protect individual borrowers from fraud, ensure accountability across institutions of higher education, and protect taxpayer interests. It is the Department's aim to protect students from predatory practices while also providing clear, fair, and balanced rules for colleges and universities to follow.

**Looking Ahead:** Year-round Pell grants were proposed in the 2018 President's Budget, which should safeguard and strengthen the Pell Grant program by level funding the discretionary appropriation and the year-round Pell grants. It is estimated that year-round Pell grants will increase aid available to eligible students by \$16.3 billion over 10 years.

In an effort to address the fact that student loan financing can be confusing for millions of students and families who want to invest in postsecondary education, the 2018 budget proposal lays out changes in repayment and loan forgiveness plans for new borrowers after July 1, 2018. The changes simplify loan repayment for students by replacing five different income-driven repayment plans with a single plan aimed at prioritizing expedited loan repayment for undergraduate borrowers. These changes will save taxpayers an estimated \$143 billion over the next decade while insulating current borrowers from changes to their loan programs. Proposed funding of \$492 million is intended to help close gaps among racial and socioeconomic groups in college enrollment and degree attainment by improving academic programs, institutional capacity and student support services for Historically Black Colleges and Universities, Minority-Serving Institutions, and Hispanic-Serving Institutions. The proposed budget also provides \$808.3 million for

students from disadvantaged backgrounds, who are part of the **Federal TRIO Programs** and \$219 million for those in the **Gaining Early Awareness and Readiness for Undergraduate Programs**.

## STRENGTHENING THE QUALITY, ACCESSIBILITY, AND USE OF EDUCATION DATA

The Department's **College Scorecard** supports postsecondary students by providing the public with clear, easily accessible, and critical information on college performance. Feedback from the intended users—students, parents, counselors, and others—helps determine the design of the site and the information it contains. The College Scorecard integrates self-reported data from institutions of higher education collected by NCES with administrative data from FSA and U.S. Department of Treasury's tax data. The Department established a data-sharing agreement with Treasury's Statistics of Income (SOI) for five years to obtain administrative earnings data to inform the College Scorecard. The Department will continue to provide SOI with individual-level data on several cohorts of students from all Title IV institutions and receive back institution-level data on salary after attending the institution. Most recently, the Department developed a user-requested comparison tool feature for the College Scorecard to allow users to compare multiple school profiles and data points at once.

The Department's **National Assessment of Educational Progress (NAEP)**, the largest nationally representative and continuing assessment of student knowledge in various subject areas, is evolving to address schools' transition to digitally based assessments. Since 1969, NAEP has provided a common measure of student achievement across the country, continuing to explore new testing methods and question types that reflect the growing use of technology in education, and continuing to work to be paperless.

The Department's InformED initiative is intended to transform how the Department makes information available—and actionable—for internal users and for the public. Through a cross-office steering committee, InformED has led in the identification and development of high-priority open data initiatives. In addition, to ensure coordination around the collection, use, and

analysis of agency data, the Department has supported the Data Strategy Team with representatives from the Department's Office of Management, NCES, and Office of Planning, Evaluation and Policy Development.

**Looking Ahead:** The President's Budget includes \$616.8 million for the Department's Institute of Education Sciences to continue to support state and local-based research, evaluations, and statistics that help educators, policymakers, and other stakeholders improve student outcomes. \$42 million is suggested for **Supporting Effective Educator Development** grants to provide evidence-based professional development activities and prepare teachers and principals from nontraditional preparation and certification routes to serve in high-need LEAs.

\$120 million is suggested for **Education Innovation and Research (EIR)** grants to develop and expand the evidence base for effective interventions and innovations responding to other education needs, including those identified by Secretarial priorities and those emerging from the field. This continued investment is particularly necessary in light of new ESEA requirements for states and school districts to support the use of evidence-based interventions in schools identified for comprehensive support and improvement or implementing targeted support and improvement plans. Robust Federal investment in identifying such interventions through the EIR program is essential to ensuring that LEAs have the tools they need to address the persistent challenges in their lowest-performing schools.

## REFORMING THE EFFECTIVENESS, EFFICIENCY, AND ACCOUNTABILITY OF THE DEPARTMENT

In response to President Trump's **Executive Order 13777, *Enforcing the Regulatory Reform Agenda***, the Department established a Regulatory Reform Task Force that has catalogued over 150 regulations and more than 1,700 items of policy guidance at the Department. The task force, comprised of agency political appointees and career staff, provided recommendations on which regulations and guidance documents to repeal, modify, or keep in an effort to ensure those items that remain adequately protect students while giving states,

institutions, teachers, parents, and students the flexibility to improve student achievement. Each principal office has made initial recommendations to the task force whether regulations and guidance under its purview meet the Order's criteria for repeal, replacement, or modification. As previously discussed, candidates for modification that have been identified include the Gainful Employment and Borrower Defense to Repayment, and a reset for these regulations is underway.

Also, in response to **Executive Order 13781, *Comprehensive Plan for Reorganizing the Executive Branch***, which requires development of a plan to enhance employee performance, the Department submitted an Agency Reform Plan to OMB, describing proposals the Department is considering. For the OMB submission, work groups considered the areas of: (a) reviewing potential reform areas, (b) determining if reform is needed or helpful and whether reform will benefit the agency and the public, and (c) developing proposals for implementing the reform if the work group determines it is needed or helpful. Agency staff continue to assess reform factors that include: new activities or functions the Department should initiate; ways the agency can be more efficient in meeting the needs of students, families, and education partners; activities or functions the Department should consider combining or modifying; agency activities or functions that duplicate what others are doing; and how the Department could best deliver the education services or products to students and educators.

**Looking Ahead:** The Department intends to continue to build on what's working well to create an agency that better serves America's students and educators. Beginning with its FY 2018 Annual Performance Report, the Department will report the appropriate performance data for performance indicators that will relate to deregulatory actions, as outlined in the **Executive Order 13777**. The results of this internal reform will better align and support the new strategic plan, which is the basis for the Department's performance management framework. The Department uses quarterly performance reviews, targeted strategic initiatives, and outreach to leaders and stakeholders to assess progress and garner engagement toward achieving strategic goals and outcomes. The *FY 2018–22 Strategic Plan* will be published with the President's FY 2019 Budget.

# FORWARD-LOOKING INFORMATION

This section summarizes information pertinent to the Department's future progress and success.

## DIRECT LOAN PROGRAM

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) program, provides students and their families with funds to help pay for their postsecondary education costs. Easing the burden of student loan debt is a significant priority for the Department. The following is a discussion of (1) the steps the Department has taken to ensure that student debt is manageable and (2) the risks inherent in estimating the cost of the program.

### Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average return to a college degree remains high, substantial inequities in outcomes exist, and some students leave school poorly equipped to manage their debt, whether due to limited labor market opportunities or high debt.

Traditionally, federal loans of this type have had flat 10-year repayment schedules, making it difficult for borrowers to pay at the start of their career when their salaries are lower. The recent expansion of income-driven repayment plans grants students the opportunity for greater financial flexibility as it pertains to their monthly payment. For more details on these plans, visit FSA's **How to Repay Your Loans Portal**.

As the labor market declined during the financial crisis of 2008, serious challenges in student debt repayment came to the forefront of conversations. The availability of income-driven repayment plans like Pay As You Earn (PAYE) and an improving labor market has led to substantial improvement, signifying Departmental progress in the focus area of higher education, namely, its efforts to innovate loan program guidelines in order to make student loan debt more manageable for borrowers across the board. Recent trends in student loan repayment data show that:

- More than 80 percent of Direct Loan recipients with loans in repayment are current on their loans.

- Growing numbers of borrowers are taking action and responsibility with regard to their student loans when they are in need of modifications and support. As of June 2017, nearly 6.3 million Direct Loan recipients were enrolled in income-driven repayment plans, representing a 19 percent increase from June 2016 and a 62 percent increase from June 2015.

The Department has made progress in this area and continues to work relentlessly to make student debt more manageable. Looking to the future, the Department will build on its recent successes by:

- Conducting significant outreach efforts to inform student loan borrowers of their repayment options, including the protections provided by income-driven repayment plans.
- Ensuring that borrowers have access to an affordable repayment plan, high-quality customer service, reliable information, and fair treatment.
- Continuing to support additional tools like the College Scorecard and Financial Aid Shopping Sheet to increase transparency around higher education costs and outcomes, in an effort to help students and families make informed decisions before college enrollment.

### Managing Risks and Uncertainty Facing the Direct Loan Program's Cost Estimates

Direct Loan program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the Act, the future costs and revenues associated with a loan are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected given the inherent uncertainty involved in developing estimates. There are four types of risk that make estimating lifetime program costs a difficult task.

#### Legislative, Regulatory, and Policy Risk

There are inherent risks from the possibility that the cost structure of the Direct Loan program may be altered through legislative, regulatory, or administrative action. In addition, recent legislative, regulatory, and policy

action may be difficult to interpret with regard to effects on financial modeling and estimation, given the lack of actual trend data availability. Some examples of current risks include the following:

**Income-Driven Repayment Plans:** Several new income-driven repayment plans have been introduced in recent years, including Income-Based Repayment, PAYE, and Revised Pay As You Earn. In general, the proliferation of plans has made income-driven repayment terms more generous (and more costly to the government) and made the plans available to a greater number of borrowers. Having more plans complicates repayment plan selection, since the tradeoffs between available plans vary by borrower and may not always be entirely clear. Selected comparisons between projected originations and borrower repayments under the different income-driven repayment plans are available on the **Department's website**. The Department has also engaged in outreach campaigns to broaden borrower awareness of these plans. However, future commitment to market and increased participation in these plans are areas of uncertainty.

**Public Service Loan Forgiveness:** Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a Direct student loan borrower to have the balance of their Direct student loans forgiven after having made 120 qualifying monthly payments under a qualifying repayment plan, while working full time for a qualifying public service employer (such as government or certain types of nonprofit organizations). In general, forgiveness provided via PSLF raises the cost of the Direct Loan program; however, there is still uncertainty as to how many borrowers will take advantage of the program. Much of this uncertainty arises because borrowers do not need to apply for the program until after having made the 120 qualifying monthly payments. While data on current applications is helpful to gauge potential forgiveness, it may not be representative of final participation figures. In addition, since the first date by which a borrower could receive forgiveness under this program is October 1, 2017, the Department does not yet have a robust set of actual forgiveness data. The available data on borrowers who have already certified their employment, nearly 740,000 borrowers as of September 2017, is less valuable than it appears since it does not track breaks in their repayment or qualifying employment. The Department continues to remain informed on, and manage the risk that may arise in relation to, the uncertainty about the effect of further borrower outreach on boosting participation in the PSLF program.

**Borrower Defense:** In May 2015, Corinthian Colleges, Inc. (Corinthian), a publicly traded company operating numerous postsecondary schools that enrolled over 70,000 students at more than 100 campuses nationwide, filed for bankruptcy under deteriorating financial conditions and while subject to multiple state and federal investigations. The Department received thousands of claims for student loan relief from Corinthian students under a provision in the *Higher Education Act of 1965* (HEA) referred to as "borrower defense." Valid borrower defense claims would lead to the discharge of borrower debt, thus increasing the cost of the Direct Loan program to taxpayers. However, it is unknown how many of the claims are valid. Since Corinthian, several other postsecondary schools have closed under similar circumstances, including ITT Technical Institute.

In August 2015, the Department initiated a rulemaking process to establish a more accessible and consistent borrower defense standard to clarify and streamline the borrower defense process to protect borrowers. The legality of this rule has since been challenged in court (*California Association of Private Postsecondary Schools v. DeVos*) and certain provisions of the rule have been subsequently delayed. In addition, the Department has initiated a new rulemaking process to consider potential changes to the original rule. The overall level of activity that could lead to valid borrower defense claims, particularly in the for-profit postsecondary sector, coupled with the uncertainty as to the framework of the final rule, make projections as to the financial impact exceedingly difficult. The Department continues to monitor instances of this risk factor to its programs.

#### **Estimation Risk**

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of up to 40 years. The Direct Loan program is subject to a large number of future borrower level events and economic factors that heavily impact the ultimate cost of issued loans. For example, estimates that need to be made for loans originating in FY 2017 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school, borrower defense, etc.); if the loan will go into deferment or forbearance; if the loan will go into default and, if so, what collections will be received on the defaulted loan; and, if the loan is in income-driven repayment, what the borrower's employment (public sector or not) and income and family status will be over

the next 25 years. These types of projections are not only extremely difficult to make but also are subject to change if future student behaviors deviate from past experience. Changes in private student loan markets, such as the recent increase in refinancing of federal student loans into private student loans, also add a layer of uncertainty to student loan estimates. Lastly, the Direct student loan portfolio has grown from around \$380 billion in FY 2011 to around \$1.06 trillion as of the end of FY 2017. This growth naturally results in increased re-estimates, since a re-estimate worth 1 percent of the portfolio today would be more than twice as large as a similar re-estimate in FY 2011 (\$10.6 billion vs. \$3.8 billion).

### Macroeconomic Risk

The ultimate amount, timing and value of future borrower repayments under the Direct Loan program are heavily affected by certain economic factors, especially since the introduction of income-based repayment plans. Some examples include the following:

**Interest Rates:** Direct Loan subsidy estimates are very sensitive to changes in interest rates. Recent interest rate history has been atypical, as interest rates have continued to remain lower than their historical averages. Under the current program terms, the fixed borrower rates for direct loans are established in advance of the upcoming school year, while the Treasury fixed interest rate on borrowings to fund those loans is not set until after those awards are fully disbursed, which can be as much as 18 months later. Unexpected changes in interest rates during this time can significantly impact the subsidy cost of these loans.

**Unemployment:** The financial crisis of 2008 and ensuing spike in unemployment rates had a dramatic effect on both student loan volume and student loan performance. Student loan volume peaked along with unemployment, as many displaced workers sought higher education opportunities. Student loan performance suffered as many borrowers repaying their loans were left with much less disposable income with which to make their loan payments. For example, the default rate for students was at a high of 14.7 percent for loans entering repayment in 2010, while the most recent rate is 11.5 percent for loans entering repayment in 2014. While recessions and economic downturns are cyclical phenomena, their exact timing and impact on the cost estimates remain an area of uncertainty.

**Wage Growth:** The estimated costs of income-driven repayment plans are largely dependent on trends in observed wage growth. To the extent that future wage growth deviates significantly from prior wage growth,

actual costs of income-driven repayment plans may deviate from projected estimated costs. The Department continues to manage risks in this area by continuing to learn about its borrower base and remain informed on such labor market statistics.

### Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in March 2017, a tool used to automatically transfer a family's tax information to both student aid applications and income-driven repayment (IDR) plan applications was taken down due to security concerns. Although usage of the tool for IDR recertification has since been brought back up, it is yet uncertain what, if any, impact this outage may have had on student loan cost estimates. However, this example highlights that there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

### CONTINUOUS IMPROVEMENT

Improving critical infrastructure, systems, and overall capacity, and ensuring sound strategic decision making regarding allocation of resources are essential to the Department's future progress and success. Exploring the expanded use of shared services and incorporating enterprise risk management into Department decision making are two of the Department's key initiatives.

### Shared Services

The Department of Education uses shared services where feasible and practical, including payroll and travel. The Department will explore other options to further leverage shared services for other mission support areas in the coming years.

### Enterprise Risk Management

The Department plans to implement Enterprise Risk Management (ERM) practices by integrating its existing risk management processes and governance bodies into a suitable ERM framework and including risk as a central element in all critical day-to-day and strategic decision-making activities. The Department will also develop a more risk-aware culture that facilitates increased focus on the wide range of risks the Department faces and fosters more open discussions about how those risks might impact the accomplishment of the Department's mission and whether allocation of resources is aligned to best mitigate risks to an acceptable level. The Senior Management Council will oversee the implementation of ERM in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

# FINANCIAL HIGHLIGHTS

## INTRODUCTION

This section provides summarized information and analyses about the Department’s assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, accurate, and timely financial information. The Department’s financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the format and content specified by OMB Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 16 consecutive years, the Department has earned an unmodified (or “clean”) audit opinion. The financial statements and notes for FY 2017 are on pages 32–69 and the Independent Auditors’ Report begins on page 78.

## BALANCE SHEET

The consolidated balance sheet presents, as of a specific point in time (the end of the fiscal year), the Department’s total assets, total liabilities, and net position.

The Department’s assets totaled \$1,259.2 billion as of September 30, 2017. The vast majority of the assets relate to credit program receivables, which comprised 91.1 percent of all assets. Direct loans comprise the largest share of these receivables, totaling \$1,041.6 billion. All other assets totaled \$112.5 billion, most of which was Fund Balance with Treasury.

The Department’s liabilities totaled \$1,202.1 billion as of September 30, 2017. As with assets, the vast majority of the Department’s liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. This debt totaled \$1,180.1 billion as of September 30, 2017.

Figure 1. Assets by Type

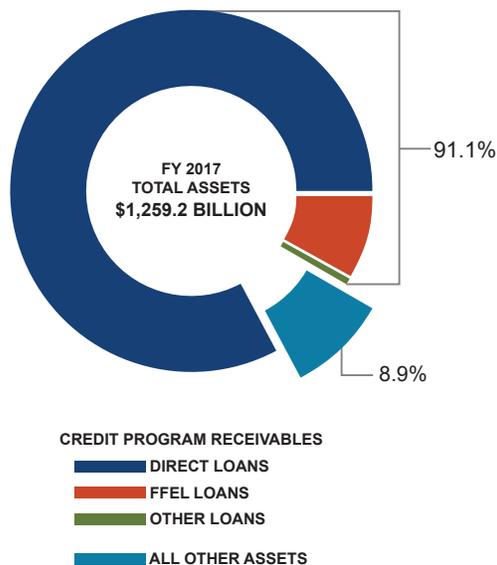
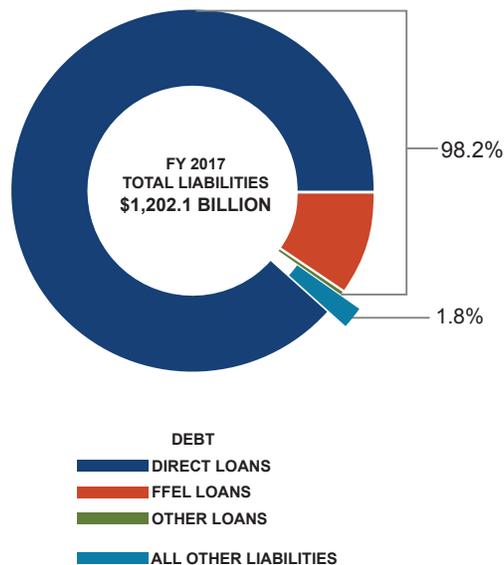


Figure 2. Liabilities by Type



**Figure 3. Components of Direct Loan Receivables, Net**  
(Dollars in Billions)

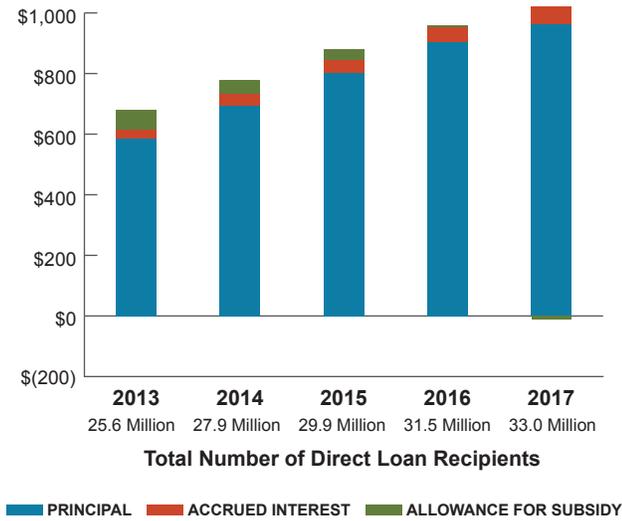


Figure 3 shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2013 as a result of stagnant and in some cases declining enrollment, coinciding with the recovery from the 2007–09 recession. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

In accordance with the *Federal Credit Reform Act of 1990* (FCRA), the Department’s financial statements report the value of direct loans and loan guarantees (credit program receivables) at the net present value of their future cash flows, discounted at a fixed rate established based on Treasury securities. The difference between the recorded principal and interest balance and the net present value of the loans is referred to as the “allowance for subsidy,” which can be positive or negative.

Prior years’ positive allowance for subsidy balances represented estimates of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. These positive allowance for subsidy balances resulted primarily from

the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the positive allowance since FY 2013 is due primarily to higher subsidy costs to the government, the main cause being increasing participation in income-driven repayment plans discussed elsewhere in this AFR as (a) new plans have become available that are more advantageous to borrowers, (b) new plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans. During FY 2017, the allowance for subsidy changed from a positive to a negative balance. In practical terms, this means that the present value of funds expected to be recovered is now less than the principal loaned, which represents an increased cost to the taxpayer.

Table 1 shows the payment status of the Direct Loan principal and interest balances outstanding over the past 5 years. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans refinanced pursuant to income-driven repayment plans.

**Table 1. Payment Status of Direct Loan Principal and Interest Balances**  
(Dollars in Billions)

Loan Status	Fiscal Year				
	2013	2014	2015	2016	2017
<b>Total Dollar Amount of Direct Loans Outstanding</b>	<b>613.8</b>	<b>731.2</b>	<b>845.1</b>	<b>953.6</b>	<b>1,058.4</b>
Current Repayment	188.5	247.2	332.0	406.8	467.9
In School, Grace Period, and Education Deferrals	265.5	281.8	284.3	289.6	291.7
Forbearance and Noneducation Deferrals	70.5	97.8	103.0	106.5	122.5
Delinquent	47.8	54.6	65.1	71.8	79.5
Default/Bankruptcy/Other	41.5	49.8	60.7	78.9	96.8
<b>Total No. of Direct Loan Recipients (in Millions)</b>	<b>25.6</b>	<b>27.9</b>	<b>29.9</b>	<b>31.5</b>	<b>33.0</b>

Loans in the Delinquent category are considered in “repayment” status, but payments are anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect on or rehabilitate. The percentage of the portfolio in current repayment, which rose from 31 percent in FY 2013 to 44 percent in FY 2017, has eclipsed payments temporarily postponed and has grown far faster than loans in default.

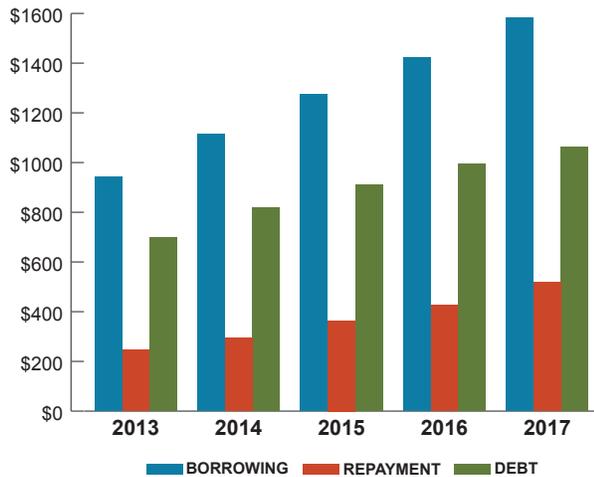
The Department borrows funds from the Treasury to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future

cash outflows. Figure 4 shows the Direct Loan program cumulative borrowing and repayment activity since the inception of the program that resulted in the debt amount on the balance sheet. Figure 6 (see page 16) illustrates the Direct Loan program financing process and provides financing and disbursing trend data.

**STATEMENT OF NET COST**

The consolidated statement of net cost reports the Department’s components of the net costs of operations for a given fiscal year. Net cost of operations consists of the gross cost incurred less any exchange (i.e., earned) revenue from activities. Gross cost is composed of the cost of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans. Figure 5 shows the Department’s gross costs and earned revenues over the past five years.

**Figure 4. Direct Loan Program Cumulative Financing Activity**  
(Dollars in Billions)



**Figure 5. Gross Cost & Earned Revenue**  
(Dollars in Billions)

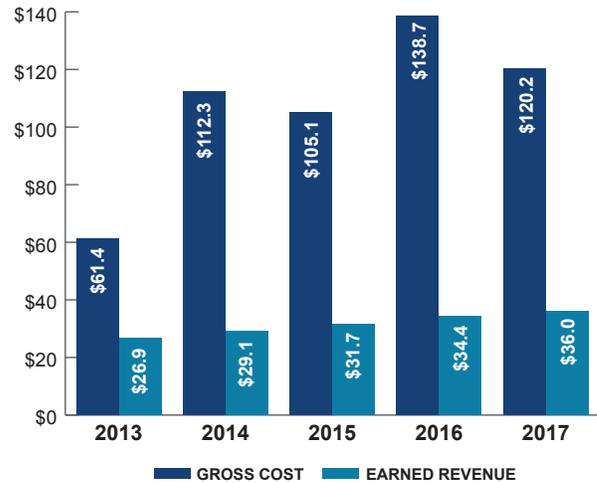
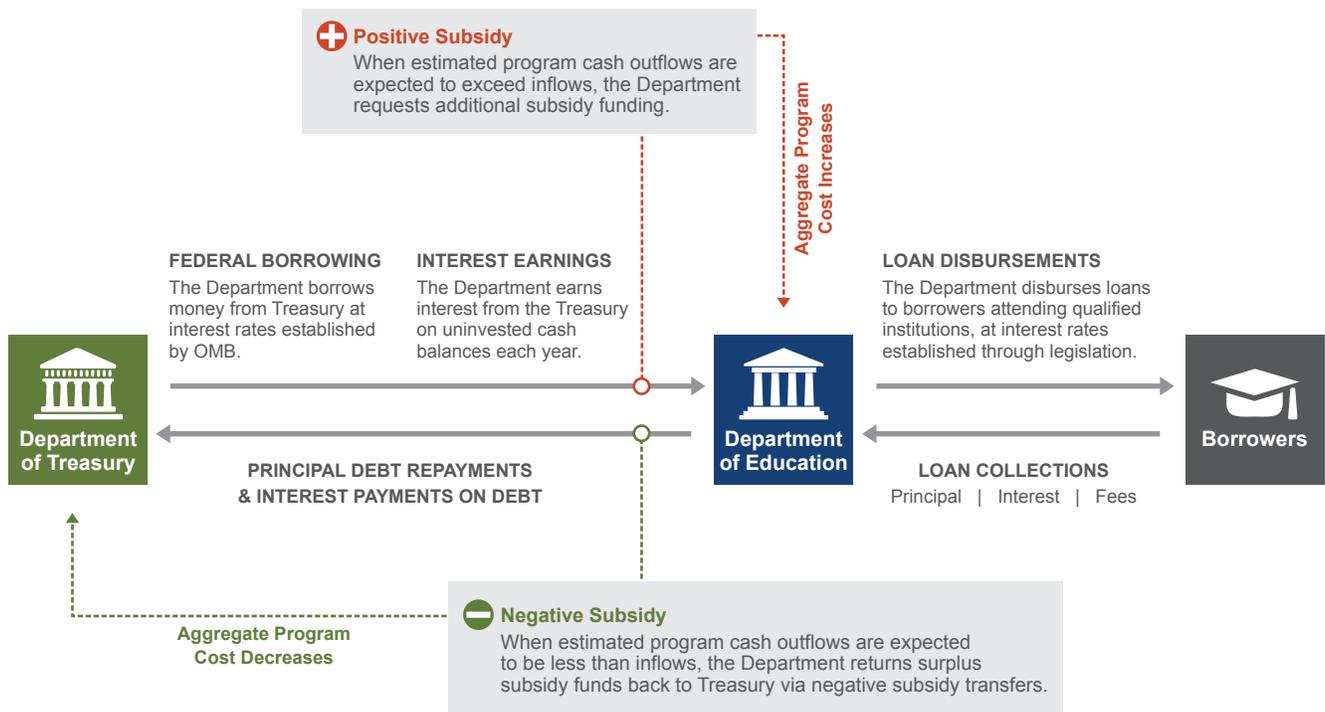


Figure 6. William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)					
Fiscal Year	2013	2014	2015	2016	2017
<b>Net Borrowing</b>	<b>149.0</b>	<b>120.6</b>	<b>90.9</b>	<b>84.4</b>	<b>67.3</b>
Borrowing from Treasury	177.7	171.2	159.7	147.0	160.5
Debt Repayments to Treasury	(28.7)	(50.6)	(68.7)	(62.6)	(93.2)
Interest Expense to Treasury	(22.7)	(25.2)	(27.6)	(30.5)	(31.3)
Interest Earned from Treasury	3.4	3.7	4.2	3.9	4.3
Cumulative Taxpayer Cost / (Savings)	(65.2)	(47.4)	(35.5)	(5.3)	16.8
Current Subsidy Expense (Revenue)	(39.6)	8.1	(0.9)	16.1	5.3

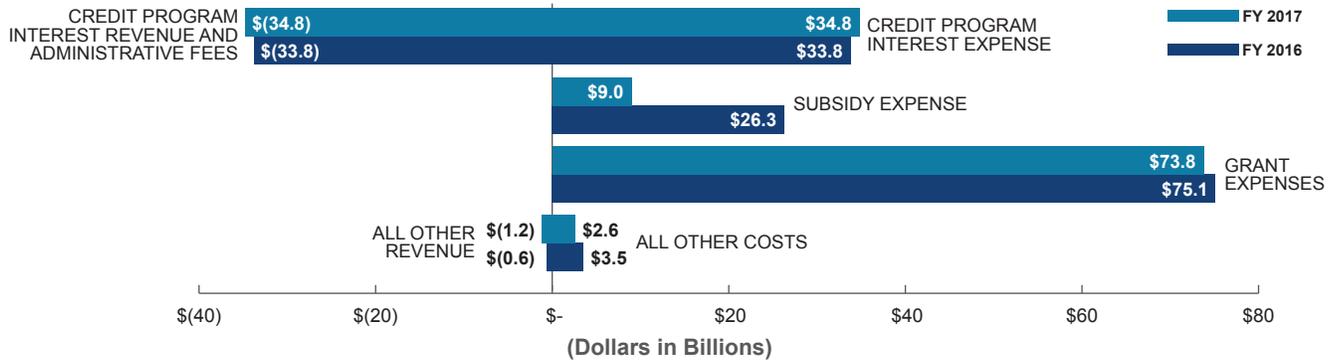
Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)					
Fiscal Year	2013	2014	2015	2016	2017
<b>Loan Disbursements</b>	<b>129.5</b>	<b>134.1</b>	<b>142.2</b>	<b>140.5</b>	<b>142.5</b>
Stafford Subsidized	26.5	25.9	24.0	23.8	23.4
Stafford Unsubsidized	56.1	54.7	52.7	52.3	51.4
Parent PLUS	19.4	18.9	19.2	19.0	18.7
Consolidation <sup>1</sup>	27.5	34.5	46.4	45.5	49.0
<b>Loan Collections</b>	<b>36.2</b>	<b>48.8</b>	<b>65.1</b>	<b>73.2</b>	<b>82.0</b>
Principal	26.4	36.3	50.0	55.9	62.6
Interest	8.1	10.8	13.4	15.5	17.6
Fees	1.7	1.8	1.8	1.8	1.9

<sup>1</sup> Consolidation disbursement amounts stem from a number of loan programs, including most notably FFEL, in addition to Direct Loans. Numbers may not add up due to rounding.

The major components of the Department's gross cost and earned revenue are shown in Figure 7 and include:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization;
- Credit program subsidy expense (see also Figure 8); and
- Grant expenses (see also Figure 9).

**Figure 7. Major Components of Gross Cost and Earned Revenue**

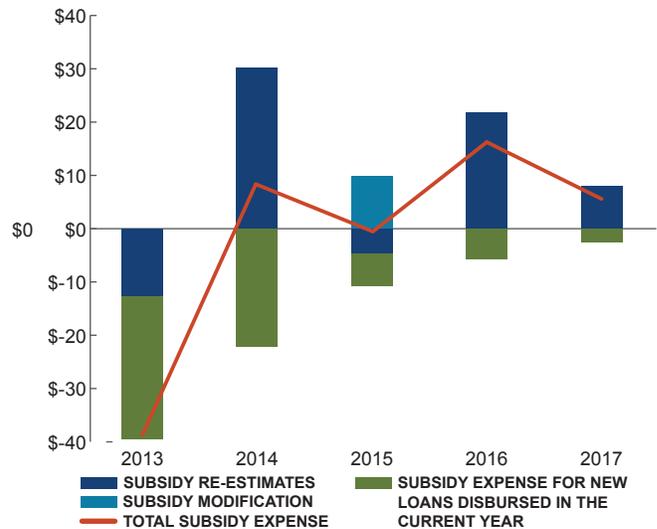


One of the components significantly impacting the Department's gross costs pertains to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of the cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using economic models that project cash flows on a net present value basis.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (subsidy modifications). Figure 8 shows these three components of the Direct Loan program subsidy expense for the past five years.

Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees, and other costs impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy expense for new loans has been negative in recent years primarily because lending interest rates charged

**Figure 8. Direct Loan Program Subsidy Expense (Dollars in Billions)**



	2013	2014	2015	2016	2017
Subsidy Expense for New Loans Disbursed in the Current Year	\$(27.0)	\$(22.1)	\$(6.2)	\$(5.7)	\$(2.6)
Subsidy Re-estimates	(12.6)	30.2	(4.6)	21.8	7.9
Subsidy Modification	-	-	9.9	-	-
<b>Total Subsidy Expense—(negative and positive)</b>	<b>\$(39.6)</b>	<b>\$8.1</b>	<b>\$(0.9)</b>	<b>\$16.1</b>	<b>5.3</b>

to student and parent borrowers were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy and/or a downward re-estimate of prior years' subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default. Conversely, a positive subsidy and/or an upward re-estimate of prior years' subsidy occurs when the interest and/or fees charged to the borrower do not cover the interest on Treasury borrowings and the cost of borrower defaults.

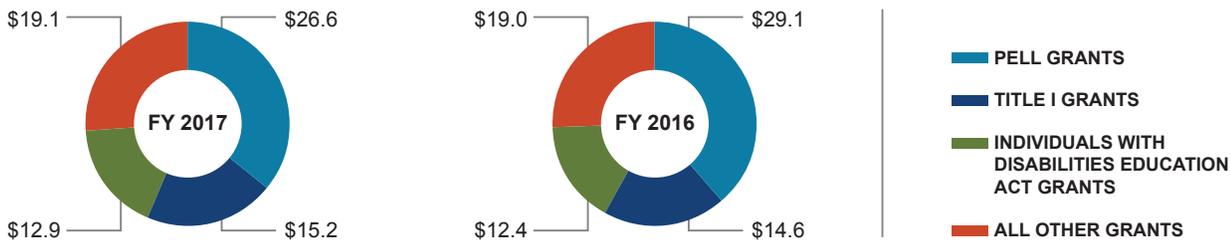
Direct Loan program re-estimated subsidy cost was adjusted upward by \$7.9 billion in FY 2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by the Office of Management and Budget, volume, and enter repayment rates. Prepayment rates increased from the FY 2016 estimate, resulting in a \$2.4 billion upward re-estimate. Contract collection costs were updated for new data reflecting lower overall average commission rates, resulting in a \$5.1 billion downward re-estimate.

- **IDR Model Changes.** The U.S. Government Accountability Office (GAO) audit, *Federal Student Loans: Education Needs to Improve Its Income Driven Repayment Plan Budget Estimates*, identified several areas in which the Department could improve its IDR cost estimates. Largely in response to this audit, as well as concerns raised in FY 2016's Independent Auditors' Report, in FY 2017 the Department incorporated an adjustment for inflation into the Department's IDR submodel, modified the current IDR submodel to estimate IDR subsidies by loan type, and implemented methods to address concerns regarding the volatility of the submodel's income data. In addition, default; collection; death, disability, and bankruptcy; and prepayment rate assumptions used by the submodel were updated. The combined effect of these changes was a net downward re-estimate of \$14.7 billion.
- **Repayment Plan Selection.** The GAO audit referred to above also recommended the Department help ensure that subsidy estimates reasonably reflect trends in IDR plan participation. In response, the Department updated its methodology for repayment plan selection, taking into account the timing of repayment plan selection as well as recent growth trends in the selection of income-driven repayment plans. The combined effect of these changes was a net upward re-estimate of \$18.4 billion.
- **Death, Disability, and Bankruptcy.** The Department made major updates to the death, disability, and bankruptcy assumption in FY 2017. These updates included a revised accounting for the effect of a matching agreement with Social Security Administration, updates to closed school regulations, and revised borrower defense regulations. Updates to the data used to calculate discharges were also incorporated. The combined effect of these changes was a net upward re-estimate of \$9.2 billion.

The Department has more than 100 grant and loan programs ([www.ed.gov/programs/inventory.html](http://www.ed.gov/programs/inventory.html)). The largest grant programs are shown in Figure 9 and include:

- **Pell Grants**—provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. Students may use their grants at any one of approximately 5,400 participating postsecondary institutions. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less.
- **Title I Grants to Local Educational Agencies**—provides financial assistance through state educational agencies to local educational agencies and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards.
- **Individuals with Disabilities Education Act Grants**—provides formula grants to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers from birth through age two and their families. Also provides discretionary grants to institutions of higher education, public agencies, and nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training and information centers.

**Figure 9. Grant Costs by Major Program (Dollars in Billions)**



In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process and formula grants, using formulas determined by Congress with no application process.

**STATEMENT OF CHANGES IN NET POSITION**

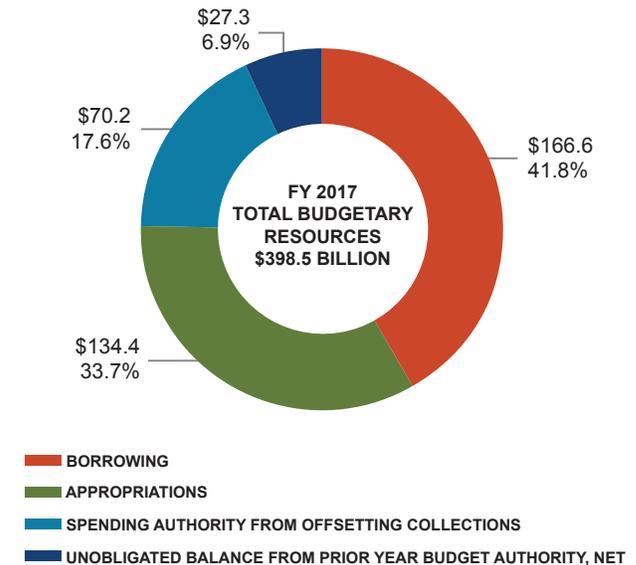
The consolidated statement of changes in net position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net position of the Department totaled \$57.2 billion as of September 30, 2017. This reflects a 74.4 percent increase over the net position of \$32.8 billion from the prior fiscal year.

**STATEMENT OF BUDGETARY RESOURCES**

The combined statement of budgetary resources presents information on how budgetary resources were made available and their status at the end of the fiscal year. Information in the statement is based on budgetary transactions as prescribed by OMB and Treasury.

The Department’s budgetary resources totaled \$398.5 billion for the period ended September 30, 2017, increasing from \$335.0 billion, or approximately 19.0 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of \$152.2 billion and non-budgetary credit reform resources of \$246.3 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

**Figure 10. Budgetary Resources**



The Department's gross outlays totaled \$340.0 billion for the period ended September 30, 2017. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Credit program gross outlays were offset by \$168.2 billion of collections—primarily principal, interest and subsidy collections.

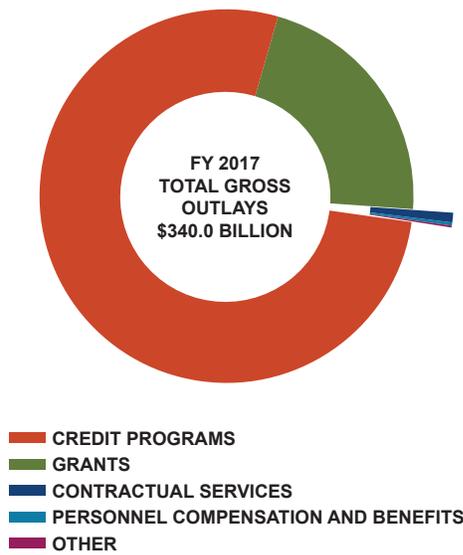
**LIMITATIONS OF THE FINANCIAL STATEMENTS**

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2017 and FY 2016, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity. The implications of this are that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and that ongoing operations are subject to the enactment of future appropriations.

**Figure 11. Gross Outlays by Type**



	Billions	%
<b>CREDIT PROGRAMS</b>	<b>\$ 263.0</b>	<b>77.4%</b>
DIRECT LOAN PROGRAM	237.0	69.7%
FFEL PROGRAM	25.2	7.4%
OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION	0.8	0.2%
<b>GRANTS</b>	<b>\$ 73.5</b>	<b>21.6%</b>
PELL GRANTS	26.9	7.9%
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	15.2	4.5%
INDIVIDUALS WITH DISABILITIES EDUCATION ACT GRANTS	12.7	3.7%
ALL OTHER GRANTS	18.7	5.5%
<b>CONTRACTUAL SERVICES</b>	<b>\$ 2.8</b>	<b>0.8%</b>
<b>PERSONNEL COMPENSATION AND BENEFITS</b>	<b>\$ 0.6</b>	<b>0.2%</b>
<b>OTHER</b>	<b>\$ 0.1</b>	<b>0.0%</b>
<b>TOTAL</b>	<b>\$ 340.0</b>	<b>100.0%</b>

# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

---

## MANAGEMENT ASSURANCES

The Secretary of Education's 2017 Statement of Assurance provided below is the final report produced by the Department's annual assurance process. Although the Department has not identified any material weaknesses, it acknowledges that there are significant weaknesses and management challenges to be addressed that are identified elsewhere in this report.

### STATEMENT OF ASSURANCE FISCAL YEAR 2017 November 13, 2017

The Department of Education (the Department) management is responsible for meeting the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) by establishing, maintaining, evaluating and reporting on the Department's internal control and financial systems.

In accordance with Section 2 of FMFIA and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, management evaluated the effectiveness of the Department's internal controls to support effective and efficient operations, reliable reporting and compliance with applicable laws and regulations.

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the Department's financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, management evaluated whether the Department's financial management systems substantially complied with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over financial reporting, including controls designed to prevent, detect and recover improper payments, in accordance with Appendix A of OMB Circular A-123.

The Department has not identified any material weaknesses in operations, reporting or compliance with applicable laws and regulations.

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2017.

  
Betsy DeVos

**INTRODUCTION**

**S**trong risk management practices and internal control help an entity run its operations efficiently and effectively, report reliable information about its operations and financial position, and comply with applicable laws and regulations. The **FMFIA** requires federal agencies to establish internal controls that provide reasonable assurance that agency objectives will be achieved. **OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*** implements FMFIA and defines management's responsibilities for ERM and internal control. The Circular provides guidance to federal managers to improve accountability and effectiveness of federal programs, as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal controls:

- *Operations*—Effectiveness and efficiency of operations;
- *Reporting*—Reliability of reporting for internal and external use; and
- *Compliance*—Compliance with applicable laws and regulations.

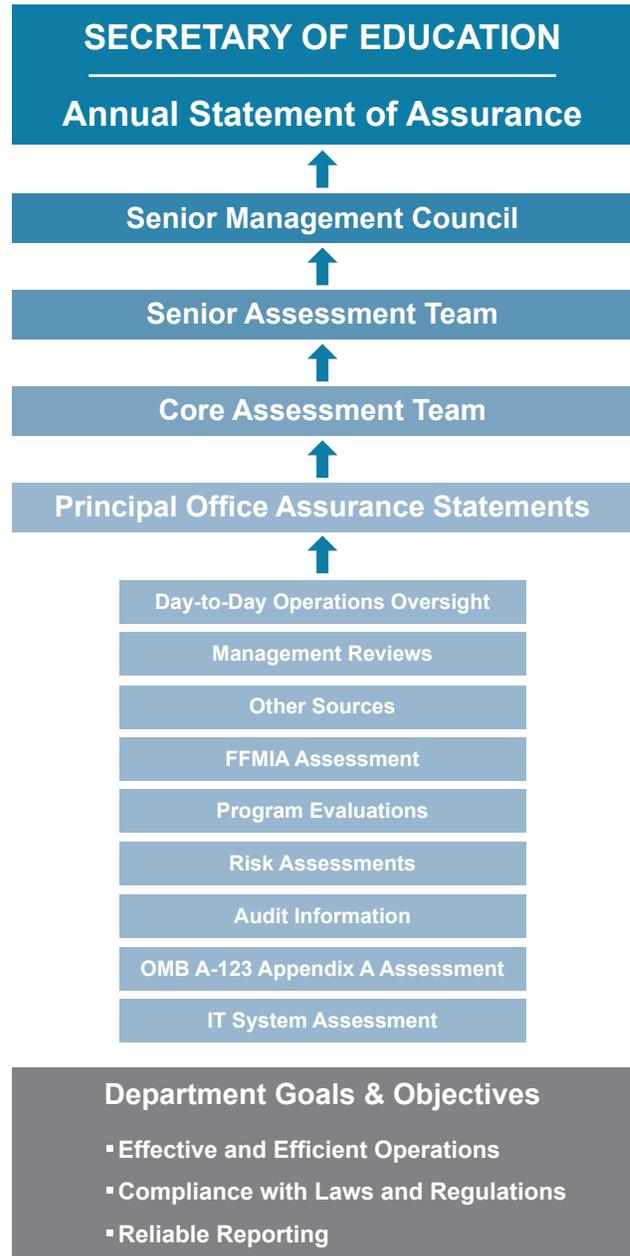
This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2017 to meet the three objectives.

**Control Framework**

The Department's internal control framework helps to ensure that the Department achieves its strategic goals and objectives related to delivering education services effectively and efficiently while complying with applicable laws and regulations and preparing accurate reports. This includes providing reasonable assurance to Department leadership and external stakeholders that financial data produced by the Department's financial systems are complete, accurate, and reliable enough to support the preparation and fair presentation of financial statements that conform to federal standards, facilitate sound financial decision-making, and provide transparency about how the Department spent federal funds and maintains stewardship over its financial resources.

The Department maintains a comprehensive internal control framework and assurance process as depicted in the following diagram.

**Figure 12. Internal Control Framework and Assurance Process**



The Office of the Chief Financial Officer (OCFO) manages the assurance process on behalf of Department leadership. The Department established governance over the process, consisting of a Senior Management Council, a Senior Assessment Team (SAT), and a Core Assessment Team (CAT). The Senior Management Council is comprised of senior leaders from across the Department. It is the primary governance structure for internal control and provides oversight to ensure management accountability for effective controls across the Department. The SAT and CAT include representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program offices, Risk Management Service, and other operational support offices (including the Office of Management). The SAT and CAT provide greater oversight and monitoring of activities related to internal control assessments.

The annual assurance process is the primary mechanism by which the Department implements FMFIA and OMB requirements pertaining to internal control. It requires the head of each principal office to evaluate its respective internal controls and to assert, in a letter to the Chief Financial Officer, that it has reasonable assurance that key internal controls are in place and working as intended or to provide a detailed description of significant deficiencies, material weaknesses, and other matters of nonconformance. In making this assessment, the head of the principal office considers information such as office managers' personal knowledge of operations, external audit results, internal assessments, and other related material.

OCFO staff work with the principal offices to help them identify potential control deficiencies and consult with the SAT to determine whether they represent significant deficiencies or potential material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan to address the issue. These Corrective Action Plans, in addition to daily operational oversight and management-

initiated evaluations, facilitate the correction and monitoring of controls. If potential material weaknesses are identified, they are evaluated by the Senior Management Council to determine if they should be reported on the Department's Statement of Assurance.

### Analysis of Controls

Overall, the Department relies on the principal office annual assurances, supported by risk-based internal control evaluations and testing, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. The Department also considers issues identified by external auditors. During FY 2016, the Department revised its annual assurance process to conform to the new requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book"). In FY 2017, the Department further revised the process to conform to the revised OMB Circular A-123 issued on July 15, 2016.

In FY 2017, the Department identified no material control weaknesses related to effective, efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Internal Control Exceptions section below. Although no material weaknesses were identified, the Department realizes that it has areas of control that need further strengthening, such as those disclosed in this report and the major challenges identified by the Department's OIG in its **OIG FY 2018 Management Challenges report**. The Department continues to demonstrate its commitment to addressing, mitigating, or resolving its identified management challenges.

In accordance with OMB Circular A-123, the Department also conducted an additional assessment of the effectiveness of the Department's internal controls over financial reporting and compliance with key financial management laws and regulations as described below.

### Internal Control over Financial Reporting

The Department maintains strong internal controls to identify, document, and assess internal control over financial reporting, which includes:

- comprehensive process documentation for the Department's significant business processes' and subprocesses,
- maintenance of a control catalogue comprised of 3,631 key financial, operational, and IT controls that align to the business processes (the Department documents 312 key controls and FSA documents 3,319 key controls [1,411 Business Process and Entity-Level controls and 1,908 IT controls]),<sup>1</sup>
- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and
- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2017, the Department tested 84 key financial controls. Although some control deficiencies were detected in the design and effectiveness of controls, the Department did not identify any significant deficiencies or material weaknesses. Corrective actions have been initiated for the deficiencies identified.

In FY 2017, FSA tested 2,810 key controls: 1,342 Business Process and Entity-Level controls and 1,468 IT controls. FSA assessed that 96 percent of the controls tested are designed and operating effectively. The other 4 percent are immaterial deficiencies for which FSA has established or is establishing corrective actions. FSA will continue to repeat this assessment process on a regular basis, constantly looking for opportunities to improve operations.

### Internal Control over Financial Management Systems

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with federal financial

management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Appendix D to OMB Circular A-123, Compliance with the *Federal Financial Management Improvement Act* of 1996, and OMB Circular A-130, *Managing Federal Information as a Strategic Resource*, provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's core financial systems are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 8,800 Departmental internal users in Washington, D.C., and 10 regional offices throughout the United States, as well as 39,600 external users. EDCAPS is composed of five main linked components:

- Financial Management Support System (FMSS),
- Contracts and Purchasing Support System (CPSS),
- Grants Management System (G5),
- E2 Travel System, and
- Hyperion Budget Planning.

The Department designated the FMSS as a mission-critical system that provides core financial management services, and focused its system strategy on the following areas during FY 2017:

- Managing and implementing cross-validation rules throughout the fiscal year to prevent invalid accounting transactions from being processed,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the **USASpending.gov** initiative as part of the *Federal Funding Accountability and Transparency Act of 2006*,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the *Digital Accountability and Transparency Act of 2014* (DATA Act) implementation, and

<sup>1</sup> These figures include FSA.

- Initiating the upgrade of the FMSS Oracle E-Business Suite application to Oracle R12, to ensure continued vendor support, improved security, improved infrastructure and enhanced functionality.

In FY 2018, EDCAPS will continue to provide customer service and improve security of its systems by completing the Department's implementation of Oracle E-Business Suite R12. In doing so, the Department will be current and ready to provide a more secure and better integrated financial management application.

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and the results of internal and external audits, the Department has not identified any material weaknesses in controls over systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below in the Internal Control Exceptions section, the Department continues to address issues and improve its controls over systems.

#### **Federal Information Security Modernization Act of 2014**

The *Federal Information Security Modernization Act of 2014* (FISMA) requires federal agencies to develop, document, and implement an agency wide program to provide security for the information and information systems that support the operations and assets of the agency and ensure the confidentiality, integrity, and availability of system-related information.

The Department's and FSA's information security programs completed a number of significant activities in FY 2016 and FY 2017 to improve cybersecurity capabilities and functions, some of which included:

- In March 2017, the Office of the Chief Information Officer (OCIO) initiated an Information Technology (IT) Systems Assessment process, designed to improve management of the Department's IT systems inventory by:
  - Reexamining/revising the IT systems baseline for both FISMA reportable and non-FISMA reportable IT systems,
  - Enhancing governance and security posture of the Department's IT systems portfolio, informing strategy to address externally hosted systems,
  - Establishing long/short term corrective action plans to address findings, and
  - Rationalizing the IT systems portfolio and inventory.
- The IT Systems Assessment process began with examining the 19 High Value Asset (HVA) systems within the Department. As of September 2017, the OCIO team had completed assessments for all 19 HVA systems.
- With the issuance by OMB of the federal government's Cybersecurity Strategy and Implementation Plan (CSIP), the Department focused many of its efforts to address the recommendations and actions highlighted in the CSIP in order to resolve any cybersecurity gaps and emerging priorities that were noted across the government. The CSIP required the Department to prioritize the identification and protection of high-value information and assets. The Department completed this action and re-validated its list of HVAs in January 2017, which will enable the Department to better understand the potential impact from a cyber incident, and helps to ensure that robust physical and cybersecurity protections are in place for our high-value assets. The Department completed development of its Cybersecurity Strategy and Implementation Plan (ED-CSIP) in February 2017, which includes the cybersecurity initiatives and activities that demonstrate how the Department is implementing the Cybersecurity Framework functions of Identify, Protect, Detect, Respond, and Recover.

- The Department continued to enhance the capabilities of the Department's Security Operations Centers (SOCs). The Department has fully deployed the Einstein capabilities in order to enhance our ability to detect cyber vulnerabilities and protect against cyber threats. The Department has also continued to strengthen its partnership with the Department of Homeland Security for the project planning that will accelerate the deployment of Continuous Diagnostics and Mitigation (CDM) capabilities. This will further enhance capabilities that the Department initiated in 2016 to implement network access control and data loss prevention (DLP) solutions. The DLP capability has been activated for the Department's primary network and is effectively detecting and preventing any inadvertent attempts by staff to send social security numbers via e-mail. The CDM solution will also enable the Department to enhance our configuration management capabilities.
- The Department continued its progress of implementing and enforcing the use of multifactor authentication for all federal employees, contractors, and other authorized users. The Department and FSA focused on increasing the issuance of Personal Identity Verification (PIV) cards to privileged users to meet OMB requirements. The Department has consistently reported each quarter achieving the Cross Agency Priority target requiring our users to be technically enforced to use their PIV cards when logging on to the network.
- The Department made significant strides in its identification, tracking, and remediation of unsupported software across the enterprise.
- 100 percent of Department users completed the annual computer security and privacy awareness training course in FY 2017. The Department strictly enforced compliance with annual security and privacy awareness training requirements, and disabled network accounts for noncompliant users.

- There has also been an increased Departmental focus on data security at institutions of higher education (IHEs). FSA issued a new "Dear Colleague Letter" to IHEs that receive financial aid stressing the need to comply with the *Gramm-Leach-Bliley-Act* standards and announcing that these standards would now be included in future reviews to be conducted by the Department. The Department recognizes that it is vital to focus on cybersecurity at these IHEs as they connect to FSA systems and access FSA data. It is noteworthy that the Department has successfully implemented two-factor authentication for all external users of the G5 system, which is a customer-facing grants management system. The Department has also engaged the General Services Administration and we have signed a memorandum of understanding to implement a pilot for the use of Login.gov for two-factor authentication to other Department citizen-facing information systems.

As a result of the Department implementing a comprehensive set of activities to strengthen the overall cybersecurity of the Department's networks, systems, and data, the Department completed actions to close 10 of the 15 recommendations to address the 11 findings made by the OIG in its FY 2016 annual FISMA audit. For the FY 2017 annual FISMA audit, the OIG is reporting 37 recommendations covering the seven FISMA metrics domains.

The OIG FISMA Audit objective was to conduct annual independent evaluations and tests to determine the effectiveness of the information security program policies, procedures, and practices of the Department and Federal Student Aid (FSA). The FY 2017 OIG FISMA reporting metrics were organized around the five security functions outlined in the National Institute of Standards and Technology's "Framework for Improving Critical Infrastructure Cybersecurity (Cybersecurity Framework): Identify, Protect, Detect, Respond, and Recover." The FY 2017 maturity model was more comprehensive and attributes were assessed differently than the previous year's maturity model indicator scoring. As a result, certain functions were assessed at a lower level, and the OIG found the Department and FSA were not effective in all five security functions.

## INTERNAL CONTROL EXCEPTIONS

The Department identified two instances of noncompliance with laws and regulations in FY 2017. Additionally, reviews and assessments conducted pursuant to information technology-related laws and regulations identified challenges still facing the Department.

## IMPROPER PAYMENTS INFORMATION ACT OF 2002

The *Improper Payments Information Act of 2002* (IPIA), **Pub. L. 107-300, 116 Stat. 2350**, as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), **Pub. L. 111-204, 124 Stat. 2224**, and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), **Pub. L. 112-248, 126 Stat. 2390**, require federal agencies to annually report improper payments for programs that are deemed susceptible to significant improper payments. IPERA also requires each agency's Office of Inspector General (OIG) to review the agency's improper payment reporting in its AFR and accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2016, the OIG concluded that the Department was not compliant with IPERA because it did not meet two of IPERA's six compliance requirements. The Department reported improper payment rates for the Direct Loan and Pell Grant (Pell) programs that did not meet the FY 2016 reduction targets and the Department's risk assessments for its grant programs managed by offices other than Federal Student Aid (FSA) and contracting activities managed by FSA did not conform to applicable guidance.

This determination of noncompliance with IPERA does not represent a material weakness in the Department's internal controls.

## DEBT COLLECTION IMPROVEMENT ACT OF 1996

The *Debt Collection Improvement Act of 1996* (DCIA), **Pub. L. 104-134, 110 Stat. 1321-358**, was enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, **Pub. L. 104-134, 110 Stat. 1321**. The primary purpose of the DCIA is to increase the collection of nontax debts owed to the federal government. Additionally, the DATA Act, **Pub. L. 113-101, 128 Stat. 1146**, amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to Treasury's Offset Program within 120 days.

Due to unique program requirements of HEA, the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. As of September 30, 2017, the Department and FSA were not in compliance with the new 120-day referral requirement in 31 U.S.C. Section 3716(c)(6) because FSA had not yet revised its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2017, FSA initiated the change management process for its default loan servicer to refer eligible debts to the Treasury Offset Program sooner, developed DCIA compliant referral exclusions, and continued to identify policy changes required to work towards achieving compliance. This area of noncompliance is noted in the independent auditors' report, exhibit B.

This determination of noncompliance with the DCIA does not represent a material weakness in the Department's internal controls.

*This page intentionally left blank.*

## ENERGY 2017 AFR – MD&A Report Unavailable until Audit Report completed

Per Karin Dasuki 3/7/18 – will forward when available.



The screenshot shows a web browser window with the URL <https://www.energy.gov/cfo/downloads/fy-2017-doe-agency-financial-report>. The page header includes the Energy.gov logo, navigation links for "Energy.gov Offices", "National Labs", and "Search Energy.gov", and a menu with "About Us", "SERVICES", "REPORTS", and "MISSION". The "REPORTS" menu item is highlighted, and a dropdown arrow is visible. Below the header, the main heading reads "FY 2017 DOE Agency Financial Report". The content area contains a breadcrumb trail: "Home » Reports » Agency Financial Reports » FY 2017 DOE Agency Financial Report". The main text states: "Provides improper payment reporting to meet the Improper Payment Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012." A link is provided: "FY 2017 Agency Financial Report - Payment Integrity Information".

# FY 2017 DOE Agency Financial Report

Home » Reports » Agency Financial Reports » FY 2017 DOE Agency Financial Report

Provides improper payment reporting to meet the Improper Payment Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012.

[FY 2017 Agency Financial Report - Payment Integrity Information](#)



# Department of Health and Human Services

Agency Financial Report  
**FY 2017**



# Management's Discussion and Analysis



# 1

## In This Section

- About the Department of Health and Human Services
- Performance Goals, Objectives, and Results
- Looking Ahead to 2018
- Systems, Legal Compliance, and Internal Control
- Management Assurances
- Financial Summary and Highlights

-THIS PAGE IS INTENTIONALLY LEFT BLANK-



## ABOUT THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

### Our Mission

The mission of the United States (U.S.) Department of Health and Human Services (HHS or the Department) is to enhance the health and well-being of Americans, by providing for effective health and human services and by fostering sound, sustained advances in the sciences, underlying medicine, public health, and social services.

### Our Vision

The vision of HHS is to provide the building blocks that Americans need to live healthy, successful lives.

### Who We Are

HHS is the U.S. government's principal agency for protecting the health of all Americans, providing essential human services, and promoting economic and social well-being for individuals, families, and communities, including seniors and individuals with disabilities. HHS is responsible for more than a quarter of all federal outlays and administers more grant dollars than all other federal agencies combined. HHS's Medicare program is the nation's largest health insurer, handling more than one billion claims per year. Medicare and Medicaid together provide health care insurance for 1 in 3 Americans.

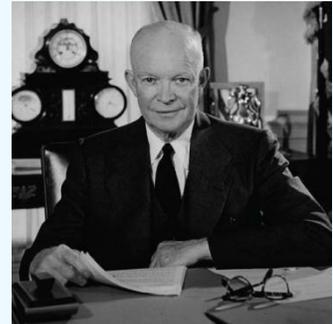
### What We Do

HHS works closely with state, local, and tribal governments; and many HHS-funded services are provided at the local level by state or county agencies, private sector grantees, tribes, tribal organizations, or Urban Indian organizations. The HHS Office of the Secretary and its 11 Operating Divisions (OpDivs) administer more than 300 programs covering a wide spectrum of activities. In addition to the services they deliver, HHS programs provide for equitable treatment of beneficiaries nationwide and enable the collection of national health and other data. HHS, through its programs and partnerships:

- Provides health care coverage to more than 100 million people through Medicare, Medicaid, and the Children's Health Insurance Program (CHIP);
- Promotes patient safety and health care quality in health care settings and by health care providers, by assuring the safety, effectiveness, quality, and security of foods, drugs, vaccines, and medical devices;
- Conducts health and social science research with the largest source of funding for medical research in the world, while creating hundreds of thousands of high-quality jobs for scientists in universities and research institutions in every state across America and around the globe;
- Leverages health information technology to improve the quality of care and to use HHS data to drive innovative solutions to health, public health, and human services challenges;

### Did you know?

HHS got its start on April 11, 1953, as the Department of Health, Education and Welfare under President Dwight D. Eisenhower.





## ABOUT THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- Improves maternal and infant health; promotes the safety, well-being, and healthy development of children and youth; and supports young people’s successful transition to adulthood;
- Supports wellness efforts across the life span, from protecting mental health, to preventing risky behaviors such as tobacco use and substance abuse, to promoting better nutrition and physical activity;
- Prevents and manages the impacts of infectious diseases and chronic diseases and conditions, including the top causes of disease, disability, and death;
- Prepares Americans for, protects Americans from, and provides comprehensive responses to health, safety, and security threats, both foreign and domestic, whether natural or man-made; and
- Serves as responsible stewards of the public’s investments.

### Did you know?

The Substance Abuse and Mental Health Services Administration’s Disaster Distress Helpline is available to provide immediate crisis counseling for people experiencing emotional distress related to the California wildfires, the hurricanes impacting the Gulf Coast and Puerto Rico, or other disasters and traumatic events. Residents can call 800-985-5990 to speak with a trained crisis counselor, or to get help connecting with local behavioral health professionals.



### Organizational Structure

HHS’s organizational structure is designed to accomplish its mission and provide a framework for sound business operations and management controls. The Office of the Secretary, with the Secretary, provides the overarching vision and strategic direction for the Department, and leads HHS and its 11 OpDivs to provide a wide range of services and benefits to the American people. The HHS organizational chart is presented on the next page.





## ABOUT THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

Each OpDiv contributes to our mission and vision as follows:



**Administration for Children and Families (ACF)** is responsible for federal programs that promote the economic and social well-being of families, children, individuals, and communities. ACF programs aim to empower families and individuals to increase their economic independence and productivity, and encourage strong, healthy, supportive communities that have a positive impact on quality of life and the development of children. Visit [ACF](#) for more information.



**Administration for Community Living (ACL)** was created around the fundamental principle that all people, regardless of age or disability, should be able to live independently, and fully participate in their communities. By advocating for older adults and people with disabilities, and the families and caregivers of both across the federal government; funding services and support provided by networks of community-based organizations; and investing in research and innovation, ACL helps make this principle a reality for millions of Americans. Visit [ACL](#) for more information.



**Agency for Healthcare Research and Quality (AHRQ)** produces evidence to make health care safer, higher quality, more accessible, equitable, and affordable, and to work within HHS and with other partners to make sure that the evidence is understood and used. This mission is supported by focusing on (1) improving health care quality, (2) making health care safer, (3) increasing accessibility, and (4) improving health care affordability, efficiency, and cost transparency. Visit [AHRQ](#) for more information.



**Agency for Toxic Substances and Disease Registry (ATSDR)** is charged with the prevention of exposure to toxic substances and the prevention of the adverse health effects and diminished quality of life associated with exposure to hazardous substances from waste sites, unplanned releases, and other sources of pollution present in the environment. Visit [ATSDR](#) for more information.



**Centers for Disease Control and Prevention (CDC)** collaborates to create the expertise, information, and tools that people and communities need to protect their health through health promotion, prevention of disease, injury and disability, and preparedness for new health threats. CDC works to protect America from health, safety, and security threats, both foreign and domestic. Whether diseases start at home or abroad, curable or preventable, human error or deliberate attack, CDC fights diseases and supports communities and citizens to do the same. Visit [CDC](#) for more information.



**Centers for Medicare & Medicaid Services (CMS)** administers Medicare, Medicaid, CHIP, and the Health Insurance Exchanges, which together provide health care coverage for more than 100 million people. CMS acts as a catalyst for enormous changes in the availability and quality of health care for all Americans. In addition to these programs, CMS has the responsibility to ensure effective, up-to-date health care coverage, and to promote quality care for beneficiaries. Visit [CMS](#) for more information.



**Food and Drug Administration (FDA)** is responsible for protecting the public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products, medical devices, our nation’s food supply, cosmetics, and products that emit radiation. FDA is also responsible for advancing the public health by helping to speed innovations that make medicines more effective, safer, and more affordable and by helping the public get the accurate, science-based information it needs to use medicines and foods to maintain and improve their health. FDA also has responsibility for regulating the manufacturing, marketing, and distribution of tobacco products to protect the public health and to reduce tobacco use by minors. Finally, FDA plays a significant role in the nation’s counterterrorism capability. FDA fulfills this responsibility by ensuring the security of the food supply and by fostering development of medical products to respond to deliberate and naturally emerging public health threats. Visit [FDA](#) for more information.



**Health Resources and Services Administration (HRSA)** is responsible for improving access to health care by strengthening the health care workforce, building healthy communities, and achieving health equity. HRSA’s programs provide health care to people who are geographically isolated, and economically or medically vulnerable. Visit [HRSA](#) for more information.



**Indian Health Service (IHS)** is responsible for providing federal health services to American Indians and Alaska Natives. The provision of health services to members of federally recognized tribes grew out of the special government-to-government relationship between the federal government and Indian tribes. IHS is the principal federal health care provider and health advocate for the Indian people, with the goal of raising Indian health status to the highest possible level. IHS provides a comprehensive health service delivery system for approximately 2.2 million American Indians and Alaska Natives who belong to 567 federally recognized tribes in 36 states. Visit [IHS](#) for more information.



**National Institutes of Health (NIH)** seeks fundamental knowledge about the nature and behavior of living systems and the application of that knowledge to enhance health, lengthen life, and reduce illness and disability. Visit [NIH](#) for more information.



**Substance Abuse and Mental Health Services Administration (SAMHSA)** is responsible for reducing the impact of substance abuse and mental illness on America’s communities. SAMHSA accomplishes its mission by providing leadership, developing service capacity, communicating with the public, setting standards, and improving behavioral health practice in communities, in both primary and specialty care settings. Visit [SAMHSA](#) for more information.



In addition, the following Staff Divisions (StaffDivs) report directly to the Secretary, managing programs and supporting the OpDivs in carrying out the Department’s mission. The primary goal of the Department’s StaffDivs is to provide leadership, direction, and policy and management guidance to the Department. The StaffDivs are:

- **Immediate Office of the Secretary (IOS).** [IOS](#) oversees the Secretary’s operations and coordinates the Secretary’s work.
  - **The Executive Secretariat (ES).** [ES](#) manages the Department’s policy review and decision-making processes, coordinating the development, clearance, and submission of all policy documents for the Secretary’s review and approval.
  - **Office of Health Reform (OHR).** OHR helps guide and oversee the implementation of the health care legislation and policy.



## ABOUT THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Office of Intergovernmental and External Affairs (IEA).** [IEA](#) represents both the government and external perspective in federal policymaking and clarifies the federal perspective to government officials and external parties.
- **Office of the Chief Technology Officer (CTO).** [CTO](#) harnesses the power of data, technology, and innovation to create a more modern and effective government that works to improve the health of the nation.
- **Office of the Assistant Secretary for Administration (ASA).** [ASA](#) provides leadership for HHS departmental management, including human resource policy and departmental operations.
  - **Program Support Center (PSC).** [PSC](#) is a shared services organization dedicated to providing support services to help its customers achieve mission-critical results.
- **Office of the Assistant Secretary for Financial Resources (ASFR).** [ASFR](#) provides advice and guidance to the Secretary on budget, financial management, acquisition policy and support, grants management, and small business programs. It also directs and coordinates these activities throughout the Department.
- **Office of the Assistant Secretary for Health (OASH).** [OASH](#) advises on the nation's public health and oversees HHS's U.S. Public Health Service for the Secretary.
- **Office of the Assistant Secretary for Legislation (ASL).** [ASL](#) provides advice on legislation and facilitates communication between the Department and Congress.
- **Office of the Assistant Secretary for Planning and Evaluation (ASPE).** [ASPE](#) advises on policy development and contributes to policy coordination, legislation development, strategic planning, policy research, evaluation, and economic analysis.
- **Office of the Assistant Secretary for Preparedness and Response (ASPR).** [ASPR](#) advises on matters related to bioterrorism and other public health emergencies.
- **Office of the Assistant Secretary for Public Affairs (ASPA).** [ASPA](#) provides centralized leadership and guidance on public affairs for HHS's StaffDivs, OpDivs, and regional offices. ASPA also administers the *Freedom of Information and Privacy Act*.
- **Office for Civil Rights (OCR).** [OCR](#) enforces federal laws that prohibit discrimination by health care and human services providers that receive funds from HHS.
- **Departmental Appeals Board (DAB).** [DAB](#) provides impartial review of disputed legal decisions involving HHS.
- **Office of the General Counsel (OGC).** [OGC](#) provides quality representation and legal advice on a wide range of highly visible national issues.
- **Office of Global Affairs (OGA).** [OGA](#) provides leadership and expertise in global health diplomacy and policy to protect the health and well-being of Americans.
- **Office of Inspector General (OIG).** [OIG](#) protects the integrity of HHS programs as well as the health and welfare of the program participants.
- **Office of Medicare Hearings and Appeals (OMHA).** [OMHA](#) administers nationwide hearings for the Medicare program.
- **Office of the National Coordinator for Health Information Technology (ONC).** [ONC](#) provides counsel for the development and implementation of a national health information technology framework.

For more information regarding our organization, components, and programs, visit [our website](#).

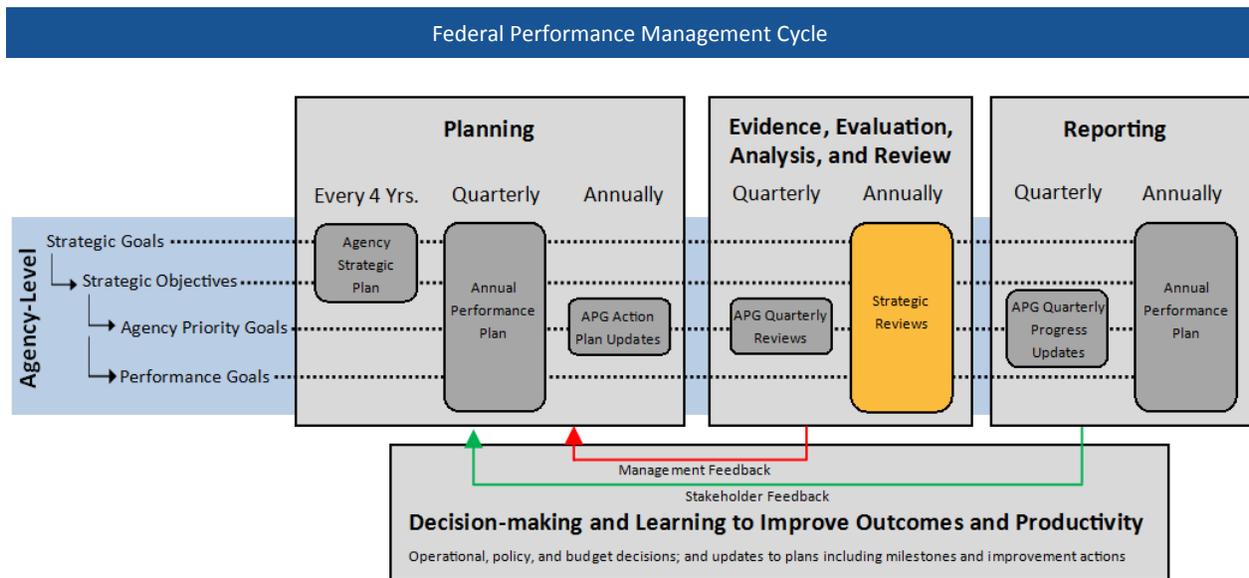


## PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

### Overview of Strategic and Agency Priority Goals

Every 4 years, at the beginning of an Administration’s new term, federal agencies update their strategic plans. Strategic plans present an organization’s mission, vision, and the long-term objectives an agency hopes to accomplish, actions the agency will take in coordinating resources to realize those goals, and how the agency will address challenges or risks that hinder progress. An agency strategic plan is 1 of 3 main elements required by the *Government Performance and Results Act of 1993 (GPRA)* and the *GPRA Modernization Act of 2010*.

HHS’s strategic plan defines its mission, goals, and the means by which the Department will measure its progress in addressing specific national problems over a 4-year period. It also describes its work to address complex, multifaceted, and evolving health and human services issues. Each of the Department’s OpDivs and StaffDivs contribute to the development of the strategic plan, as reflected in strategic goals, associated objectives, and strategies within each objective for accomplishing the strategic goals. Refer to the Federal Performance Management Cycle graphic below for details on the strategic plan process.



\*Source: OMB Circular A-11, *Preparation, Submission and Execution of the Budget*

### Strategic Goals

We are currently in the process of updating the HHS Strategic Plan Fiscal Year (FY) 2018 – 2022 (Plan). Under the *GPRA Modernization Act*, federal agencies are required to consult with Congress and to solicit and consider the views of external parties before updating their strategic plan. HHS is updating its Plan to reflect input received from the public and Congressional consultation that was conducted in the fall of 2017. The final Plan is expected to be published in February 2018, concurrent with the release of the *FY 2019 President’s Budget*.

While the details of the Plan are still being refined, it will help guide the Department in fulfilling its mission. The mission of HHS is to enhance the health and well-being of Americans, by providing for effective health and human services and by fostering sound, sustained advances in the sciences underlying medicine, public health, and social services. The Department accomplishes its mission by making strategic investments to protect the



## PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

health and well-being of Americans; delivering hope and healing to the American people; promoting patient-centered care; strengthening services to tribes; investing in the health of America's future; and ensuring responsible stewardship of taxpayer dollars for long-term sustainability. Achieving these goals will require HHS to make strategic investments and carry out our mission in the most effective manner possible. For more information about our strategic plans and investments, please visit the [HHS Budget & Performance page](#).

### Agency Priority Goals

Using the strategic goals and objectives established in the Plan, HHS begins its annual process to set and monitor performance goals and Agency Priority Goals (APGs). HHS uses APGs to improve performance and accountability, and develops APGs by collaborating across the Department to identify activities that reflect HHS priorities and activities benefiting from the focus of the APG process. These goals are ambitious but realistic performance objectives that the Department will strive to achieve within a 24-month period. The Department is currently in the process of developing APGs in support of the Plan. These new APGs will use the knowledge gained through collaboration and data-driven reviews of past processes to deliver results to the public. For more information on HHS's FY 2018 – 2019 APGs, please visit [Performance.gov](#). Please note that [Performance.gov](#) is currently being revised as agencies update goals and objectives for release in February 2018 with the *FY 2019 President's Budget* submission to Congress. Please check periodically for updates. HHS performance initiatives, including APGs, continue to influence plans and policies that guide our future efforts.

### Performance Management

HHS continues to engage with individuals across the federal performance management community to implement best practices and refine processes. These refinements and lessons learned have also influenced future plans and priorities. HHS actively monitors APG progress and works toward achieving our APGs through quarterly data-driven reviews and other mechanisms. Agencies are required to report quarterly APG progress updates on [Performance.gov](#), and summarize the full year's past performance results in annual performance reports.

### Performance Results

The performance results in this section represent a small sample of key HHS measures across the Department. For some of these measures, a data lag exists and some results are not yet known. This is reflected with "Pending" in the status field of the related measure. For more information on HHS performance measures across the Department, please refer to the [HHS Budget & Performance page](#), expected to be updated in February 2018 concurrent with the *FY 2019 President's Budget*.

**Serious Mental Illness.** Individuals with serious mental illness are a high-need, high-cost population. They frequently use emergency departments and have high readmission rates to inpatient care, especially when co-occurring substance use disorders are present. In addition, people with serious mental illness often have comorbid physical health conditions and shorter life expectancies than people without serious mental illness, primarily due to co-occurring physical health conditions that too often go unaddressed. Individuals with serious mental illness often experience barriers to treatment, including difficulty accessing and initiating treatment. Significant delays in the identification and treatment of serious mental illness are common; for example, research has repeatedly found that individuals with psychosis in the U.S. often do not receive appropriate treatment for that condition for 1 to 3 years. HHS's Serious Mental Illness Initiative builds on activities that are currently underway in various HHS agencies; these activities are coordinated through the HHS Behavioral Health Coordinating Council.



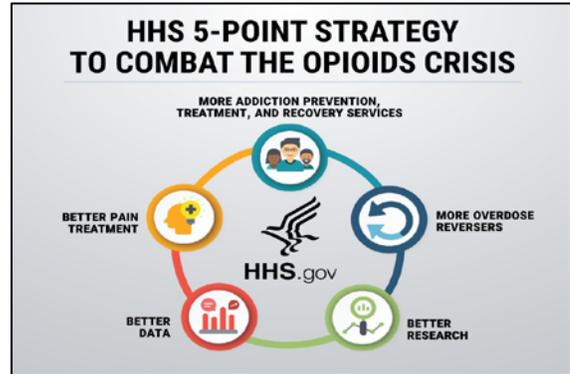
Increase access to early intervention services by increasing the number of states with early intervention programs

Unit of Measurement: States

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>			N/A	13 states	30 states
<b>Result</b>			13 states	25 states	Sept 30, 2017
<b>Status</b>			Historical Actual	Target Exceeded	Pending*

\*Data results were not available at the time of publication.

**Opioid Morbidity and Mortality.** Opioid abuse and overdose present a nationwide public health challenge. Death by drug overdose is the leading cause of injury death in the U.S., with deaths from opioids in particular increasing precipitously in the twenty-first century. Estimates for 2016 indicate that over 64,000 people in the U.S. died of a drug overdose, with the majority of these deaths involving opioids. Overdose deaths involving heroin have increased significantly in recent years, jumping by a factor of five between 2010 – 2016, while the surge of fentanyl use has been the main driver in increasing synthetic opioid deaths. Agencies across HHS recognize the urgency of halting the rise of opioid abuse and overdose, and are working to develop and implement the most effective interventions, from prevention through treatment, including making sure first responders are equipped with naloxone to use in emergencies. It should be noted that the historical results for the opioid performance measures were recalculated since originally reported. In previous years the entries reflected quarterly data rather than annual results. The reported results now reflect annual figures.



HHS 5-Point Strategy to Combat the Opioid Crisis

Decrease the total morphine milligram equivalents (MMEs) dispensed

Unit of Measurement: MMEs

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	N/A	N/A	N/A	N/A	201,741,825,837
<b>Result</b>	245,476,926,576	237,556,023,763	224,157,584,265	214,000,950,917	Nov 30, 2017
<b>Status</b>	Historical Actual	Historical Actual	Historical Actual	Historical Actual	Pending

Increase the number of prescriptions dispensed for naloxone

Unit of Measurement: Prescriptions

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	N/A	N/A	N/A	4,771	5,104
<b>Result</b>	1,585	6,575	26,223	99,407	Nov 30, 2017
<b>Status</b>	Historical Actual	Historical Actual	Historical Actual	Historical Actual	Pending

The FY 2017 APG target for the number of dispensed naloxone prescriptions is much lower (5,104) than the FY 2016 actual result (99,407). The FY 2017 goal was based on lower historical actuals from earlier years. Future goals will likely be significantly higher based on more recent higher historical actuals.

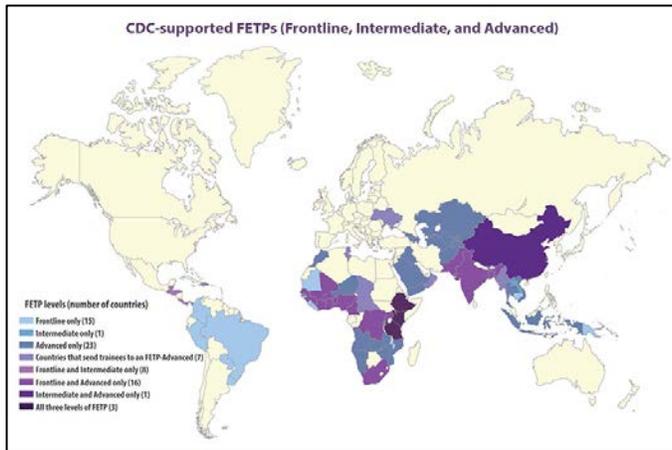


PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Increase the number of unique patients receiving prescriptions for buprenorphine (BUP) and naltrexone (NAL) in a retail setting

Unit of Measurement: Patients

	FY 2013	FY 2014 (BUP)	FY 2014 (NAL)	FY 2015 (BUP)	FY 2015 (NAL)	FY 2016 (BUP)	FY 2016 (NAL)	FY 2017 (BUP)	FY 2017 (NAL)
<b>Target</b>		N/A	N/A	N/A	N/A	915,207	112,398	958,788	117,750
<b>Result</b>		834,352	141,110	921,329	197,410	982,488	254,654	Nov 30, 2017	Nov 30, 2017
<b>Status</b>		Historical Actual	Pending	Pending					



Countries participating in FETPs as of April 2017

**International Field Epidemiology Training Programs (FETPs).** Since 1980, CDC has developed FETPs that have graduated over 3,700 epidemiologists in over 70 countries. Through FETPs, CDC helps establish a network of disease detectives around the globe to serve as the first line of defense in detecting and responding to outbreaks in their respective regions as well as neighboring countries. In FY 2016, there were 470 new residents of the FETP program, exceeding CDC’s target for new residents by 40. On average, over 80 percent of FETP graduates work within their Ministry of Health after graduation and many assume key leadership positions, such as the National Director of Tuberculosis program and National Director of Chronic Disease program in the Dominican Republic. Their presence strengthens global health ministries’ ability to detect and respond to outbreaks and enhances sustainable public health capacity in these

countries, which is critical in transitioning U.S.-led global health investments to long-term host-country ownership. FETP activities are supported by funding from CDC appropriations and inter-agency agreements with the Department of Defense, Department of State, and the U.S. Agency for International Development.

Increase epidemiology and laboratory capacity within global health ministries through the FETP New Residents

Unit of Measurement: New Residents

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	255	430	430	430	430
<b>Result</b>	300	402	483	470	June 30, 2018
<b>Status</b>	Target Exceeded	Target Not Met but Improved	Target Exceeded	Target Exceeded	Pending



**Reduction in Head Start Grantees Receiving a Low Score on the Classroom Assessment Scoring System (CLASS: Pre-K).** ACF is striving to increase the percentage of Head Start children in high quality classrooms. CLASS: Pre-K is a research-based tool that measures, on a seven-point scale, teacher-child interaction in three broad domains: (1) Emotional Support, (2) Classroom Organization, and (3) Instructional Support. Progress is measured by reducing the proportion of Head Start grantees that score in the “low” range on any of the three domains. An analysis of CLASS scores for FY 2016 indicates that 24 percent of grantees scored in the “low” range, exceeding the target of 25 percent. All “low” range scores were in the Instructional Support domain.

ACF continues to invest in expanding its CLASS related resources and making those resources available to grantees. ACF provides more intentional targeted assistance to those grantees that score in the “low” range on CLASS. ACF continues to conduct more analysis on the specific dimensions that are particularly challenging for those grantees, such as concept development and language modeling, and tailor the technical assistance for grantees based on their specific needs.

Recent data analysis from the Family and Child Experience Survey (FACES), a federally funded nationally representative survey of Head Start programs, provides some evidence that grantee scores on CLASS domains have improved over time. This analysis demonstrates that over time fewer classrooms scored in the “low” range and more classrooms scored in the “mid” to “high” range on Instructional Support. FACES data also shows a statistically significant increase in the average score and the percentage of Head Start classrooms scoring three or higher on Instructional Support between 2006 and 2014. Overall, Head Start classrooms regularly score above a five (on a scale of one to seven) in Emotional Support and Classroom Organization. The FACES data analysis showed that over time fewer classrooms scored in the “mid” range and more classrooms scored in the “high” range on Emotional Support. FACES data also includes another measure of classroom quality using the Early Childhood Environment Rating Scale where items are rated on a seven-point scale, ranging from inadequate to excellent. There was a statistically significant increase of classrooms moving into the “good” and “excellent” category on the *Teaching and Environments* and *Provisions to Learning* items from 2006 to 2014. For example, the percent of classrooms in the “good” and “excellent” category in *Teaching and Environments* item moved from 13 percent in 2006 to 54 percent in 2014.

Reduce the proportion of Head Start grantees receiving a score in the low range on the basis of CLASS: Pre-K  
*Unit of Measurement: Percent*

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	23%	27%	26%	25%	24%
<b>Result</b>	31%	23%	22%	24%	Jan 31, 2018
<b>Status</b>	Target Not Met	Target Exceeded	Target Exceeded	Target Exceeded	Pending

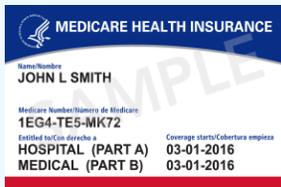
**Medicare Fee-For-Service (FFS), Medicaid, and CHIP Improper Payment Rates.** One of HHS’s key goals is to pay Medicare, Medicaid, and CHIP claims properly the first time. This means paying the right amount, to legitimate providers, for covered, reasonable, and necessary services provided to eligible beneficiaries. Paying correctly the first time saves resources required to recover improper payments and ensures the proper expenditure of valuable dollars. The decrease from the prior year’s reported Medicare FFS improper payment estimate of 11.00 percent was driven by a reduction in improper payments for home health and Inpatient Rehabilitation Facility (IRF) claims. Although the improper payment rate for these services and the national Medicare FFS improper payment rate decreased, improper payments for home health, Skilled Nursing Facility, and IRF claims were the major contributing factors to the FY 2017 Medicare FFS improper payment rate. While the factors contributing to improper payments are complex and vary from year to year, the primary causes of improper payments continue to be insufficient documentation and medical necessity errors. HHS uses data from the Comprehensive Error Rate



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

## Did you know?

New Medicare cards are coming. The new card contains a unique, randomly-assigned number that replaces the current Social Security-based number. The change will help to prevent fraud, fight identity theft, and protect taxpayer dollars.



Testing program and other sources of information to address improper payments in Medicare FFS through various corrective actions, such as policy clarifications and simplifications, when appropriate, as well as Probe and Educate reviews, which include more individualized education through smaller probe reviews, followed by specific education based on review findings. HHS is also continuing prior authorization initiatives, as appropriate, which help to make sure that applicable coverage, payment, and coding rules are met before services are rendered while ensuring access to care and quality of care.

Since one-third of the states are measured annually to calculate the Medicaid and CHIP improper payment rates, these measures are calculated as a rolling rate that includes the reporting year and the previous 2 years. Similar to recent years, the driver of each rate was state difficulties complying with provider screening, enrollment, and National Provider Identifier (NPI) requirements. Although the 17 states reviewed this year had better compliance results for Medicaid compared to their previously measured cycle, non-compliance with the provider screening, enrollment, and NPI requirements is still a major contributor to the Medicaid improper payment rate. Additionally, Medicaid improper payments due to no or insufficient medical

documentation increased in FY 2017. For CHIP, the 17 states reviewed this year did not have better compliance results. A higher percentage of CHIP providers are not enrolled in Medicare and, therefore, there are more cases where states are not able to rely on provider screening conducted by Medicare and must conduct their own screening. Additionally, there was an increase in managed care improper payments in FY 2017 due to recipients that aged out of CHIP. States are required to develop and submit corrective action plans. HHS is working with states to improve compliance with the requirements and address all errors that contributed to the improper payment rates. Refer to “Section 3, Payment Integrity Report” for further details.

Reduce the Percentage of Improper Payments Made Under the Medicare FFS Program  
Unit of Measurement: Percent

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	8.3%	9.9%	12.50%	11.50%	10.40%
<b>Result</b>	10.1%	12.7%	12.09%	11.00%	9.51%
<b>Status</b>	Target Not Met	Target Not Met	Target Exceeded	Target Exceeded	Target Exceeded

Reduce the Improper Payment Rate in the Medicaid Program  
Unit of Measure: Percent

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>	6.4%	5.6%	6.70%	11.53%	9.57%
<b>Result</b>	5.8%	6.7%	9.78%	10.48%	10.10%
<b>Status</b>	Target Exceeded	Target Not Met	Target Not Met	Target Exceeded	Target Not Met

Reduce the Improper Payment Rate in CHIP  
Unit of Measurement: Percent

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Target</b>			6.50%	6.81%	7.38%
<b>Result</b>			6.80%	7.99%	8.64%
<b>Status</b>			Target Not Met	Target Not Met	Target Not Met



## LOOKING AHEAD TO 2018

**H**HS accomplishes its mission through programs and initiatives that cover a wide spectrum of activities. Eleven OpDivs, including eight agencies in the U.S. Public Health Service and three human services agencies, administer HHS's programs. While HHS is a domestic agency working to protect and promote the health and well-being of the American people, the interconnectedness of our world requires that HHS engage globally to fulfill its mission. In addition, StaffDivs provide leadership, direction, and policy guidance to the Department.

As described in the Performance Goals, Objectives and Results section, concurrent with the *FY 2019 President's Budget* submission, HHS will update its Strategic Plan to align with the priorities of this Administration. The Strategic Plan's goals and related objectives will drive HHS's service to the American people. Along with a new Strategic Plan, the next *President's Budget* submission will also include a new set of APGs. These goals are a set of ambitious but realistic performance objectives that the Department will strive to achieve within a 24-month period. These new APGs will use the knowledge gained through collaboration and data-driven reviews of past processes to deliver results to the public.

While the *Patient Protection and Affordable Care Act* (PPACA) is established law, health care reform to better serve the American people is expected. HHS remains committed to fostering a high-quality health care system that effectively and efficiently serves our citizens. We aim to facilitate a patient-centered approach that offers ample consumer choice and lower overall costs to stakeholders. Patients, families, and doctors should be in charge of the medical decisions impacting them. HHS will continue to work with states to advance their health-related programs, and to improve the accessibility and affordability of health care.

The Message from the Acting Secretary addresses one of the most pressing issues facing the American public—the ongoing opioid crisis. Acting Secretary Hargan took action on October 26, 2017, by declaring a nationwide public health emergency. According to the CDC, more than 175 Americans die every day from drug overdoses, with 91 of those deaths occurring specifically from opioids. HHS developed a five-point strategy to combat opioids, which includes the following steps:

- Improve access to prevention, treatment, and recovery support services;
- Target the availability and distribution of overdose-reversing drugs;
- Strengthen public health data and reporting;
- Support cutting-edge research on addiction and pain; and
- Advance the practice of pain management.



Acting Secretary Hargan signs public health emergency declaration in response to the opioid crisis.

The Administration has made combating opioid abuse and fighting addiction an Administration-wide effort and priority, and the Budget submission reflects this commitment. HHS will continue to invest in activities to fight opioid abuse, provide funding for substance abuse treatment, and seek to improve prescribing practices and the use of medication-assisted treatment.



## SYSTEMS, LEGAL COMPLIANCE, AND INTERNAL CONTROL

### Systems

#### *Financial Systems Environment*

**H**HS's Chief Financial Officer (CFO) Community strives to enhance and sustain a financial management environment that supports the HHS mission by promoting accountability and managing risk. To support this vision, the HHS financial systems environment forms the financial and accounting foundation for managing the \$1.7 trillion in budgetary resources entrusted to the Department in FY 2017. These resources represent more than a quarter of all federal outlays and encompass more grant dollars than all other federal agencies combined.

The robust financial systems environment sustains HHS's diverse portfolio of mission-oriented programs, as well as business operations. Its purpose is to: efficiently process financial transactions in support of program activities and HHS's mission; provide complete and accurate financial information for decision-making; improve data integrity; strengthen internal control; and mitigate risk.

The HHS financial systems environment consists of a core financial system (with three instances) and two Department-wide reporting systems used for financial and managerial reporting that together support the Department's financial accounting and reporting needs.

#### *Core Financial System*

HHS's core financial system's three instances all operate on the same commercial off-the-shelf (COTS) platform to support data standardization and facilitate Department-wide reporting.

- The Healthcare Integrated General Ledger Accounting System (HIGLAS) supports CMS. HIGLAS serves CMS's Medicare Administrative Contractor organizations, Administrative Program Accounting, and the Center for Consumer Information and Insurance Oversight. It processes an average of five million transactions daily.
- The NIH Business System (NBS) combines NIH administrative processes and financial information under one centralized component, supporting NIH's diverse biomedical research program; and business, financial, acquisition and logistics requirements for 27 NIH Institutes and Centers. NBS supports grant funding to more than 300,000 researchers at over 2,500 universities, medical schools, and other research institutions in every state and around the world.
- The Unified Financial Management System (UFMS) serves 10 OpDivs (including the Office of the Secretary) and 14 StaffDivs across the Department. The following accounting centers utilize UFMS: CDC, FDA, IHS, and PSC. PSC provides shared service accounting support for all other Divisions utilizing UFMS.

#### *Reporting Systems*

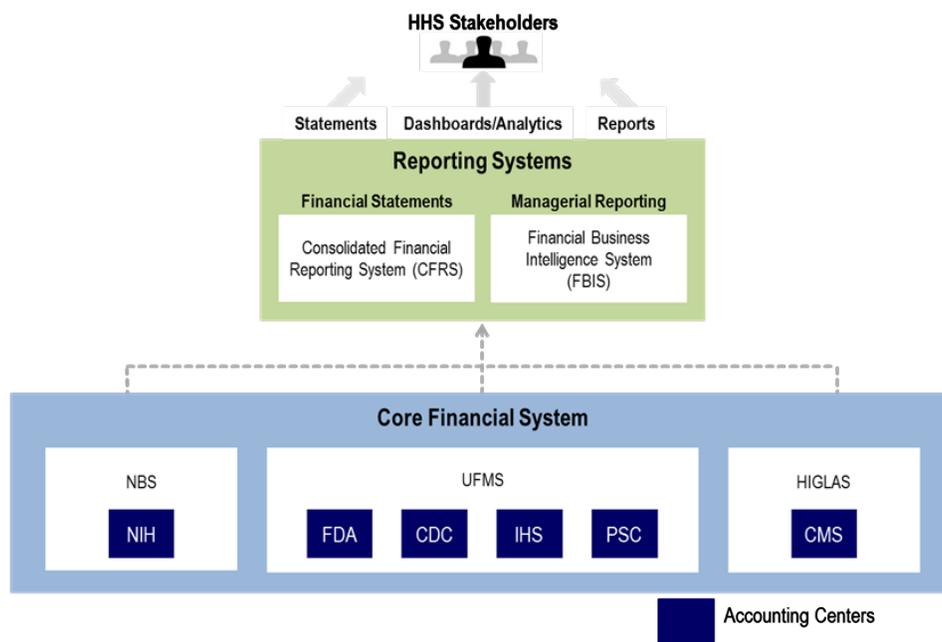
Reporting components within the HHS financial systems environment consist of two Department-wide applications: the Consolidated Financial Reporting System (CFRS) and the Financial Business Intelligence System (FBIS). These reporting systems facilitate data reconciliation, financial and managerial reporting, and data analysis.

- CFRS systematically consolidates information from all three instances of the core financial system. It generates Departmental quarterly and year-end consolidated financial statements on a consistent and timely basis, while supporting HHS in meeting regulatory reporting requirements.
- FBIS is the financial enterprise business intelligence application that supports the information needs of HHS stakeholders at all levels by retrieving, combining, and consolidating data from the core financial



system. It provides tools for analyzing data and presenting actionable information including metrics and key performance indicators, dashboards with graphical displays, interactive reports, and ad-hoc reporting. FBIS enables executives, managers, and operational end users to make informed business decisions to support their organization’s mission.

The figure below graphically depicts the current financial systems environment.



**Relevant Legislation and Guidance**

The HHS financial systems environment must comply with all relevant federal laws, regulations, and authoritative guidance. In addition, HHS must conform to federal financial management and systems requirements including:

- *Federal Managers’ Financial Integrity Act of 1982;*
- *Chief Financial Officers Act of 1990;*
- *Government Management Reform Act of 1994;*
- *Federal Financial Management Improvement Act of 1996;*
- *Clinger-Cohen Act of 1996;*
- *Federal Information Security Management Act of 2002, as amended by the Federal Information Security Modernization Act of 2014;*
- *Digital Accountability and Transparency Act of 2014;*
- *Federal Information Technology Acquisition Reform Act of 2014;*
- *Fraud Reduction and Data Analytics Act of 2015;* and
- Office of Management and Budget (OMB) directives and U.S. Department of the Treasury (Treasury) guidance related to these laws.

**Financial Systems Environment Improvement Strategy**

HHS continues to implement a Department-wide strategy to advance its financial systems environment through the Financial Systems Improvement Program (FSIP) and Financial Business Intelligence Program (FBIP). The portfolio of projects within these programs addresses immediate business needs and positions the Department to take advantage of state-of-the-art tools and technology. The goals of the strategy are to improve the effectiveness and efficiency of the Department’s financial management capabilities, mature the overall financial systems



environment, and strengthen accountability and financial stewardship. This is a multi-year initiative, and the Department continues to make significant progress in each of the following key strategic areas.

### Financial Systems Modernization

- *Strategy:* As a critical component of the multi-year initiative, the core financial system was upgraded to the most current version of its COTS software to maintain a secure and reliable financial systems environment. Concurrently, HHS also transitioned key financial systems to a cloud service provider for hosting and application management. With those major initiatives completed successfully, HHS is now directing resources towards incrementally improving the efficiency and effectiveness of the upgraded financial system. Taken together, these projects are designed to significantly mature the HHS financial systems environment, offering benefits that include: safeguarding system security and privacy; enhancing information access; complying with and implementing evolving federal requirements; achieving efficiencies and promoting standardization; eliminating security and control vulnerabilities; and maximizing the return on existing system investments.
- *Progress:* HHS completed the major upgrade of its core financial system in December 2015 and, as part of the upgrade, transitioned three key financial management systems – UFMS, FBIS, and CFRS – to a Federal Risk and Authorization Management Program certified cloud service provider. This year, HIGLAS was successfully migrated to a new, *Federal Information Security Management Act* High certified operating environment – completing the migration in just 7 months and processing over \$2 billion in claims on the first day following go-live. With the financial system stabilized on the upgraded platform, particular focus was given in FY 2017 to strengthening the system security and control environment. This included implementing encryption and compression in key systems to secure data-at-rest, improve performance, and reduce the overall storage footprint; completing a major UFMS security redesign to resolve long-standing control weaknesses; and enabling single sign-on across multiple systems to meet federal requirements and enhance overall security posture. Maturing the financial system infrastructure, applications, and security controls has provided HHS with a strong foundation. Current FSIP projects – such as the recent completion of a business case for a Department-wide electronic invoicing solution – build on this foundation, improving business functionality, and enhancing the effectiveness and efficiency of the Department’s financial management capabilities.

### Business Intelligence and Analytics

- *Strategy:* Leveraging the FBIS platform, HHS is expanding the use of business intelligence and analytics across the Department to establish an information-driven financial management environment in which stakeholders at all levels have access to timely and accurate information required for measuring performance, increasing transparency, and enhancing decision-making. This will allow the Department to more effectively and sustainably meet evolving information demands for fiscal accountability, performance improvement, and external compliance requirements.
- *Progress:* Since first deployed in FY 2012, FBIS has been providing operational and business intelligence to users across the HHS financial management community. FBIS offers accurate, consistent, near real-time data from UFMS and NBS (together comprising five of HHS’s six accounting centers) and summary data from HIGLAS, supporting over 2,100 users across the Department. Key accomplishments in FY 2017 include: integration of NBS transaction-level data and development of reconciliation dashboards prioritized by the NIH Office of Financial Management, as well as development of new global dashboards and reports that enable more efficient budget execution and tracking/closeout of unliquidated obligations. As FBIS continues to expand to include new users and business domains, HHS is also focused



on optimizing the underlying solution architecture to improve performance and take full advantage of the cutting-edge capabilities of the FBIS commercial cloud hosting environment.

### Systems Policy, Security, and Controls

- *Strategy:* The reliability, availability, and security of HHS's financial systems are of paramount importance. HHS has placed a high-priority on enhancing its financial systems security and controls environment, strengthening policy, proactively monitoring emerging issues, and ensuring progress toward remediating the Department's information technology (IT) material weakness. HHS has implemented a comprehensive, enterprise-wide financial systems policy, security, and controls program to mature and decrease risk across the environment.
- *Progress:* HHS addresses the Department's IT material weakness by analyzing internal and external audit findings, identifying root causes, and implementing solutions collaboratively. Persistent weaknesses are being addressed, with 86 percent of Federal Information System Controls Audit Manual (FISCAM) findings identified prior to FY 2014 not being reissued by the independent auditor. Targeted efforts are continuing to further reduce risk across the financial management systems portfolio, as the annual closure rate of findings in high-risk control areas (access controls, configuration management, and segregation of duties) has increased over 45 percent from FY 2013 to FY 2016. Initiatives in FY 2017 have significantly matured the Department-wide security and control environment, with system owners having completed corrective actions for 97 percent of FISCAM weaknesses identified through prior year's audit. Beyond simply tracking closure of individual weaknesses to assess progress, HHS also developed a comprehensive management framework – including evaluation criteria and target measurements – to better inform HHS leadership and other stakeholders of overall progress made, the current maturity level of the security and control environment, and the associated level of risk. The FY 2017 Assessment highlights HHS's demonstrated year-over-year progress since FY 2015 in remediating control deficiencies, institutionalizing governance and oversight, and strengthening the IT controls environment – providing management a holistic view of HHS's security and control posture, as well as aggregated data to substantiate assurances.

To lead and sustain these efforts, the Financial Management Governance Board (FGB) chartered the IT Material Weakness Working Group (MWWG), with members from OpDiv CFO, Chief Information Officer (CIO), and Chief Information Security Officer communities. The IT MWWG has met monthly since FY 2015 and is executing against its planned roadmap to address pervasive issues, recommend comprehensive remediation approaches, and monitor implementation progress. Working on two fronts – coordinating responsive efforts to address current audit findings as well as proactive efforts to mature the security and controls environment going forward – HHS is managing a portfolio of projects to address and minimize vulnerabilities and risks related to data and system security, access management, configuration management, and segregation of duties.

### Governance

- *Strategy:* In November 2013, the Department established the FGB as an executive-level forum to address enterprise-wide issues, including those related to financial management policies and procedures, financial data, and technology. The FGB's goals include establishing HHS financial management governance; providing people, processes, and technology to support governance; engaging stakeholders through effective communication and management strategies; and supporting project alignment with federal and HHS mandates and priorities.
- *Progress:* The FGB has convened monthly and facilitated executive-level oversight of financial management-related areas. Its role and impact continue to grow since its inception 4 years ago. It promotes collaboration among stakeholders from the different disciplines within the financial



management community by engaging senior leadership from HHS OpDivs and StaffDivs and across functions such as finance, budget, grants, human resources, and IT. The FGB has effectively transformed the way in which financial management initiatives and activities are accomplished in HHS, moving from a Division-specific, vertical focus to a more enterprise-wide approach to solving problems and implementing standards for financial management excellence. Beyond improving collaboration and strengthening oversight across HHS's financial management and systems environment, the FGB serves as an advisory body, providing actionable recommendations to support project teams and guide future initiatives. Recent areas of focus have included risk and change management for the financial systems modernization effort, as well as forward-looking discussions on key topics – for example, shared services and financial transparency – that will inform strategic planning and enable the HHS financial management community to effectively address evolving opportunities and challenges.

### **Program Management**

- *Strategy:* To support FSIP and FBIP, HHS established a Department-wide program management framework to facilitate effective implementation of projects and to enhance collaboration across project teams. This includes the Financial Systems Consortium: a body of federal project managers, contractors, and federal contracting officers representing NBS, UFMS, and HIGLAS, that fosters communication and implementation of program and project management best practices.
- *Progress:* Department-wide program management and the Financial Systems Consortium played critical roles in coordinating both the successful upgrade of the HHS core financial system and subsequent financial systems modernization projects. Within this framework, project teams are able to share industry best practices, lessons learned, and risks identified, while minimizing overall costs. This includes sharing solutions across system teams to streamline implementation, as well as coordinating vendor support to resolve software issues. Effective program management has reduced duplication of effort and costs by identifying potential sharing opportunities and improvements. Though developed initially to facilitate the major financial systems upgrade, both the Enterprise Program Management Office and the Financial Systems Consortium continue to exist as forums to support on-going collaboration and coordination across the financial systems environment and modernization initiatives.

### **Sharing Opportunities**

- *Strategy:* As a key FSIP component, HHS is actively pursuing multiple initiatives to generate efficiencies and improve effectiveness through implementing shared solutions. The Department has also established a framework for continuously identifying sharing opportunities in its financial systems environment.
- *Progress:* Examples of sharing opportunities pursued to date include transitioning key financial systems to a cloud service provider; the use of shared acquisition contracts and streamlining of system operations and maintenance contracts; the implementation of a Department-wide Accounting Treatment Manual; consolidation of three legacy managerial reporting systems into FBIS; and sharing solutions across the HHS financial community. Currently, the HHS finance, acquisition, and IT communities are collaboratively pursuing a Department-wide solution for electronic invoicing, supporting compliance with OMB direction as well as specific business needs identified across HHS. The FGB continues to assess future sharing opportunities across the enterprise to further align with financial management and system policies, business processes and operations, and the overall financial system vision and architecture.



## Legal Compliance

### ***Anti-Deficiency Act***

The *Anti-Deficiency Act* (ADA) prohibits federal employees from obligating in excess of an appropriation, or before funds are available, or from accepting voluntary services. As required by the ADA, HHS notifies all appropriate authorities of any ADA violations. ADA reports can be found on [GAO - ADA](#).

HHS management is taking necessary steps to prevent violations. On August 1, 2016, the Director of OMB approved HHS's updated Administrative Control of Funds policy, as required by United States Code, Title 31, *Money and Finance*, Section 1514, "Administrative Division of Apportionments." This policy provides HHS's guidelines to follow in budget execution and to specify basic fund control principles and concepts, including the administrative control of all funds for HHS and its OpDivs, StaffDivs, and Accounting Centers. With respect to two possible issues, we are working through investigations and further assessment where necessary. We remain fully committed to resolving these matters appropriately and complying with all aspects of the law.

### ***Improper Payments Information Act of 2002, Improper Payments Elimination and Recovery Act of 2010, and Improper Payments Elimination and Recovery Improvement Act of 2012***

An improper payment occurs when a payment should not have been made, federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, the recipient uses the funds in an improper manner, or documentation is not available to verify the appropriateness of the payment. The *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), requires federal agencies to review their programs and activities to identify programs that may be susceptible to significant improper payments, test for improper payments in high risk programs, and develop and implement corrective action plans for high risk programs. HHS works to better detect and prevent improper payments through close review of our programs and activities using sound risk models, statistical estimates, and internal controls.

HHS has shown tremendous leadership in the improper payments arena. HHS has a robust improper payments estimation and reporting process that has been in place for many years, and has taken many corrective actions to prevent and reduce improper payments in our programs. In compliance with the IPIA as amended, HHS completed 24 improper payment risk assessments in FY 2017 (representing risk assessments of programs and charge cards), and determined that these programs were not susceptible to significant improper payments. In addition, HHS is publishing improper payment estimates and associated information for nine high risk programs in this year's AFR, of which six programs reported lower improper payment rates in FY 2017 compared to FY 2016. Lastly, HHS also utilizes the Do Not Pay portal to check payments and awardees to identify potential improper payments or ineligible recipients. In FY 2017, HHS screened more than \$419 billion in Treasury-disbursed payments through the Do Not Pay portal; HHS identified no improper payments. A detailed report of HHS's improper payment activities and performance is presented in the "Other Information" section of this AFR, under "Payment Integrity Report."

### ***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) established Health Insurance Exchanges through which qualified individuals and qualified employers can purchase health insurance coverage. Many individuals who enroll in Qualified Health Plans (QHPs) through individual market Exchanges are eligible to receive a premium tax credit (PTC) to reduce their costs for health insurance premiums. PTCs can be paid in advance directly to the consumer's QHP insurer. Consumers then claim the PTC on their federal tax returns, reconciling the credit allowed with any advance payments made throughout the tax year. HHS coordinates closely with the Internal Revenue Service on this process.

The PPACA also included provisions that address fraud and abuse in health care by toughening the sentences for perpetrators of fraud, employing enhanced screening procedures, and enhancing the monitoring of



providers. These authorities have facilitated the government's efforts to reduce improper payments. For detailed information on improper payment efforts, see "Section 3, Payment Integrity Report."

### ***Digital Accountability and Transparency Act of 2014***

The *Digital Accountability and Transparency Act of 2014* (DATA Act) expands the *Federal Funding Accountability and Transparency Act of 2006* (FFATA) to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the federal government to use governmentwide data standards for developing and publishing reports, and to make more information, including award-related data, available on [USAspending.gov](https://USAspending.gov). Among other goals, the DATA Act aims to improve the quality of the information on [USAspending.gov](https://USAspending.gov), as verified through regular reviews of posted data, and to streamline and simplify reporting requirements through clear data standards. Additionally, the DATA Act accelerated the referral of delinquent debt owed to the federal government to the Treasury's Offset Program after 120 days of delinquency.

Since 2014, HHS has played an integral role in the iterative development of data requirements and policy, utilizing internal and governmentwide working groups to analyze and provide feedback to the Treasury. HHS provided feedback on policy guidance through formal OMB policy review periods and by actively participating in various forums such as OMB Office Hours, Senior Accountable Official calls, and DATA Act Tech Thursdays. These forums help shape the evolution of the governmentwide DATA Act implementation and enhance existing FFATA reporting by providing a platform in which federal agencies collaborate and share information. HHS also collaborated extensively within the Interagency Advisory Committee, which represents the federal communities impacted by the DATA Act, to provide substantive community-specific and cross-cutting feedback to OMB and Treasury in support of governmentwide standardization and related policy considerations.

To support the initial DATA Act reporting requirements for May 2017, HHS established solution teams aligned with the Financial Management, Financial Assistance, Acquisition and Budget business lines that are operationally responsible for generating and validating submissions to ensure transparency, consistency, and compliance. HHS also established working groups to target specific challenges such as Award ID linkage, Aggregated Data, and Activity Address Code. The HHS DATA Act Program Management Office (DAP) continued work with these solution teams and working groups to coordinate overall activities and track progress towards completing key HHS milestones. These efforts enabled HHS to compile data consistent with submission requirements and to iteratively test this data using the DATA Act Information Model Schema available on its new [USAspending.gov \(Beta\)](https://USAspending.gov)<sup>1</sup> to support initial compliance with the DATA Act. Finally, HHS executed the implementation strategy by leveraging existing processes for data validation, error handling, and internal controls in order to effectively identify and address data discrepancies in a timely manner and build the certification process for DATA Act reporting in May 2017. This enabled HHS to successfully complete the initial submission and certification in April 2017 for second quarter FY 2017 data as well as subsequent reporting in August 2017 for third quarter data.

The DATA Act aims to standardize data and make it more transparent to the public by requiring the federal government to establish governmentwide data standards and publish all appropriate federal spending data so that it is accessible, searchable, and reliable. The information is now available, to the public for searching and extracting spending data across the government. Previously, data had been published over contract and grant awards, now users have access to a broader scope of information that includes funding and financing, program-level spending, and links to supplemental data sources such as vendor data. The new website provides graphics that interactively display funds available, program size, recipient distribution, and much more. For further details on how to explore the data, see [USAspending.gov \(Beta\)](https://USAspending.gov)<sup>1</sup>.

---

<sup>1</sup> At the time of this AFR's publication, data on the new USAspending site was accessible for the public's interaction and viewing; however, the site was formally still in "beta" phase. There are plans to transfer the pre-2017 data on the existing USAspending site once the new (beta) USAspending site is fully functional.



Section 5 of the DATA Act calls for a Grants Pilot to help form recommendations to Congress on methods for (1) standardized reporting; (2) elimination of duplication; and (3) reduction of compliance costs. The Grants Pilot was divided into a Grants portion led by HHS and a Contracts portion led by OMB/Office of Federal Procurement Policy. Since May 2015, HHS worked in partnership with OMB, as its executing agent for the Grants Section 5 Pilot, to develop and execute pilot test models that focus on finding ways to promote government efficiency and improve the public's experience throughout the grants lifecycle. Test Models include the [Common Data Element Repository Library](#), [Consolidated Federal Financial Reporting](#), [Single Audit](#), [Notice of Award - Proof of Concept](#), and [Learn Grants](#). DAP used these existing tools, forms, and/or processes to collaborate with stakeholders in ascertaining where grant recipient burden could be reduced.

HHS engaged the public in this area collecting data through May 2017. The test model results collected by HHS between May 2016 and May 2017 were summarized in OMB's report to Congress for legislative action including, but not limited to, consolidating/automating aspects of the federal financial reporting process, simplifying reporting requirements for federal awards, and improving financial transparency. As a result of its efforts, HHS was able to provide OMB with six actionable recommendations based on the areas covered under the Grants portion of this Pilot.

These separately run Pilots culminated in a final report to Congress outlining three overarching recommendations that were based on common themes recognized independently within both the Grants and Contracts pilots. The [Report to Congress: DATA Act Pilot Program](#) was submitted to Congress in August of 2017.

#### ***Federal Information Technology Acquisition Reform Act***

The *Federal Information Technology Acquisition Reform Act* (FITARA), enacted on December 19, 2014, established an enterprise-wide approach to federal IT investments and provides the CIO of CFO Act agencies with greater authority over IT investments, including authoritative oversight of IT budgets and budget execution, and IT-related personnel practices and decisions.

As part of OMB's approval of HHS's FITARA Implementation Plan, one of the four conditions was for HHS to publicly post a revised HHS IT Governance Framework. In the fall of 2016, HHS revised its IT Governance Framework, which establishes the Department's approach for overseeing and managing IT. The HHS CIO completed all 39 elements and actions from the HHS FITARA Implementation Plan. The HHS CIO issued 10 delegations of authority to the HHS OpDiv CIOs, conducted annual reviews of all IT budgets, and reviewed all major IT acquisitions. In addition, the CIO made progress on the Data Center Optimization Initiative Strategic Plan, enhanced transparency and IT risk management processes, and initiated a Department-wide effort focused on software license management. FITARA implementation has strengthened relationships with the OpDivs as well as the CFO, Chief Human Capital Officer, and the Chief Acquisition Officer.

HHS developed a FITARA Dashboard based on legislative metrics, and will further engage the OpDivs in identifying additional metrics to demonstrate HHS's progress in FITARA. In FY 2018, HHS will focus on improving the metrics for CIO authority enhancements, transparency and risk management, portfolio review, data center optimization, and the software license management. For more information on HHS's progress with implementing FITARA requirements, please visit [Digital Strategy at HHS](#).

#### ***Fraud Reduction and Data Analytics Act of 2015***

The Department has engaged in various fraud reduction efforts, including activities to meet the requirements under the *Fraud Reduction and Data Analytics Act of 2015* (FRDAA), which was enacted in June 2016. In FY 2017, HHS participated with OMB and other agencies in the working group required by FRDAA. As part of this working group, OMB submitted an implementation plan to Congress in May 2017 for an interagency library of data



analytics and data sets as required by the law. HHS will also continue working with OMB and other agencies to implement the FRDAA by participating in the OMB-led inter-agency working group.

In addition to the OMB-led efforts to implement the FRDAA, HHS also has other activities underway to meet the intent of the new law. First, in accordance with the law and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, HHS's internal control assessments include the consideration of fraud and financial management risks, as well as the control activities designed to mitigate these risks. Second, HHS is reviewing and updating its financial policies, as needed, which will help to address the law's requirements. Third, HHS continues to take steps to implement leading practices in fraud risk management, per the Government Accountability Office's (GAO) *Fraud Risk Management Framework and Selected Leading Practices* published in July 2015. As recommended by GAO, HHS is assessing the federally facilitated exchange's fraud risk, leveraging GAO's fraud risk framework to identify and prioritize key areas of potential risk. When this assessment is complete, HHS will apply the lessons learned in assessing this program to fraud risk assessments of other programs.

### ***Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996***

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires federal agencies to annually evaluate and assert on the effectiveness and efficiency of their internal control and financial management systems. Agency heads must annually provide a statement on whether there is reasonable assurance that the agency's internal controls are achieving their intended objectives and the agency's financial management systems conform to governmentwide requirements. Section 2 of FMFIA outlines compliance with internal control requirements, while Section 4 dictates conformance with systems requirements. Additionally, agencies must report any identified material weaknesses and provide a plan and schedule for correcting the weaknesses.

In September 2014, GAO released an updated edition of its *Standards of Internal Control in the Federal Government*, effective FY 2016. The document takes a principles-based approach to internal control, with a balanced focus over operations, reporting, and compliance. In July 2016, OMB released revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The new Circular complements GAO's *Standards*, and it implements requirements of the FMFIA with the intent to improve accountability in federal programs and increase federal agencies' consideration of Enterprise Risk Management. The Department with its OpDiv and StaffDiv stakeholders are working together to implement the new requirements.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires federal agency heads to assess the conformance of their financial management information systems to mandated requirements. FFMIA expanded upon FMFIA by requiring that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Guidance for determining compliance with FFMIA is provided in OMB Circular A-123, Appendix D, *Compliance with the FFMIA of 1996*.

HHS is fully focused on the requirements of FMFIA and FFMIA through its internal control program and a Department-wide approach to risk management. Based on thorough ongoing internal assessments and FY 2017 audit findings, HHS provides reasonable assurance that controls are operating effectively. For further information, see the "Management Assurances" section. We are actively engaged with our OpDivs to correct the identified material weaknesses through a corrective action process focused on addressing the true root cause of deficiencies, and supported by active management oversight. More information on the Department's internal control efforts and the HHS Statement of Assurance follows.



## Internal Control

FMFIA requires agency heads to annually evaluate and report on the internal control and financial systems that protect the integrity of federal programs. This evaluation aims to provide reasonable assurance that internal controls are achieving the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The safeguarding of assets is a subset of these objectives. HHS performs rigorous, risk-based evaluations of its internal controls in compliance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

HHS management is directly responsible for establishing and maintaining effective internal controls in their respective areas of responsibility. As part of this responsibility, management regularly evaluates internal control and HHS executive leadership provides annual assurance statements reporting on the effectiveness of controls at meeting objectives. The HHS Risk Management and Financial Oversight Board evaluates the OpDivs' management assurances and recommends a Department assurance for the Secretary's consideration and approval, resulting in the Secretary's annual Statement of Assurance.

HHS aims to strengthen its internal control assessment and reporting process to more effectively identify key risks, develop effective risk responses, and implement timely corrective actions. The HHS FY 2017 OMB Circular A-123 assessment recognizes one material noncompliance with IPIA regarding Error Rate Measurement and one material noncompliance with the *Social Security Act* related to the Medicare appeals process. Beginning in FY 2015, HHS implemented a comprehensive strategy to strengthen the HHS Financial Systems Controls Environment and address the IT material weakness. Since then, significant progress has been made in resolving audit findings, reducing risk across the operating environment, and maturing the security and controls posture of HHS's financial systems. As part of the strategy, HHS established a Management Assessment Framework that defines the conditions and criteria to evaluate the severity of control deficiencies found in Information System Controls and Security in HHS's financial systems. Evaluation criteria include four key components: (1) Leadership Commitment and Sustained Governance; (2) Reduced Risk through Corrective Actions; (3) Demonstrated Measurable Remediation Progress; and (4) Mature Controls Environment. While control deficiencies still exist across several HHS FISCAM systems, our evaluation based on the HHS Management Assessment Framework demonstrates that these deficiencies, in aggregate, no longer rise to the level of a "material weakness" under OMB Circular A-123, as of September 30, 2017.

Maintaining integrity and accountability in all programs and operations is critical to HHS's mission and demonstrates responsible stewardship over assets and resources. It also promotes responsible leadership, ensures the effective delivery of high quality services to the American people, and maximizes desired program outcomes.



## MANAGEMENT ASSURANCES

### Statement of Assurance



#### DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of the Secretary  
Washington, DC 20201

The Department of Health and Human Services' (HHS or the Department) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). These objectives are to ensure (1) effective and efficient operations; (2) reliable financial reporting; and (3) compliance with applicable laws and regulations. The safeguarding of assets is a subset of these objectives.

HHS conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017, with the exception of two material noncompliances: one involving noncompliance with the *Improper Payments Information Act* (IPIA) related to Error Rate Measurement, and the second involving noncompliance with the *Social Security Act* related to the Medicare appeals process.

HHS is taking steps to address the material noncompliance related to the Medicare appeals process, as described in the "Corrective Action Plans for Material Weaknesses" section. Remediation for the material noncompliance related to Error Rate Measurement relies on a modification to legislation to require states to participate in an improper payment rate measurement.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that substantially comply with federal financial management system requirements, federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. HHS conducted its evaluation of financial management systems for compliance with FFMIA in accordance with OMB Circular A-123, Appendix D. Based on the results of this assessment, HHS provides reasonable assurance that its overall financial management systems substantially comply with the FFMIA and substantially conform to the objectives of FMFIA, Section 4.

HHS will continue to ensure accountability and transparency over the management of taxpayer dollars, and strive for the continuing progress and enhancement of its internal control and financial management programs.

/Eric D. Hargan/

Eric D. Hargan  
Acting Secretary  
November 14, 2017



## Summary of Material Weaknesses

### 1. Error Rate Measurement

HHS reports a statutory limitation relating to the Temporary Assistance for Needy Families (TANF) program that results in a material noncompliance with IPIA. The TANF program is not reporting an error rate for FY 2017, as required by IPIA, because statutory limitations currently preclude HHS from requiring states to provide information needed for determining a TANF improper payment measurement.

### 2. Medicare Appeals Process

Several factors, including the growth in Medicare claims and HHS's continued investment and focus on ensuring program integrity, have led to more appeals than Levels 3 and 4 of the Medicare appeals process can adjudicate within the timeframes required by the *Social Security Act*.

From FY 2010 through FY 2016 (most recent complete year data available), the HHS Office of Medicare Hearings and Appeals (OMHA) experienced an overall 315 percent increase in the number of Level 3 appeals received annually. During the same timeframe, the HHS Departmental Appeals Board (DAB) experienced an overall 405 percent increase in the number of Level 4 appeals it received annually. However, while the volume of appeals has increased dramatically, funding has remained comparatively stagnant for the relevant OMHA and DAB operations. As a result, at the end of FY 2017, approximately 532,000 appeals were waiting to be adjudicated by OMHA and over 29,000 appeals were waiting to be reviewed at the DAB Medicare Appeals Council. This has led to the inability to meet statutory decisional timeframes of 90 days at Levels 3 and 4 of the Medicare appeals process.

## Corrective Action Plans for Material Weaknesses

### 1. Error Rate Measurement

Current statutory limitations restrict corrective actions HHS can take to develop an error rate for TANF. HHS plans to work with Congress to consider statutory modifications that would allow for greater accountability, including a reliable error rate measurement if appropriate when legislation is considered to reauthorize TANF.

### 2. Medicare Appeals Process

HHS has a strategy to improve the Medicare Appeals process by investing new resources at all levels of appeal to increase adjudication capacity and implement new strategies to alleviate the current backlog; taking administrative actions to reduce the number of pending appeals and encourage resolution of cases earlier in the process; and proposing legislative reforms that provide additional funding and new authorities to address the appeals volume.

HHS has undertaken, and continues to explore new administrative actions expected to have a favorable impact on the Medicare Appeals Backlog. Under current resources and continuing ongoing administrative actions (and without receiving any additional appeals), it would take 7 years for OMHA and 12 years for the DAB Medicare Appeals Council to process their respective backlogs. The *FY 2018 President's Budget* request includes a comprehensive legislative package aimed at both helping the Department process a greater number of appeals and reducing the number of appeals that reach OMHA. It also provides additional funding for the Medicare Appeals process, along with new authorities that will help resolve the backlog. With both funding and authorities in place, HHS projects that the backlog will be resolved at some point after FY 2021 at the earliest.



## FINANCIAL SUMMARY AND HIGHLIGHTS

HHS received an unmodified audit opinion on the principal financial statements and notes<sup>2</sup> for the year ending September 30, 2017. This is the 18<sup>th</sup> year for an unmodified opinion. HHS takes pride in the preparation of the financial statements, yet it can sometimes be difficult to draw the relationships between the information in the statements and the overall performance of an agency. This section is presented as an interpretation of the principal financial statements, which include the Consolidated Balance Sheets, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, Statement of Social Insurance, and the Statement of Changes in Social Insurance Amounts, as well as selected notes to the principal financial statements. HHS presents these in the “Financial Section” of this report. Included in this analysis is a year-over-year summary of key financial balances, nature of significant changes, and highlights of key financial events to assist readers in establishing the relevance of the financial statements to the operations of HHS.

As a federal entity, HHS’s financial position and activities are significant to the government-wide statements. Based on the *FY 2016 Financial Report of the United States Government*, HHS’s net operating cost was larger than any single agency across the entire federal government<sup>3</sup>. A similar relationship exists within HHS, where the Department is significantly represented by one OpDiv, this is CMS. CMS alone consistently stewards the largest share of HHS’s resources. Therefore, noteworthy changes in HHS balances are primarily related to fluctuations in CMS program activity.

### Balance Sheets

To communicate performance for HHS at fiscal year-end, the Consolidated Balance Sheets show the resources available to HHS (Assets) and claims against those assets (Liabilities). The remainder represents the equity retained by HHS (Net Position). The table below summarizes the major components of the FY 2017 and FY 2016 year-end balances of HHS’s assets available for use, the liabilities owed by HHS, and the equity retained by HHS.

Financial Condition Summary (in Billions)				
	2017	2016	\$ Change (2017-2016)	% Change (2017-2016)
Fund Balance with Treasury	\$ 209.8	\$ 237.8	\$ (28.0)	(12)%
Investments, Net	275.5	262.1	13.4	5%
Accounts Receivable	34.0	25.2	8.8	35%
Advances	31.1	21.7	9.4	43%
Other Assets	16.4	15.9	0.5	3%
<b>Total Assets</b>	<b>\$ 566.8</b>	<b>\$ 562.7</b>	<b>\$ 4.1</b>	<b>1%</b>
Accounts Payable	\$ 1.3	\$ 1.3	\$ 0.0	0%
Entitlement Benefits Due and Payable	108.3	108.2	0.1	0%*
Accrued Liabilities	11.9	14.4	(2.5)	(17)%
Federal Employee and Veterans' Benefits	13.5	12.9	0.6	5%
Other Liabilities	28.9	24.5	4.4	18%
<b>Total Liabilities</b>	<b>\$ 163.9</b>	<b>\$ 161.3</b>	<b>\$ 2.6</b>	<b>2%</b>
<b>Net Position</b>	<b>\$ 402.9</b>	<b>\$ 401.4</b>	<b>\$ 1.5</b>	<b>0%*</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 566.8</b>	<b>\$ 562.7</b>	<b>\$ 4.1</b>	<b>1%</b>

\*Change is less than one percent



<sup>2</sup> Due to the uncertainty of the long-range assumptions used in the Statement of Social Insurance model, the auditors were not able to express an opinion on the Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and associated footnotes.

<sup>3</sup> HHS’s net cost is 24 percent of the federal government’s total costs, the Social Security Administration’s net costs is 22 percent, Department of Veterans Affairs’s net cost is 15 percent, Department of Defense’s net cost is 14 percent, and Treasury’s Interest on Treasury Security Held by the Public’s net cost is 6 percent. All remaining agencies combined only represent 18 percent. Source: [FY 2016 Financial Report of the United States Government](#)



**Assets**

The total Assets for HHS were \$566.8 billion at year-end, representing the value of what HHS owns and manages. This is an increase of approximately \$4.1 billion or 1 percent over September 30, 2016.

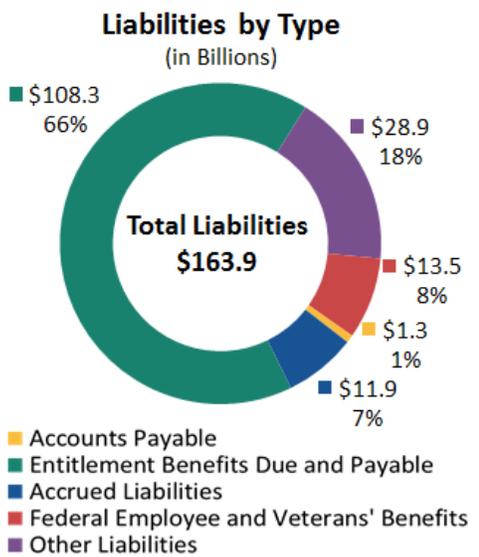
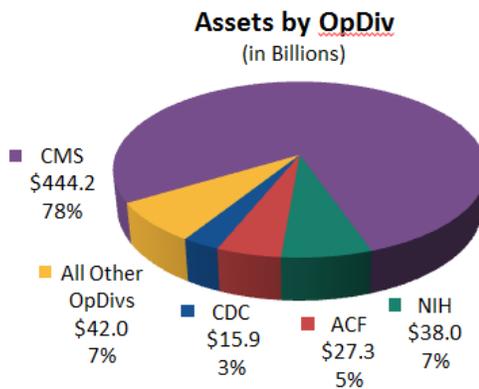
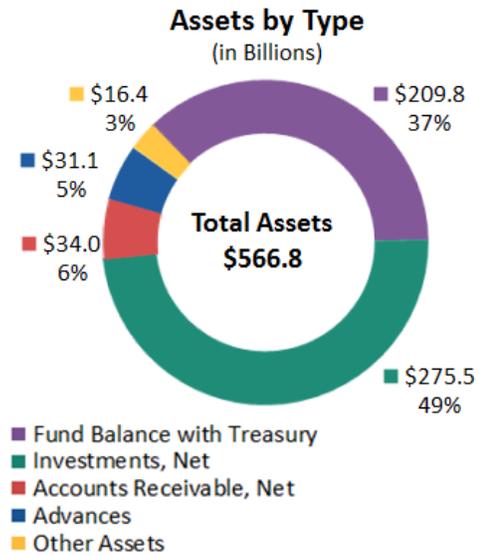
The Fund Balance with Treasury (FBwT) line contains the largest net change between FY 2017 and FY 2016 with a \$28.0 billion or 12 percent decrease. This primarily consists of a \$24.3 billion decrease for the Supplemental Medical Insurance (SMI) due to increased return of cancelled and indefinite authority of \$19.8 billion.

Investments, Net and FBwT comprise \$485.3 billion or 86 percent of HHS’s total assets, which is a 3 percent decrease. The FBwT decrease mentioned above was offset by increases in the remaining asset categories. Investments had an increase of \$13.4 billion mostly due to CMS increases in Medicare Hospital Insurance (HI) of \$7.3 billion and SMI of \$5.6 billion.

The HHS “Assets by OpDiv” chart demonstrates asset distribution within HHS, excluding eliminations. The OpDiv asset balances ranged from \$337.4 million at AHRQ (shown in All Other OpDivs) to \$444.2 billion at CMS. ACF had one of the largest percentage and dollar value asset increases at \$2.9 billion or 12 percent over FY 2016 mostly due to an expansion of the TANF program and additional resources provided to Foster Care, Children and Family Services, and Child Support Enforcement.

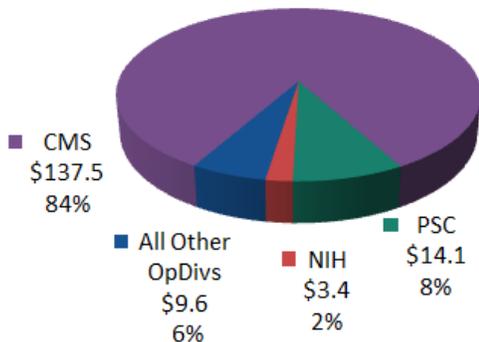
**Liabilities**

The total Liabilities for HHS were \$163.9 billion at year-end, representing the amounts HHS owes from past transactions or events. This represents an increase of \$2.6 billion or 2 percent over September 30, 2016. The increase can be found in the Other Liabilities line, with an increase of \$4.4 billion or 18 percent from FY 2016. This increase is mainly due to Contingencies and Commitments of \$2.4 billion mostly from Medicaid State Plan Amendments, and Other Liabilities of \$2.0 billion mostly due to the *Hold Harmless Provision Act* related to Medicare Part B premium increases. These increases are offset by a decrease of \$2.5 billion in Accrued Liabilities due to CMS no longer recording accruals for the Reinsurance program since the program ended in December 2016.





**Liabilities by OpDiv**  
(in Billions)

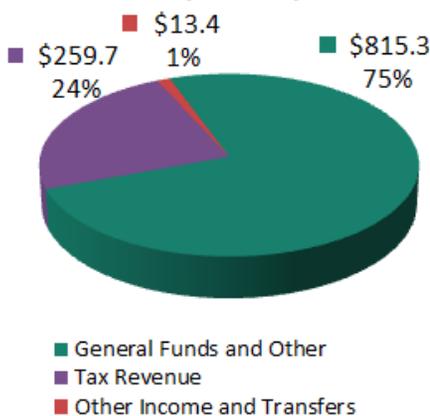


The HHS “Liabilities by OpDiv” chart shows liability distribution within HHS excluding eliminations. The OpDivs with the largest and smallest asset balances are also the OpDivs with the largest and smallest liabilities. With the majority share, CMS reports \$137.5 billion or 84 percent of the HHS liabilities, while AHRQ (shown in All Other OpDivs) has liabilities of \$32.2 million. Other than CMS, PSC had the largest OpDiv dollar value increase in liabilities over FY 2016 of \$724 million. Of which, \$634 million is an increase to the Commissioned Corps pension liability to capture updated estimates based on mid-year and year-end reviews of the pension liability.

**Statement of Changes in Net Position**

The Consolidated Statement of Changes in Net Position displays the activities affecting the difference between the beginning net position and ending net position, as shown on the HHS Consolidated Balance Sheets. This is also represented as the difference between assets and liabilities.

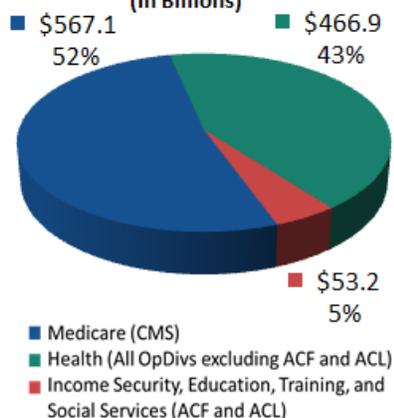
**HHS Gets the Money From...**  
(In Billions)



Changes in assets are shown by breaking out where HHS gets the money from, known as financing sources. Total financing sources include both the Total Financing Sources and Total Budgetary Sources lines from the Statement of Changes in Net Position.

HHS receives the majority of the funding through Congressional appropriations and reimbursement for the provision of goods or services to other federal agencies. HHS’s largest financing source, General Funds and Other, decreased since FY 2016 by \$21.1 billion or 3 percent from \$836.4 billion to \$815.3 billion. Fluctuations in tax revenue collected are due to *Federal Insurance Contributions Act* (FICA) and *Self Employed Contributions Act* (SECA) increases. The increase in tax revenue of \$9.3 billion or 4 percent is comparable to the prior year 5 percent increase in tax revenue.

**HHS Used the Money For...**  
(In Billions)



**Statement of Net Cost**

The Consolidated Statement of Net Cost represents how HHS spent the money. This can also be stated as the difference between the costs incurred by HHS’s programs less associated revenues. The Net Cost of Operations for the year ended September 30, 2017, totaled approximately \$1.1 trillion. The “HHS Used the Money For ...” chart shows consolidating costs by major budget function<sup>4</sup>, which are the categories displayed in the [federal budget](#). Most agencies have one or two budget functions, where HHS has many.

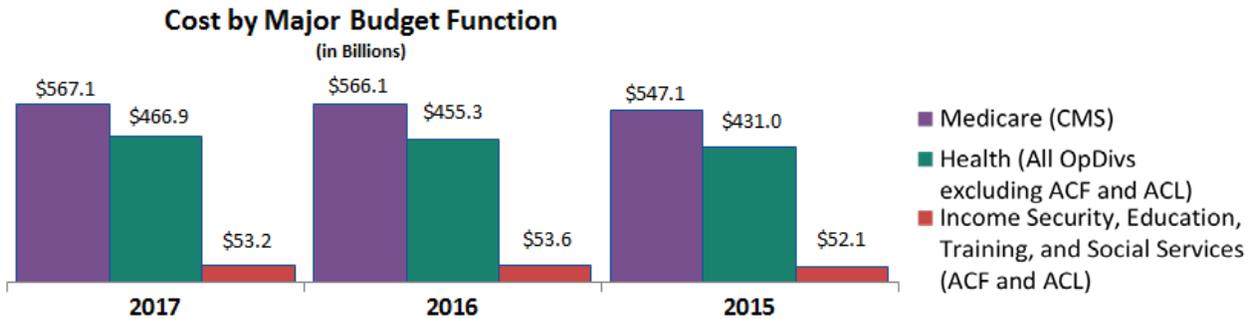
<sup>4</sup> Totals in the chart are exclusive of Intra-HHS Eliminations from the Consolidating Statement of Net Cost by Budget Function. This statement can be found in Section III, Other Information.



The table below presents FY 2017 Consolidated Net Cost of Operations, which HHS breaks out costs into Responsibility Segments between CMS and the remaining OpDivs in Other Segments. Net cost for CMS increased by \$10.8 billion or 1 percent between FY 2017 and FY 2016. The majority of this increase relates to benefit expenses reflecting an expansion of Medicaid with increases of costs approximately totaling \$9.9 billion, as well as benefit expense increases for the Medicare HI of \$9.4 billion. These benefit expenses are offset by SMI premium of \$8.3 billion. There was a nominal increase in total Net Cost of Operations for the remaining HHS segments at \$1.2 billion or 1 percent.

Net Cost of Operations (in Billions)				
	2017	2016	\$ Change (2017-2016)	% Change (2017-2016)
<b>Responsibility Segments:</b>				
CMS Gross Cost	\$ 1,060.8	\$ 1,044.6	\$ 16.2	2%
CMS Exchange Revenue	(97.3)	(91.9)	(5.4)	6%
CMS Net Cost of Operations	\$ 963.5	\$ 952.7	\$ 10.8	1%
<b>Other Segments:</b>				
Other Segments Gross Cost	\$ 128.3	\$ 127.2	\$ 1.1	1%
Other Segments Exchange Revenue	(5.0)	(5.1)	0.1	(2)%
Other Segments Net Cost of Operations	\$ 123.3	\$ 122.1	\$ 1.2	1%
<b>Net Cost of Operations</b>	<b>\$ 1,086.8</b>	<b>\$ 1,074.8</b>	<b>\$ 12.0</b>	<b>1%</b>

HHS classifies costs by major budget function such as Medicare, Health, Income Security, and Education, Training and Social Services. This is shown on the Consolidating Statement of Net Cost by Budget Function in the “Other Information” section of this report. The graph below shows the three-year cost trends for these major budget functions<sup>5</sup>. In FY 2017, total net costs for Medicare of \$567.1 billion and Health of \$466.9 billion account for 95 percent of HHS’s annual net costs.



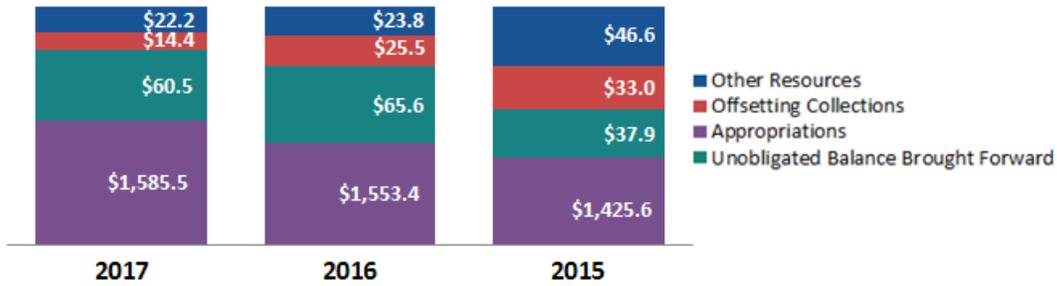
**Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources displays the budgetary resources available to HHS throughout 2017 and 2016, and the status of those resources at the fiscal year-end. The primary components of HHS’s resources, totaling approximately \$1.7 trillion for FY 2017, are appropriations from Congress, resources not yet used from previous years (unobligated balances brought forward), spending authority from offsetting collections, and other budgetary resources. This represents an increase of \$14.3 billion or 1 percent, over FY 2016. The following chart highlights trends in these balances over the past 3 fiscal years.

<sup>5</sup> Totals in the chart are exclusive of Intra-HHS Eliminations from the Consolidating Statement of Net Cost by Budget Function.



**Total Budgetary Resources**  
(in Billions)



The increase in appropriations is primarily related to increases in Medicare Part D of \$16.6 billion, Medicaid of \$9.4 billion, Payments to Trust Funds of \$0.5 billion, and Medicare HI of \$0.4 billion. For further details, see the Combining Statement of Budgetary Resources in the “Financial Section” of this report.

**Schedule of Spending**

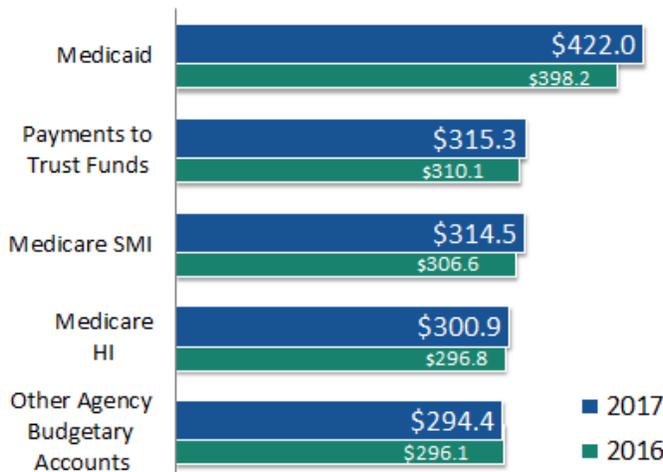
HHS has elected to present the trends in spending in the audited notes to the principal financial statements titled, Combined Schedule of Spending. The chart below illustrates spending as of September 30, 2017 and 2016, for the top four Treasury Account Symbols (TAS). The remaining TAS are presented in Other Agency Budgetary Accounts.

The New Obligations and Upward Adjustments line on the Combined Statement of Budgetary Resources is the same as Total Amounts Agreed to be Spent line on the Combined Schedule of Spending. Total obligations for FY 2017 were approximately \$1.6 trillion or 2 percent increase over FY 2016.

The HHS’s total spending is once again significantly represented by four of CMS’s TAS (Medicaid, Medicare HI, Medicare SMI, and Payments to Trust Funds) at 82 percent of HHS total obligations.

As the American public will soon be able to see more clearly on the [USAspending.gov](http://USAspending.gov) website, the majority of all

**Spending by Treasury Symbol**  
(in Billions)



HHS spending was made through Grants, Subsidies, and Contributions at \$792.8 billion or 48 percent. HHS is the largest grant-making agency in the federal government. Additionally, HHS has incurred obligations for Insurance Claims and Indemnities totaling \$708.0 billion or 43 percent. HHS classifies obligations by items or services provided into categories known as object classes. For more information refer to Note 23, Combined Schedule of Spending.



## Statement of Social Insurance

The Statement of Social Insurance presents the 75-year actuarial present value of the income and expenditures of the HI and SMI Trust Funds. Future expenditures are expected to arise for current and future program participants. This projection is considered to be important information regarding the potential future cost of the program. These projected potential future obligations are not included in the Consolidated Balance Sheets, Statements of Net Cost and Changes in Net Position, or Combined Statement of Budgetary Resources.

Actuarial present values are computed under the intermediate set of assumptions specified in the *2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*.

### Did you know?

86.7 million people are projected to be 65 or older in 2050.



The Statement of Social Insurance presents the following estimates:

- The present value of future income (income excluding interest) to be received from or on behalf of current participants who have attained eligibility age and the future cost of providing benefits to those same individuals;
- The present value of future income to be received from or on behalf of current participants who have not yet attained eligibility age and the future cost of providing benefits to those same individuals;
- The present value of future income less future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the assets in the combined HI and SMI Trust Funds as of the beginning of the valuation period;
- The present value of income to be received from or on behalf of future participants and the cost of providing benefits to those same individuals;
- The present value of future income less future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the Medicare program, plus the assets in the combined HI and SMI Trust Funds as of the beginning of the valuation period; and
- The present value of future cash flows for all current and future participants over the next 75 years (open group measure) increased from \$(3.8) trillion, determined as of January 1, 2016, to \$(3.5) trillion, determined as of January 1, 2017.

Including the combined HI and SMI trust fund assets as of January 1, 2017, the future cash flow for all current and future participants was \$(3.2) trillion for the 75-year valuation period. The comparable closed group of participants, including the combined HI and SMI Trust Fund assets, is \$(10.4) trillion.

## HI TRUST FUND SOLVENCY

### Pay-as-you-go Financing

The HI Trust Fund is deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive trust fund assets. In recent years, current expenditures have exceeded program income for the HI program, and thus, the HI Trust Fund assets have



## FINANCIAL SUMMARY AND HIGHLIGHTS

been declining. The following table shows that HI Trust Fund assets, expressed as a ratio of the assets at the beginning of the fiscal year to the expenditures for the year. This ratio has steadily dropped from 86 percent at the beginning of FY 2013 to 66 percent at the beginning of FY 2017.

Trust Fund Ratio Beginning of Fiscal Year					
	2017	2016	2015	2014	2013
HI	66%	67%	73%	77%	86%

### Short-Term Financing

The HI Trust Fund is deemed adequately financed for the short term when actuarial estimates of trust fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2017 Trustees Report indicate that the HI Trust Fund is not adequately financed over the next 10 years. Under the intermediate assumptions of the 2017 Trustees Report, the HI Trust Fund ratio is estimated to remain at approximately 68 percent through 2021 and to continue decreasing through 2026. From the end of 2016 to the end of 2022, assets are expected to increase, from \$199 billion to \$266 billion, but then decrease to \$179 billion by the end of 2026.

### Long-Term Financing

The short-range outlook for the HI Trust Fund has improved compared to what was projected last year. After 2021, the trust fund ratio starts to decline quickly until the fund is depleted in 2029, one year later than projected last year. HI financing is not projected to be sustainable over the long term with the projected tax rates and expenditure levels. Program cost is expected to exceed total income in all years. When the HI Trust Fund is exhausted, full benefits cannot be paid on a timely basis. The percentage of expenditures covered by tax revenues is projected to decrease from 88 percent in 2029 to 81 percent in 2041 and then to increase to about 88 percent by the end of the projection period.

The primary reasons for the projected long-term inadequacy of financing under current law relate to the fact that the ratio of the number of workers paying taxes relative to the number of beneficiaries eligible for benefits drops from 3.1 in 2016 to about 2.1 by 2091. In addition, health care costs continue to rise faster than the taxable wages used to support the program. In present value terms, the 75-year shortfall is \$3.3 trillion, which is 0.6 percent of taxable payroll and 0.3 percent of Gross Domestic Product (GDP) over the same period.

Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, please refer to the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

## SMI TRUST FUND SOLVENCY

The SMI Trust Fund consists of two accounts – Part B and Part D. In order to evaluate the financial status of the SMI Trust Fund, each account needs to be assessed individually, since financing rates for each part are established separately, and their program benefits are quite different in nature.

While differences between the two accounts exist, the financing mechanism for each part is similar in that the financing is determined on a yearly basis. The Part B account is generally financed by premiums and general revenue matching appropriations determined annually to cover projected program expenditures and to provide a contingency for unexpected program variation. The Part D account is financed by premiums, general revenues,



and transfers from state governments. Unlike the Part B account, the appropriation for Part D general revenues has generally been set such that amounts can be transferred to the Part D account on an as-needed basis; under this process, there is no need to maintain a contingency reserve. In September 2015, a new policy was implemented to transfer amounts from the Treasury into the account five business days before the benefit payments to the plans. This transfer occurred again in February 2016 and has been consistently applied since then. As a result, the Trustees expect the Part D account to include a more substantial balance at the end of most months to reflect the new policy.

Since both the Part B and Part D programs are financed on a yearly basis, from a program perspective, there is no unfunded liability in the short or long-range. Therefore, in this financial statement the present value of estimated future excess of income over expenditures for current and future participants over the next 75 years is \$0. However, from a government wide perspective, general fund transfers as well as interest payments to the Medicare Trust Funds and asset redemption, represent a draw on other federal resources for which there is no earmarked source of revenue from the public. Hence, from a government wide perspective, the corresponding estimate of future income less expenditures for the 75-year projection period is \$(30.0) trillion.

Even though from a program perspective, the unfunded liability is \$0, there is concern over the rapid increase in cost of the SMI program as a percent of GDP. In 2016, SMI expenditures were 2.1 percent of GDP. By 2091, SMI expenditures are projected to grow to 3.7 percent of the GDP.

The following table presents key amounts from CMS’s basic financial statements for fiscal year 2015 through 2017.

**Table of Key Measures<sup>6</sup>**

Table of Key Measures (in Billions)	2017	2016	2015
<b>Net Position (end of fiscal year)</b>			
Assets	\$ 444.2	\$ 446.0	\$ 418.6
Less Total Liabilities	137.5	137.3	129.1
Net Position (assets net of liabilities)	\$ 306.7	\$ 308.7	\$ 289.5
<b>Costs (end of fiscal year)</b>			
Net Costs	\$ 963.3	\$ 953.1	\$ 913.8
Total Financing Sources	984.6	960.1	910.3
Net Change in Cumulative Results of Operations	\$ 21.3	\$ 7.0	\$ (3.5)
<b>Statement of Social Insurance (calendar year basis)</b>			
Present value of estimated future income (excluding interest) less expenditures for current and future participants over the next 75 years (open group), current year valuation	\$ (3,532)	\$ (3,822)	\$ (3,187)
Present value of estimated future income (excluding interest) less expenditures for current and future participants over the next 75 years (open group), prior year valuation	\$ (3,822)	\$ (3,187)	\$ (3,823)
Change in Present Value	\$ 290	\$ (635)	\$ 636

**Statement of Changes in Social Insurance Amounts**

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation period and the prior valuation period) in the present value of future tax income less future cost for current and

<sup>6</sup> The table or other singular presentation showing the measures described above. Although, the closed group measure is not required to be presented in the table or other singular presentation, CMS presents the closed group measure and open group measure.



## FINANCIAL SUMMARY AND HIGHLIGHTS

future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes. In general, an increase in the present value of net cash flow represents a positive change (improving financing), while a decrease in the present value of net cash flow represents a negative change (worsening financing).

The present value as of January 1, 2017, decreased by \$187 billion due to advancing the valuation date by one year and including the additional year 2091, and by \$102 billion due to changes in demographic assumptions. However, changes in projection base, economic and health care assumptions, and legislation changes increased the present value of future cash flows by \$342 billion, \$233 billion, and \$4 billion, respectively.

### Did you know?

#### CMS Program Data - Populations<sup>1</sup>

Medicare (avg monthly)	CY 2015	CY 2016	CY 2017 <sup>2</sup>
Parts A and/or B	55.6	57.1	58.0
Aged	46.7	48.3	49.1
Disabled	8.9	8.9	8.9
Original Medicare Enrollment	37.8	38.4	38.0
MA & Other Health Plan Enrollment	17.8	18.7	20.0
MA Enrollment	16.5	17.6	18.6
Part D (MA PD+PDP)	39.5	41.2	42.5
Medicaid (avg monthly) <sup>3</sup>	FY 2015	FY 2016	FY 2017
Total	68.5	70.9	72.3
Aged	5.5	5.7	5.8
Blind/Disabled	10.5	10.6	10.6
Children	28.0	28.0	28.2
Adults	15.4	15.5	15.7
Expansion Adult	9.1	11.2	12.0
CHIP (avg monthly) <sup>3</sup>	5.9	6.5	6.7

<sup>1</sup> Populations are in millions and may not add due to rounding.

<sup>2</sup> Preliminary and Subject to change

<sup>3</sup> Projected estimates

MA - Medicare Advantage, MA PD - Medicare Advantage Prescription Drug Plan, PDP - Prescription Drug Plan, CHIP - Children's Health

SOURCES: CMS/Office of Enterprise Data & Analytics/Office of the Actuary

#### Medicare Deductibles, Coinsurance, Premiums

	CY 2016	CY 2017
<b>Part A</b>		
Inpatient Hospital Deductible	\$1,288.00	\$1,316.00
Coinsurance/Day	\$322.00	\$329.00
Coinsurance/LTR Day	\$644.00	\$658.00
Coinsurance/SNF Day	\$161.00	\$164.50
<b>Part B</b>		
Deductible	\$166.00	\$183.00
<b>Part D</b>		
Maximum Deductible	\$360.00	\$400.00
Initial Coverage Limit	\$3,310.00	\$3,700.00
Out-of-Pocket Threshold	\$4,850.00	\$4,950.00
<b>Premiums</b>		
Part A	\$411.00	\$413.00
Part B	\$104.90-	\$134.00-
	\$389.80	\$428.60

NOTE: The inpatient hospital deductible applies per benefit period.

LTR - Life Time Reserve  
SNF - Skilled Nursing Facility

SOURCE: CMS/Office of the Actuary



## Required Supplementary Information

As required by Statement of Federal Financial Accounting Standards (SFFAS) Number 17, *Accounting for Social Insurance* (as amended by SFFAS Number 37, *Social Insurance: Additional Requirements for Management Discussion and Analysis and Basic Financial Statements*), HHS has included information about the Medicare trust funds – HI and SMI. The Required Supplementary Information (RSI) presents required long-range cash-flow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The SFFAS 37 does not eliminate or otherwise affect the SFFAS 17 requirements for the supplementary information, except that actuarial projections of annual cash flow in nominal dollars are no longer required; as such, it will not be reported in the RSI. The RSI assesses the sufficiency of future budgetary resources to sustain program services and meet program obligations as they come due. The information is drawn from the *2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, which represents the official government evaluation of the financial and actuarial status of the Medicare Trust Funds.

## Limitation of the Principal Financial Statements

The principal financial statements in the “Financial Section” have been prepared to report HHS’s financial position and results of operations, pursuant to the requirements of 31 U.S.C. §3515(b). Although the statements have been prepared from HHS’s books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control 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 U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing HHS with resources and budget authority.

# Department of Homeland Security

## FY 2017 Agency Financial Report



*With honor and integrity, we will safeguard the American people, our homeland, and our values.*



# Homeland Security

 [We are DHS](#)

# Management's Discussion and Analysis



The **Management's Discussion and Analysis** is required supplementary information to the financial statements and provides a high-level overview of the Department of Homeland Security.

The **Overview** section describes the Department's organization, missions and goals, and overview of our Components.

The **Performance Overview** section provides a summary of each homeland security mission, selected accomplishments, key performance measures, and future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

The **Financial Overview** section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activities.

The **Management Assurances** section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, and the Department of Homeland Security Financial Accountability Act. This section also describes the Department's efforts to address our financial management systems to ensure systems comply with applicable accounting principles, standards, requirements, and with internal control standards.

## Our Organization

The Department of Homeland Security (DHS) has a fundamental duty—to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging and as one team, with one mission—we are one DHS—keeping America safe.

DHS's operational Components lead the Department's frontline activities to protect our Nation (shaded in blue). The remaining DHS Components (shaded in light green) provide resources, analysis, equipment, research, policy development, and support to ensure the frontline organizations have the tools and resources to accomplish the DHS mission. For more information about the Department's structure, visit our website at <http://www.dhs.gov/organization>. For information on each of our Components, click on their respective link to the right of the figure below.



Figure 1: DHS Operational and Support Components

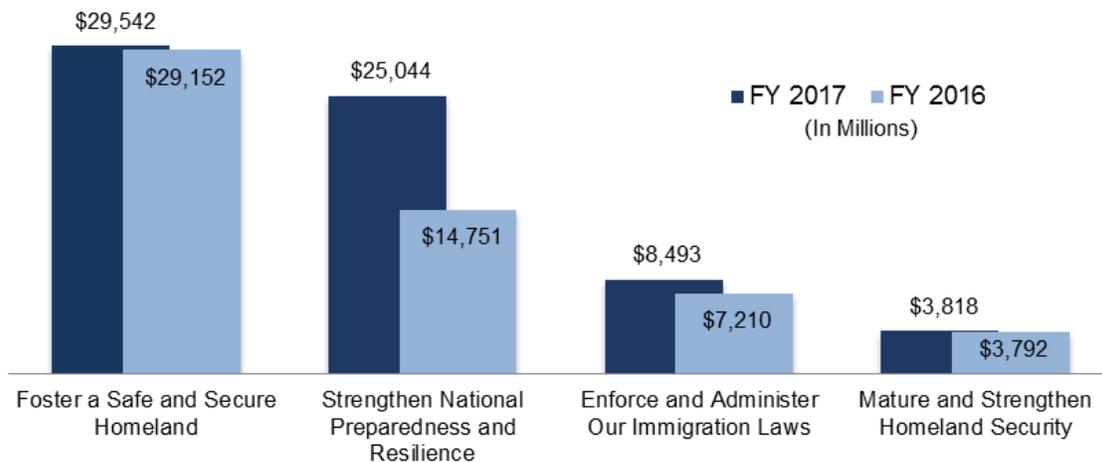
## Strategic Alignment Overview

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values.* The [FY 2014-2018 Strategic Plan](#) further details the Department's missions and focus area, which are grouped into four major missions for better alignment within the Financial Section for the Statement of Net Cost

and related footnotes to allow the reader to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.



**Figure 2: DHS Strategic Plan Alignment for Reporting**



**Figure 3: DHS’s Net Cost of Operations for Each Major Mission Area**

The chart above provides DHS’s Net Cost of Operations for each major mission area. Further information about the Department’s financial position and results of operations is presented in the Financial Overview section. The Performance Overview that follows provides a summary of performance highlights from a subset of the Department’s strategic measures using the structure above.

## Performance Overview

The Performance Overview provides a summary of key performance measures, selected accomplishments, and forward looking initiatives to strengthen the Department’s efforts in achieving a safer and more secure Nation. A complete list of all performance measures and results will be published in the DHS FY 2017-2019 Annual Performance Report with the FY 2019 Congressional Budget and can be accessed at: <http://www.dhs.gov/performance-accountability>.

The Department created a robust performance framework that drives performance management and enables the implementation of performance initiatives. This approach also facilitates the reporting of results within the Department for a comprehensive set of measures aligned to the missions and goals of the Department. The figure below shows the linkage between our strategic plan, the Department’s mission programs, and the measures we use to gauge performance. This approach to measurement ensures that the Department can assess the achievement of our missions as identified in our strategic framework.

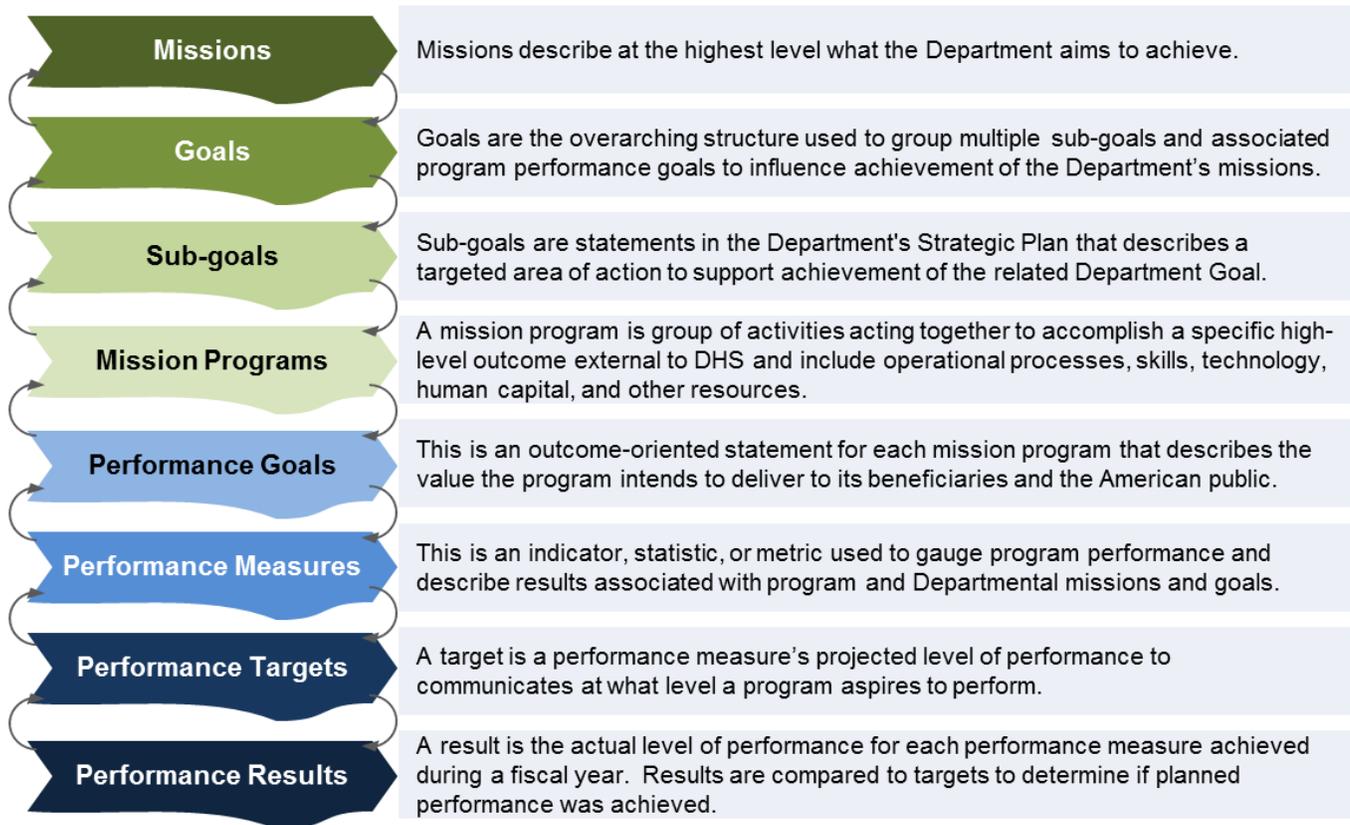


Figure 4: DHS Performance Framework

## Foster a Safe and Secure Homeland

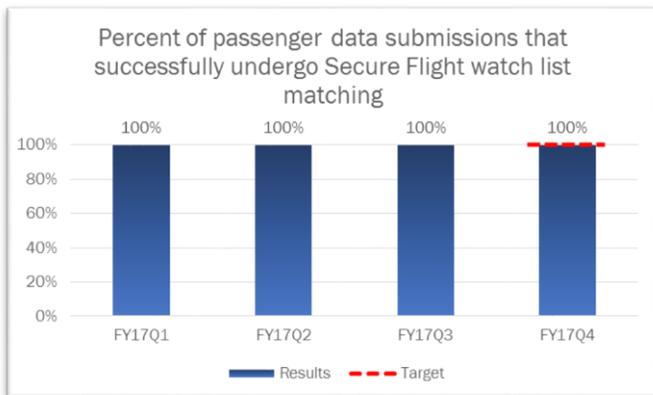
### Mission 1: Prevent Terrorism and Enhance Security

Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity.

Our goals for this mission are:

- Goal 1.1: Prevent Terrorist Attacks;
- Goal 1.2: Prevent and Protect Against the Unauthorized Acquisition or Use of Chemical, Biological, Radiological, and Nuclear Materials and Capabilities; and
- Goal 1.3: Reduce Risk to the Nation’s Critical Infrastructure, Key Leaders, and Events.

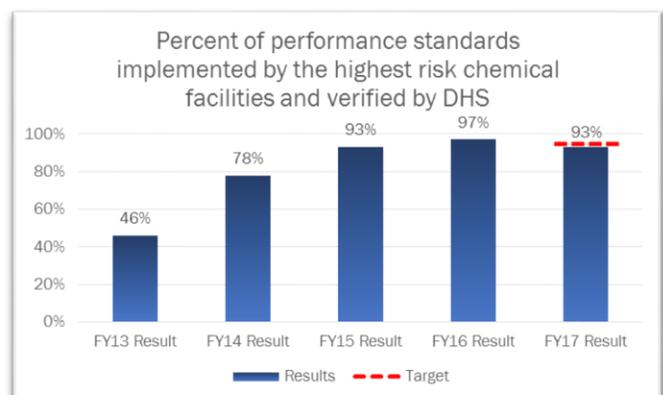
The following highlighted measures gauge our efforts to prevent terrorism and enhance security.



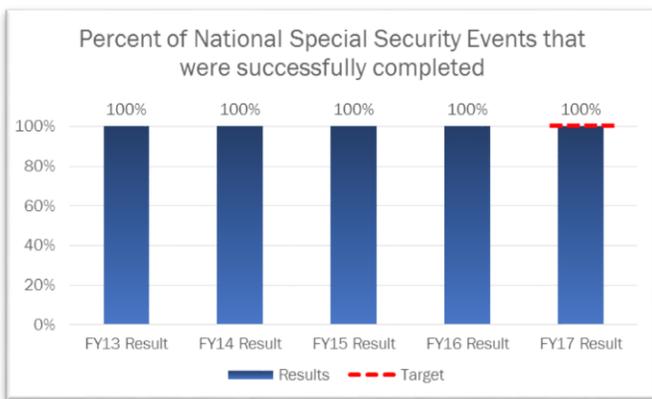
**Percent of passenger data submissions that successfully undergo Secure Flight watch list matching (TSA):** Vetting individual travelers against high-risk watch lists strengthens the security of the transportation system. This measure reports the percent of qualified message submissions received from the airlines that are successfully matched by the Secure Flight automated vetting system against the existing high-risk watch lists. A qualified message submission from the airlines contains passenger data sufficient to allow successful

processing in the Secure Flight automated vetting system. In FY 2017, TSA successfully matched 100 percent of passenger data submissions.

**Percent of performance standards implemented by the highest risk chemical facilities and verified by DHS (NPPD):** The [Chemical Facility Anti-Terrorism Standards](#) (CFATS) program is an important part of our Nation’s counterterrorism efforts as the Department works with our industry stakeholders to keep dangerous chemicals out of the hands of those who wish to do us harm. The CFATS program identifies and regulates high-risk chemical facilities to ensure they have security measures in place to reduce the risks associated with these chemicals. Initially authorized by Congress in 2007, the program uses a dynamic multi-tiered risk assessment process and requires facilities identified as high-risk to meet and maintain performance-based security standards appropriate to the facilities and the risks they pose. In FY 2017, DHS delivered guidance to the highest risk chemical facilities,



prompting these owners and operators to include 21,412 performance standards in their security plans. Of the 21,412 performance standards, 19,914 have been implemented, achieving a 93 percent result for this measure, narrowly missing its target. Implementing these performance standards improves the overall security of the highest risk chemical facilities. In October 2016, DHS rolled out the Chemical Security Assessment Tool (CSAT) 2.0 system, an updated online portal that helps DHS identify facilities that meet the criteria for high-risk chemical facilities. During FY 2017, the implementation of CSAT 2.0 resulted in significant movement of facilities entering and leaving the program. As a result of these updates, DHS saw an overall decrease in the percentage of performance standards implemented by the highest risk chemical facilities, particularly as more facilities were reviewed and re-tiered using the CSAT 2.0 system. DHS will continue to prioritize the implementation of performance standards across the highest risk chemical facilities.



**Percent of National Special Security Events that were successfully completed (USSS):** [National Special Security Events](#) (NSSE) require a tremendous amount of preplanning and coordination with numerous federal, state, and local jurisdictions. When an event is designated by the Secretary of DHS as an NSSE, the USSS is the lead agency for the design and implementation of the operational security plan. This measure is a percent of the total number of NSSEs completed in a fiscal year where once the event commenced, a security incident inside a

USSS protected venue did not preclude the event's agenda from proceeding to its scheduled conclusion. USSS has attained 100 percent success for the past five years.

**Have You Opted In?**

**Expedited Screening**

**TSA Pre✓**

- Dedicated TSA Pre✓ lanes
- Keep your shoes, coat and belt on
- Leave your laptop and liquids in your bag

**TSA Pre✓® Reaches Milestone with more than 5 Million Travelers Enrolled**

The Transportation Security Administration TSA Pre✓® program reached a milestone in July 2017 of more than 5 million travelers enrolled. TSA Pre✓® now has more than 390 application centers nationwide.

“By growing the trusted traveler population, we help our officers focus on potential threats, which strengthens the security screening process and ultimately provides better security for all travelers,” said TSA Acting Administrator Huban A. Gowadia<sup>1</sup>. “We will continue our efforts to further expand the TSA Pre✓® program, with the ultimate goal of providing the most effective security in the most efficient way.”

TSA Pre✓®, which is now available at more than 180 U.S. airports, is an expedited screening program that enables low-risk travelers to enjoy a more convenient and efficient screening experience. Travelers using the TSA Pre✓® lane do not need to remove shoes, belts, light jackets, laptops, or 3-1-1 liquids from their carry-on bags.

U.S. citizens and lawful permanent residents may apply for TSA Pre✓® for a cost of \$85 for five years. Once approved, travelers will receive a “known traveler number” and will have the opportunity to utilize TSA

Pre✓® lanes at select security checkpoints when flying on any of the 37 participating airlines. TSA Pre✓® is also available for U.S. Armed Forces service members, including those serving in the U.S. Coast Guard, Reserves, and National Guard.

<sup>1</sup> David Pekoske was confirmed by the U.S. Senate as the Transportation Security Administration’s seventh administrator in August 2017.

**Looking Forward**

The United States has made significant progress in securing the Nation from terrorism. Nevertheless, the evolving and continuing threat from terrorists remains, as witnessed by events around the globe. The Department and its many partners, which includes international and federal, state, local, tribal and territorial governments, public and private sectors, and communities across the country, have strengthened the homeland security enterprise to better mitigate and defend against these dynamic threats. Below are a few areas that advance our efforts to achieve the Department's mission of preventing terrorism and enhancing security.

***TSA Enhancing Security to Mitigate Checkpoint Gaps:*** TSA continues to advance our ability to assess potential threats from aviation passengers both in the domestic and international domains. We will continue to improve the Threat Image Projection data quality to ensure the security of the traveling public. Ongoing testing and deployment of new technology to identify threats is underway. Based on the results of these tests, plans will be made to enhance our ability to identify and mitigate checkpoint gaps. In addition, specific improvements are being made to enhance airport perimeter and access security and identity vetting.

***Chemical Facility Tiering:*** Tier 1 and 2 facilities are those chemical facilities that pose the highest risk with respect to vulnerability, consequence, and threat factors. The [CFATS program](#) identifies and regulates high-risk chemical facilities to ensure they have security measures in place to reduce the risks associated with certain chemicals of interest. The challenge is that the number and tier of existing chemical facilities changed in FY 2017 based on a revised methodology enacted at the beginning of FY 2017. These changes in tiering pose a challenge in that the backlog of facilities needing assessments changed dramatically and will have an impact to get all assessments up to date. Moving forward, the Department will look into scheduling and staffing approaches that will prioritize the assessment of all Tier 1 and 2 chemical facilities to achieve an acceptable level of oversight and understanding. DHS anticipates that the tiering for the highest risk chemical facilities will stabilize in FY 2018 as facilities continue to self-report chemicals of interest under the new methodology.

***USSS Protecting Critical Infrastructure, Key Leaders, and Events:*** USSS has numerous efforts underway to meet increasing operational challenges including reducing time to hire, retention initiatives, and technology development. Challenges have been faced with the increased demands on the protective mission in terms of both scope and complexity. Thus the USSS is looking at new and unique methods to address a broad range of areas to include: modernization and support of mission-critical information technology (IT) systems; infrastructure for protective and investigative mission operations; improved staffing and career models to ensure proper work/life balance for agents; new staffing goals and retention initiatives to reduce attrition; and enhancing training infrastructure to meet future needs.

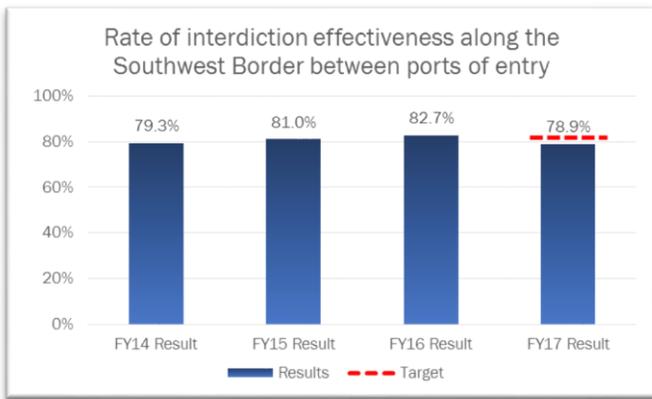
**Mission 2: Secure and Manage Our Borders**

DHS secures the Nation's air, land, and sea borders to prevent illegal activity while facilitating lawful travel and trade.

Our goals for this mission are:

- Goal 2.1: Secure U.S. Air, Land, and Sea Borders and Approaches;
- Goal 2.2: Safeguard and Expedite Lawful Trade and Travel; and
- Goal 2.3: Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors.

The following highlighted measures gauge our efforts to secure and manage our borders.

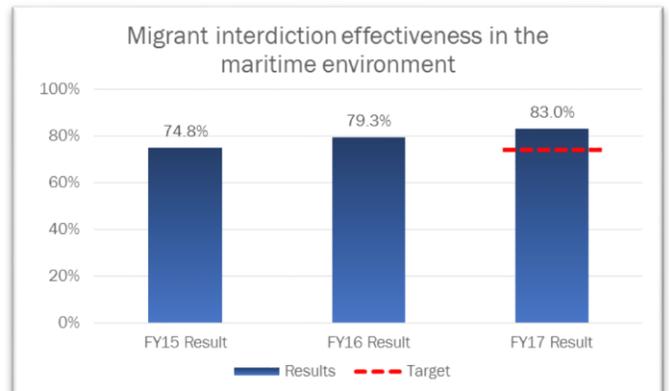


**Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP):**

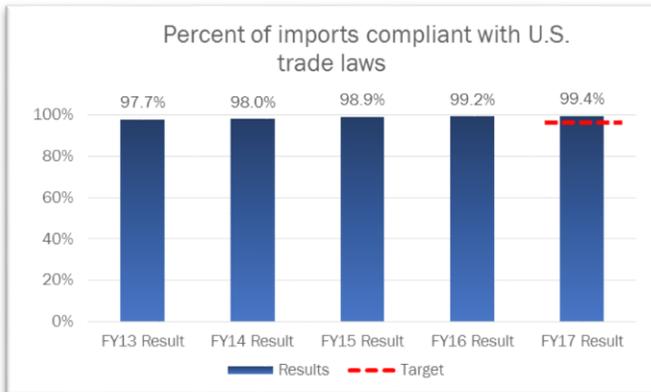
As a division of CBP, the Border Patrol has evolved significantly since its inception in 1924; however, its overall mission remains unchanged: protecting our Nation's borders from illegal entry of people, drugs, and contraband. Together with other law enforcement officers, the Border Patrol helps secure our borders between the ports of entry by detecting, tracking, and interdicting illegal flows of people and contraband. This measure reports the percent of detected

entrants who were apprehended, or turned back after illegally entering the United States between the ports of entry on the southwest border. The Border Patrol achieves this result by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered; and by minimizing the number of persons who evade apprehension. In FY 2017, this measure achieved 78.9 percent which is a decrease from FY 2016. Concurrently, border detection technology has increased, yielding greater situational awareness of illegal entrants who previously would have gone undetected, however agent staffing shortages reduce the ability to respond. Going forward, the Border Patrol's increased situational awareness will need to be paired with increased response capability. The Department is making investments in recruitment, retention, and relocation programs to address these challenges. Further discussion is located in the "Looking Forward" portion of this section on page 11.

**Migrant interdiction effectiveness in the maritime environment (USCG):** This measure reports the percent of detected undocumented migrants of all nationalities who were interdicted by the USCG and partners via maritime routes. Thousands of people try to enter this country illegally every year using maritime routes. USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict undocumented



migrants at sea, denying them entry via maritime routes to the United States, its territories and possessions. Interdicting migrants at sea means they can be quickly returned to their countries of origin without the costly processes required if they successfully enter the United States. In its third year of reporting, the USCG achieved 83.0 percent migrant interdiction effectiveness, up from FY 2016. This increase is primarily due to a reduction in Cuban migrant flow following the termination of the Cuban parole policy<sup>2</sup> in January 2017. The decrease in Cuban migrant flow enabled USCG patrol assets to improve response and have greater interdiction success in the Florida Straits.



**Percent of imports compliant with U.S. trade laws (CBP):** Ensuring that all imports are compliant and free of major discrepancies allows for lawful trade into the United States and both CBP and the importing/exporting community have a shared responsibility to maximize compliance with laws and regulations. CBP works with our international trade partners through several trade programs to build—and improve upon—a solid and efficient trade relationship to accomplish safer, faster, and more compliant trade. This measure reports the

percent of imports that are compliant with U.S. trade laws including customs revenue laws. In FY 2017, 99.4 percent of imports were found to be compliant with U.S. trade laws, meeting this year’s target. Results have improved year-over-year for the past five-years.



### A Unified Effort: Combating Transnational Gang Violence within the Interior Borders of the United States

In February 2017, President Trump signed Executive Order 13773, aimed at targeting transnational criminal organizations (TCO), such as drug cartels or gangs like Mara Salvatrucha (MS -13). The Executive Order is a multifaceted approach in attacking TCOs that pose a threat to national security and/or public safety. U.S. Immigration and Customs Enforcement (ICE), Homeland Security Investigations (HSI), remains vigilant in disrupting and dismantling violent gang activity in collaboration with our state, local, and tribal, and foreign law enforcement partners.

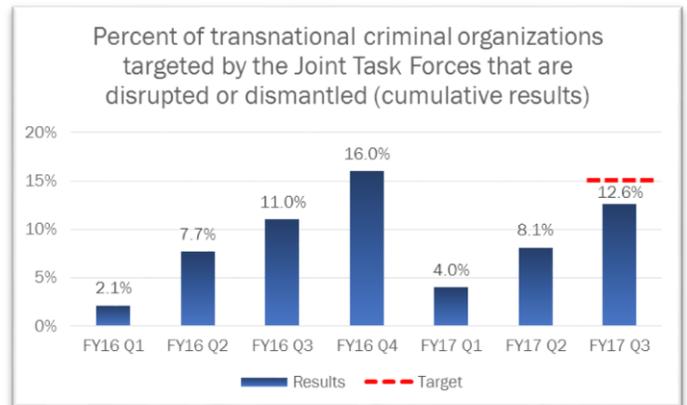
Due to violence caused by members of MS-13, HSI New York established Operation Matador (OPMAT). OPMAT is a multi-pronged approach in which HSI NY partnered with other DHS components to combat MS-13 in the greater New York City area. OPMAT is primed to disrupt and dismantle MS-13 through five key elements: intelligence gathering; actionable lead development; targeted enforcement; investigation development; and community outreach to at-risk youth in the affected cities. From May 9, 2017 to June 30, 2017, OPMAT has led to 68 arrests of known gang members, 60 of which were established as MS-13 gang members. ICE remains committed in working in a unified approach in combating gang violence and disrupting the MS-13 pipeline.

**Priority Goal:** Decrease the ability of targeted transnational criminal organizations to conduct illicit activities impacting the southern border and approaches region of the United States. By

<sup>2</sup> On January 12, 2017, DHS eliminated a special parole policy for arriving Cuban nationals commonly known as the “wet-foot/dry-foot” policy, as well as a policy for Cuban medical professionals known as the Cuban Medical Professional Parole Program. It is now Department policy to consider any requests for such parole in the same manner as parole requests filed by nationals of other countries.

September 30, 2017, actions by the DHS Joint Task Forces via synchronized component operations will result in the disruption and/or dismantlement of 15 percent of targeted transnational criminal organizations.

**Performance Analysis:** Through the execution of coordinated operational plans and investigations, the [Joint Task Forces](#) (JTFs) were able to enable the disruption and dismantlement of 12.6 percent (as of the 3<sup>rd</sup> quarter FY 2017<sup>3</sup>) of their targeted transnational criminal organizations, and is on track to meet its goal of 15 percent for this important work. The JTFs continue to coordinate across organizational boundaries to make positive advances with operations with joint investigations and operations within their functional areas, and are supported by DHS operational components in order to enhance DHS’s effort in securing the U.S. Southern Border and Approaches. JTFs facilitated broader discussions with Components and garnered the reallocation of resources, including assets and personnel, to meet operational requirements.



**Looking Forward**

The protection of the Nation’s borders—land, air, and sea—from the illegal entry of people, weapons, drugs, and other contraband while facilitating lawful travel and trade is vital to homeland security, as well as the Nation’s economic prosperity. The global economy is increasingly a seamless economic environment connected by systems and networks that transcend national boundaries. The United States is deeply linked to other countries through the flow of goods and services, capital and labor, and information and technology across our borders. As much as these global systems and networks are critical to the United States and our prosperity, they are also targets for exploitation by our adversaries, terrorists, and criminals. Below are a few initiatives that advance our efforts to secure and manage our borders.

***Increases in Border Infrastructure and Technology:*** [Executive Order \(EO\) 13767](#), *Border Security and Immigration Enforcement Improvements*, requires significant enhancement of border infrastructure and technology. Out year planning has begun to include border barrier system extensions and enhancements and additional assets to include: Integrated Fixed Towers to provide automated, persistent wide area surveillance for the detection, tracking, identification, and classification of illegal entries; Remote Video Surveillance Systems to monitor large spans of the international border; and Cross-Border Tunnel Threat technology to diminish the ability of transnational criminal organizations to gain unobtrusive access into the United States through cross-border tunnels and the illicit use of underground municipal infrastructure.

---

<sup>3</sup> Final results for this measure will published in the FY 2017-2019 Annual Performance Report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

**Border Patrol Staffing:** EO 13767 also addresses increasing staff on the border by requiring that DHS hire an additional 5,000 Border Patrol Agents. In response to this directive, CBP's Human Resource Management (HRM) office has developed a multi-year hiring plan to meet the new staffing requirement for Border Patrol. Of the 5,000 planned agent increase, the first surge is planned for 500 agents in FY 2018 and is in addition to the normal attrition hiring conducted by CBP HRM. This initial hiring surge will lay the foundation in increasing operational control in certain key areas along the border. The goal is to increase and maintain a Border Patrol Agent workforce to attain full operational control of the border. This will be an ongoing challenge to find qualified candidates who can pass the protocols to become a Border Patrol Agent, including a polygraph exam, along with ensuring that those who are hired remain in the Border Patrol and do not move to another law enforcement position within the Federal Government or to the private sector.

**Biometric Entry Exit:** [EO 13769](#), *Protecting the Nation from Foreign Terrorist Entry* into the United States, addresses challenges in screening and vetting protocols and associated technology and procedures with the visa-issuance and management process. One of the efforts to support this Executive Order is the Biometric Entry-Exit System. The Department will utilize the cloud-based Traveler Verification Service system and supporting information technology infrastructure to analyze and verify travelers' identity using biometric data such as facial and fingerprint recognition. This will allow CBP Officers to assist airline partners and other government agencies to verify the identity of travelers entering and exiting the United States. The Department intends to adapt these innovative air environment technological solutions for land and sea environments.

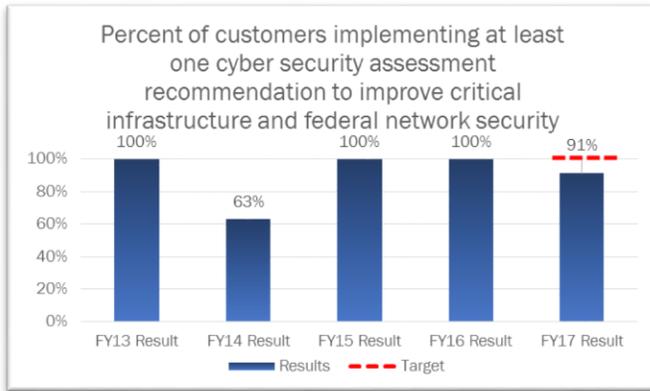
#### ***Mission 4: Safeguard and Secure Cyberspace***

Our economic vitality and national security depend on a vast array of interdependent and critical cybernetworks, systems, services, and resources. By statute and Presidential Directive: DHS is the lead for the Federal Government to secure civilian government computer systems; works with industry to defend privately owned and operated critical infrastructure; prevents, detects, and investigates cybercrime; and works with state, local, tribal, and territorial governments to secure their information systems.

Our goals for this area are:

- Goal 4.1: Strengthen the Security and Resilience of Critical Infrastructure against Cyber Attacks and other Hazards;
- Goal 4.2: Secure the Federal Civilian Government Information Technology Enterprise;
- Goal 4.3: Advance Cyber Law Enforcement, Incident Response, and Reporting Capabilities; and
- Goal 4.4: Strengthen the Cyber Ecosystem.

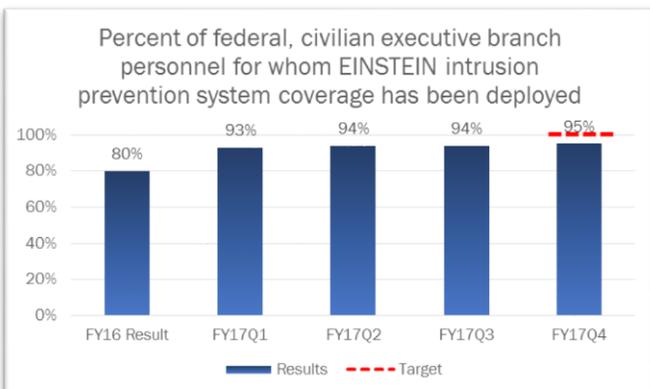
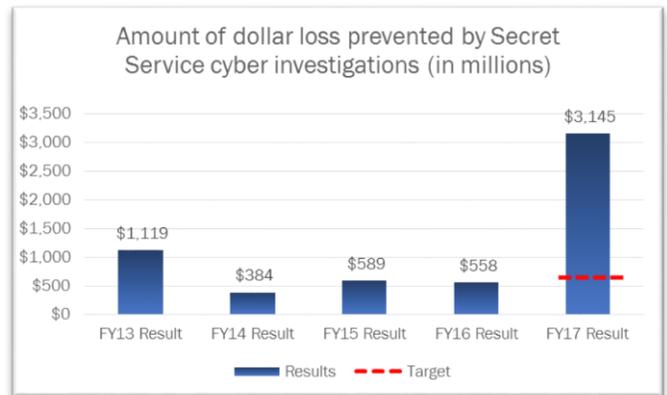
The following highlighted measures gauge our efforts to safeguard and secure cyberspace.



**Percent of customers implementing at least one cyber security assessment recommendation to improve critical infrastructure and federal network security (NPPD):** This measure demonstrates the percent of assessed asset owners and operators of critical infrastructure that are not only developing a better understanding of their cybersecurity posture, but are also taking action to improve that posture. In FY 2017, 91 percent of organizations who received an assessment also implemented at least one cybersecurity

enhancement, down from the last two years. Making enhancements is at the discretion of the customer and may not be implemented for a number of reasons to include funding, internal policies and priorities, organizational maturity, and internal expertise. Note that a small number of organizations are known to have implemented security recommendations during the actual assessment process but these efforts were not necessarily reflected in their survey response. Going forward, the program will review its methodology for this measure to ensure the data collection efforts are targeted to the customers who were involved in the assessment and improvement process.

**Amount of dollar loss prevented by Secret Service cyber investigations (in millions) (USSS):** The USSS maintains [Electronic Crimes Task Forces](#) that focus on identifying and locating domestic and transnational cybercriminals connected to cyber-intrusions, bank fraud, data breaches, and other computer-related crimes. This measure reflects USSS' efforts to reduce financial losses to the public from cybercrimes. In the second quarter of FY 2017, the Secret Service closed an investigation into a network intrusion impacting a major U.S. retailer. This case involved over 4.5 million devices and substantial potential fraud losses totaling well in excess of the annual performance target. The year-to-year results for this performance measure are highly volatile based upon the cases closed in a particular reporting period.



**Percent of federal, civilian executive branch personnel for whom EINSTEIN intrusion prevention system coverage has been deployed (NPPD):** This measure gauges the intrusion prevention coverage provided by EINSTEIN 3 Accelerated (E3A) that is currently operating on civilian executive branch networks. E3A has the capacity to both identify and block known malicious traffic. This performance measure assesses the extent to which DHS has deployed

at least one E3A countermeasure to protect federal, civilian executive branch agencies. The FY 2017 result reflects an increase of approximately 525,000 federal civilian personnel protected by E3A intrusion prevention services from the FY 2016 end of year result. As of September 30, 2017, 95 percent of the federal, civilian executive branch personnel and 100 percent of Chief Financial Officer (CFO) Act agency personnel are protected by at least one E3A countermeasure. DHS continues to work with relevant internet service providers, and federal entities to deploy E3A at remaining Small/Micro agencies; however, these agencies have fewer Information Technology (IT) staff, and E3A competes with resources dedicated to day-to-day operations, and other cybersecurity initiatives and requirements.



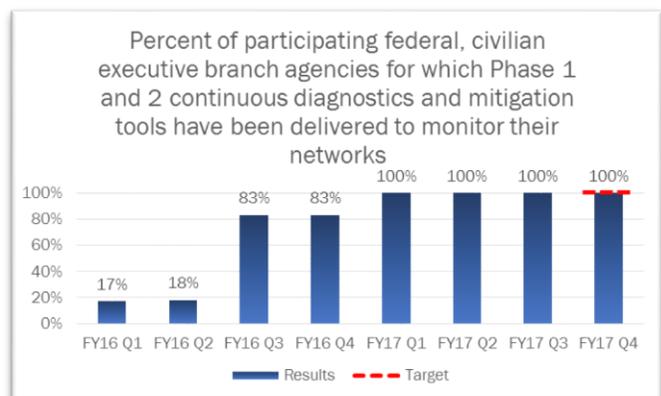
### Malware Impacts to the Nation's Supply Chain

In collaboration with the National Center for Manufacturing Sciences, DHS's NPPD, National Cyber Exercise and Planning Program (NCEPP) designed an exercise to test cyber-elements of the manufacturing sector. The June 27, 2017 exercise was held in Ann Arbor, MI with 20 stakeholder groups. It explored cyber-incident response to their discovery of critical systems infected with malware designed to affect radio frequency identification (RFID) components (e.g., readers, scanners, and tags) that impact the supply chain. During this full-day tabletop exercise, NCEPP facilitators guided exercise participants through three separate

scenarios to address the issues. This is important because the complexities associated with RFID tagging systems include an increased potential for the exploitation of vulnerabilities. Participants discovered through this exercise that an abundance of external resources were available to help them about which they were not aware. The exercise also demonstrated that cyber-incident response capabilities varied widely among participating organizations. Surprisingly, larger organizations were more likely to maintain open lines of communications and/or share cyber-threat information than smaller entities. Cyber-exercises of this type aid in addressing the DHS Strategic Goals of strengthening the security and resilience of critical infrastructure against cyber-attacks, and reducing risk to the Nation's most critical infrastructure.

**Priority Goal:** Improve federal network security by providing federal civilian executive branch agencies with the tools and information needed to diagnose, mitigate, and respond to cybersecurity threats and vulnerabilities. By September 30, 2017, DHS will deliver two phases of continuous diagnostics and mitigation tools to 100 percent of the participating federal civilian executive branch agencies so that they can monitor their networks.

**Performance Analysis:** The Continuous Diagnostics and Mitigation (CDM) program provides federal agencies with capabilities to identify cybersecurity risks, prioritize those risks, and enable mitigation of the most significant problems first. Thus it is imperative that contracts to implement CDM on the federal network are awarded in a timely manner. As of the end of the first quarter of FY 2017, the program attained its target of 100 percent with 69 agencies participating in Phase 1 (asset management) and 65 agencies participating in Phase 2 (user management) tools. The final award for Phase 2 tools was completed the first quarter of FY 2017 and 100 percent of Phase 1 and Phase 2 have been delivered for installation to participating federal, civilian executive branch agencies. It should be noted that not every non-Defense federal organization is currently participating in



the CDM program and this measure only reflects those agencies that have chosen to participate in the program.

**Looking Forward**

Cyberspace and its underlying infrastructure are vulnerable to a wide range of risk stemming from both physical and cyberthreat hazards. Sophisticated cyber-actors and nation-states exploit vulnerabilities to steal information and money and are developing capabilities to disrupt, destroy, or threaten the delivery of essential services. A range of traditional crimes are now being perpetrated through cyberspace, including banking and financial fraud, intellectual property violations, and other crimes, all of which have substantial human and economic consequences. As information technology becomes increasingly integrated with physical infrastructure operations, there is increased risk for wide-scale or high-consequence events that could cause harm or disrupt services upon which our economy and the daily lives of millions of Americans depend. In light of the risk and potential consequences of cyber-events, strengthening the security and resilience of cyberspace has become an important homeland security mission.

***Continuous Diagnostics and Mitigation:*** The Continuous Diagnostics and Mitigation (CDM) program provides tools, sensors, and dashboards to the 23 Chief Financial Officer (CFO) Act agencies and is in the process of deploying a shared services CDM offering to provide the same capabilities to non-CFO Act agencies. As part of the CDM Program, two dashboards were developed—first the Agency Dashboard and then the Federal Dashboard. Agency Dashboards push agency-specific summary data from federal civilian agencies to the Federal Dashboard user interface. The Federal Dashboard provides the Office of Cybersecurity and Communications (CS&C) with a federal enterprise view of cybersecurity risk. It provides access to security information that will be used in a variety of ways, with new features and methods still under development. DHS is delivering the program in phases with the first two phases in the implementation and deployment stage. A number of agencies have successfully deployed the first phase of the program and have begun to utilize the prioritized vulnerability information provided to address key security weaknesses on their networks. It is anticipated that the deployment of the second phase tools and the contract delivery of the third phase will occur in FY 2018. DHS is planning on measuring the effectiveness of the CDM program through the timely patching of identified critical vulnerabilities on the federal network beginning in 2018. Many challenges are faced in this endeavor, including federal agencies prioritizing the deployment and use of these tools, and having seasoned Chief Information Officer leadership and staff to implement and leverage these tools to enhance federal network security. Also, it should be noted that CDM is not currently a statutorily required program, thus there are agencies who have chosen not to participate. DHS is working to demonstrate the benefits of the program to those non-participatory agencies in order to make the program as robust as possible.

***Automated Indicator Sharing:*** In 2017, DHS made great strides in fulfilling a legislative requirement to share cyberthreat information with both public and private sector partners in near real time, but challenges remain. Being able to distinguish between real threats and those that do not pose harm to information systems is an ongoing challenge for agencies want to focus their response and corrective actions on only those threats that pose real harm. The Automated Indicator Sharing (AIS) program rapidly expanded both the volume of cyberthreat indicators shared and the number of public and private stakeholders participating in the

program FY 2017. The number of indicators shared through AIS increased from 100,394 in FY 2016 to over 1.2 million in FY 2017. Federal partners participation also grew from 7 agencies in FY 2016 to 25 in FY 2017 with all 23 non-defense CFO Act agencies and two additional agencies participating. Within DHS, all of the department's internal security operations centers were able to connect to AIS through the introduction of a web based platform to share indicators within the agency in real time to protect against known threats. Participation in the program was also extended to state governments, critical infrastructure sectors, and trusted allied nations. The number of non-federal participants increased dramatically from 45 in FY 2016 to 90 in FY 2017. The intent is to continue to grow the quantity of information shared by both DHS and participating entities and further expand the number of partners both domestically and internationally.

***National Cybersecurity Protection System:*** The National Cybersecurity Protection System is an integrated system that delivers a range of capabilities to include intrusion detection and prevention, analytics, and information sharing of malicious activity on federal networks. The system currently detects and blocks threats that are already known by DHS from harming the federal network. While preventing known threats is important, the system currently lacks the capability to identify and block previously unknown threats from entering federal networks. To increase the effectiveness of the system, DHS is currently piloting a program to develop the capability to detect previously unknown malicious activity on a network. This capability would establish a baseline for normal network behavior and traffic and alert DHS to any deviations or abnormalities from that baseline. This pilot program has the potential to enable DHS to discover malicious activity and actors that were previously unknown to the information security community and share it with public and private partners in near real time. The impact would be improved situational awareness of cyberthreats and the ability to block our adversaries most sophisticated attack methods. Challenges with this approach are being able to accurately predict the nature of new threats and the impact they may cause. In addition, there is the challenge to respond in an appropriate fashion without directing limited staff resources unnecessarily to threats that would not have been impactful.

## ***Strengthen National Preparedness and Resilience***

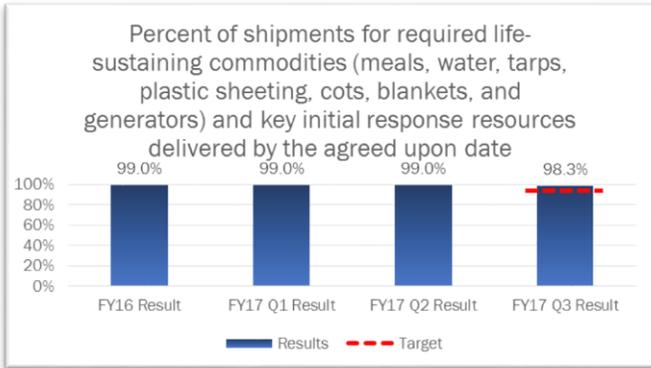
### ***Mission 5: Strengthen National Preparedness and Resilience***

Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as attacks, may occur. The challenge is to build the capacity of American communities to be resilient in the face of disasters and other threats. Our vision of a resilient Nation is one with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk.

Our goals for this mission are:

- Goal 5.1: Enhance National Preparedness;
- Goal 5.2: Mitigate Hazards and Vulnerabilities;
- Goal 5.3: Ensure Effective Emergency Response; and
- Goal 5.4: Enable Rapid Recovery.

The following highlighted measures gauge our efforts to strengthen national preparedness and resilience. Due to Hurricanes Harvey, Irma, and Maria, FEMA is unable to provide year-end results in time for this report. As such, their 3<sup>rd</sup> quarter results are provided for context and their final results will be available in the FY 2017-2019 Annual Performance report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

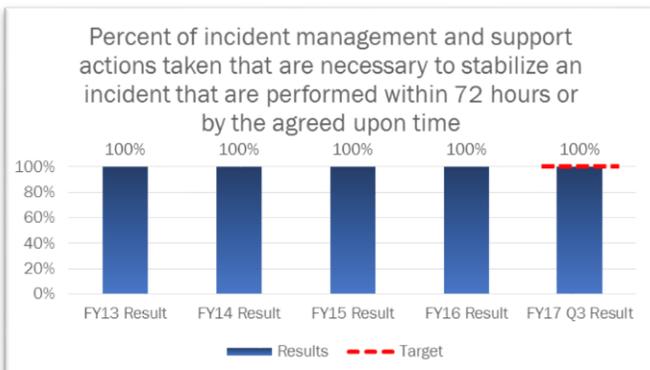
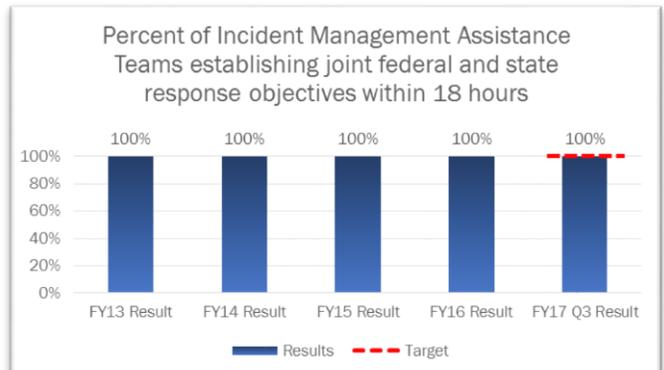


**Percent of shipments for required life-sustaining commodities (meals, water, tarps, plastic sheeting, cots, blankets, and generators) and key initial response resources delivered by the agreed upon date (FEMA):** This measure evaluates the percent of shipments from [FEMA distribution centers](#) or logistics partners that arrive at the specified location by the validated and agreed upon delivery date. Timely delivery of many of these commodities are truly life-saving as well as life-sustaining. For the past two years, FEMA's distribution centers and

logistics partners have met expectations.

**Percent of Incident Management Assistance Teams establishing joint federal and state response objectives within 18 hours (FEMA):**

This measure gauges the percent of time that Incident Management Assistance Teams ([IMATs](#)) have deployed and have established initial joint federal and state response objectives within 18 hours of a request from a state or jurisdiction. IMATs are made up of dedicated and experienced senior-level emergency management professionals that are able to deploy upon a moment's notice when requested by the state. IMATs generally consist of 10 members, with expertise in operations, logistics, planning, and recovery. They are a rapidly deployable asset to anywhere in the region or the country, supporting our states and territories in their emergency response efforts. For the past five years, when called upon, IMATs have establishing joint federal and state response objectives within 18 hours, 100 percent of the time.

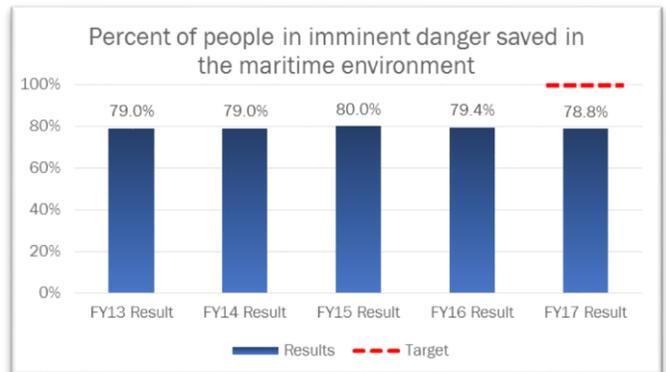


**Percent of incident management and support actions taken that are necessary to stabilize an incident that are performed within 72 hours or by the agreed upon time (FEMA):**

This measure reflects FEMA's role in effectively responding to any threat or hazard, with an emphasis on saving and sustaining lives within 72 hours, or by the agreed upon time, in support of state, local, tribal and territorial governments. "Actions necessary to

stabilize an incident" are defined as those functions that must be initiated immediately following an incident in order to ensure the best outcomes for survivors. These actions include establishing joint federal/state incident objectives and interoperable communications between FEMA-supported incident sites, deploying urban search and rescue resources, rapidly activating response coordination centers, and issuing timely alerts, warnings, operations orders, and situation reports. For the past five years, incident management and support actions have been performed within 72 hours, or by the agreed upon time, 100 percent of the time.

**Percent of people in imminent danger saved in the maritime environment (USCG):** This is a measure of the percent of people who were in imminent danger on the oceans and other waterways and whose lives were saved by [USCG search and rescue teams](#). The number of lives lost before and after the USCG is notified and the number of persons missing at the end of search operations are factored into this percentage. Several factors hinder successful response including untimely distress notification to the USCG, incorrect distress site location reporting, severe weather conditions at the distress site, and distance to the scene. The USCG saved more than 4,200 lives in FY 2017, which was 78.8 percent of those in danger, and is consistent with long-term results and trends. The target for this measure will likely be adjusted in FY 2018 to be ambitious but more in-line with historical results. The USCG will continue to plan, train, develop better technologies, and invest in capable assets to continue their exemplary performance in saving lives in the maritime environment.



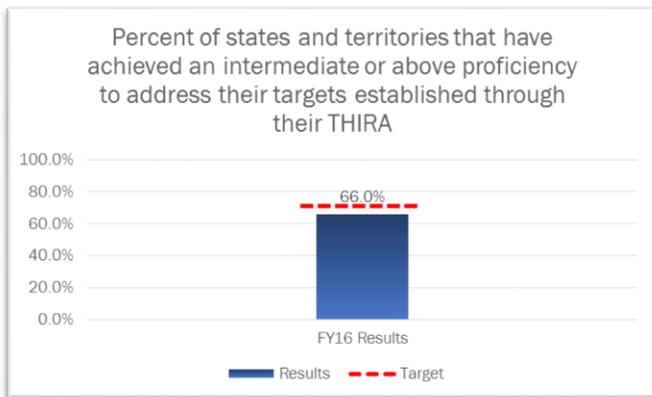
### Surge Capacity Force

In the aftermath of a catastrophic event, DHS turns to its [Surge Capacity Force](#), a cadre of federal employee heroes who help affected communities by supporting the Federal Emergency Management Agency's (FEMA) urgent response and recovery efforts. The Surge Capacity Force is made up of federal employees from every Department or Agency in the Federal Government.

The Post-Katrina Emergency Management Reform Act of 2006 (Public Law 109-295) established the Surge Capacity Force to deploy federal employees in the aftermath of a catastrophic event to help support response and recovery efforts. DHS activated the Surge Capacity Force for the first time in 2012 in support of Hurricane Sandy. More than 1,100 (non-FEMA) federal employees deployed to New York and New Jersey to supplement FEMA's substantial disaster workforce.

In the immediate aftermath of Hurricanes Harvey, Irma, and Maria, Acting Secretary of Homeland Security Elaine Duke activated the Surge Capacity Force—the second time in the Surge Capacity Force existence. Surge Capacity Force volunteers from throughout the Federal Government supported disaster survivors in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. As of September 21, 2107, more than 2,000 federal employees were deployed for these relief efforts.

**Priority Goal:** Enhance the Nation's ability to respond to and recover from a catastrophic disaster through whole community preparedness and partnership. By September 30, 2017, 70 percent of states and territories will achieve an intermediate or above proficiency toward meeting the targets established through their Threat and Hazard Identification and Risk Assessment ([THIRA](#)).



**Performance Analysis:** This measure assesses the percent of state and territorial State Preparedness Report (SPR) ratings at or above the 3.0 threshold when averaging across the planning, organization, equipment, training, and exercise elements rated by grantees for each core capability. While the target was narrowly missed in FY 2016, all indications are that the FY 2017 target will be met; however, due to Hurricanes Harvey, Irma, and Maria, FEMA is unable to provide year-end results in time for this report. The results will be available in the

FY 2017-2019 Annual Performance report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

**Looking Forward**

The Department coordinates comprehensive federal efforts to prepare for, protect against, respond to, recover from, and mitigate a terrorist attack, natural disaster or other large-scale emergency, while working with individuals, communities, the private and nonprofit sectors, faith-based organizations, and federal, state, local, tribal, and territorial partners to ensure a swift and effective recovery effort. Hurricanes Harvey, Irma, and Maria remind us all of the importance of preparedness and resilience in the face of disaster. Below are a few initiatives that advance our efforts to achieve our preparedness and resilience goals.

***National Flood Insurance Program:*** The Department administers the [National Flood Insurance Program](#) (NFIP) to reduce the impact of flooding on private and public structures. The NFIP takes a multi-faceted approach that includes providing affordable insurance to property owners while also encouraging communities to adopt floodplain management regulations and invest in mitigation efforts; however, challenges exist in maintaining the viability of this program. To address the financial stability of the NFIP, DHS plans to support long term reauthorization of the NFIP by promoting transparency around the NFIP’s revenue, expenses, risk exposure, and available risk management tools as NFIP reauthorization-related discussions progress with DHS, the Administration, and Congress. FEMA is leveraging existing investments in analytic capacity and engagements with the reinsurance industry to better understand the NFIP’s risk profile and appropriate risk management strategies.

***Disaster Workforce Structure:*** In order to be prepared for all hazards, the Department has made numerous advancements in the past decade to the disaster response workforce. The establishment of the [Surge Capacity Force](#) allows the capacity for the Department to deploy its employees in support of FEMA’s existing workforce for a large-scale disasters as seen this year with Hurricanes Harvey, Irma, and Maria. The Department continues to innovate and learn from other agencies, such as developing a centralized reception, staging, onward movement, and integration process and collaborating with the Corporation for National and Community Service. FEMA has made progress, but is still far from its desired workforce structure. Moving forward, FEMA is conducting research to understand the barriers that prevent it from reaching its disaster workforce structure. Additionally, it is continuing to learn from other agencies and

will take lessons learned from Hurricanes Harvey, Irma, and Maria to address this critical need in times of crisis.

## Enforce and Administer Our Immigration Laws

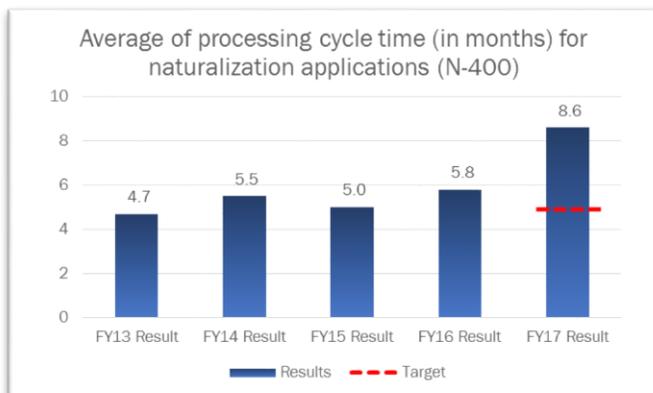
### Mission 3: Enforce and Administer Our Immigration Laws

A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security.

Our goals for this mission are:

- Goal 3.1: Strengthen and Effectively Administer the Immigration System; and
- Goal 3.2: Prevent Unlawful Immigration.

The following highlighted measures gauge our efforts to enforce and administer our immigration laws.



#### Average of processing cycle time (in months) for naturalization applications (N-400) (USCIS):

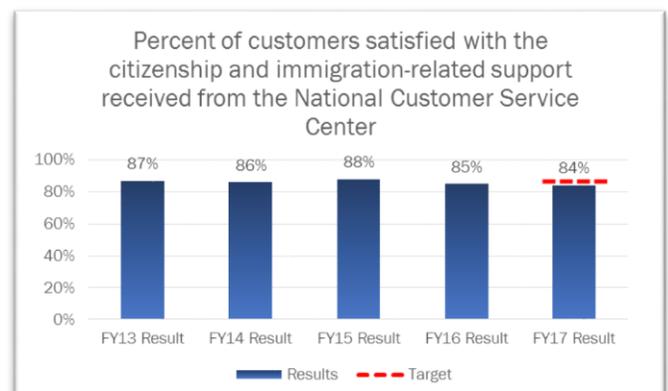
This measure assesses the program's ability to meet its published processing time goals for [N-400, Application for Naturalization](#) which is filed by lawful permanent residents to attain U.S. citizenship. Naturalization applications were 26 percent higher than projected in FY 2016 and are again higher than planned in FY 2017 by 14 percent. USCIS is continuing to shift resources and prioritize workload in order to handle its case volume. Although the cycle

time is above the target, USCIS has maintained the accuracy of N-400 decisions as validated through random sampling. USCIS continues to face capacity challenges which, combined with higher workload demands, will continue to negatively impact our cycle time. During FY 2018, USCIS will continue to balance workload to ensure national cycle time parity across each of its 88 field offices and leverage overtime and other scheduling options.

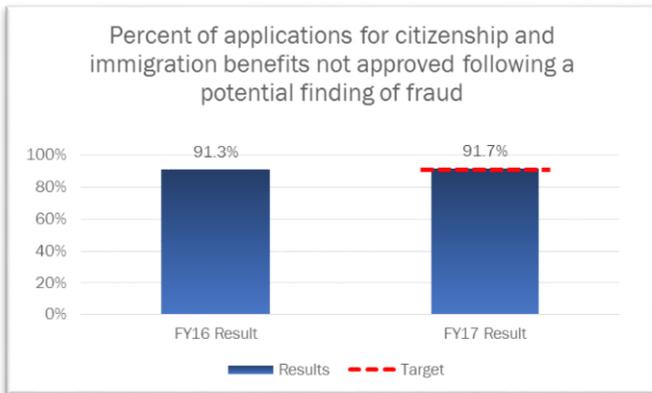
#### Percent of customers satisfied with the citizenship and immigration-related support received from the National Customer Service Center (USCIS):

This measure gauges the overall rating of the immigration process and is based on the results from the following areas:

- 1) accuracy of information;
- 2) responsiveness to customer inquiries;
- 3) accessibility to information; and
- 4) customer satisfaction.



The FY 2017 result for this measure is consistent with the results for the past four years; however, there has been a slight decline the past two years which is most likely due to the fluidity in the immigration policy environment making it more difficult to satisfy customers’ questions in some instances. Results are still indicative of the attention [USCIS](#) has given to the customer service approach, especially given the increased demand. USCIS is constantly listening to customer feedback and taking deliberate steps to improve the level of service provided to its customers. USCIS’ customer service rating is well above the Federal Government Citizen Experience Benchmark of 78 percent as reported by [American Customer Satisfaction Index](#) in their latest report published on January 31, 2017.



**Percent of applications for citizenship and immigration benefits not approved following a potential finding of fraud (USCIS):** This measure reflects the Department’s capacity to prevent fraud, abuse, and exploitation of the immigration system, and helps identify systemic vulnerabilities that threaten its integrity. By not approving benefits to individuals potentially attempting to commit fraud, and who were not eligible for a waiver or exemption, USCIS is actively eliminating vulnerabilities, and identifying ways to continue to deter and prevent

fraud in the future. Slightly up from FY 2016 results, the initial findings of fraud were upheld 91.7 percent of the time. Initial findings of fraud are reviewed by USCIS’ [Fraud Detection and National Security Directorate](#) (FDNS) before final adjudication is rendered. FDNS was created in 2004 in order to strengthen USCIS’ efforts to ensure immigration benefits are not granted to individuals who pose a threat to national security or public safety, or who seek to defraud our immigration system. USCIS continues to improve communication between fraud officers and adjudicators with the assistance of improved reporting tools and investments in new technologies.



### USCIS Naturalizes 15,000 New Citizens during Independence Day

On the 241<sup>st</sup> anniversary of the Declaration of Independence and the birth of the United States, 15,000 lawful permanent residents were naturalized as U.S. citizens during more than 65 naturalization ceremonies across the country. The number of new citizens naturalized on July 4, 2017 was the most in recent years. Local, state, and federal officials attended ceremonies that were held at public libraries, national parks, and museums. Teresa Nieves-Chinchilla was one of 22 people from

16 countries who were naturalized at the July Fourth naturalization ceremony in Annapolis, Maryland. Shortly before the ceremony, she had returned from a trip to her home country of Spain and in her mailbox was a long-awaited letter granting her dream—she could finally become an American citizen. Nieves-Chinchilla had been living in the U.S. for 11 years, studying space weather and solar activity at the Catholic University of America’s Institute for Astrophysics and Computational Sciences, located at NASA’s Goddard Space Flight Center in Greenbelt, Maryland. “This country gave me the opportunity to be a scientist, to make my life” she said.

USCIS is committed to promoting instruction and training on citizenship rights and responsibilities by offering a variety of free citizenship preparation resources for applicants, educators, and organizations that can be found online at the Citizenship Resource Center ([www.uscis.gov/citizenship](http://www.uscis.gov/citizenship)). Immigrant-serving organizations can register at [www.uscis.gov/citizenship/organizations/civics-and-citizenship-toolkit](http://www.uscis.gov/citizenship/organizations/civics-and-citizenship-toolkit) to receive a free Civics and Citizenship Toolkit to help them develop content for classes and train staff and volunteers.

### **Looking Forward**

The success of our Nation's immigration policy plays a critical role in advancing homeland security. The Department is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. Effective administration of the immigration system depends on ensuring that immigration decisions are impartial, lawful, and sound; that the immigration system is interactive and user friendly; that policy and procedural gaps are systematically identified and corrected; and that those vulnerabilities which would allow persons to exploit the system are eliminated. Below are a few initiatives that advance our efforts to achieve the Department's immigration enforcement and administration goals.

***USCIS' Improvement Plans:*** USCIS secures America's promise as a Nation of immigrants by granting citizenship and immigration benefits, promoting awareness and understanding of citizenship, ensuring the integrity of the immigration system, and providing accurate and useful information to its customers. Over the past few years, the number of applications for benefits and benefit changes has ballooned to more than 8 million transactions per year creating a challenge to process applications in a timely fashion. The sheer volume of work has led USCIS to leverage a suite of technology tools that give customers faster and easier access to immigration information. The flagship of the newest suite of tools is [myUSCIS](#), an online one-stop shop for immigration information. The success of *myUSCIS* will be leveraged to expanded service to continue to provide value, relevance, and reach for customers and stakeholders.

***Enhancing Public Safety in the Interior of the United States:*** [EO 13768](#), *Enhancing Public Safety in the Interior of the United States*, aims to effectively address those individuals who illegally enter the United States and those who overstay or otherwise violate the terms of their visas. Historically, surges of illegal immigration at the southern border with Mexico has placed a significant strain on federal resources and overwhelmed those agencies charged with border security and immigration enforcement. One of the provisions of the EO addresses this need by hiring 10,000 Immigration and Customs Enforcement Law Enforcement Officers (LEOs) and related support staff. The FY 2018 budget includes plans for the first 1,000 LEOs, and plans are in place to onboard the remaining staff over a multi-year horizon.

### ***Mature and Strengthen Homeland Security***

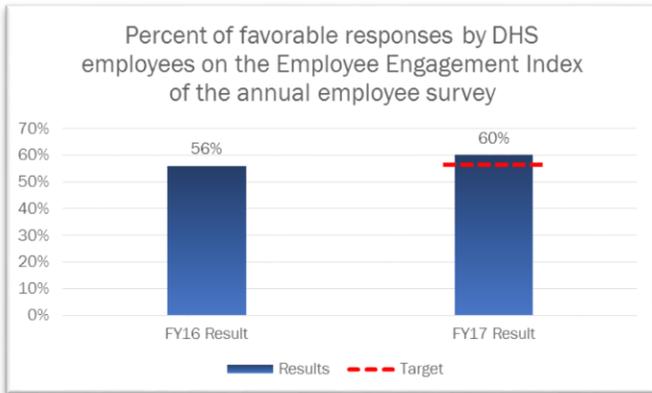
The objectives for maturing and strengthening the Department were designed to bolster key activities and functions that support the success of our strategic missions and goals. Ensuring a shared awareness and understanding of risks and threats, building partnerships, strengthening our international enterprise structure, enhancing the use of science and technology, with a strong service and management team underpin our broad efforts to ensure our front-line operators have the resources they need to fulfill the missions of the Department.

Our mature and strengthen goals are:

- Integrate Intelligence, Information Sharing, and Operations;
- Enhance Partnerships and Outreach;
- Strengthen the DHS International Affairs Enterprise in Support of Homeland Security Missions;

- Conduct Homeland Security Research and Development;
- Ensure Readiness of Frontline Operators and First Responders; and
- Strengthen Service Delivery and Manage DHS Resources.

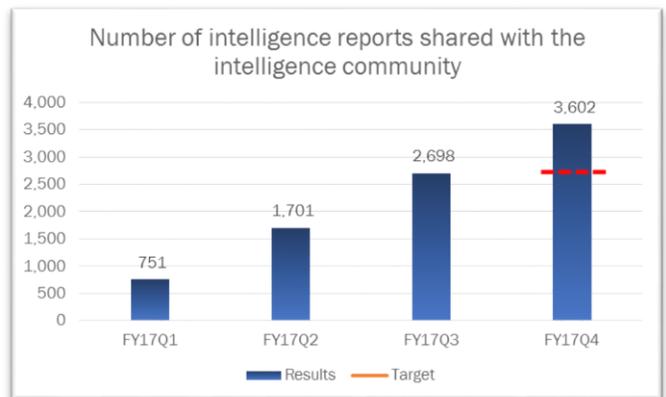
Performance measures associated with the Department’s Mature and Strengthen Homeland Security focus support evaluation of the operational aspects of the headquarters offices. A small number of measures aligned to this area are displayed below, and the full set can be found in the DHS Congressional Justification Overview Chapter for the Office of the Under Secretary for Management at <https://www.dhs.gov/dhs-budget>.



**Percent of favorable responses by DHS employees on the Employee Engagement Index of the annual employee survey:** This measure is based on positive response rates by DHS employees to the Employee Engagement Index (EEI) of the annual Federal Employee Viewpoint Survey (FEVS) administered by the Office of Personnel Management. The EEI is comprised of three sub-indices—Leaders Lead, Supervisors, and Intrinsic Work Experiences. Based upon the 2017 FEVS data, DHS’s EEI climbed to 60 percent, a four point improvement over last

year’s results. This increase in EEI is the largest of any Cabinet-level agency in FY 2017. Further, DHS had the largest increase in its Global Satisfaction Index (GSI), gaining six percentage points from last year’s 49 percent rating. Both USCIS and USCG have EEI scores above any of the Cabinet-level agencies, at 74 percent. Acting Secretary, Elaine Duke stated, “This progress has been no easy feat, and I am happy to see that these results reflect the tireless efforts taken throughout the Department to promote a culture of collaboration and engagement. As a Department, we have taken tremendous strides in recent years, continuously working to ensure that all employees at DHS feel supported, empowered, and equipped to successfully execute the duties and responsibilities necessary in maintaining the safety and security of the Nation.”

**Number of intelligence reports shared with the intelligence community:** This measure reflects the DHS contribution of raw, unevaluated intelligence, to the intelligence community and the Federal Government so as to share the unique information obtained from intelligence officers in the field. In FY 2017, I&A disseminated 3,602 raw intelligence information reports, exceeding its FY 2017 goal by 34 percent. During the fiscal year, I&A was able to inform intelligence analysis, watchlisting and policy by sharing raw intelligence from a variety of DHS sources. Several key factors enabled I&A to succeed including streamlining our reporting processes and automating research techniques. These changes enhanced I&A’s



ability to support our customer’s needs and reduce the time it takes to identify information that has value for intelligence purposes.



**Percent of Partner Organizations that agree the Federal Law Enforcement Training Centers training programs address the right skills (e.g., critical knowledge, key skills and techniques, attitudes/behaviors) needed for their officers/agents to perform their law enforcement duties (FLETC):** The results of this measure provide on-going opportunities for improvements that are incorporated into FLETC’s training curricula, processes, and procedures. FLETC perennially performs very well on this measure—greater than 90 percent for the past

five years—as they have a very singularly focused mission to provide career-long training to law enforcement professionals to help them fulfill their responsibilities safely and proficiently. Over the past 46 years, FLETC has grown into the Nation’s largest provider of law enforcement training.

### Innovative Veterans Hiring Event



The recent Executive order signed on January 25, 2017 mandates the enhancement of public safety in the interior of the United States. The Secretary has the responsibility of ensuring 10,000 additional immigration officers are hired to secure the United States borders, and enforce immigration laws. In an effort to assist with achieving this goal, and increase veteran hiring numbers, the Office of the Chief Human Capital Officer worked jointly with representatives from every DHS Component to sponsor a two-day “Continue Your Service to America” veteran recruitment and hiring event. Veterans currently make up 27.9 percent of the Department’s workforce. Prior to the event, the Office of the Chief Human

Capital Officer, U.S. Citizenship and Immigration Services, Customs and Border Protection, U.S. Immigration and Customs Enforcement, delivered a series of veteran hiring event webinar learning sessions for veterans across the United States. The webinars assisted veterans with uploading their resumes to USAJOBS and making them searchable by federal agencies. More than 5,000 veterans participated in the webinars.

The hiring event held August 22-23, 2017 was attended by 2,570 veterans representing each branch of the military. As a result of the partnership between DHS Components for the event, over 600 veterans were interviewed, an estimated 125 tentative job offers were made, and approximately 375 candidates were moved to the next phase of the law enforcement hiring process. An innovative approach of interviewing, providing temporary job postings, and initiating the security process at the hiring event will reduce the time to hire these candidates. The hiring process generally takes four to six months to onboard an employee. Through the innovation of webinar learning sessions and an abbreviated temporary job posting and security process, DHS is able to acquire highly trained, and highly-talented veterans in an expedited manner to continue their service to America by supporting the DHS mission.

### Looking Forward

Maturing and strengthening the Department and the entire homeland security enterprise—the collective efforts and shared responsibilities of federal, state, local, tribal and territorial, nongovernmental and private-sector partners, as well as individuals, families, and communities—is critical to the Department’s success in carrying out its core missions and operational objectives.

**Formalizing the Requirements Process:** DHS's maturation and challenge includes improving numerous business practices necessary for supporting front line operations that must combat evolving threats and ensuring efficient operations. An important advancement for the Department along this journey is formalizing the requirements process. Gains in this effort come from the Department wide Joint Requirements Council (JRC) and the Radiological/Nuclear Requirements Oversight Council (RNROC). The JRC provides oversight of the DHS requirements generation process by validating capability gaps, needs, and requirements based on capability analysis. The RNROC charter is to oversee the requirements process specific to radiological/nuclear detection and nuclear forensics, vetting Component requirements, and leading to the fielding of effective solutions prior to validation by the JRC. Both efforts are advancing requirements development in DHS and will ensure efficient and effective operations into the future.

**Office of the Chief Human Capital Officer:** DHS continues to implement a results-oriented annual planning process to support the strategic management of human capital resources. Several key department-wide initiatives will occur in the coming year to bring the human capital community together in a unity of effort. The Department will develop an enterprise approach for co-branding DHS and Components in all human capital outreach efforts including advertising, marketing, and social media. DHS will also develop a process to automate and streamline data collection to provide leadership with real-time information to evaluate the return on investment achieved related to hiring initiatives. Furthermore, the Department is creating career pathing with online resources, assessment tools, and skill-building opportunities for the 1800 job series occupations (Inspection, Investigation, Enforcement, and Compliance), Human Resources occupations (201 job series), and other select Management lines of business occupations. Lastly, DHS will leverage existing Component programs to develop a department-wide Resilience and Family Readiness Program to support families when front-line employees need to be deployed to other geographic locations.

**Financial Stewardship:** DHS is expending resources to raise the baseline of our security posture, necessitating the continued evolution of the business processes and systems supporting mission delivery. With the magnitude and scope of threats continuing to grow and change every day, DHS is further maturing our resource agility and efficiency. Enterprise risk management (ERM) is foundational to delivering on the DHS mission and objectives, and integrated into each phase of the planning to execution processes. A critical aspect of the Department's integrated ERM approach is the continued maturation of a robust internal control program, ensuring taxpayer funds are expended as efficiently and effectively as possible while preventing and detecting fraud, waste and abuse. Using a risk based approach and the U.S. Government Accountability Office (GAO) criteria for standards for internal control, DHS assessed its internal control maturity by Component and key deficiency category. This Internal Control Maturity Model baseline served as the Department's starting point to measure substantial progress in addressing weaknesses and sustaining a strong control environment. The Department's comprehensive enterprise approach to remediation are driving and sustaining continuous progress, as evidenced by the ability to downgrade the Property material weakness this fiscal year. DHS will continue demonstrating strong financial stewardship, executing the multi-year strategy to remediate our two remaining material weaknesses in Financial Reporting and Information Technology controls and achieve a clean Internal Control over Financial Reporting opinion.

## Financial Overview

The Department's principal financial statements—Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity—report the financial position and results of operations of the Department, including long-term commitments and obligations. The statements have been prepared pursuant to the requirements of Title 31, United States Code, Section 3515(b), in accordance with U.S. generally accepted accounting principles and the formats prescribed by OMB. These statements are in addition to the financial reports used to monitor and control 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 Federal Government, a sovereign entity. KPMG LLP performed the audit of the Department's principal financial statements.

### Financial Position

The Department prepares its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on an accrual basis, in accordance with generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed.

The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

Financial Position (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Fund Balance with Treasury	\$ 71,466	\$ 58,997	\$ 12,469	21%▲
Property, Plant, and Equipment	21,887	21,220	667	3%▲
Other Assets	18,358	17,413	945	5%▲
<b>Total Assets</b>	<b>111,711</b>	<b>97,630</b>	<b>14,081</b>	<b>14%▲</b>
Federal Employee and Veterans' Benefits Debt	58,715	58,028	687	1%▲
Accounts Payable	30,440	23,017	7,423	32%▲
Deferred Revenue and Advances	4,278	3,868	410	11%▲
Insurance Liabilities	5,799	3,795	2,004	53%▲
Accrued Payroll	12,331	3,196	9,135	>100%▲
Other Liabilities	2,276	2,114	162	8%▲
<b>Total Liabilities</b>	<b>121,493</b>	<b>101,510</b>	<b>19,983</b>	<b>20%▲</b>
Total Net Position	(9,782)	(3,880)	(5,902)	<-100%▼
<b>Total Liabilities and Net Position</b>	<b>\$ 111,711</b>	<b>\$ 97,630</b>	<b>\$ 14,081</b>	<b>14%▲</b>

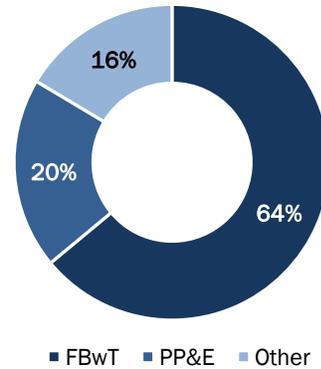
Results of Operations (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Gross Cost	\$ 80,683	\$ 69,404	\$ 11,279	16%▲
Less: Revenue Earned	(13,786)	(14,499)	713	-5%▼
Net Cost Before Gains and Losses on Assumption Changes	66,897	54,905	11,992	22%▲
Gains and Losses on Assumption Changes	(494)	234	(728)	<-100%▼
<b>Total Net Cost</b>	<b>\$ 66,403</b>	<b>\$ 55,139</b>	<b>\$ 11,264</b>	<b>20%▲</b>

**Assets – What We Own and Manage**

Assets represent amounts owned or managed by the Department that can be used to accomplish its mission.

The Department's largest asset is *Fund Balance with Treasury (FBwT)*, which consists primarily of appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.

*Property, Plant, and Equipment (PP&E)* is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses.



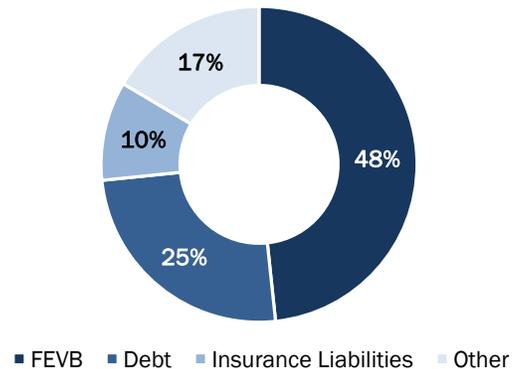
*Other Assets* includes items such as investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, and inventory and related property.

As of September 30, 2017, the Department had \$111.7 billion in assets, representing a \$14.1 billion increase from FY 2016. The majority of this change is due to the increase in FEMA's FBwT to support disaster relief efforts for the significant hurricanes that struck the United States this past year.

**Liabilities – What We Owe**

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities.

The Department's largest liability is for *Federal Employee and Veterans' Benefits (FEVB)*. The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).



*Debt* is the second largest liability, and results from Treasury loans and related interest payable to fund FEMA's NFIP and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to pay its debt from the premium revenue alone;

therefore, legislation will need to be enacted to provide funding to repay the Treasury. This is discussed further in Note 15 in the Financial Information section.

*Insurance Liabilities* represent an estimate of NFIP claim activity based on the loss and loss adjustment expense factors inherent to the NFIP insurance underwriting operations, including trends in claim severity and frequency.

*Other Liabilities* include amounts owed to other federal agencies and the public for goods and services received by the Department, amounts received by the Department for goods or services that have not been fully rendered, unpaid wages and benefits for current DHS employees, and amounts due to the Treasury’s general fund, environmental liabilities, refunds and drawbacks, and other.

As of September 30, 2017, the Department reported approximately \$121.5 billion in total liabilities. Total liabilities increased by approximately \$20 billion in FY 2017. FEMA’s disaster response costs and related increases in FEMA’s debt to Treasury along with projected future flood claims drives most of this increase in liabilities.

**Net Position**

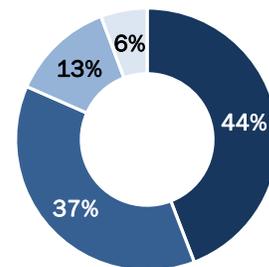
Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency’s balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section below as well as transfers to other agencies decrease net position. The Department’s total net position is \$(9.8) billion because of significant expenses related to NFIP, as well as pension liabilities for USCG and USSS, which are funded for the current year only. Total net position decreased approximately \$6 billion from FY 2016, in large part because of the cost associated with hurricane relief efforts.

**Results of Operations**

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values.* The [FY 2014-2018 Strategic Plan](#) further details the Department’s missions and focus area, which are grouped into four major missions in the Statement of Net Cost and related footnotes to allow the reader of the Statement of Net Cost to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.

Net cost of operations before gains and losses represents the difference between the costs incurred and revenue earned by DHS programs. The Department’s net cost of operations before gains and losses increased by approximately \$11 billion in FY 2017. DHS incurred a significantly larger gross cost this year to support response and recovery efforts related to the recent hurricanes.

During FY 2017, the Department earned approximately \$13.8 billion in exchange revenue.



- Foster a Safe and Secure Homeland
- Strengthen National Preparedness and Resilience
- Enforce and Administer Our Immigration Laws
- Mature and Strengthen Homeland Security

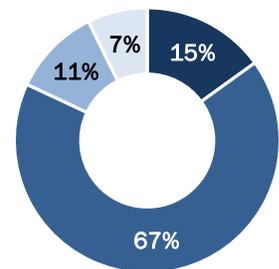
Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statement of Custodial Activity or Statement of Changes in Net Position, rather than the Statement of Net Cost.

**Budgetary Resources**

Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases happens prior to the transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls.

Sources of Funds (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Unobligated Balance from Prior Year Authority	\$ 15,341	\$ 18,113	\$ (2,772)	-15% ▼
Appropriations	68,224	58,644	9,580	16% ▲
Spending Authority from Offsetting Collections	10,971	11,355	(384)	-3% ▼
Borrowing Authority	7,427	1	7,426	>100% ▲
<b>Total Budgetary Authority</b>	<b>\$ 101,963</b>	<b>\$ 88,113</b>	<b>\$ 13,850</b>	<b>16% ▲</b>

The Department’s budgetary resources were approximately \$102 billion for FY 2017. The authority was derived from \$15.4 billion in authority carried forward from FY 2016, appropriations of \$68.2 billion, \$11 billion in collections, and \$7.4 billion in borrowing authority. Budgetary resources increased approximately \$14 billion from FY 2016. FEMA received a supplemental appropriation to respond to the significant disasters at the end of the fiscal year. Additionally, FEMA borrowed \$7.4 billion in FY 2017 to pay insurance claims against the NFIP. Both of these served to increase the Department’s budget authority significantly in FY 2017.



- Unobligated Balance from Prior Year Authority
- Appropriations
- Spending Authority from Offsetting Collections
- Borrowing Authority

Of the total budget authority available, the Department incurred a total of \$81.9 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.

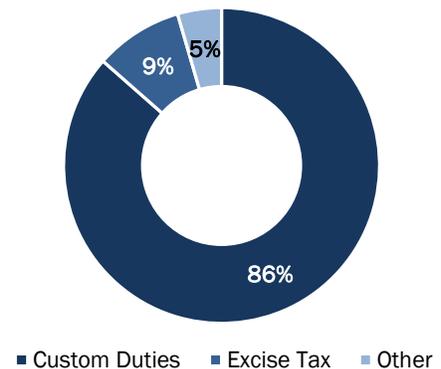
### Custodial Activities

The Statement of Custodial Activity is prepared using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Cash Collections (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Cash Collections	\$ 34,835	\$ 35,142	\$ (307)	-1%▼
Excise Tax	3,631	3,430	201	6%▲
Other	1,810	1,684	126	7%▲
<b>Total Cash Collections</b>	<b>\$ 40,276</b>	<b>\$ 40,256</b>	<b>\$ 20</b>	<b>0%▲</b>

Custodial activity includes the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury’s general fund and other federal agencies.

Custom duties collected by CBP account for 86 percent of total cash collections. The remaining 14 percent is comprised of excise taxes, user fees, and various other fees.



### Other Key Regulatory Requirements

For a discussion on DHS’s compliance with the Prompt Payment Act, and Debt Collection Improvement Act of 1996, see the Other Information section.

## Secretary's Assurance Statement

November 14, 2017



The Department of Homeland Security management team is responsible for meeting the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) by managing risks and maintaining effective internal control over three internal control objectives: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. The Department conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017

except for the disclosures noted in the subsequent sections.

Pursuant to the DHS Financial Accountability Act (FAA), the Department is required to obtain an opinion on its internal control over financial reporting. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123 and Government Accountability Office (GAO) Standards for Internal Control. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was designed and operating effectively, with the exception of the following two areas: 1) Financial Reporting and 2) Information Technology Controls and Systems Functionality, where material weaknesses have been identified and remediation is in process, as further described in the *Management Assurances* section of the Agency Financial Report.

In addition, the material weakness related to Information Technology (IT) Controls and Systems Functionality stated above affects the Department's ability to fully comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA.

As a result of our assessments conducted, I am pleased to report that the Department has made progress in enhancing its internal controls and financial management program and continues to plan for additional improvements going forward.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Duke', written over a light blue horizontal line.

Elaine C. Duke  
Acting Secretary of Homeland Security

## ***Management Assurances***

DHS management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (31 United States Code 3512, Sections 2 and 4) and the Federal Financial Management Improvement Act of 1996 (Pub. L. 104-208), as prescribed by the GAO Standards for Internal Control in the Federal Government known as the Green Book, are met. In addition, the Department of Homeland Security Financial Accountability Act (Pub. L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

In FY 2014, GAO revised the Green Book effective beginning FY 2016 and for the Federal Managers' Financial Integrity Act reports covering that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes. In FY 2016, the OMB revised Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revisions emphasize the integration of risk management and internal controls within existing business practices across an Agency. Updates to the Circular were effective in FY 2016, with the implementation of enterprise risk management requirements effective in FY 2017. Circular A-123, Appendix A, *Internal Control over Financial Reporting*, remains in effect.

### **Federal Managers' Financial Integrity Act, Section 2**

Since Circular No. A-123 became effective 2006, DHS has worked extensively to establish, maintain, and assess internal controls. The Department has made considerable improvements in internal controls over operations, reporting, and compliance through the extensive work of staff and management at Headquarters and in the Components.

In accordance with Circular A-123, the Department performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of financial reporting, and compliance with laws and regulations. Management performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact. Based on the results of these assessments, the Secretary provides assurances over the Department's internal controls in the annual assurance statement. Any deficiency identified as a material weakness within internal control over financial reporting is defined as 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. To identify material weaknesses and non-compliance, management used the following criteria:

- Significant enough to report outside the Agency as a material weakness;
- Impacts the operating effectiveness of Entity-Level Controls;
- Impairs fulfillment of essential operations or mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;
- Substantial non-compliance with laws and regulations; and

- Financial management systems conformance to government-wide systems requirements.

The Department instituted an Accountability Structure, which includes a Senior Management Council (SMC), the Risk Management and Assurance (RM&A) Division, and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary's consideration and is comprised of the Department's Under Secretary for Management, Chief Financial Officer, Chief Readiness Support Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer.

The RM&A Division seeks to integrate and coordinate internal control assessments with other internal control related activities and incorporates results from all of the Department's lines of business to address cross-cutting internal control issues. Finally, the SAT, led by the Chief Financial Officer and overseen by RM&A, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Component Senior Leadership provided assurance statements to the SAT that serve as the primary basis for the Secretary's assurance statements. These assurance statements are also based on information gathered from various sources including management-initiated internal control assessments, program reviews, and evaluations. In addition, these statements consider the results of reviews, audits, inspections, and investigations performed by the Department's Office of Inspector General (OIG) and GAO.

**Department of Homeland Security Financial Accountability Act**

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Using GAO Standards for Internal Control and Circular A-123 as criteria, the Department has demonstrated continued progress in reducing its financial material weaknesses and maintaining progress over sustained processes through routine internal control testing. This robust find, fix, test and assert assessment strategy will support sustainment of the financial statement opinion and achievement of an opinion over internal control over financial reporting in the near future.

In FY 2017, the Department reduced the severity of property, plant and equipment to a significant deficiency due to hard work and demonstrated progress evidenced through the USCG and NPPD remediation and sustained efforts by the remaining components. This reduces the Department's number of material weaknesses from three to two, where 1) financial reporting and 2) IT Controls and System Functionality material weaknesses will remain. The Department remains dedicated to fully remediating financial reporting and IT system security and functionality weaknesses. A summary of corrective actions are provided in the tables below.

**Table 1: Internal Control over Financial Reporting Corrective Actions**

Material Weakness	Component	Year Identified	Target Correction Date
		USCG, NPPD, FEMA, USSS, and CBP	FY 2003
<b>Financial Reporting</b>	USCG, NPPD, FEMA, USSS, and CBP experienced challenges with deficiencies in multiple financial management areas. These issues may include a combination of budgetary accounting, trading partner reconciliations, journal entries, third party service monitoring, and lack of compensating controls to mitigate system limitations.		
<b>Corrective Actions</b>	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities based on component contribution to the weakness area and risk. One of the primary financial reporting condition is due to a lack of integrated financial systems at the USCG. The Department and USCG will continue to focus on implementing and executing interim manual compensating measures, while pursuing system enhancements. In addition, the Department will continue to prioritize remediation efforts based on risk and components will implement targeted corrective actions to resolve the overall Department financial reporting conditions.		
Material Weakness	Component	Year Identified	Target Correction Date
	All DHS Components	FY 2003	FY 2019
<b>IT Controls and System Functionality</b>	The Department internal control assessment identified IT Controls and System Functionality as a material weakness due to inherited control deficiencies surrounding general computer and application controls. The Federal Information Security Management Act (FISMA) mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department’s financial systems do not fully comply with the FFMIA.		
<b>Corrective Actions</b>	The DHS CFO and CIO will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems. Remediation efforts will occur across the Department with a risk-based approach to correcting root-cause weaknesses across all CFO designated systems.		

**Federal Financial Management Improvement Act (FFMIA)**

FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. A financial management system includes an agency’s overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

We assess our financial management systems annually for compliance with the requirements of Appendices A and D to OMB Circular A-123 and other federal financial system requirements. In addition, we assess available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance.

Based on the results of our overall assessment, the material weakness related to Information Technology Controls and Systems Functionality affects the Department's ability to fully comply with financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA. The Department is actively engaged to correct the material weakness through significant compensating controls while undergoing system improvement efforts. The outcome of system improvement efforts will efficiently enable the

Department to comply with government-wide requirements and reduce manual compensating controls.

**Table 2: FFMIA Non-compliance Corrective Actions**

Non-Compliance	Component	Year Identified	Target Correction Date
<b>FFMIA Non-compliance</b>	All DHS Components	FY 2003	FY 2019
<b>Corrective Actions</b>	DHS does not substantially comply with FFMIA primarily due to lack of compliance with financial system requirements as disclosed as material weakness in IT Controls and System functionality. USCG, CBP, and ICE noted that certain key systems are unable to produce transaction level activity that reconciles at the USSGL-level. USCG also reported a lack of compliance as its financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported fully in accordance with the requirements prescribed by the OMB, Treasury, and the Federal Accounting Standards Advisory Board.  The DHS CFO, CIO, and Components will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems. In addition, DHS CFO and Components will continue to design, document, and implement compensating controls to reduce the severity of system security internal controls and functionality limitations.		

**Digital Accountability and Transparency Act of 2014**

In addition to performing an analysis of the Department’s compliance with FMFIA, FFMIA, DHS FAA, and applicable laws and regulations, management also considered its compliance with recently enacted laws. On May 9, 2014, the President signed the Digital Accountability and Transparency Act of 2014 (DATA Act) into law. By May of 2017 the law required the DHS to comply with the requirements outlined in the Act in accordance with guidance received from the Treasury and OMB. DHS will be required to report obligations by appropriation, program, object class, and award. This effort required enterprise-wide coordination and collaboration to modify business processes and systems to ensure full compliance. In FY 2016 the Department developed the initial technical solution and conducted two pilots successfully demonstrating the ability to link financial and award data. In August 2016, DHS submitted the DHS Implementation Plan Update to OMB as required. In April 2017, DHS successfully certified and submitted its first quarterly spending data for posting on USASpending.gov. In FY 2017, DHS continued to produce, test, and validate data improving the quality to ensure timely and accurate data reporting to meet and comply with the DATA Act requirements.

**Federal Information Security Modernization Act of 2014 (FISMA)**

FISMA provides a framework for ensuring effectiveness of security controls over information resources that support federal operations and assets, and provides a statutory definition for information security.

The Office of Inspector General (OIG) conducts an annual assessment of the DHS information security program in accordance with FISMA to determine whether DHS’s information security program is adequate, effective, and complies with FISMA requirements. Per the FY 2016 OIG FISMA audit report, “*Evaluation of DHS’ Information Security Program for Fiscal Year 2016,*” the OIG identified four recommendations for the Department to improve Federal information security. As a result of corrective actions taken prior to June 2017, the OIG has closed three of the recommendations from the FY 2016 FISMA audit. The final OIG recommendation has been noted as resolved but will remain open pending receipt of DHS provided evidence.

The FY 2017 OIG FISMA audit is pending completion at the time of this report's issuance. As such, the audit recommendations and Management's response to the recommendations will be provided when made available.

### **Financial Management Systems**

Pursuant to the Chief Financial Officers Act of 1990, the DHS CFO is responsible for developing and maintaining agency accounting and financial management systems to ensure systems comply with applicable accounting principles, standards, and requirements and with internal control standards. As such, the DHS CFO oversees and coordinates all financial system modernization efforts.

DHS has established a Joint Program Management Office (JPMO) to oversee Financial Systems Modernization (FSM) program management, priorities, risk, and cost and schedule. Our approach to modernizing financial management systems across the Department, includes:

- Expanding business intelligence and standardizing data across Components to quickly provide enterprise-level reporting;
- Targeting investments in financial systems modernization in a cost-effective manner and minimizing duplication in infrastructure in accordance with emerging technologies and guidance;
- Prioritizing essential system modernizations for the Components with the most critical need and projected greatest potential return on investment for efficiency and business process improvements; and
- Strengthening existing system controls—DHS is not depending on FSM efforts to achieve a “clean” internal control opinion or FFMIA compliance. We are addressing IT control weaknesses in high impact CFO designated systems through a holistic, multi-year remediation and internal control strategy, including compensating and complimentary controls.

As a federal shared service provider, the Department of the Interior (DOI), Interior Business Center (IBC) implemented financial management system solution for DNDO at the IBC data center in FY 2016 and additional development was continuing to eventually migrate TSA and USCG onto the new solution when fully developed to meet their requirements. In March 2017, it was determined that DHS would transition the DNDO, TSA, and USCG FSM initiatives out of the DOI IBC. DHS has made a significant investment in the current financial management solution and is migrating this solution to an alternative hosting environment to complete integration and implementation. This system solution delivers a standardized baseline for DNDO, TSA, and USCG, with increased functionality and integration for DNDO. DHS is leveraging the lessons learned from this shared services implementation, reducing risk in future migrations through deliberative approaches to resource management, business process re-engineering, risk management, change management, and scheduling rigor and oversight.

In addition, USSS is on track to move to the next version of their current accounting software, Oracle Federal Financials, expected to be complete in FY 2018. Other FSM efforts are in the early stages, including FEMA's financial system, flood insurance, and grants management modernization.

**Performance Accountability**

Based on our internal controls evaluations, the performance information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. The Department's performance and accountability reports for this and previous years are available on our public website: <http://www.dhs.gov/performance-accountability>.

# U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



## AGENCY FINANCIAL REPORT

### FISCAL YEAR 2017



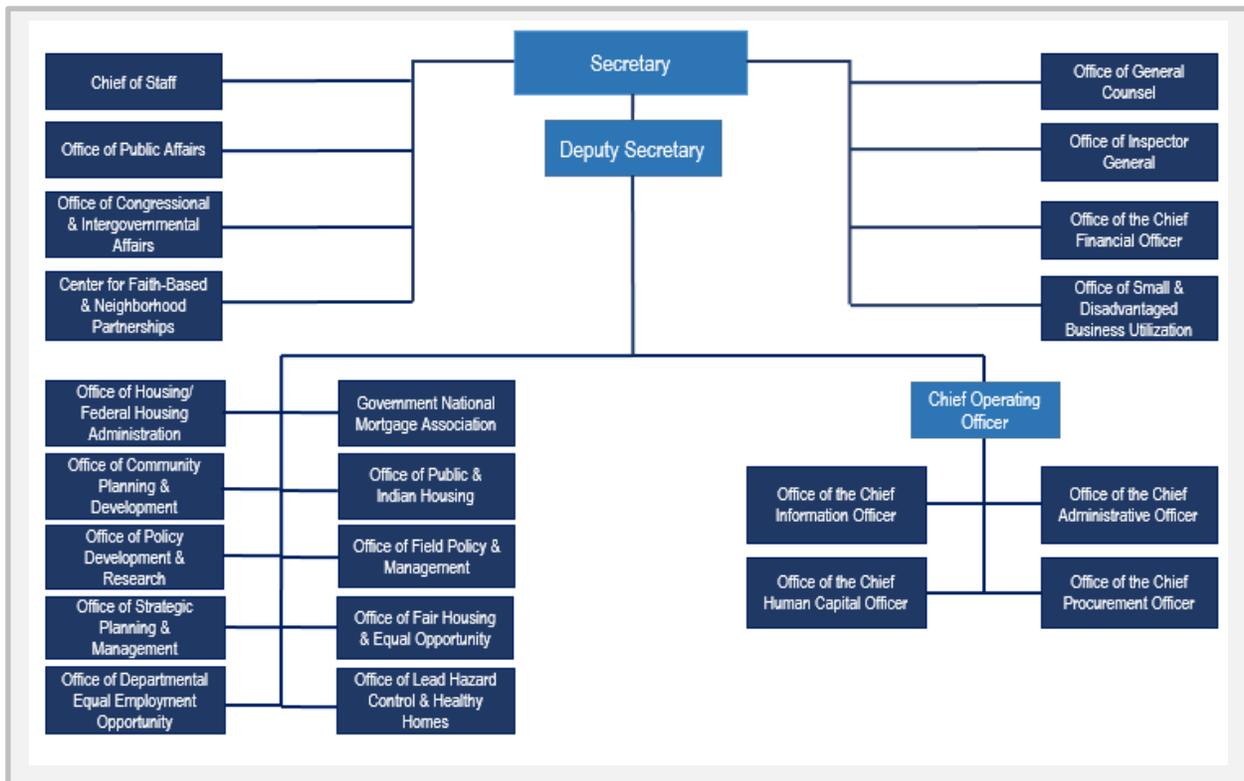
## Mission, Organization, and Major Program Activities

**HUD’s mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all.**

Our vision is to improve lives and strengthen communities to deliver on America’s dreams. Therefore, we pledge—

- **For our residents:** We will improve lives by creating affordable homes in safe, healthy communities of opportunity, and by protecting the rights and affirming the values of a diverse society.
- **For our partners:** We will be a flexible, reliable problem solver and source of innovation.
- **For our employees:** We will be a great place to work, where employees are valued, mission driven, results oriented, innovative, and collaborative.
- **For the public:** We will be a good neighbor, building inclusive and sustainable communities that create value and investing public money responsibly to deliver results that matter.

### HUD’s Organization and Reporting Structure



## Mission, Organization, and Major Program Activities

**Major Program Activities****Office of Community Planning and Development (CPD)**

Provides funding to a broad array of state and local governments, non-profit and for-profit organizations to administer a wide range of housing, economic development, homeless assistance, infrastructure, disaster recovery, and other community development activities in urban and rural areas across the country. In partnership, CPD and its local funding recipients develop viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.

Within CPD are four primary business areas:

- [Community Development Block Grant \(CDBG\)](#)
- [HOME Investment Partnerships Program \(HOME\)](#)
- [Office of Special Needs Assistance Programs \(SNAPS\)](#)
- [Housing Opportunities for Persons with AIDS \(HOPWA\)](#)

**Office of Fair Housing and Equal Opportunity (FHEO)**

Administers and enforces the Fair Housing Act and other civil rights laws, both by investigation of suspected violations and by partnering with state and local governments as well as non-profit grantees to enforce federal fair housing laws and substantially equivalent state and local laws.

Collaborates with other HUD offices to make sure that HUD funding recipients administer their programs and activities relating to housing and urban development in compliance with civil rights requirements.

Establishes policies that ensure all Americans have equal access to the housing of their choice.

Educates the public on fair housing issues and enhances economic opportunity.

**Government National Mortgage Association (Ginnie Mae)**

Channels global capital into the nation's housing markets. Its mission is to expand affordable housing in America by linking global capital markets to the nation's housing markets. Specifically, the Ginnie Mae Guaranty allows mortgage lenders to obtain attractive and abundant funding for their mortgage loans in the secondary market.

The Ginnie Mae Guaranty guarantees investors the timely payment of principal and interest on mortgage backed securities backed by federally insured or guaranteed loans.

**Mission, Organization, and Major Program Activities****Office of Lead Hazard Control and Healthy Homes (OLHCHH)**

Makes homes safer and healthier, especially for children and other vulnerable populations in low-income households, by controlling lead-based paint hazards, particularly in privately-owned and low-income housing, and leading the Nation in addressing other housing-related health hazards that threaten vulnerable residents.

**Office of Housing**

Oversees various HUD programs as well as the Federal Housing Administration (FHA), one of the largest mortgage insurers in the world, and regulates housing industry business. FHA insures mortgages for single family homes, multifamily properties, and healthcare facilities. Housing oversees multifamily properties that provide affordable rental housing to over 1.3 million low-income households and manages the Project-Based Rental Assistance and Sections 202 and 811 programs.

Housing is also home to the Office of Housing Counseling which funds housing counseling grants and will soon begin certifying individual Housing Counselors. Please see the following helpful links:

- [Single Family Housing](#)
- [Multifamily Housing](#)
- [Healthcare Programs](#)
- [Office of Housing Counseling](#)
- [Office of Risk Management and Regulatory Affairs](#)

**Office of Public and Indian Housing (PIH)**

Responsible for overseeing and monitoring a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable rental housing for low-income families; create opportunities for residents' self-sufficiency and economic independence; assure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing.

As of September 7<sup>th</sup>, 2017, PIH's workforce totaled 1,387 within 11 major offices at Headquarters, 45 field offices, and 6 Office of Native American Program (ONAP) Offices, all overseeing three major business areas:

- [Housing Choice Voucher Programs](#)
- [Public Housing Programs](#)
- [Native American Programs \(ONAP\)](#)

Strategic Goals & Agency Priority Goals

## Strategic Goals & Agency Priority Goals

The Department of Housing and Urban Development (HUD) Strategic Plan for Fiscal Year (FY) 2014-2018 defined agency strategic goals and objectives with over 100 output or outcome measures of success, as revised by targets established in the Department's FY 2018 Annual Performance Plan. For the two-year period, FY 2016 to FY 2017, HUD focused on five agency priority goals (APGs). These agency strategic goals, corresponding strategic objectives, and agency priority goals are displayed below for reference. This portion of the Agency Financial Report focuses on the agency priority goals and HUD’s progress toward key measures through these areas. Note that the agency priority goals do not reflect the full scope of the agency's strategic goals and mission. HUD is currently developing the Strategic Plan for FY 2018-2022, which will lay out new strategic goals and APGs.

<b>HUD’s FY 2014 – 2018 Strategic Framework</b> <b>Mission: Create strong, sustainable, inclusive communities and quality, affordable homes for all.</b>			
<b>Strategic Goals</b>			
<b>Strengthen the Nation’s Housing Market to Bolster the Economy and Protect Consumers</b>	<b>Meet the Need for Quality Affordable Rental Homes</b>	<b>Use Housing as a Platform to Improve Quality of Life</b>	<b>Build Strong, Resilient, and Inclusive Communities</b>
<b>Strategic Objectives</b>			
<b>Housing Market</b> Establish a sustainable housing finance system that provides support during market disruptions, with a properly defined role for the U.S. Government.	<b>Rental Investment</b> Ensure sustainable investments in affordable rental housing.	<b>End Homelessness</b> End homelessness for Veterans, people experiencing chronic homelessness, families, youth, and children.	<b>Fair Housing</b> Reduce housing discrimination, affirmatively further fair housing through HUD programs, and promote diverse, inclusive communities.
<b>Credit Access</b> Ensure equal access to sustainable housing financing and achieve a more balanced housing market, particularly in underserved communities.	<b>Rental Alignment</b> Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.	<b>Economic Prosperity</b> Promote advancements in economic prosperity for residents of HUD-assisted housing.	<b>Green and Healthy Homes</b> Increase the health and safety of homes and embed comprehensive energy efficiency and healthy housing criteria across HUD programs.
<b>FHA’s Financial Health</b> Restore the Federal Housing Administration’s financial health, while supporting the housing market recovery and access to mortgage financing.		<b>Health and Housing Stability</b> Promote the health and housing stability of vulnerable populations.	<b>Disaster Resilience</b> Support the recovery of communities from disasters by promoting community resilience, developing state and local capacity, and ensuring a coordinated federal response that reduces risk and produces a more resilient built environment.
			<b>Community Development</b> Strengthen communities’ economic health, resilience, and access to opportunity.
Highlighted items denote Agency Priority Goal areas.			

---

**Strategic Goals & Agency Priority Goals**

---

HUD's APGs, a subset of the Strategic Plan's measures of success, include targets to be achieved over a two-year performance period. APGs<sup>1</sup> typically reflect the top implementation-focused, performance improvement priorities of agency leadership and the Administration at the time, and therefore do not reflect the full scope of the agency mission.

A summary of HUD's partial FY 2017 APG performance can be found below. For a complete review of HUD's FY 2017 performance, please see the *FY 2017 Annual Performance Report* (APR), which is scheduled to be published in February 2018. Current and past APRs can be accessed online at [https://www.hud.gov/program\\_offices/spm/appr](https://www.hud.gov/program_offices/spm/appr).

### **FY 2016-2017 Agency Priority Goal: Preserve Affordable Rental Housing**

Between October 1, 2015 and September 30, 2017, HUD aimed to preserve and expand affordable rental housing through its rental housing programs to serve an additional 160,149 households<sup>2</sup> over an FY 2015 baseline of 5,547,521 households.<sup>3</sup> At the end of FY 2016, HUD exceeded its first-year target to serve an additional 70,562 households by 7,861 for an FY 2016 cumulative total of 5,625,944 households served. As of quarter two of FY 2017, HUD is on target to achieve its second-year goal of serving an additional 81,726 households.

### **FY 2016-2017 Agency Priority Goal: End Homelessness**

On November 17, 2016, HUD released the 2016 Point-in-Time (PIT) count, which found that 549,928 persons experienced homelessness on a single night in 2016, a decline of 14 percent since the 2010 launch of Opening Doors. Homelessness has continued to fall across all groups, including one-year reductions of 17 percent among veterans, 7 percent among individuals experiencing chronic homelessness, and 5 percent among families since the 2015 PIT count.

Progress towards ending the number of Veterans experiencing homelessness is measured by the annual PIT count, a count of homeless persons on a single night in January each year. Each January count corresponds to the impact of the previous fiscal year's activities and is released in the Annual Homeless Assessment Report (AHAR) in the fall following each count. The FY 2016 actual will be measured in the January 2017 PIT count and released in the 2017 AHAR and in HUD's FY 2017 APR in early 2018.

---

<sup>1</sup> Unless otherwise noted, performance data for FY 2017 is through the third fiscal quarter (Q3).

<sup>2</sup> Targets and baselines have been modified as more accurate FY 2015 data has become available since HUD's last performance reports.

<sup>3</sup> Targets and baselines have been modified as more accurate FY 2015 data has become available since HUD's last performance reports.

## Strategic Goals &amp; Agency Priority Goals

## Key Indicator: Number of households served through HUD rental assistance

Households in Occupied Rental Units Receiving Assistance by Program (Numbers are Cumulative)	FY 2015 Actual Baseline	FY 2016 Actual	FY 2017 Actual (thru Q2) <sup>4</sup>	FY 2017 Annual Target
Multifamily Assisted Housing Programs <sup>5</sup>	1,333,596	1,352,480	1,414,762	1,378,217
Other Multifamily Subsidies	89,920	82,391	72,174	78,391
Insured Tax Exempt or Low-Income Housing Tax Credit	203,168	236,825	305,548	276,497
<b>TOTAL Housing Programs</b>	<b>1,626,684</b>	<b>1,671,696</b>	<b>1,792,484</b>	<b>1,733,105</b>
Tenant-Based Rental Assistance (HCV)	2,212,545	2,254,613	2,278,351	2,279,613
Rental Assistance Demonstration (RAD) units moved to Tenant-Based Rental Assistance (TBRA)	21,968	32,750	47,697	55,852
Public Housing	1,065,241	1,038,002	1,019,673	992,379
Public and Indian Housing (PIH) Mod Rehab	20,502	20,109	20,109	39,822
Mainstream Vouchers	14,007	14,348	13,897	14,348
Native American Housing (ONAP)	12,751	12,978	13,268	13,328
<b>TOTAL Public and Indian Housing</b>	<b>3,347,014</b>	<b>3,372,800</b>	<b>3,392,995</b>	<b>3,395,342</b>
HOME Rental	282,100	281,435	282,778	265,000
McKinney/Continuums of Care (CoC)	138,177	140,115	140,115	146,465
Tax Credit Assistance Program <sup>6</sup>	59,580	59,580	59,580	59,580
Community Development Block Grants – Disaster Recovery	45,778	53,728	64,207	62,132
Housing Opportunities for Persons Living with AIDS (HOPWA)	25,660	24,164	22,835	23,714
Neighborhood Stabilization Program <sup>7</sup> (NSP)	21,544	21,544	21,544	21,544
HOME TBRA <sup>8</sup>	984	882	1,048	788
<b>TOTAL Community Planning and Development</b>	<b>573,823</b>	<b>581,448</b>	<b>592,107</b>	<b>579,223</b>
<b>HUD TOTAL</b>	<b>5,547,521</b>	<b>5,625,944</b>	<b>5,777,586</b>	<b>5,707,670</b>

<sup>4</sup> Each program office is working to validate the final two quarters of FY 2017 data. A full closeout of FY 2017 program data will be published in the *FY 2017 Annual Performance Report* in February 2018.

<sup>5</sup> Includes Section 8, RAD to Project-Based Rental Assistance (PBRA), Section 202/811, Rental Housing Assistance Programs, Rent Supplement, and Section 232 units (Residential Care Facilities).

<sup>6</sup> Program is no longer active. Historic units contribute to the yearly cumulative total, however there are no cumulative targets.

<sup>7</sup> *ibid.*

<sup>8</sup> This is not cumulative data. Only Q4 data is reported.

**Strategic Goals & Agency Priority Goals**

---

**FY 2016-2017 Agency Priority Goal: Increase educational attainment among HUD-assisted tenants**

In 2017, HUD and Department of Education (ED) joined forces with the Campaign for Grade Level Reading, the National Book Foundation, and the Urban Libraries Council to transform the nation's Public Housing Authorities (PHAs) into book-rich environments. The Book-Rich Environment (BRE) Initiative brings diverse, high quality books and other literacy tools into the hands of children and families living in HUD-assisted housing to improve literacy outcomes and ensure all young people, regardless of background, have the tools they need to reach their full potential. The 36 communities participating in BRE all hosted events in partnership with the local library between June and August 2017 to launch the BRE initiative and to distribute the donated books. The National Book Foundation secured the donation of 270,000 new books for these communities, as well as the full cost of shipping and handling.

In December 2016, Project SOAR (Students + Opportunities + Achievements = Results) grants were awarded to nine PHAs to support education navigators to help public housing youth aged 15-20 and their families complete Free Application for Federal Student Aid (FAFSA) applications, as well as to assist with financial literacy and college readiness, post-secondary program applications and post-acceptance assistance. The implementation of Project SOAR is made possible through partnership with ED's Financial Student Aid office, which provided in-person training and ongoing technical assistance to each of the nine grantees.

**FY 2016-2017 Agency Priority Goal: Increase the energy efficiency and health of the nation's housing stock.**

HUD committed to increasing the health and safety of homes and embed comprehensive energy efficiency and healthy housing criteria across HUD programs. Since FY 2010, HUD has reported nearly 600,000 green or healthy units. Between October 1, 2015 and September 30, 2017, HUD aimed to increase the energy efficiency and health of the nation's housing stock by enabling an additional 160,000 cost-effective, energy efficient or healthy housing units.

As of the third quarter of FY 2017, total of 140,293 energy efficient and healthy units were reported for the two-year reporting period, against the FY 2016-17 target of 160,000 units. These totals include the following programs:

## Strategic Goals &amp; Agency Priority Goals

	FY 2014 Actual Units	FY 2015 Actual Units	FY 2014 & 2015 Actual Units	FY 2016 Actual Units	FY 2017 Actual Units (Q3) <sup>9</sup>	FY 2016 & 2017 Actual Units (Q3) <sup>10</sup>	FY 2016 & 2017 Target Units
<b>PIH</b>	30,285	27,793	58,078	25,876	13,608	39,484	41,697
<b>CPD</b>	7,923	8,748	16,671	8,708	4,314	13,022	15,202
<b>Housing</b>	18,711	26,309	45,020	29,207	25,327	54,534	64,336
<b>Lead Safe and Healthy Homes<sup>11</sup></b>	21,570	18,601	40,171	20,072	13,181	33,253	33,000
<b>Stretch Units<sup>12</sup></b>	N/A	N/A	N/A	N/A	N/A	N/A	5,765
<b>Total</b>	<b>78,489</b>	<b>81,451</b>	<b>159,940</b>	<b>83,863</b>	<b>56,430</b>	<b>140,293</b>	<b>160,000</b>

Additional programs report annually-only and will be available in December of 2017, including Office of Community Planning and Development's (CPD) Community Development Block Grant -Disaster Recovery and Public and Indian Housing's (PIH) Energy Performance Contracts. Based upon the historic performance of these programs and the outstanding quarter of data remaining, HUD anticipates meeting its two-year target of 160,000 units.

Depending upon the program, many grantees have 30+ days after the end of the quarter to provide HUD with their data. In addition to this 30-day window, program offices often require additional time to process and verify the data. Therefore, a complete record of completions by quarter are not generally available until at least 60 days after the close of the quarter.

### **FY 2016-2017 Agency Priority Goal: Expand in-home adoption of high-speed internet.**

HUD has committed to narrowing the digital divide by connecting 50 percent of PIH households in ConnectHome pilot communities to at-home high-speed Internet by September 30, 2017. ConnectHome creates a platform for community leaders, local governments, nonprofit organizations, and private industry to join together to produce locally-tailored solutions for

<sup>9</sup> Year-end data will be available in the *FY 2017 Annual Performance Report*.

<sup>10</sup> *ibid*.

<sup>11</sup> Lead Safe and Healthy Homes units include Office of Lead Hazard Control and Healthy Homes units and CPD funded Lead Safe Housing Rule units.

<sup>12</sup> Stretch units are not assigned to any specific program office but instead emphasize the Department's commitment to aiming for 160,000 completed units every two-year APG cycle.

**Strategic Goals & Agency Priority Goals**

---

narrowing the digital divide. Through these stakeholders' specific commitments to provide no-cost or low-cost broadband access, devices, and digital literacy training, ConnectHome extends affordable access to low-income families. Since launching in 2015, the ConnectHome initiative has made great strides increasing access to high-speed Internet in its 28 pilot communities. In May of 2017, ConnectHome expanded nationally in partnership with EveryoneOn to launch ConnectHomeUSA which will bring on an additional 100 communities by 2020. As of August 2017, approximately 71,546 public housing households in these pilot communities have been connected to high-speed Internet service, over 20,000 of those directly through ConnectHome, representing 49% of households in the pilot community developments.

Forward Looking Information

---

## Forward Looking Information

Numerous external factors shape HUD's operating environment. Understanding their influence is essential for mitigating risk and achieving performance objectives. These external factors include funding levels, economic conditions, unemployment rates, financial markets, tax codes, and other federal, state and local conditions. HUD's new *2018–2022 Strategic Plan* responds to these factors by reimagining the way HUD works. The plan's reforms include careful use of evidence, employee empowerment, clear communication, and enhanced controls that are all crucial to more efficient and effective mission delivery.

Constrained federal funding levels affected most HUD programs during FY 2017 and are likely to continue in the foreseeable future. Financial constraints increase demand by Public Housing Authorities (PHAs) for administrative and operational flexibility. HUD is implementing such flexibilities through the Rental Assistance Demonstration, which gives PHAs access to private capital, and by working toward an evidence-based expansion of housing agencies participating in the Moving to Work program.

By the end of FY 2017, the unemployment rate had improved to 4.4 percent, down from 4.9 percent a year earlier, and the employment-to-population ratio increased slightly.<sup>1</sup> Such employment gains should facilitate further gains in household incomes, building on the 4.5 percent increase in 2015 median income to \$59,039 in 2016.<sup>2</sup> The improving employment and income situation is likely to strengthen the ability of first-time home buyers to enter the housing market in coming years.

In the second quarter of 2017, purchases of new single-family homes were up 9 percent and of existing homes were up 2 percent from a year earlier. With the increasing demand, prices of owner-occupied homes as measured by the Case-Shiller index had increased by 5.7 percent as of June 2017 compared with the previous year. The turmoil in the mortgage market has substantially ended. At the end of FY 2017, rates of mortgage delinquency, foreclosure starts, and foreclosure completions showed little change from previous year rates. Student loan debt poses a significant constraint on homebuying by younger adults. Other factors restraining sales include more stringent bank lending standards, a relatively low sales inventory, and weakening ownership affordability driven by the house price increases and slightly higher interest rates. For these reasons, sales to first-time buyers accounted for 33 percent of all sales transactions in the second quarter of 2017, remaining significantly below the historic norm of 40 percent.<sup>3</sup>

---

<sup>1</sup> Values as of August. Bureau of Labor Statistics. "Employment Situation Summary Table A. Household data, seasonally adjusted," August 2017. <http://www.bls.gov/news.release/emp/sit.a.htm>

<sup>2</sup> U.S. Census Bureau. 2017. Table HINC-01, "Selected Characteristics of Households by Total Money Income." <https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html>.

<sup>3</sup> HUD PD&R. 2017. "National Housing Market Summary, 2nd Quarter, 2017." [https://www.huduser.gov/portal/ushmc/quarterly\\_commentary.html](https://www.huduser.gov/portal/ushmc/quarterly_commentary.html).

---

**Forward Looking Information**

---

Housing construction in mid-2017 remained at the same annual pace of 1.2 million housing starts that was observed the previous year. Construction at this pace would be just sufficient to accommodate annual housing formation, were it not for expected demolition of several hundred thousand obsolete units. On balance, housing markets remain tight. The number of multifamily starts declined 16 percent, although the rental vacancy rate of 7.3 percent in June 2017 had eased only 0.6 points from the record low of the previous year.<sup>4</sup> Multifamily housing starts represented 28 percent of total starts in June 2017, remaining above the long-run average of 24 percent of housing starts.<sup>5</sup>

HUD's rental affordability index shows that rent increases continue to outpace income growth, eroding the affordability of renting a home. The index relates median renter household income to the qualifying income for the median-priced rental unit. The rental affordability index worsened from 140.1 percent at the beginning of 2001 to 118.0 in the second quarter of 2016 and 112.6 in the second quarter of 2017. The latter value implies that the median renter has only 12.6 percent more income than the minimum necessary to qualify, at 30 percent of income, for the median-priced unit.

Very low-income renters are disproportionately burdened by a supply gap in affordable housing. In 2015, only 62.0 affordable rental units were available per 100 very low income renters, down from 65.2 in 2013.<sup>6</sup> Such unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs.

Shortages of affordable housing also contribute to doubling up and homelessness, especially for families. Homeless veterans for many years were overrepresented in the homeless population, especially among chronically homeless individuals.

Under the *National Disaster Recovery Framework* developed since Hurricane Katrina, HUD has a major role in helping implement disaster recovery. Over the longer term, new disasters and emerging national needs such as coastal development and insufficient flood insurance have potential to create new needs and require significant changes in the Department's program operations. Severe hurricanes such as Harvey, Irma, and Maria that made landfall late in FY 2017 cause damage that can significantly change housing and employment markets on a regional basis for months or years.

HUD is continuing to integrate evidence and research in operations and policy, consistent with multiple governmental initiatives, and as embodied in the *2018–2022 Strategic Plan*. Major components of this effort include the Office of Policy Development and Research's (PD&R's) demonstration and evaluation program, which is guided by a learning agenda, *HUD Research Roadmap: 2017 Update*; increased collaboration with external partners to address cross-cutting policy issues through research; the leveraging of HUD's data infrastructure by linking

---

<sup>4</sup> Census Bureau. Historical Table 1. "Quarterly Rental Vacancy Rates: 1956 to Present."

<sup>5</sup> HUD PD&R. 2017. "National Housing Market Summary, 2nd Quarter, 2017."

<sup>6</sup> HUD PD&R. 2017. *Worst Case Housing Needs: 2017 Report to Congress*.

**Forward Looking Information**

---

administrative data with surveys and other external data sources; and the continuing integration of evidence into business operations.

---

**Analysis of Financial Condition and Results**


---

## Analysis of Financial Condition and Results

In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 United States Code (U.S.C) 3515 (b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are provided in addition to the financial reports used to monitor and control 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.

This part provides a summary of HUD's:

- Financial Data
- Analysis of Financial Position
- Analysis of Off-Balance Sheet Risk

### Summarized Financial Data (Dollars in Billions)

	2017	Restated 2016
Total Assets	\$161.8	\$149.5
Total Liabilities	\$57.0	\$37.2
Net Position	\$104.8	\$112.3
FHA Insurance-In-Force	\$1,381.2	\$1,318.0
Ginnie Mae Mortgage-Backed Securities Guarantees	\$1,884.2	\$1,728.1
Other HUD Program Commitments	\$39.6	\$35.1

## Restatement of FY 2016 Financial Statements

During fiscal year 2017, the Department identified errors in the fiscal year 2016 financial statements and notes caused by mathematical mistakes, mistakes in the application of accounting principles, and oversight of facts that existed when the statements were originally prepared. Although the errors are generally not material at the consolidated level, some errors were material at the stand-alone component level (Ginnie Mae and Federal Housing Administration).

Analysis of Financial Condition and Results

The errors caused assets, liabilities, cumulative results of operation, and budgetary resources to be understated, and net cost to be overstated. These errors have been corrected at the component level, resulting in restated consolidated financial statements for fiscal year 2016, which flow-through to the beginning balances of the fiscal year 2017 consolidated financial statements.

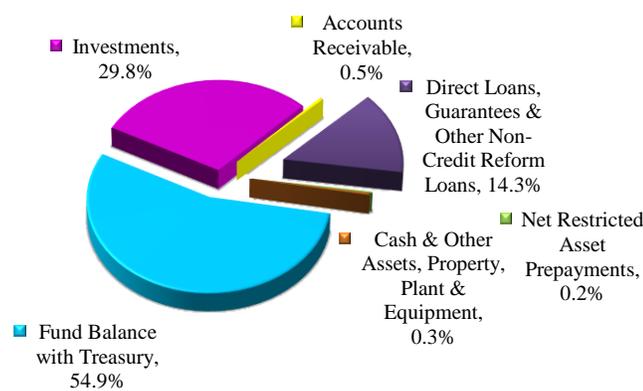
Note 24, in the Notes to the Financial Statements in Section 2, provides further details.

Analysis of Financial Position

Assets – Major Accounts

Total Assets for FY 2017, as reported in the Consolidated Balance Sheet, are displayed in the graph on the next page. Total Assets of \$161.8 billion are comprised of Fund Balance with Treasury of \$88.8 billion (54.9 percent), Investments of \$48.2 billion, Accounts Receivable of \$0.7 billion, Direct Loans & Loan Guarantees of \$20.2 billion, Other Non-Credit Reform Loans of \$2.9 billion, Net Restricted Asset Prepayments of \$0.3 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of \$0.5 billion at September 30, 2017.

Composition of HUD Assets - FY17

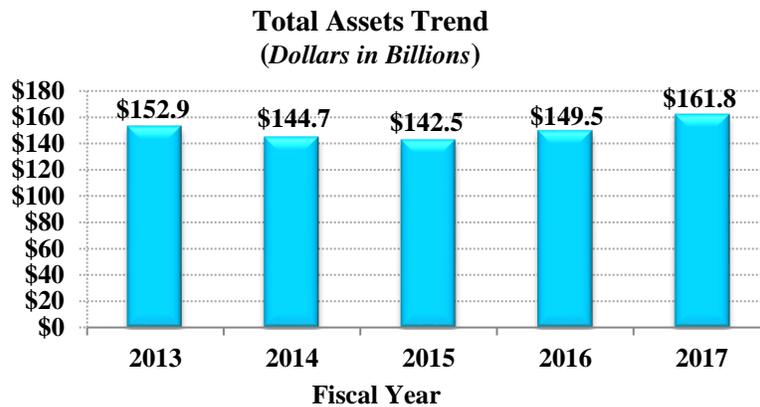


Total Assets increased \$12.3 billion (8.2 percent) from \$149.5 billion at September 30, 2016. The net increase was due to an increase of \$15.6 billion (21.4 percent) in Fund Balance with Treasury, an increase of \$0.8 billion (4.0 percent) in Direct Loans & Loan Guarantees, an increase of \$0.1 billion (4.0 percent) in Other Non-Credit Reform Loans, being offset by a decrease of \$4.2 billion (8.1 percent) in Investments. The chart on the next page shows Total Assets for FY 2017 and the four preceding years. The changes and trends affecting Total Assets are discussed in the subsequent paragraphs.

---

**Analysis of Financial Condition and Results**


---



Fund Balance with Treasury of \$88.8 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury increased \$15.6 billion due primarily to an increase of \$8.3 billion for FHA, \$1.0 billion for Ginnie Mae, \$7.0 billion for Community Development Block Grants (CDBG), \$0.2 billion for Homeless, \$0.2 for Public and Indian Housing (PIH), \$0.2 billion for All Other, offset by a decrease of \$0.7 billion in Section 8, \$0.2 billion for the HOME Investment Partnerships Program (HOME), \$0.3 billion for Housing for the Elderly and Disabled, and \$0.1 billion for various miscellaneous programs. The FHA increase is due primarily to a change of \$5.6 billion in Mutual Mortgage Insurance Fund (MMI) and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S. Treasury securities, and an increase of \$3.7 billion in Budgetary Collections, offset by \$1.0 billion for other FHA programs. Ginnie Mae's fund balance increased due to positive cash flows from operations, primarily driven by offsetting collections, for example, overnight investments interest, Mortgage Backed Security (MBS) guaranty fees, etc. The CDBG program fund balance increased primarily due to a Disaster Appropriation of \$7.4 billion in FY 2017.

Investments of \$48.2 billion consist primarily of investments by FHA's MMI/CMHI and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments decreased by \$5.5 billion primarily because of a decrease in MMI/CMHI investment par value in U.S Treasury securities in FY 2017. The investment in U.S Treasury securities decreased due to less money available in the Capital Reserve Fund for investments due to the Upward Re-estimate in the MMI fund exceeded downward re-estimate. Ginnie Mae's investments increased by \$1.3 billion. Ginnie Mae's increase is due to negative subsidy and downward re-estimate collection from the financing fund, resulted in higher cash balance in the Capital Reserve Fund to invest in overnight US Treasury securities. Ginnie Mae received approval to start investing the balance in the capital reserve into US Treasury securities in FY 2015.

Accounts Receivable of \$0.7 billion primarily consists of claims to cash from the public, state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements.

Analysis of Financial Condition and Results

Direct Loan and Loan Guarantees of \$20.2 billion are attributed to FHA credit program receivables and HUD’s support of Construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 programs. FHA’s increase of \$1.1 billion (6.1 percent) is due primarily to an increase in Post-1991 Guarantees in the MMI/CMHI funds for both the SF Forward and Home Equity Conversion Mortgage (HECM) programs. The programs increased by \$0.6 billion and \$0.9 billion, respectively. The two were offset by decreases in the General Insurance and Special Risk Insurance (GI/SRI) fund totaling \$1.0 billion. In addition, FHA had an increase in Post-1991 Federal Financing Bank (FFB) Direct Loans in the GI/SRI fund for \$0.6 billion.

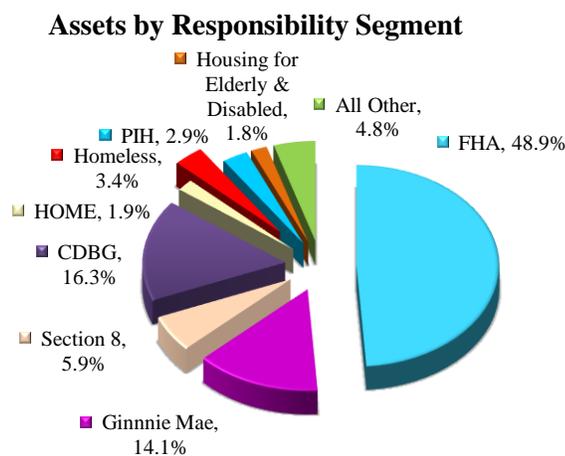
Other Non-Credit Reform Loans of \$2.9 billion consists of Mortgage Loans Held for Investment, Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Properties Held for Sale, Short Sale Claims Receivable, and Foreclosed Property.

PIH Prepayments of \$0.3 billion are the Department’s estimates of Restricted Net Position (RNP) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. RNP balances represent cash reserves used by Public Housing Authorities (PHAs) to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department and additional advances to PHAs participating in the Moving to Work Program.

Other Assets (Cash & Other Monetary Assets, Other Intragovernmental Assets, and Property, Plant & Equipment) of \$0.5 billion comprises primarily of internal use software, furniture and fixtures, and other assets.

*Assets – Major Programs*

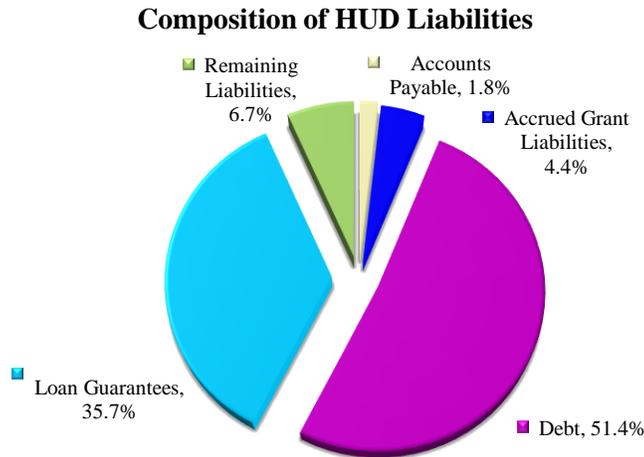
The chart below presents Total Assets for FY 2017 by major responsibility segment or program.



Analysis of Financial Condition and Results

**Liabilities – Major Accounts**

Total Liabilities for FY 2017, as reported in the Consolidated Balance Sheets, are displayed in the chart below.



Total Liabilities of \$57.0 billion consist of Intragovernmental Debt in the amount of \$29.3 billion (51.4 percent), Loan Guarantees amounting to \$20.3 billion (35.7 percent), Accounts Payable of \$1.0 billion (1.8 percent), Accrued Grant Liabilities of \$2.5 billion (4.4 percent), \$3.8 billion of Remaining Liabilities, and \$0.1 billion of other miscellaneous liabilities at September 30, 2017.

Total Liabilities increased by \$19.7 billion from FY 2016 to FY 2017, due primarily to an increase of \$22.4 billion of Loan Guarantees and an increase of \$0.3 billion in Loss Reserves, offset by a decrease of \$1.7 billion of Intragovernmental Debt, a decrease of \$0.2 billion of Accrued Grant Liabilities, and a decrease of \$1.1 billion in Remaining Liabilities.

The chart on the next page presents Total Liabilities for FY 2017 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.

---

**Analysis of Financial Condition and Results**


---



The Loan Guarantees liability consist of the Liability for Loan Guarantees (LLG) related to Credit Reform loans made after October 1, 1991 and the loan loss reserves (LLR) for pre-1992 loan guarantees. LLG is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The \$22.4 billion increase from FY 2016 to FY 2017 in Loan Guaranty Liability is primarily due to a \$21.4 billion increase in FHA's Single Family Forward Loan LLG due to recent Upward MMI and GI/SRI HECM re-estimate for cohorts 2006, 2007 and 2008. The Liability for HECM loans increased by \$16.7 billion from \$9.9 billion in FY 2016 to \$26.5 billion in FY 2017 due to a decrease in the assumptions of HECM portfolio performance. Single Family Forward LLG increased by \$6.0 billion offset by a decrease of \$1.1 billion in LLG for Multifamily/Healthcare in FY 2017.

Debt includes primarily Intragovernmental Debt of \$29.3 billion. The Intragovernmental Debt is primarily the result of FHA's principal debt with the Treasury. FHA's \$1.7 billion (5.6 percent) decrease in borrowing was primarily due to an Upward Re-estimate for GI/SRI totaling \$2.4 billion, which was offset by an increase in our FFB Borrowings totaling \$0.6 billion.

Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of \$3.8 billion consist of Other Intragovernmental Liabilities, Federal Employee and Veteran Benefits, Loss Reserves, and Other Liabilities. The \$3.8 billion primarily consist of \$2.3 billion for FHA, \$0.7 for Ginnie Mae, \$0.8 for All Others. FHA decreased by \$1.3 billion, which consist of a \$1.1 billion decrease in Other Intragovernmental Liabilities and a \$0.2 billion decrease in Other Liabilities with the Public. FHA's decrease in Other Intragovernmental Liabilities was due primarily to a decrease in the Receipt Account Liability downward re-estimate. FHA's decrease in Other Liabilities with the Public was due primarily to a \$0.1 billion decrease in premiums collected on unendorsed cases and a \$0.1 billion decrease in miscellaneous liabilities. Ginnie Mae's Loss Reserves increased by \$0.3 billion. Ginnie Mae

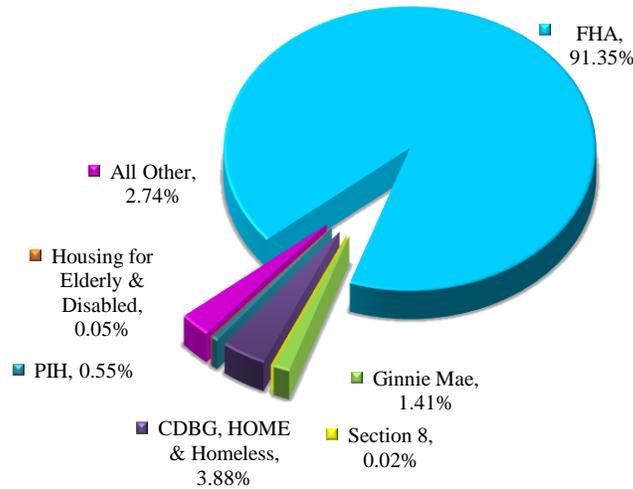
**Analysis of Financial Condition and Results**

identified modeling errors associated with the Allowance for Loan and Lease Losses (ALLL) for impaired loans. As a result, Ginnie Mae implemented an updated methodology for its accounting for Allowance for Loan Losses and Allowance for Accrued Interest to be in accordance with the loan impairment guidance by the FASB under ASC 310. As part of the above process, certain revisions were made to the revenue recognition practice applied to fees in connection with REMIC. Ginnie Mae restated its FY 2016 statements to reflect this impact of the updated methodology. For further details, see Note 24, in the Notes to the Financial Statements in Section 2 of the Agency Financial Report.

**Liabilities – Major Programs**

The chart below presents Total Liabilities for FY 2017 by responsibility segment.

**Liabilities by Responsibility Segment**



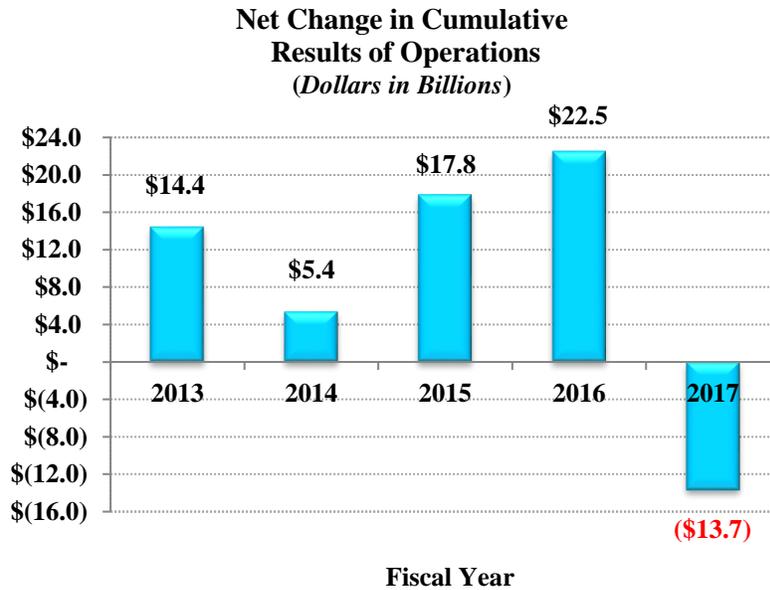
**Changes in Net Position**

Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the year. The elements are further discussed below. Net Position as reported in the Consolidated Statement of Changes in Net Position reflects a decrease of \$7.5 billion (6.6 percent) from the prior fiscal year. The net decrease in Net Position is primarily attributable to a \$6.2 billion increase in Unexpended Appropriations and \$13.7 billion decrease in Cumulative Results of Operations.

The combined effect of HUD’s Net Cost of Operations and Financing Sources resulted in a decrease in Net Results of Operations of \$36.2 billion during FY 2017. Net Cost of Operations increased by 38.4 billion from the prior year and Total Financing Sources increased by \$2.2 billion. Note 24 in Section 2 of the AFR discusses Ginnie Mae’s Restatements that impacted HUD’s overall Net Position.

Analysis of Financial Condition and Results

The chart below presents HUD’s Net Change in Cumulative Results of Operations for FY 2017 and the four preceding years.



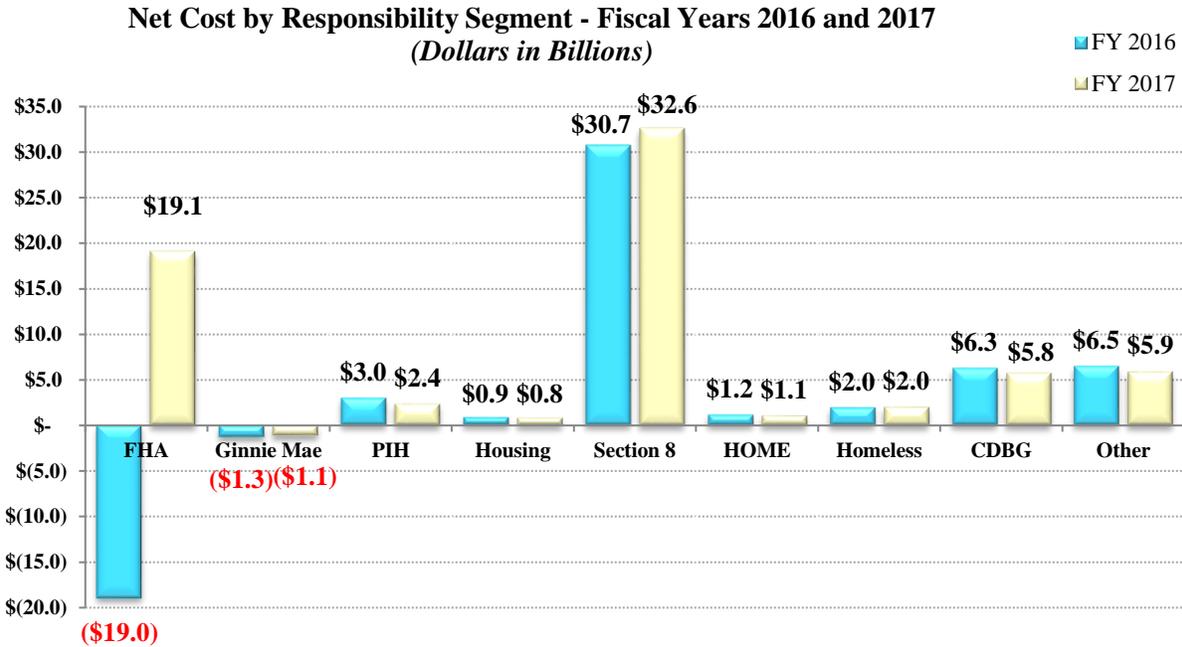
Unexpended Appropriations: The increase of \$6.2 billion (13.3 percent) from \$46.9 billion in FY 2016 to \$53.1 billion is due primarily to a Disaster Appropriation of \$7.4 billion for CDBG, offset by additional expenditures of \$0.8 billion for Section 8 Rental Assistance program, \$0.1 billion in Home, and \$0.3 billion in the Housing for the Elderly and Disabled programs.

Financing Sources: As shown in HUD’s Statement of Changes in Net Position, HUD’s financing sources for FY 2017 totaled \$54.9 billion. This amount is comprised primarily of \$55.4 billion in Appropriations Used, offset by approximately \$0.5 billion in other financing sources.

Net Cost of Operations: As reported in the Consolidated Statement of Net Cost, Net Cost of Operations amounts to \$68.6 billion for FY 2017, resulting in a \$38.4 billion increase from the prior fiscal year. Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart on the next page presents HUD’s Total Net Cost for FY 2016 and FY 2017 by responsibility segment.

Analysis of Financial Condition and Results



As shown in the chart, Gross Cost of Operations was primarily a result of spending of \$32.6 billion, (47.5 percent) of Net Cost, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in Net Cost for the Section 8 programs was \$1.9 billion (6.0 percent) more than the prior fiscal year.

FHA’s Net Cost increased by \$38.1 billion, from \$(19.0) billion in the prior fiscal year, due primarily to an increase in gross costs which was due to changes in the re-estimate, subsidy and interest expenses. The Multi-Family and Healthcare programs experienced decreases in their overall re-estimate, subsidy, and interest expenses in both the GI/MMI funds. In contrast, the single-Family and HECM programs experienced increases in their overall re-estimate and interest expenses in both the GI/MMI funds.

**Analysis of Off-Balance-Sheet Risk**

The financial risks of HUD’s credit activities are due primarily to managing FHA’s insurance of mortgage guarantees and Ginnie Mae’s guarantees of MBS. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

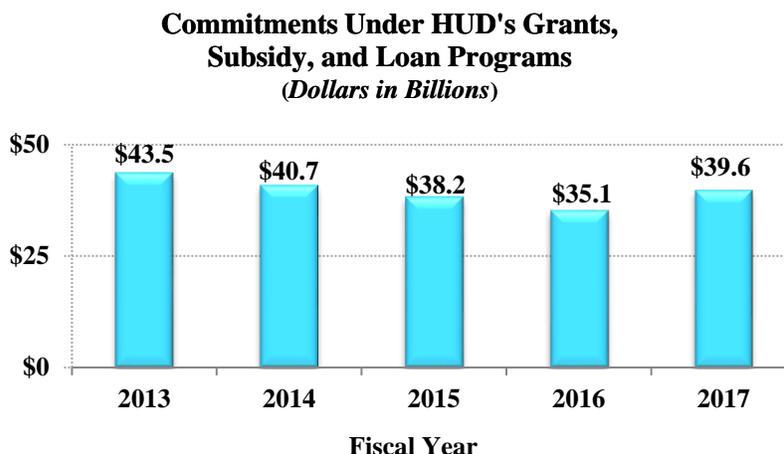
*Contractual and Administrative Commitments*

HUD’s Contractual Commitments of \$39.6 billion in FY 2017 represent HUD’s commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs.

**Analysis of Financial Condition and Results**

Administrative Commitments (reservations) of \$3.7 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

The chart below presents HUD’s Contractual Commitments for FY 2017 and the four preceding years.

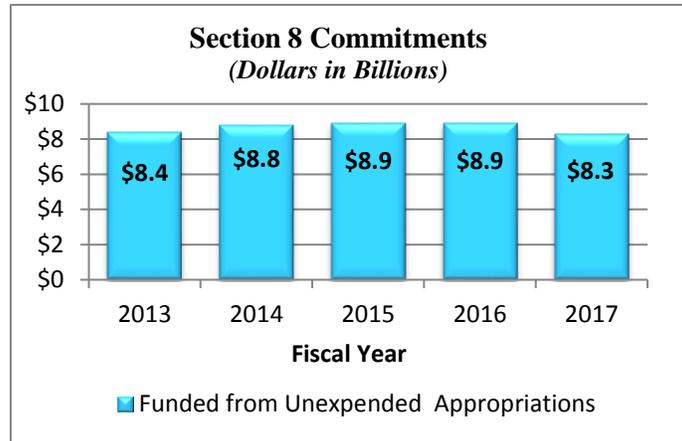


These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year’s portion of contracts entered into prior to FY 1988 in the rental assistance program. The remaining HUD programs receive direct appropriations. Since FY 1988, HUD has appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD’s unexpended appropriations.

Total Commitments (contractual and administrative) decreased by \$0.4 billion (0.9 percent) during FY 2017. The change is primarily attributable to a decrease of \$0.7 billion in Section 8 commitments, \$0.2 billion in CDBG, \$0.1 billion in HOME, \$0.4 billion in Sections 202, 235 & 236 and \$0.2 billion in All Other Commitments, offset by an increase of \$0.6 billion in FHA’s commitments and \$0.2 billion in Ginnie Mae, \$0.2 billion Homeless Assistance, and \$0.2 billion in PIH.

The chart on the next page presents HUD’s Section 8 Contractual Commitments for FY 2017 and the four preceding years.

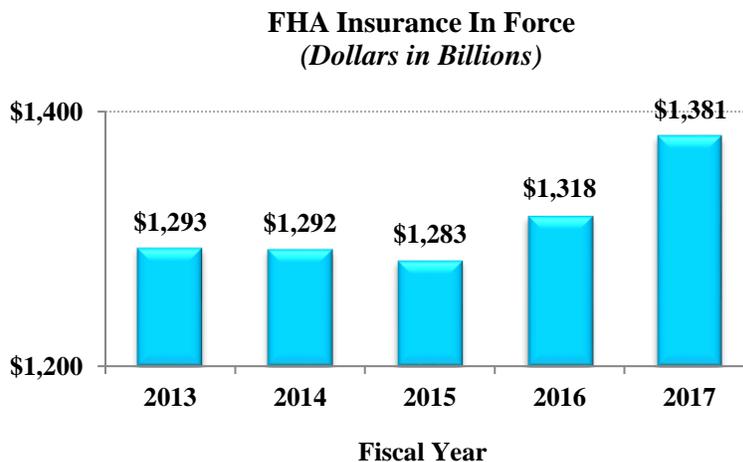
Analysis of Financial Condition and Results



To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress.

**FHA Insurance-In-Force**

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation’s poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance single family homes, and reverse mortgages, also referred to as HECM. The chart below presents FHA’s Insurance-In-Force (including the Outstanding Balance of HECM loans), of \$1,381.2 billion for FY 2017, and the four preceding years. This is an increase of \$63.2 billion (4.8 percent) from the FY 2016 FHA Insurance-In-Force of \$1,318.0 billion. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums.



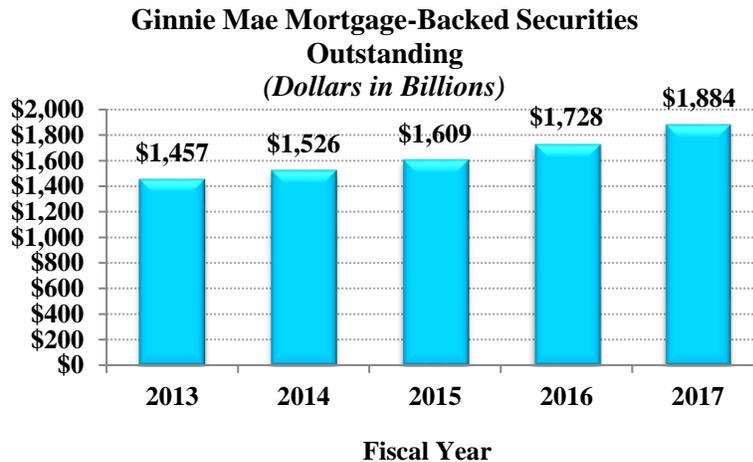
**Analysis of Financial Condition and Results**

**Ginnie Mae Guarantees**

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, and guaranteed by Veterans Affairs. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2017 and 2016, were approximately \$1,884.2 billion and \$1,728.1 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. While Ginnie Mae’s risks related to outstanding commitments are much less than outstanding securities due in part to the Federal guarantee on the underlying portfolio, Ginnie Mae is also able to mitigate risk through its ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2017 and 2016 were \$120.9 billion and \$95.6 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2017 and the four preceding years.



Generally, Ginnie Mae’s MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2017 and 2016, Ginnie Mae issued a total of \$88.4 billion and \$102.5 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2017 and 2016 were \$466.6 billion and \$473.2 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

**Analysis of Financial Condition and Results**

---

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- Stripped MBS – Stripped MBS are securities created by “stripping” or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinum Securities – A Ginnie Mae Platinum security is formed by combining Ginnie Mae’s MBS pools that have uniform coupons and original terms to maturity into a single certificate.

Further details of the Financial Statements and Notes contained in this report can be found in the Agency Financial Report (AFR) under Section 2 (Financial Information).

## Management Assurances

### 2017 ANNUAL ASSURANCE STATEMENT

The Department of Housing and Urban Development's management is responsible for managing risks and maintaining effective internal controls and financial management systems that meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). HUD conducted its annual assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on the results of the assessment and assurances provided by program principal staff, HUD cannot provide a reasonable statement of assurance that its internal control over operations (Section 2) were operating effectively as of September 30, 2017. Nine material weaknesses related to the design and operation of HUD's internal controls were reported by the OIG during its FY 2017 financial statement audit.

The Department conducted a limited assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Due to nine known material weaknesses related to financial reporting, the Department is unable to provide assurance that internal controls over financial reporting were operating effectively as of June 30, 2017, and updated through September 30, 2017.

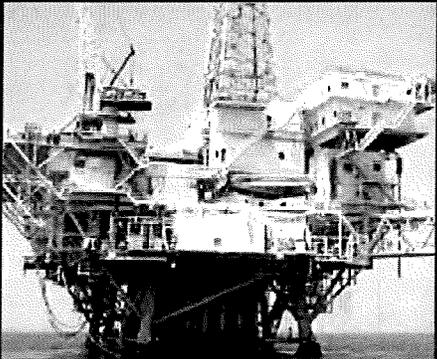
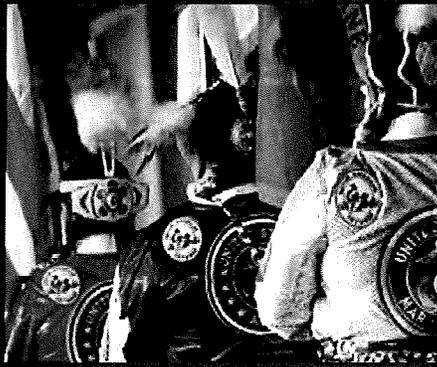
The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at transaction level. The Department is unable to provide assurance that its financial management systems (Section 4) comply with FFMIA as of September 30, 2017, due to financial management system weaknesses and system non-conformances with FFMIA. Additional details related to the material weaknesses and systems non-conformances are further discussed in the Other Information Section.

Ben Carson



November 15, 2017

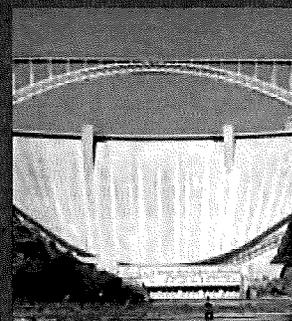
Secretary



UNITED STATES  
DEPARTMENT OF THE INTERIOR

# AGENCY FINANCIAL REPORT

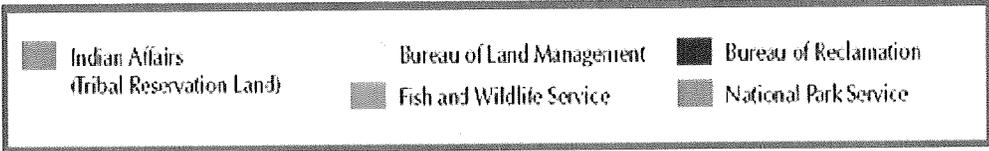
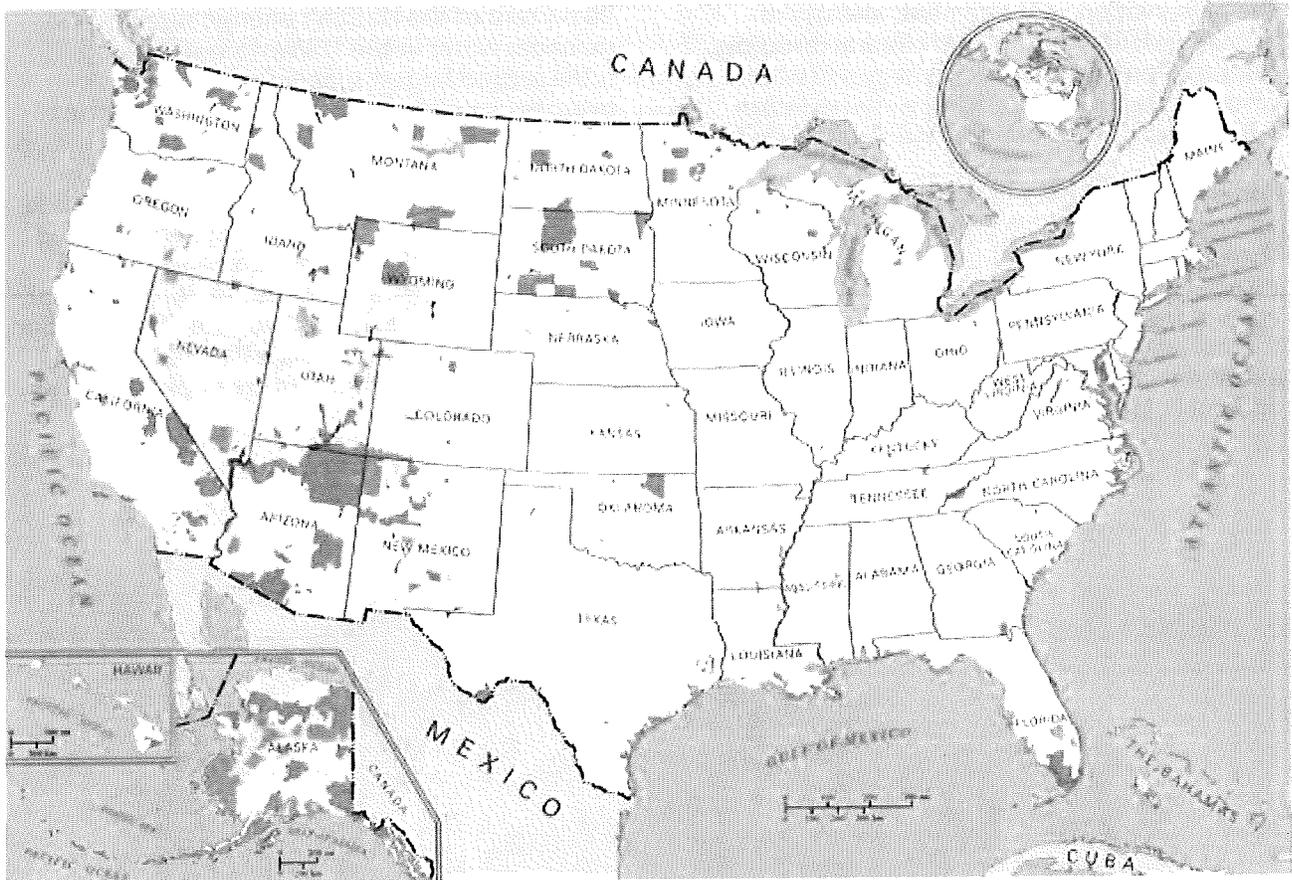
FY 2017





# MISSION AND ORGANIZATIONAL STRUCTURE

## Surface Lands Managed by The Department of the Interior



### Mission

The DOI conserves and manages the Nation's natural resources and cultural heritage for the benefit and enjoyment of the American people, provides scientific and other information about natural resources and natural hazards to address societal challenges and creates opportunities for the American people, and honors the Nation's trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities to help them prosper.

the National Capital's water system, managing hospitals and universities, improving historic western emigrant routes, marking boundaries, issuing patents, conducting the census, and researching the geological resources of the United States. As the country matured during the last half of the 19th century, so did DOI and its mission began to evolve as some of these functions moved to other agencies.

### History

The DOI was established in 1849. The DOI was charged with managing a wide variety of programs, which included overseeing Indian Affairs, exploring the western wilderness, directing the District of Columbia jail, constructing

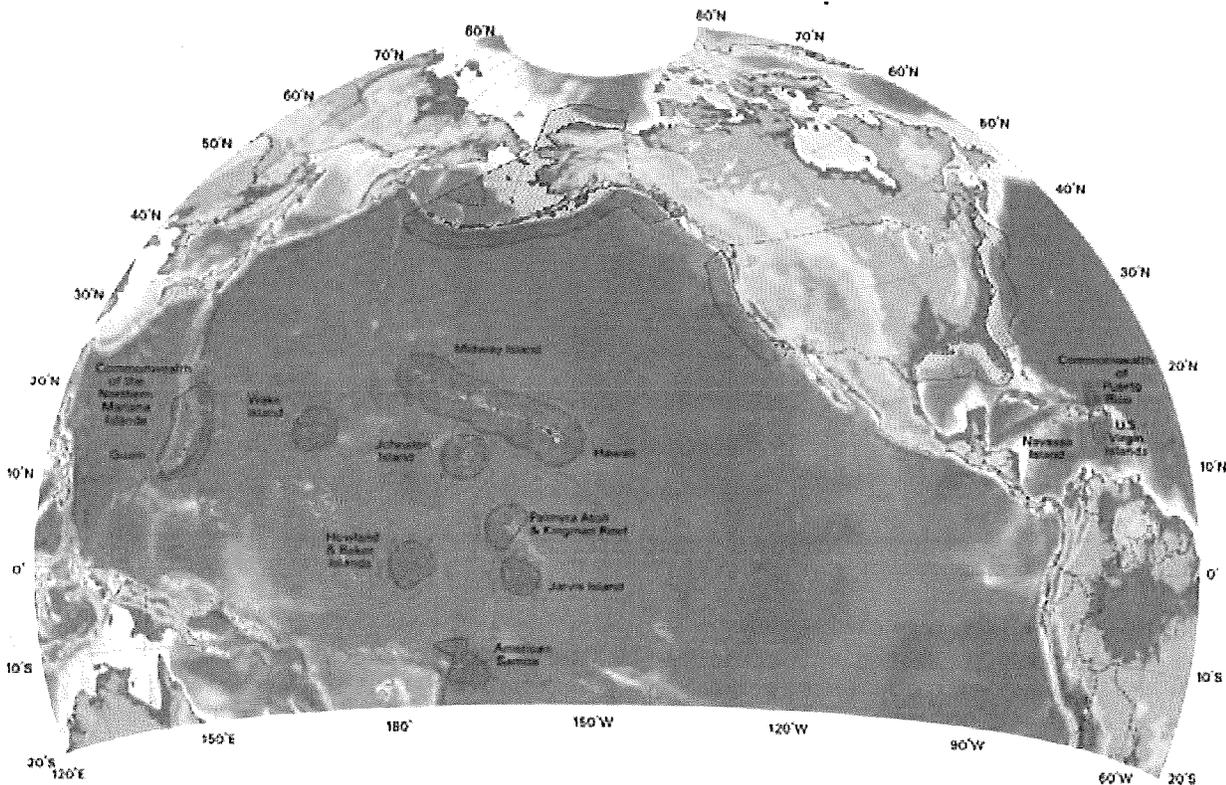
Following Theodore Roosevelt's conservation summit and the awakening of the conservation movement at the beginning of the 20th century, there was an increasing urgency and expanding congressional mandate to protect and more effectively manage the Nation's natural resources. Accordingly, DOI's mission shifted to focus on

## MISSION AND ORGANIZATIONAL STRUCTURE

the preservation, management, and use of public lands and natural and cultural resources, responsible management of energy and water resources, and responsibilities related to Indian nations, island communities, and scientific discovery.

Today, DOI manages the Nation's public lands and minerals, including providing access to more than 500 million acres of public lands, 700 million acres of subsurface minerals, and 1.7 billion acres of the Outer Continental Shelf. The DOI is the steward of 20 percent of the Nation's lands, including national parks, national wildlife refuges, and public lands; manages resources that supply

30 percent of the Nation's energy; supplies and manages water in the 17 Western states and is the second largest supplier of the Nation's hydropower energy; and upholds Federal trust responsibilities to 567 federally recognized Indian tribes and communities of Alaska Natives. The DOI is responsible for migratory bird and wildlife conservation, historic preservation, endangered species conservation, surface-mined lands protection and restoration, mapping, geological, hydrological, and biological science for the Nation, and financial and technical assistance for the insular areas (many of which are depicted in the following graphic).

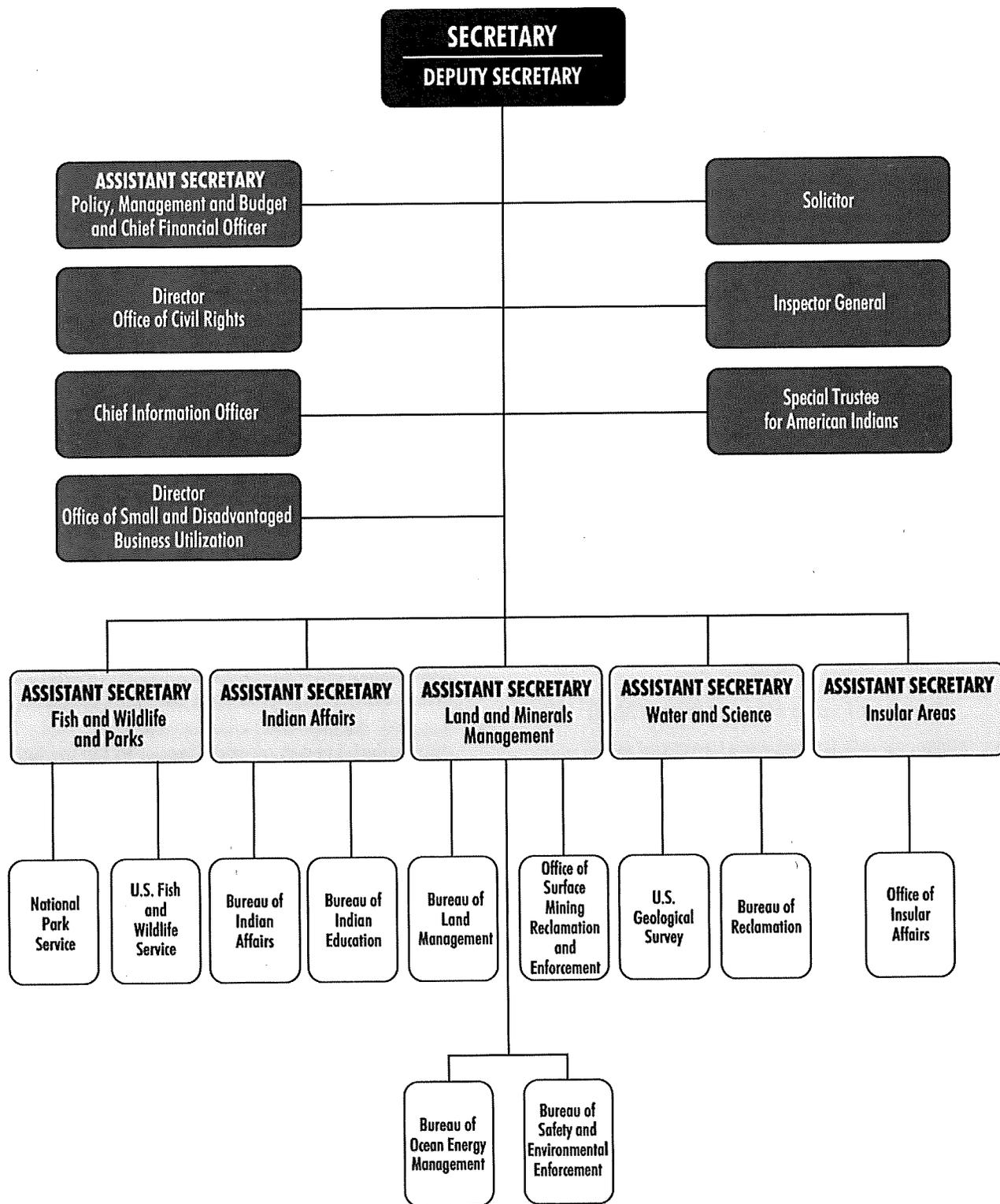


**United States Continental Shelf Boundary Areas**

The DOI's programs encompassed in this report cover a broad spectrum of activities performed by the bureaus and multiple offices and are captured in the following presentation of each entity's unique mission and set of responsibilities. The DOI's mission is carried out by the bureaus and offices and the DOI's 68,276 dedicated and

skilled employees. Along with employees, approximately 536,000 volunteers annually contribute their time in support of bureau and office missions, bringing unique local knowledge to park operations, assisting in recovery from natural disasters, and participating in environmental education, among other activities.

U.S. Department of the Interior



## MISSION AND ORGANIZATIONAL STRUCTURE

### Bureau and Office Summary

Each DOI bureau or office has discrete responsibilities that are derived from their legislative authorities.



#### Departmental Offices (DO)

- ▶ Immediate Office of the Secretary, Deputy Secretary, and Assistant Secretaries
- ▶ Office of the Solicitor
- ▶ Policy, Management and Budget provides leadership and support for the following:
  - ▷ Budget, Finance, Performance and Acquisition;
  - ▷ Public Safety, Resource Protection, and Emergency Services;
  - ▷ Natural Resources Revenue Management;
  - ▷ Human Capital and Diversity;
  - ▷ Technology, Information and Business Services; and
  - ▷ Policy and International Affairs.
- ▶ Office of Inspector General
- ▶ Office of the Special Trustee for American Indians
- ▶ Assistant Secretary for Insular Areas
  - ▷ Office of Insular Affairs.



#### Bureau of Land Management (BLM)

- ▶ Manages public lands for the benefit of all Americans under the dual framework of multiple use and sustained yield on more than 245 million surface acres, as well as 700 million acres of subsurface mineral estate. Priorities include:
  - ▷ Securing the Nation's energy independence through domestic energy and mineral production from public lands;
  - ▷ Serving American families by providing opportunities for traditional commercial and recreational land uses such as grazing, hunting, fishing, and other outdoor activities that are key to the Nation's heritage and its economy;
  - ▷ Developing and maintaining strong partnerships with tribal governments as well as State, local, and private stakeholders;
  - ▷ Managing through shared conservation stewardship in order that public lands benefit current and future generations; and
  - ▷ Promoting safety, security, and environmental protection along of almost 200 miles directly along America's international boundary.



#### Bureau of Ocean Energy Management (BOEM)

- ▶ Manages access to renewable and conventional energy and mineral resources of the Outer Continental Shelf (OCS).
- ▶ Administers over 3,000 active fluid mineral leases on over 16 million OCS acres.
- ▶ Oversees 4 percent of the natural gas and 18 percent of the oil produced domestically.
- ▶ Oversees lease and grant issuance for off shore renewable energy projects.



#### Bureau of Safety and Environmental Enforcement (BSEE)

- ▶ Fosters secure and reliable energy production from the 1.7 billion acres in the US OCS for America's energy future.
- ▶ Conducts inspections, permitting, incident and equipment failure analysis, oil spill preparedness and enforcement programs aimed at promoting a culture of safety and reducing risk to those who work offshore.
- ▶ Supports the technical expertise to engage opportunities and to meet challenges to tap the full potential of OCS energy resources.



#### Bureau of Reclamation (BOR)

- ▶ Manages, develops, and protects water and related resources in an environmentally and economically sound manner in the interest of the American public.
- ▶ Largest wholesale supplier of water in the Nation.
- ▶ Manages 492 dams and 338 reservoirs.
- ▶ Delivers water to 1 in every 5 western farmers and more than 31 million people.
- ▶ America's second largest producer of hydroelectric power.



### Indian Affairs (IA)

- ▶ Fulfills Indian trust responsibilities.
- ▶ Promotes self-determination on behalf of 567 federally recognized Indian tribes.
- ▶ Funds self-determination compact and contracts to support all Federal programs including education, law enforcement, and social service programs that are delivered by tribal nations.
- ▶ Supports 183 elementary and secondary schools and dormitories, providing educational services to an average of 45,500 students in 23 states.
- ▶ Supports 32 community colleges, universities, post-secondary schools, and technical colleges.

*Note: IA includes the Bureau of Indian Areas (BIA) and the Bureau of Indian Education (BIE).*



### Office of Surface Mining Reclamation and Enforcement (OSMRE)

- ▶ Protects the environment during coal mining through Federal programs, grants to states and tribes, and oversight activities.
- ▶ Ensures the land is reclaimed afterwards.
- ▶ Mitigates the effects of past mining by pursuing reclamation of abandoned coal mine lands.



### National Park Service (NPS)

- ▶ Maintains and manages a system of 417 natural, cultural, historical, and recreational sites for the benefit and enjoyment of the American people.
- ▶ Manages and protects over 27,000 historic and prehistoric structures, nearly 44 million acres of designated wilderness, and a wide range of museum collections and cultural and natural landscapes.
- ▶ Provides outdoor recreation to nearly 324 million visitors.
- ▶ Provides technical assistance and support to state, tribal and local natural and cultural resource sites and programs, and fulfills responsibilities under the *National Historic Preservation Act of 1966*.



### U.S. Fish and Wildlife Service (FWS)

- ▶ Manages the lands and waters of the 836 million-acre National Wildlife Refuge System, primarily for the benefit of fish and wildlife.
- ▶ Manages 73 fish hatcheries and other related facilities for endangered species recovery and to restore native fisheries populations.
- ▶ Protects and conserves:
  - ▷ Migratory birds;
  - ▷ Threatened and endangered species; and
  - ▷ Certain marine mammals.
- ▶ Hosts about 48 million visitors annually at more than 560 refuges and 38 wetland management districts located in all 50 states.



### U.S. Geological Survey (USGS)

- ▶ Produces information to increase understanding of natural hazards such as earthquakes, volcanoes, and landslides.
- ▶ Conducts research and delivers assessments on oil, gas, and alternative energy potential, production, consumption, and environmental effects.
- ▶ Conducts reliable scientific research in land resources, mineral assessments, environmental health, and water resources to inform effective decision making and planning.
- ▶ Provides science information that supports natural resource decisions.
- ▶ Produces topographic, geologic, hydrographic, and biogeographic data and maps.

## ANALYSIS OF PERFORMANCE GOALS & RESULTS

The *GPRA Modernization Act of 2010* allows one year after the President's inauguration to update Strategic Plans to match the priorities of the new Administration. As the effort to update the Strategic Plan continues, this performance summary reflects the progress made in six priority areas identified by the new Secretary of the Interior for:

- ◆ Conserving our land and water;
- ◆ Generating revenue and utilizing our natural resources;
- ◆ Expanding outdoor recreation and access;
- ◆ Fulfilling our trust and insular responsibilities;
- ◆ Protecting our people and the border; and
- ◆ Modernizing our organization and infrastructure for the next 100 years.

The following performance summary uses a sampling of key indicators to reflect the type of performance estimated to have occurred in pursuing these priorities during FY 2017, supported by four years of prior history where available. A more complete and updated performance assessment, placed in the context of the FY 2018-2022 Strategic Plan, will appear in DOI's FY 2018/2019 Annual Performance Plan & Report (APP&R), <https://www.doi.gov/performance/performance-reports>, which is planned to be released with the President's FY 2019 Budget Request in February 2018. It will be available online at DOI's Budget and Performance Portal, [www.doi.gov/bpp](http://www.doi.gov/bpp).

### CONSERVING OUR LAND AND WATER

The DOI ensures that America's natural endowment – the lands and waters of the United States – is conserved for the benefit, use, and enjoyment of current and future generations. The DOI's bureaus use the best available science, modern natural resource management techniques, science, technology and engineering, efficient decisionmaking processes, robust partnerships, and improved land use planning to ensure balanced stewardship and use of the public lands and resources, including wildlife and fish species. Key indicators of DOI's performance to "Conserving Our Land and Water" include land and water condition, species condition (e.g., migratory birds), and capability to deliver water in the West.

In protecting DOI-managed lands and waters and safeguarding the wildlife and plant inhabitants, the key performance indicator, acres in "desired condition," is used to gauge DOI's progress in ensuring the quality of natural resources, including uplands, wetlands, streams, and shorelines. Natural resource management success is dependent upon a number of factors, some of which are not under the direct control of DOI, including the original condition of the asset, the amount of resources that can be applied, the cooperation of nature in supporting the performed treatments, and the time for treatments to take root and adequately mature. As seen in the following table, performance has been increasing gradually while the total acres assessed increases. Favorable weather, the ability to redirect funds to priority projects, and additional partner support helped to improve performance in FY 2015 and FY 2016. Maintaining this level of performance will continue to be influenced greatly by these factors. Newly added monuments to FWS and NPS were assessed in FY 2017, adding to the total inventory and the metric results.

Percent of DOI acres that have achieved desired conditions where condition is known and as specified in management plans.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BLM, FWS, NPS	74%	77%	78%	78%	79%	83%
Acres in desired condition	324,908,501	353,869,240	360,116,825	361,651,952	363,234,879	472,556,098
Total Acres Assessed	436,341,566	461,495,700	461,325,882	462,520,691	462,189,543	572,940,348

Success in species protection, affected by natural and human induced pressures including loss of habitat, requires longer timeframes to achieve results and often shows little annual change. Treatments require several years to take effect, assuming the solution can be implemented, and the factors making the situation worse do not escalate faster than treatment can be offered. As shown in the following table, migratory bird species' health and sustainability consistently measures in the low 70 percent range. Birds serve as a gauge of overall environmental health, and this key indicator reflects the ecosystem's ability to support bird species. Performance updates for this measure occur every five years.

Percent of migratory bird species that are at healthy and sustainable levels.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
FWS	72%	73%	73%	73%	73%	73%
Number of healthy and sustainable bird species	726	747	747	747	747	747
Number of bird species of management concern	1,007	1,026	1,026	1,026	1,026	1,026

The DOI plays a significant role in managing water resources in the Western states including collection, storage, and distribution. Water distribution depends on the condition of facilities that manage and distribute the water, leading DOI to use the percentage of facilities earning a "good" Facility Reliability Rating as the key performance indicator for this goal. Performance challenges for this measure result from an aging infrastructure, ongoing droughts, and increasing workforce and materials costs. Many of the minor water infrastructure problems have been repaired or replaced. As the more extensive, and therefore expensive, problems are addressed, the number of facilities in good condition could slow. However, present progress continues to be positive.

Percent of water infrastructure in good condition as measured by the Facility Reliability Rating.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BOR	79%	78%	79%	81%	72%	80%
Number of facilities in good condition	274	269	272	279	248	272
Total number of facilities in service	345	344	344	344	343	342

## GENERATING REVENUE AND UTILIZING OUR NATURAL RESOURCES

The DOI provides access and manages energy resources on public lands and the OCS including oil, gas, and coal; and timber, grazing, and non-energy mineral resources on public lands. Key performance indicators track the processing of leases and permits to drill for oil and gas resources, and for grazing.

The DOI is committed to achieving and maintaining American energy dominance through responsible productivity of the public lands for the multiple use and economic benefit of present and future generations. Oil, gas, coal and renewable energy form the cornerstones of our Nation's energy base, and DOI will continue to facilitate increased development of both offshore and onshore conventional and renewable U.S. energy resources while ensuring safety and reliability through efficient permitting, appropriate standards, assessment and oversight, and a fair return for the American public. Completing lease sales and issuing permits to drill are

ANALYSIS OF PERFORMANCE GOALS & RESULTS

indicative of DOI's role in providing access to energy resources on OCS and public lands, respectively, and are the key performance indicators for oil and gas resource development. As seen in the following table, progress has been steady offshore and onshore, with decreasing permit applications. The goal is to promote and approve a growing number of applications. In FY 2017, even though the percentage target was not met, there was an increased number of applications and an increase in the number of applications processed over the prior two years.

Percent of pending fluid minerals Applications for Permits to Drill (APDs) which are processed.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BLM	60%	56%	57%	57%	61%	57%
Number of pending APD's processed	4,892	4,924	4,913	3,093	3,000	3,322
Number of pending APD's	8,180	8,862	8,596	5,477	4,924	5,826

Percent of offshore lease sale processes completed pursuant to the Secretary's Five Year Oil and Gas Program.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BOEM	100%	100%	100%	100%	100%	100%
Number of lease sale processes completed	3	3	2	3	3	3
Number of lease sale processes proposed	3	3	2	3	3	3

Granting non-energy mineral leases, and access for grazing and timber, show level or decreasing trends in permits approved due to significant growth in legal challenges and demand for additional environmental assessments prior to approving access. As approval of these permits becomes more complicated, processing costs increase, affecting the overall level of performance. As the most notable and wide-spread of these non-energy commodities, processing grazing permits and leases, displayed in the following table, is used as the key indicator representing the type of performance for these efforts. Unexpected turnover in personnel and additional restrictions placed on sage grouse habitat has reduced the number of grazing permits and leases processed.

Percent of grazing permits and leases processed as planned consistent with applicable resource management plans.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BLM	21%	22%	18%	13%	18%	13%
Number of permits and leases processed	1,344	1,374	1,213	862	1,240	917
Number of permit and lease applications	6,300	6,300	6,900	6,800	6,800	6,800

## EXPANDING OUTDOOR RECREATION AND ACCESS

Outdoor recreation is integral to a healthy lifestyle for millions of Americans. Visitors to DOI's public lands and waters take advantage of the physical, mental, and social benefits that outdoor recreational experiences provide. Americans have the opportunity to hunt and fish on public lands managed by DOI as part of its multiple-use policy that also includes hiking, camping, climbing, boating, wildlife viewing, and other outdoor pursuits.

The DOI's visitor programs strive to meet high standards for recreation, education, and awareness of the natural world, historic events and cultural resources at parks, refuges, and other DOI lands. The key performance indicator used for this goal, visitor satisfaction, is measured through visitor surveys. Performance is only down slightly even with increased visitation and use. Despite the challenge of keeping up with the rising costs of operations, maintenance, and restoration of aging facilities, on or near target performance continues to be met each year, as reflected in the following table.

Percent of visitors satisfied with the quality of their experience.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BLM, FWS, NPS	94%	95%	95%	95%	95%	93%

## FULFILLING OUR TRUST AND INSULAR RESPONSIBILITIES

The DOI upholds the Federal Government's unique trust responsibilities by fostering the government-to-government relationships between the Federal Government and federally recognized tribes, and by providing services to individual American Indians and Alaskan Natives. The U.S. also has important relationships with the affiliated insular areas including the Territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands (CNMI). The DOI administers and oversees Federal assistance to the three Freely Associated States: The Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. Performance indicators track accuracy of processing Indian trust beneficiaries' accounts, providing job training and placement, and providing safe water in insular areas.

The following key indicator reflects DOI's ability to properly record funds received, disbursed, invested, and held in trust for tribal and individual Indian beneficiaries, providing centralized accounting services for trust fund management activities. In many cases, tribes and individual Indians use these trust funds to improve the quality of life for Indians who live on or near reservations. With the emphasis placed on trust management activities, performance remains consistently high.

Percent of financial information initially processed accurately in trust beneficiary accounts.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
OST	99.99%	99.99%	99.99%	99.99%	99.00%	99.00%
Total information processed accurately	9,367,301	9,980,933	10,723,816	10,261,456	10,890,000	10,890,000
Total information to be processed	9,368,497	9,981,933	10,724,403	10,262,924	11,000,000	11,000,000

## ANALYSIS OF PERFORMANCE GOALS & RESULTS

The DOI assists Indian Nations in developing capacity to attain economic self-sufficiency on reservations to enhance their quality of life. One critical path is economic development and job creation. The BIA coordinates development of comprehensive tribal programs with the Departments of Labor and Health and Human Services. The DOI offers programs and financial services that encourage startups and help position Indian businesses and individuals to compete in today's economy. The key performance indicator is average gains in earnings for job placement program participants. As displayed in the following table, performance of the program remains fairly consistent. Although the target for FY 2017, in terms of average gain in earning per participant, is estimated as not being met, BIA did successfully assist the highest number of program participants over the past 5 years.

**Total average gain in earnings of participants that obtain unsubsidized employment through Job Placement Training programs for tribes submitting Public Law (P.L.) 102-477\* related reports.**

Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
BIA	\$10.40	\$9.27	\$10.20	\$9.69	\$9.83	\$9.54
Gain in earnings by program participants	\$26,225	\$33,092	\$24,330	\$31,861	\$29,500	\$34,172
Number of program participants	2,522	3,568	2,385	3,288	3,000	3,582

\*P.L. 102-477 is the Indian Employment, Training and Related Services Demonstration Act of 1992.

For insular areas, availability of clean water serves as a key indicator of quality of life and this goal performance assessment is indicated by water system violation notices. The number of community water systems with health-based violations decreased in FY 2016 for three of the four territories compared to the previous year. The territory with increasing violations, CNMI, transitioned water system management in FY 2015 from the Water Task Force to the Commonwealth Utilities Corporation. The Office of Insular Affairs (OIA) will monitor water system violation trends in CNMI under its new management.

**Percent of community water systems that receive health-based violation notices from the Environmental Protection Agency.**

Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
OIA	19%	8%	13%	8%	10%	11%
Number of community water systems with health based violations	28	12	19	11	13	14
Number of community water systems	148	147	147	131	131	132

## PROTECTING OUR PEOPLE AND THE BORDER

Wildland fires potentially endanger lives and property. The DOI's Office of Wildland Fire (OWF) coordinates programs and funding across four bureaus (BLM, FWS, NPS, and BIA) that manage wildland fire programs to implement the National Cohesive Wildland Fire Management Strategy, a science-based collaborative approach to mitigating wildfire risk. The DOI, in partnership with the Department of Agriculture's Forest Service, is committed to the inclusive principles of providing safe and effective response to wildfires, promoting fire-adapted communities, and creating fire-resilient landscapes. The DOI strives to achieve a science-based and technically effective wildland fire management program that is integrated with natural resource programs. As displayed in the following table, the performance of maintaining DOI-managed lands in accordance with fire management objectives remains steady.

Percent of DOI-managed landscape areas that are in a desired condition as a result of fire management objectives.						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
OWF	36%	36%	36%	36%	36%	36%
Number of acres in desired condition as a result of fire management objectives	160,066,449	161,237,140	161,982,762	160,224,280	161,525,000	159,635,707
Number of DOI-managed acres	447,806,489	447,806,489	447,806,489	447,806,489	447,806,489	447,806,489

The USGS helps protect public safety, public health, and property by effectively delivering natural hazards and environmental health science. The Nation's emergency managers and public officials use USGS science to inform citizens of the potential risks these hazards pose to natural systems and the environment, improve preparation and response activities, and protect the health of the public, which reduce the loss of life and property. The key performance indicator displays increasing performance in providing natural hazard assessments for very high and high threat regions.

Percent completion of targeted natural hazard assessments of very high and high threat regions of the Nation (index).						
Bureau	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
USGS	N/A	4%	4%	5%	7%	7%

## MODERNIZING OUR ORGANIZATION AND INFRASTRUCTURE FOR THE NEXT 100 YEARS

Real property assets are integral to the success of Interior's mission. The DOI's real property inventory includes approximately 43,000 buildings and 80,000 structures across six major land-holding bureaus, with a replacement value exceeding \$300 billion. The DOI manages the full life-cycle requirements of nearly every type of constructed asset found, including visitor centers, dams, schools, health clinics, power generating facilities, housing, hotels, fire stations, campgrounds, roads, water and wastewater treatment plants, offices, and more. Many of these assets have historic or cultural significance that not only support DOI's mission, but also are important to our Nation's heritage.

A significant factor affecting a sustainable portfolio of constructed assets is aging infrastructure. Many assets already exceed original design life, and this trend of aging infrastructure continues to threaten mission delivery. The DOI will address deferred maintenance/repair needs with priority given to those assets that support critical mission activities. The key performance indicator to be used, percent of priority assets in acceptable condition (i.e., meet investment objective), is presently under development.

This section of the report provides the required information on DOI's management assurances and compliance with the following legal and regulatory requirements:

- ▶ Management Assurances;
- ▶ *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*;
- ▶ *Federal Financial Management Improvement Act of 1996 (FFMIA)*; and
- ▶ *Inspector General Act of 1978, as amended*.

In addition, this section includes summaries of the Department's financial management activities and improvement initiatives regarding:

- ▶ Results of Financial Statement Audit;
- ▶ Major Management and Performance Challenges Facing Interior;
- ▶ Compliance with Other Key Legal and Regulatory Requirements; and
- ▶ Financial Management Systems.

## Management Assurances

The FFMIA requires agencies to assess the effectiveness of internal control and provide an annual statement of assurance regarding internal accounting and administrative controls, including controls in program, operational, and administrative areas as well as accounting and financial reporting. During FY 2017, the Office of Financial Management (PFM) conducted comprehensive site visits and provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations. The DOI's FY 2017 annual assurance statement appears on the next page. The basis for the assurance statement conclusions follows.

## Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The DOI believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) promotes high-quality, responsible leadership; (4) ensures the effective delivery of services to customers; and (5) maximizes desired program outcomes. The DOI has developed and implemented

management, administrative, and financial system controls that reasonably ensure:

- ▶ Programs and operations achieve intended results efficiently and effectively;
- ▶ Resources are used in accordance with the mission;
- ▶ Programs and resources are protected from waste, fraud, and mismanagement;
- ▶ Laws and regulations are followed; and
- ▶ Timely, accurate, and reliable data are maintained and used for decision making at all levels.

The DOI's internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the following OMB Circulars:

- ▶ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, including Appendix A, *Internal Control over Reporting*; Appendix B, *Improving the Management of Government Charge Card Programs*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*; Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*; and
- ▶ OMB Circular No. A-130, *Managing Federal Information as a Strategic Resource*.

## Internal Control Assessments

The DOI conducts annual assessments of the effectiveness of management, administrative, and accounting systems' controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's FY 2017 annual FMFIA assurance statement are based on the results of numerous internal control reviews that bureaus and offices conduct, including assessment of internal control over reporting. The DOI also considered the results of Office of Inspector General (OIG) audits, General Accountability Office (GAO) audits, and the financial statement audit conducted by the independent public accounting firm, KPMG LLP. In addition, many of DOI's internal control reviews and related accountability and integrity program activities focused on areas identified as major management and performance challenges.

## FY 2017 ASSURANCE STATEMENT

The Department of the Interior's (DOI) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). The DOI conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, DOI can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017, except for one Section 2 non-financial material weakness related to the Management of Grants, Cooperative Agreements, and Tribal Awards, as identified in Figure 1-1.



Ryan K. Zinke  
Secretary of the Interior  
November 15, 2017

### *FMFIA Material Weaknesses*

The OMB Circular No. A-123 requires that each agency identify and report on material weaknesses affecting the agency. The DOI has adopted the OMB guidelines for material weakness designations and recognizes the importance of correcting material weaknesses in a timely manner. The DOI financial staff and senior program officials continuously monitor corrective action progress of all material weaknesses.

At the beginning of FY 2017, DOI had one Department-level FMFIA material weakness pending correction carried forward from the previous year: Management of Grants, Cooperative Agreements, and Tribal Awards. The Office of Acquisition and Property Management (PAM) has made progress in continuing to implement corrective actions to mitigate the issues identified in the material weakness.

The DOI will report a material weakness as corrected or downgraded when the following occurs:

- ▶ Senior management has demonstrated its firm commitment to resolving the material weakness as evidenced by resource deployment and frequent and regular monitoring of corrective action progress;
- ▶ Substantial and timely documented progress exists in completing material weakness corrective actions;
- ▶ Corrective actions have been substantially completed, remaining actions are minor in scope, and the actions will be completed within the next fiscal year;
- ▶ Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness; and
- ▶ Substantial validation of corrective action effectiveness has been performed.

The DOI's Summary of Financial Statement Audit and Summary of Management Assurances are presented in Section 3, Other Information, of this report.

FIGURE 1-1

FMFIA Material Weakness as of September 30, 2017				
Description	Corrective Actions	FY 2017 Progress	Target Completion Date	Status
<p><b>Office:</b> Office of Acquisition and Property Management (PAM)</p> <p>The DOI Management of Grants, Cooperative Agreements, and Tribal Awards Program:</p> <p>The DOI must improve management and oversight of financial assistance and tribal awards made under P.L. 93-638.</p>	<p>The DOI will:</p> <ol style="list-style-type: none"> <li>1) Provide training on requirements and limitations for monitoring and oversight of P.L. 93-638 tribal awards.</li> <li>2) Require bureaus to comply with Government-wide and DOI policies for risk assessments, management, and monitoring of financial assistance and tribal awards.</li> <li>3) Require IA and other affected bureaus to continue to work with the tribes to ensure proper monitoring of the funds which have been awarded under P.L. 93-638.</li> </ol>	<ol style="list-style-type: none"> <li>1) Awarded a contract and initiated a project to design a curriculum for a DOI Financial Assistance Certification Program, to establish standard requirements for education, experience and training for the DOI financial assistance workforce.</li> <li>2) Issued Department of the Interior Acquisition, Assistance and Asset Policy (DOI-AAAP)-0062, Financial Assistance Pre-Award Budget Review, which reiterates pre-award screening requirements established by the OMB Omni-circular, 2 Code of Federal Regulations (CFR) 200, related to applicant financial suitability.</li> <li>3) Began reconciliation of public comments received on the Notice of Intent, in preparation to create implementing policies for 2 CFR 200.</li> <li>4) Continued discussions with the OIG and IA to identify opportunities and challenges to improving post-award monitoring of P.L. 93-638 awards and promote the use of existing tools for monitoring, such as Single Audit Act reporting.</li> </ol>	FY 2020	Ongoing

### **Internal Control Over Reporting**

The OMB Circular No. A-123, Appendix A, strengthens internal control requirements over reporting in Federal agencies. The Circular provides updated internal control standards and requirements for conducting management's assessment of the effectiveness of internal control over reporting.

In FY 2017, DOI completed its twelfth annual assessment of the effectiveness of internal control over reporting. Deficiencies were found in some reporting processes, but compensating controls and corrective actions adequately address these deficiencies. The DOI can reasonably assure the safeguarding of assets from waste, loss and mismanagement, as well as compliance with laws and regulations pertaining to reporting. (See *FY 2017 Assurance Statement*).

The DOI policy makers and program managers continuously seek ways to achieve missions, meet program goals and measures, enhance operational processes, and implement new technological developments. The OMB requirement to assess control over reporting has strengthened the accountability of DOI managers regarding internal controls and has improved the quality and reliability of DOI's financial information.

### **Federal Financial Management Improvement Act of 1996 (FFMIA)**

The FFMIA builds upon and complements the *Chief Financial Officer's Act of 1990 (CFO Act)*, *Government Performance and Results Act of 1993 (GPR)*, amended by the *GPR Modernization Act of 2010*, and the *Government Management Reform Act of 1994 (GMRA)*. The FFMIA requires that Federal agencies substantially comply with: (1) applicable accounting standards; (2) the U.S. Standard General Ledger at the transaction level; and (3) Federal financial management system requirements that support full disclosure of Federal financial data, including the cost of Federal programs and activities.

Federal agencies are required to address compliance with the requirements of FFMIA in the management representations made to the financial statement auditor. If an agency is not in compliance with the requirements of FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance. With regard to DOI's financial management systems, no lack of substantial compliance was noted.

### **Inspector General Act of 1978, as amended**

The DOI has instituted a comprehensive audit follow-up program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2017, DOI monitored a substantial number of new OIG, GAO, and Single Audit Act audit reports. Audit follow-up actions include analyzing referred audit reports; advising grantors of single audit findings; tracking, reviewing, and validating program and financial audit recommendations; developing mutually acceptable and timely resolution of disputed audit findings and recommendations; overseeing the implementing, documenting, and closing of audit recommendations; and monitoring the recovery of disallowed costs. The OIG Semiannual Report to Congress provides additional information about OIG activities and the results of their audits at: <https://www.doioig.gov/reports>.

To further underscore the importance of timely implementation of OIG and GAO audit recommendations, DOI has a performance goal of implementing at least 85 percent of all GAO and OIG recommendations where implementation was scheduled to occur during the current year or in previous years. The DOI set its performance goal at 85 percent to allow for impacts, challenges, or unforeseeable delays when initial corrective action plans were developed; some corrective actions can span multiple years. In FY 2017, DOI achieved an implementation rate of 88 percent.

### **Results of Financial Statement Audit**

As required by GMRA, DOI prepares financial statements. These financial statements have been audited by KPMG LLP, an independent public accounting firm. The preparation and audit of the financial statements form an integral part of DOI's centralized process to ensure the integrity of financial information. In FY 2017, no material weaknesses were reported as a result of the financial statement audit.

### **Major Management and Performance Challenges Confronting Interior**

The OIG and the GAO annually advise Congress on what are considered to be the major management and performance challenges facing DOI. A summary of these challenges identified by OIG and GAO are presented in Section 3: Other Information, of this report.

### Compliance with Other Key Legal and Regulatory Requirements

The DOI is required to comply with several other legal and regulatory financial requirements, including the *Prompt Payment Act (PPA)*, the *Debt Collection Improvement Act (DCIA)*, and the criteria for Electronic Funds Transfers (EFT).

#### *Prompt Pay, Debt Collection, and Electronic Funds Transfer*

In FY 2017, DOI exceeded its performance goal for PPA and DCIA but did not meet its performance goal for vendor payments made by EFT. The PPA (Figure 1-4) requires that eligible payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest. The DCIA (Figure 1-5) requires any non-tax debt owed to the United States that has been delinquent for a period of over 120 days be referred to the U.S. Department of the Treasury (Treasury) for collection. The EFT (Figure 1-6) provision of the DCIA mandates all recipients of Federal vendor payments receive their payments electronically, except for tax refunds.

The shortfall of the FY 2017 EFT performance goal has been carried over from FY 2016 and continues to be attributed to a high volume of transactions that DOI has for tort claims, legal settlements, financial assistance, social service payments to individual Indians, and realty payments that are consistently being processed with EFT waiver requests or non-EFT mechanisms. A large number of the waivers were converted from legacy financial systems. Those waivers were given a two-year grace period and have now expired. A system change has been developed to automatically block vendor records with expired waivers so that vendors are required to re-submit their requests. Requiring resubmission for waiver requests should effectively reduce the number of vendors who receive checks.

However, transitioning to the use of electronic payment methods requires time for vendors located in remote communities to make the appropriate adjustments to their financial processes. Logistical issues, such as the remote proximity of vendors to banks and the lack of transportation in isolated communities, are reflected in the EFT shortfall. Nonetheless, DOI has made progress with regard to the EFT performance goal, which now stands at 92 percent and continues to rise.

FIGURE 1-4

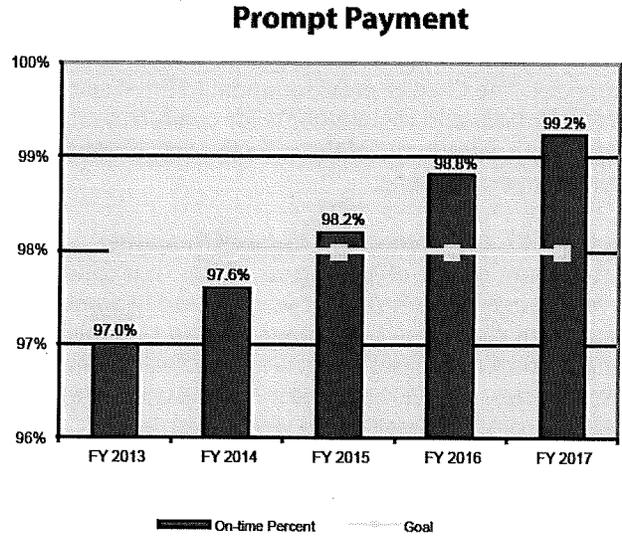


FIGURE 1-5

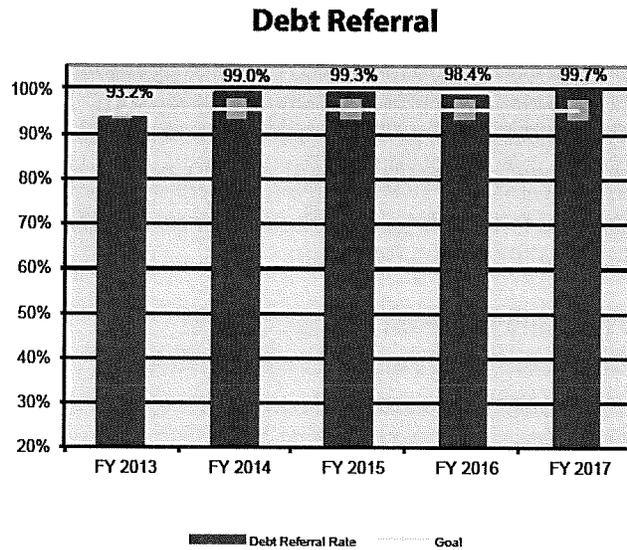
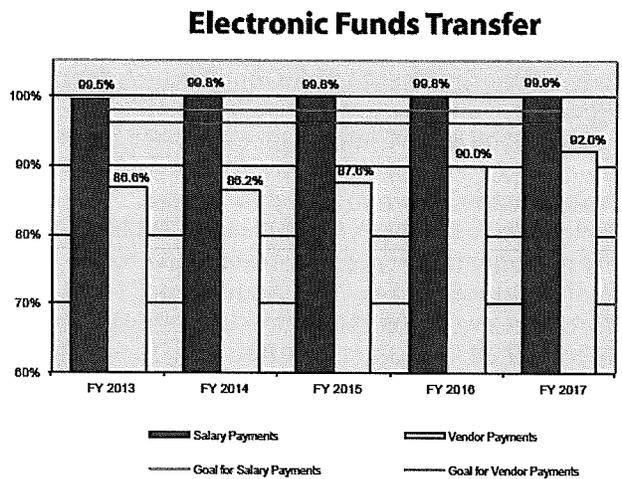


FIGURE 1-6



**Information Management Technology**

The DOI continued the implementation of the *Federal Information Technology and Acquisition Reform Act* (FITARA) by establishing authority and accountability for information management and technology (IMT) throughout DOI. The Chief Information Officer (CIO) established the Information Management Technology Leadership Team (IMTLT) comprised of bureau and office Associate CIOs (ACIOs) and Office of the CIO (OCIO) Senior Leaders. The IMTLT advises and supports the CIO with strategic planning, governance, and the alignment of IMT. Each member of the IMTLT is accountable for implementing and overseeing compliance with policies within their respective organizations.

As a key element of FITARA implementation, each bureau developed an IMT Alignment Plan for implementing improved oversight, accountability, and control over all IMT within their bureau and aligning authority for bureau IMT under the bureau ACIO. In accordance with DOI's implementation of FITARA, bureau ACIOs report to both the Department's CIO and bureau Deputy Director. Additionally, working within DOI's Acquisition Program Advisory Council (APAC), the OCIO and Departmental Senior Procurement Executive issued policy requiring APAC approval for all enterprise IMT acquisitions.

With the support of the IMTLT, the CIO developed the DOI IMT Strategic Plan, outlining the mission, vision, values, and strategic priorities, in alignment with new DOI leadership. The DOI IMT strategic priorities include:

- ▶ Strengthen Cybersecurity and Privacy;
- ▶ Improve IMT/Computing for the Field;
- ▶ Consolidate and Standardize IMT Services and Systems; and
- ▶ FITARA Actualization.

**FY 2017 Accomplishments**

- ▶ Implemented 100 percent of the 61 audit recommendations and 14 cybersecurity recommendations scheduled to be closed in FY 2017 in compliance with OMB Circular A-50, *Audit Follow Up*, as well as remediated all external vulnerabilities identified through the Department of Homeland Security (DHS) Cyber Hygiene Assessments;
- ▶ Implemented EINSTEIN 3-Accelerated, per the *Federal Cybersecurity Enhancement Act of 2015*, to detect and prevent malicious traffic;

- ▶ Achieved 90.8 percent HyperText Transfer Protocol Secure compliance for all externally facing websites;
- ▶ Expedited enforcement of strong authentication using Personal Identity Verification (PIV);
- ▶ Implemented the Symantec-VIP authentication tool to regain mobile device functionality interrupted by the expedited PIV enforcement;
- ▶ Implemented the DHS "DNS Sinkhole" project, which supports Continuous Diagnostics and Mitigation (CDM) and other DHS initiatives;
- ▶ Completed CDM Phase 1 and Risk and Vulnerability Assessments on OMB and DHS-selected High Value Assets;
- ▶ Completed all plans and reporting required in Executive Order 13800, *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure* and OMB M-17-25, *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*;
- ▶ Developed and published a Cloud Technical Implementation Guide and a Secure Enclaves Reference Guide. These documents support the technology roadmap and protect mission-critical data;
- ▶ Established a "One WiFi Policy" for DOI and implemented efficient and secure internet access in the Department's Headquarters at the Main Interior Building;
- ▶ Strengthened the cybersecurity workforce by completing agency actions outlined in the *Federal Cybersecurity Workforce Assessment Act of 2015* and Cybersecurity Strategy and Implementation Plan; and
- ▶ Consolidated all Washington, DC-based OCIO staff into open office space, substantially reducing total annual facilities costs across OCIO locations in the Washington, DC area.

**Future Planned Activities for FY 2018**

- ▶ Develop and implement Workforce Planning with standard IMT position descriptions to cultivate a highly skilled IMT workforce;
- ▶ Lead DOI to develop a risk management framework to integrate and aggregate risk data for IT investments across DOI to inform IMT decisionmaking bodies;

- ▶ Collaborate with DHS to continue rolling out CDM capabilities: Phase one focuses on identifying what is on our network; phase two is concerned with managing who is on our network; phase three gives us visibility into what is happening on our network; phase four focuses on protecting the critical data on agency networks and includes capabilities to encrypt data and segment networks so that intruders who break in cannot access the entire network;
- ▶ Work closely with the DOI OIG to achieve agreed-upon maturity levels for the Council of the Inspectors General on Integrity and Efficiency FISMA Maturity Model as part of the new FISMA performance measures implemented with Cyber Executive Order 13800, *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*;
- ▶ Collaborate with the IMTLT and other DOI stakeholders to develop and implement a standard IMT Service model. The model will identify candidate IMT services and systems for consolidation and standardization;
- ▶ Continue to improve and support needs in the field with common computing standards and IMT provisioning practices (laptops, mobile devices, remote access, and transferability of user accounts/hardware) and portability of devices across organizations;
- ▶ Continue to optimize and reduce the total number of data centers and Trusted Internet Connections; and
- ▶ Improve connectivity, and emphasize broadband in remote areas with standardized and streamlined services and processes.

## Financial Management Systems

The DOI shares the view of the Government-wide CFO Council that robust financial management systems improve consistency, generate data to assist management, strengthen decision making capabilities, and enable DOI program and financial managers to more effectively achieve mission goals. The DOI recognizes the importance of financial management systems as part of the capital asset portfolio and uses sound IT investment management, program management, and project governance principles to plan, deploy, and operate systems. The DOI's goal is to achieve and maintain the objectives stated in OMB Circular No. A-123, Appendix D – to initiate, record, process, and report transactions to support agency missions in making business decisions. In pursuing this goal, DOI is following the

IT investment management practices and principles identified in the *Clinger-Cohen Act of 1996* and FISMA.

### *Financial Management Systems Improvement Strategy*

The DOI's goal is to continue improvements in financial transaction processing, analysis, and reporting, and to enhance financial management systems support through an effective partnership of program, information system, financial, acquisition, and other business managers. The DOI relies on financial and business management systems that are planned for, managed together, and operated collectively to support program and financial managers.

The integrated nature of business processes including property, charge card, travel, and others, working in conjunction with the financial system, strengthen internal controls and transparency.

Some systems are managed at the bureau level, some at the Departmental level, and some are Government-wide systems on which DOI relies. Collectively, they represent DOI's financial management systems architecture. The DOI has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements that drive business process, improvements, and financial integrity. They are: (1) improvement of internal controls; (2) elimination of redundant data entry; (3) enabling end-to-end transaction processing; and (4) standardization of data for improved information quality. The DOI's current, major financial management system improvement effort centers on the Financial and Business Management System (FBMS).

### *Financial Systems Modernization*

The FBMS is an operational, integrated suite of software applications that enables DOI to manage a variety of business functions to include core financials, budget execution, acquisition, personal property, fleet management, real property, travel financial data, financial assistance, and enterprise management information and reporting.

The FBMS enables DOI to meet the following business management goals:

- ▶ Modernized business operations;
- ▶ Standardized and integrated processes;
- ▶ Improved security and internal controls;
- ▶ Improved cost information;

- ▶ Improved tracking and auditing capabilities;
- ▶ Reduced double entry of data in multiple systems and manual paper processing;
- ▶ Improved DOI-wide and bureau specific reporting capabilities;
- ▶ Increased data consistency, integrity, and transparency; and
- ▶ Retirement of aged, stove-piped, unsupported, and costly legacy systems.

#### ***FY 2017 Accomplishments***

The FBMS is used by all bureaus within DOI. The Business Integration Office (BIO) provides operations and maintenance support to FBMS and its users. The FBMS has approximately 12,000 users with over 4,500 of them using FBMS on an average business day. The BIO manages FBMS hosting through a cloud service provider and works with the OCIO to provide help desk support. In FY 2017, the BIO implemented over 700 system improvements. Some of the key accomplishments in FY 2017 include:

- ▶ Continued a multi-phase effort to migrate to the next generation of technology; in-memory computing. This improvement will enable more complete data analysis and increase speed across the FBMS application. In Phase 1, performance increased from 19 percent to 86 percent. Phase 2 is scheduled for a December 2018 go-live;
- ▶ Implemented improvements to strengthen the cybersecurity posture such as improved account management controls and data encryption;
- ▶ Implemented improvements for business analysis and decision support through data visualization and the ability to share data visualizations across all of DOI, including the establishment of a data warehouse to support reporting and analysis of DOI travel spending going live in December 2018;
- ▶ Implemented critical reporting improvements to enable enterprise-wide budget reporting utilizing a Master Data Governance reporting tool; and compliance with mandatory new Procurement Instrument Identifier Reporting;
- ▶ Implemented business and system changes required for DOI to meet compliance deadlines and follow on reporting requirements for the *Digital Accountability and Transparency Act of 2014* (DATA Act) including completing data submissions on time as required;
- ▶ Improved and streamlined DOI-wide Federal Automated Statistical Tool reporting on

motor vehicle inventory, cost, and use to enable improved management of DOI's fleet program; and

- ▶ Improved and streamlined DOI-wide reporting on the Federal Real Property Profile to enable improved management of DOI's real estate assets.

#### ***Future Planned Activities***

Future plans include the optimization of the existing FBMS functional footprint and leveraging the investment to support modular development opportunities to increase management efficiency, effectiveness, transparency, and accountability. The DOI is also focusing on system improvements to address customer service gaps, improve usability, and increase the speed, reliability, and flexibility of the FBMS infrastructure.

The BIO is leading a change in computing technology through the implementation of in-memory computing. The first phase, which went live in early FY 2017, added the SAP HANA™ Accelerator. The BIO has also researched and planned the remaining phases that will be implemented in the coming years. The current phase, moving the data warehouse to HANA™, is expected to be completed in FY 2018. This update is expected to improve system performance and provide timely access to system data to support analysis and visualization of DOI financial information. The next phase, tentatively scheduled to go live in May 2019, will increase speed across the majority of transactions and enable several ease of use improvements.

Building on the successful completion and acceptance of DOI's financial systems roadmap, DOI has initiated business and systems roadmaps in several areas complementary to FBMS, such as budget and performance, facilities work order management, and revenue systems. The goal of each of these roadmaps is to create a plan to support the kinds of benefits being realized from FBMS, such as common business and data standards; modern and unified platforms; transparent reporting using modern analytical tools; increased automated controls and information security; and support for Government-wide initiatives.

# ANALYSIS OF FINANCIAL STATEMENTS

The DOI received, for the 21<sup>st</sup> consecutive year, an unmodified audit opinion on its financial statements. The statements were audited by the independent accounting firm KPMG LLP. Information provided on the financial statements, the opinion presented as a result of the independent audit, and other disclosures and information provided in this report provide assurance to the public that the information is accurate, reliable, and useful for decision-making. The financial statements and financial data presented in this report have been prepared from DOI's accounting records in conformity with Generally Accepted Accounting Principles (GAAP). For Federal entities, these are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Financial statement preparation supports DOI's goal of strong financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. The DOI management is responsible for the integrity and objectivity of the financial information presented in the financial statements. Integrity of the information is supported by the analysis of financial statement line item fluctuations. The discussion also includes significant qualitative financial management information of interest.

## Analysis of Assets

<b>DOI Assets</b> <i>(line items summarized)</i> <i>(dollars in thousands)</i>	<b>FY 2017</b>	<b>FY 2016</b>	<b>Increase/ (Decrease)</b>	<b>% Change</b>
Fund Balance with Treasury	\$ 55,109,092	\$ 52,938,936	\$ 2,170,156	4.1%
Investments, Net	9,105,360	8,297,788	807,572	9.7%
General PP&E, Inventory, and Related Property, Net	21,507,716	21,648,342	(140,626)	-0.6%
Accounts, Loans and Interest Receivable, Net & Other	9,660,475	9,745,203	(84,728)	-0.9%
<b>Assets</b>	<b>\$ 95,382,643</b>	<b>\$ 92,630,269</b>	<b>\$ 2,752,374</b>	<b>3.0%</b>

The FY 2017 asset balance increased slightly over the prior fiscal year. The largest increase is in Investments, primarily due to the Deepwater Horizon settlement received and invested in FY 2017. For additional information regarding this Deepwater Horizon consent decree, please refer to Note 4, Accounts and Interest Receivable, Net.

## Special Account Funds

The NPS has concession agreements which contain provisions that provide for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement.

These "Special Account" funds are maintained in separate interest-bearing bank accounts for the concessioners, and are not assets of NPS and may not be used in NPS operations. Therefore, the balances, inflows, and outflows of these concessioner Special Accounts are not recognized in the financial information of NPS. The concessioners reported that these Special Accounts balances totaled approximately \$11.7 million (unaudited) and \$9.8 million (unaudited), as of September 30, 2017 and 2016, respectively.

## Overview of Financial Position: The Balance Sheet

The Balance Sheet provides a snapshot of DOI's financial position at a fixed point in time. The fiscal year-end Balance Sheet displays amounts of future economic benefits owned or available for use (Assets), amounts owed (Liabilities) and the residual amounts (Net Position) at the end of the fiscal year.

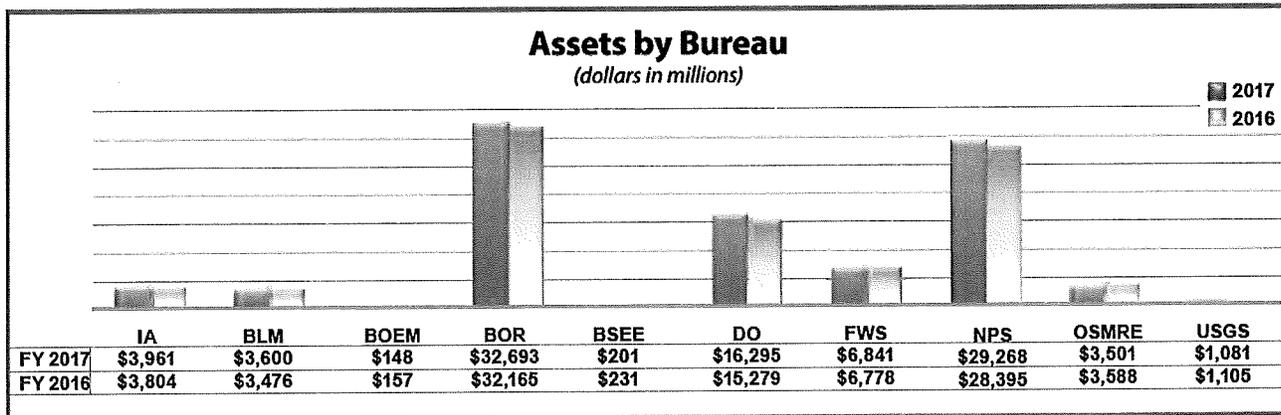
The DOI is authorized to use Fund Balance with Treasury to pay liabilities resulting from operational activity and consists of funds received from direct appropriations, transfers, offsetting receipts, recoveries, and funds held in budget clearing accounts. PP&E is primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation.

The DOI real property portfolio contains more than 43,000 buildings and 80,000 structures, with a replacement value of more than \$300 billion, as well as nearly every type of asset found in a local community. Many of these assets have historic or cultural significance that not only support DOI's mission, but are important to our Nation's heritage.

The DOI's reported values for PP&E exclude stewardship PP&E in accordance with accounting standards. Stewardship PP&E benefits the Nation as a whole and is considered priceless. It is not possible to assign an identifiable value to these assets. An in-depth discussion of stewardship PP&E is presented in the Notes to the Financial Statements section and the Required Supplementary Stewardship Information section of the AFR. The BOR enters into long-term repayment and water

service contracts with non-Federal entities that allow use of irrigation and municipal and industrial water facilities in exchange for annual payments that are used to repay a portion of the Federal investment. Unmatured repayment contracts are not recognized on the Balance Sheet as a receivable until the annual payment amount is earned. As of September 30, 2017, and September 30, 2016, amounts not yet earned under BOR's unmatrued repayment contracts were \$2.29 billion (unaudited) and \$2.25 billion (unaudited) respectively.

Comparative assets by bureau are displayed in the graph below. The sum of assets by bureau is not equal to DOI consolidated total assets as intra-departmental eliminations are excluded from the graph presentation.



### Analysis of Liabilities

DOI Liabilities (line items summarized) (dollars in thousands)	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Accounts & Grants Payable	\$ 2,408,584	\$ 1,819,354	\$ 589,230	32.4%
Federal Employee & Veterans Benefits	1,397,231	1,401,100	(3,869)	- 0.3%
Trust Land Consolidation Program	516,671	901,894	(385,223)	- 42.7%
Environmental, Disposal, & Contingent	953,255	868,350	84,905	9.8%
Custodial Liability, Payments Due to States	1,248,323	1,038,743	209,580	20.2%
Advances & Deferred Revenue	2,045,160	1,384,429	660,731	47.7%
Liability for Capital Transfers to the General Fund	1,583,629	1,723,134	(139,505)	- 8.1%
Judgment Fund Liability	1,220,341	1,215,940	4,401	0.4%
Other, Debt, Loan Guarantees	1,323,123	1,412,837	(89,714)	- 6.3%
<b>Liabilities</b>	<b>\$ 12,696,317</b>	<b>\$ 11,765,781</b>	<b>\$ 930,536</b>	<b>7.9%</b>

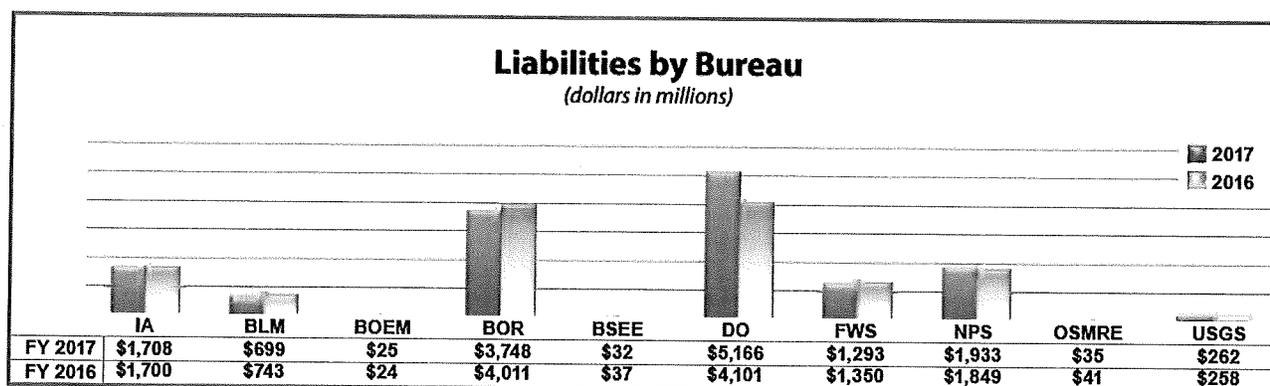
## ANALYSIS OF FINANCIAL STATEMENTS

The FY 2017 increase in liabilities is comprised primarily of increases in Accounts & Grants Payable, Custodial Liability, Payments Due to States and Advances & Deferred Revenue offset by decreases in the Trust Land Consolidation Program.

The majority of the increase in Accounts Payable as well as Advances relates to a new significant contract for DO in FY 2017. This is offset by a

decrease in the Trust Land Consolidation Program at DO which is decreasing as payments are being disbursed.

Comparative liabilities by bureau are displayed in the graph below. The sum of bureau liabilities is not equal to DOI consolidated total liabilities as intradepartmental eliminations are excluded from the graph presented.



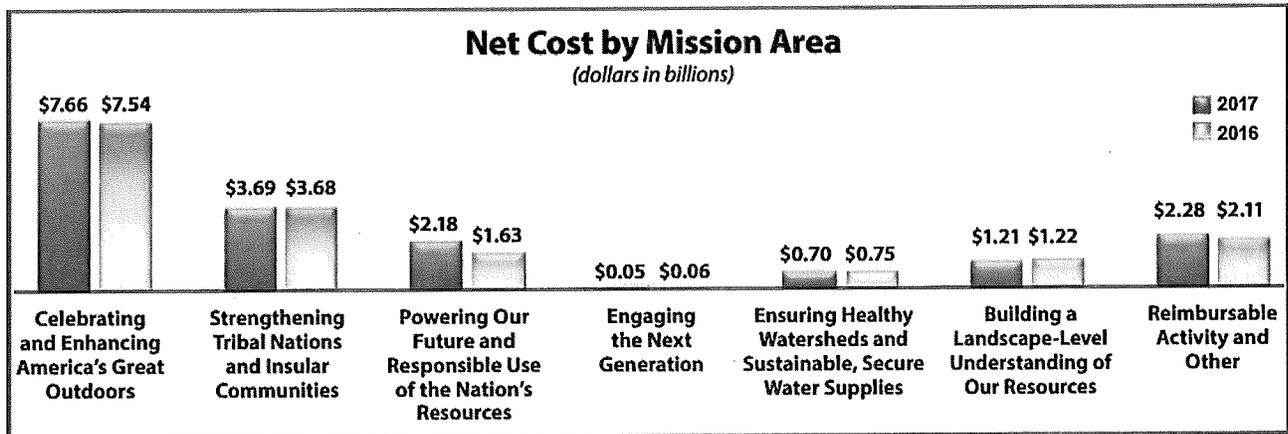
## Analysis of Net Costs

DOI Net Cost (summarized by Bureau) (dollars in thousands)	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Indian Affairs	\$ 3,358,136	\$ 3,389,480	\$ (31,344)	-0.9%
Bureau of Land Management	1,474,858	1,519,886	(45,028)	-3.0%
Bureau of Ocean Energy Management	130,176	110,855	19,321	17.4%
Bureau of Reclamation	1,136,561	1,189,190	(52,629)	-4.4%
Bureau of Safety and Environmental Enforcement	133,556	129,926	3,630	2.8%
Departmental Offices	3,566,035	2,937,820	628,215	21.4%
National Park Service	3,092,548	2,900,846	191,702	6.6%
Office of Surface Mining Reclamation and Enforcement	815,979	644,276	171,703	26.7%
U.S. Fish & Wildlife Service	2,976,447	3,108,748	(132,301)	-4.3%
U.S. Geological Survey	1,161,298	1,170,727	(9,429)	-0.8%
Eliminations	(71,867)	(109,418)	37,551	-34.3%
<b>Net Costs - by Bureau</b>	<b>\$ 17,773,727</b>	<b>\$ 16,992,336</b>	<b>\$ 781,391</b>	<b>4.6%</b>

The Consolidated Statement of Net Cost includes DOI's six Mission Areas: Celebrating and Enhancing America's Great Outdoors; Strengthening Tribal Nations and Insular Communities; Powering Our Future and Responsible Use of the Nation's Resources; Engaging the Next Generation; Ensuring Healthy Watersheds and Sustainable, Secure Water Supplies; and Building a Landscape-Level Understanding of Our Resources. The Statement of Net Cost also includes

Reimbursable Activity and Other, which predominately represents the intragovernmental acquisition of goods and services through the DOI Working Capital Fund and Franchise Fund.

The DOI net costs primarily represent services provided to the public. The DOI recognized an increase in costs in FY 2017 at DO associated with disbursements of oil and gas revenues that were increased due to an increase in commodity prices.



### Analysis of Net Cost – Economic Contributions

According to DOI's most recent economic report, DOI plays a substantial role in the U.S. economy, supporting an estimated 1.7 million jobs, providing approximately \$145 billion in value and \$254 billion in economic activity. The DOI's economic contributions arise as the Department carries out its unique mission, managing Federal lands and waters, and making investments that conserve and restore natural landscapes and the cultural heritage of the Nation. The DOI management also facilitates private sector activities that result in economic contributions. For example, DOI grants access to public lands and offshore areas for conventional and renewable energy development, providing roughly a quarter of the Nation's domestic supplies of oil and natural gas. These oil and gas leasing activities allow the private sector to invest, creating economic output and employment. Similarly, the recreation opportunities provided by DOI's lands and waters promote visitor spending, which contributes to local and regional economies.

Highlights of DOI's economic contributions to key economic sectors include:

- ▶ **Fossil Fuel Energy:** Oil, gas, and coal produced from DOI-managed lands provided value added of approximately \$68.3 billion, estimated economic output contribution of \$117.7 billion, and an estimated 582 thousand jobs.
- ▶ **Renewable Energy:** Hydropower, wind and solar power projects on DOI lands were estimated to contribute \$3.8 billion in economic output and support over 17,000 jobs.
- ▶ **Recreation and Tourism:** Americans and foreign visitors made an estimated 473 million visits to DOI-managed lands. These visits

supported approximately 426,000 jobs, value added provided by visitors to DOI sites was estimated to be \$28.1 billion, and economic output was estimated to be \$50 billion.

- ▶ **Water:** The DOI stores and delivers water for irrigation, municipal and industrial (M&I), and other uses. The value of water varies widely according to location, type of use, and climatic conditions. The DOI irrigation and M&I water activities are associated with \$28.9 billion in value, about \$49.7 billion in economic output, and supported an estimated 399,000 jobs. DOI also delivers water to support in-stream flows, wildlife refuges, and other uses that are difficult to value fully and not typically reflected in economic contribution estimates.
- ▶ **Grants and Payments:** The DOI administers numerous grants and payment programs. This financial support helps improve the natural environment, build infrastructure, and provide public and social services. Grant and payment programs administered by DOI provided \$6.4 billion in value, economic contributions of \$9.1 billion, and supported employment of about 84,000 jobs.
- ▶ **The DOI's support for tribal governments** represents an important mechanism to advance government-to-government relationships, facilitate economic development, improve Indian education, and improve the safety of Indian communities. This funding provided \$0.9 billion of economic value and contributed approximately \$1.3 billion to economic output and supported approximately 10,000 jobs.

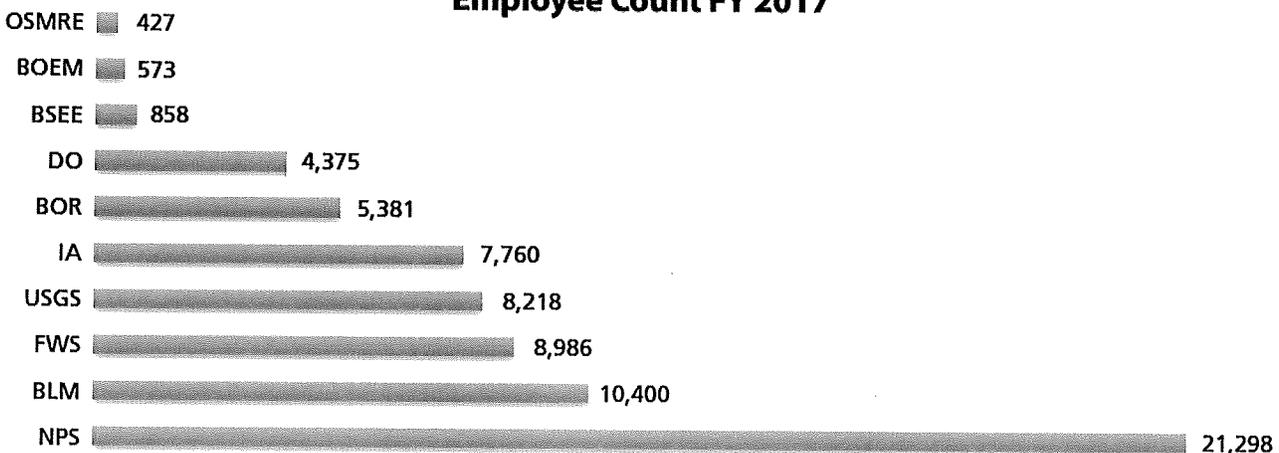
### Analysis of Net Cost – DOI Workforce

The DOI costs include \$6.9 billion in payroll and benefit costs for employees executing DOI’s mission and programs. The DOI employs 68,276 people in approximately 2,400 locations with offices across the United States, Puerto Rico, U.S. territories, and Freely Associated States. The total DOI employees count includes 53,613 full-time permanent staff. Part-time and seasonal staff of 14,663 are also fundamental to the services that DOI provides.

At DOI, employees take pride in knowing that the work they do every day is of real significance – from managing the Nation’s natural resources

and cultural heritage to honoring responsibilities to strengthen tribal nations and advocate for America’s island communities. The DOI relies on their expertise and commitment to better serve the public and to help achieve organizational goals and objectives. Through a continuing effort to better serve America, DOI continues to broaden the diversity of DOI’s workforce. The DOI is committed to identifying, hiring, and retaining the best qualified individuals, wherever they are and whatever their background, to reflect the diversity of the communities in which DOI operates.

### Employee Count FY 2017



Employee Count - Total 68,276

(All employees regardless of work schedule or type of appointment)

Total Payroll & Benefits	
<i>(dollars in thousands)</i>	
IA	\$ 673,364
BLM	1,045,650
BOEM	82,943
BOR	598,239
BSEE	116,503
DO	616,580
FWS	989,758
NPS	1,787,144
OSMRE	53,299
USGS	913,133
<b>TOTAL</b>	<b>\$ 6,876,613</b>

Work Schedule Information	Full Time Permanent	Other*	Total
IA	4,540	3,220	7,760
BLM	8,881	1,519	10,400
BOEM	561	12	573
BOR	5,140	241	5,381
BSEE	848	10	858
DO	4,148	227	4,375
FWS	7,862	1,124	8,986
NPS	14,713	6,585	21,298
OSMRE	415	12	427
USGS	6,505	1,713	8,218
<b>Total Employees by Bureau</b>	<b>53,613</b>	<b>14,663</b>	<b>68,276</b>

\*Other includes Part-Time and Seasonal Employees

### Analysis of Net Cost - Stewardship Investments

The DOI net cost includes expenses incurred that are expected to benefit the Nation over time. These expenses are qualitatively material and worthy of highlighting as they represent expenses charged to current operations.

Investment in human Capital is attributed to IA's education programs within the Bureau of Indian Education.

Net Cost in Stewardship Investments increased slightly during FY 2017. The majority of the increase

Summary information regarding these expenses is provided in the table below. An in-depth discussion is provided in the Required Supplementary Stewardship Information section of this report.

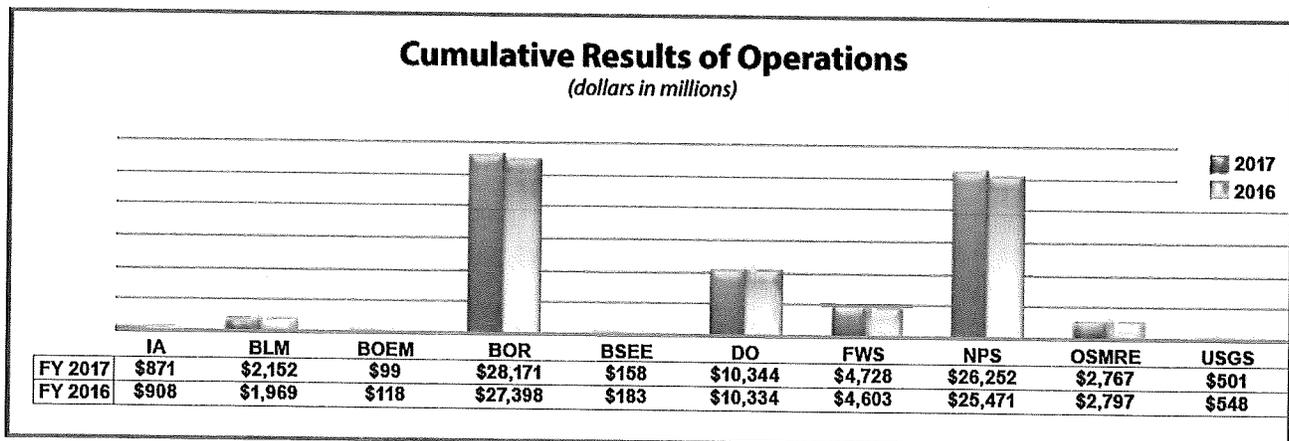
Stewardship Investments				
(in thousands)	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Non-Federal Physical Property	\$ 318,000	\$ 306,000	\$ 12,000	3.9%
Research and Development	\$1,228,000	\$ 1,210,000	\$ 18,000	1.5%
Human Capital	\$ 855,000	\$ 818,000	\$ 37,000	4.5%

### Analysis of Net Position

Net Position	FY 2017	FY 2016	Increase/ (Decrease)	% Change
(dollars in thousands)				
Unexpended Appropriations	\$ 6,642,753	\$ 6,536,892	\$ 105,861	1.6%
Cumulative Results of Operations	76,043,573	74,327,596	1,715,977	2.3%
<b>Net Position</b>	<b>\$ 82,686,326</b>	<b>\$ 80,864,488</b>	<b>\$ 1,821,838</b>	<b>2.3%</b>

The Net Position of DOI includes Unexpended Appropriations and Cumulative Results of Operations. These two components are displayed on the Statement

of Changes in Net Position to provide information regarding the nature of changes to the Net Position of DOI as a whole. Cumulative Results of Operation by Bureau is summarized below.



**Analysis of Budgetary Resources**

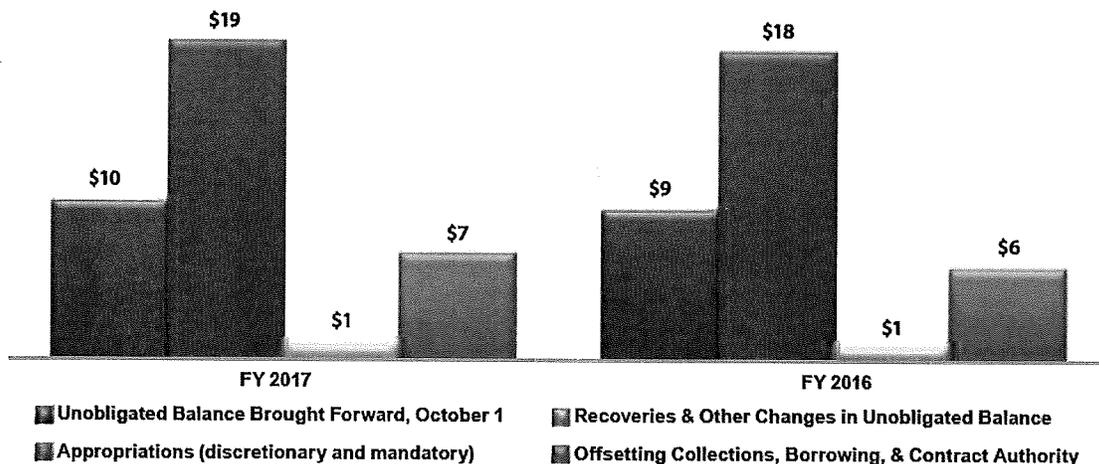
Key Budgetary Measures <i>(dollars in thousands)</i>	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Unobligated Balance Brought Forward, October 1	\$ 9,502,401	\$ 9,052,290	\$ 450,111	5.0%
Appropriations (discretionary and mandatory)	19,119,665	18,454,163	665,502	3.6%
Recoveries & Other Changes in Unobligated Balance	972,033	912,435	59,598	6.5%
Offsetting Collections, Borrowing & Contract Authority	6,506,372	5,548,815	957,557	17.3%
<b>Total Budgetary Resources</b>	<b>\$ 36,100,471</b>	<b>\$ 33,967,703</b>	<b>\$ 2,132,768</b>	<b>6.3%</b>
New Obligations & Upward Adjustments	25,366,965	24,465,302	901,663	3.7%
Apportioned, Unexpired	10,507,771	9,256,942	1,250,829	13.5%
Unapportioned, Unexpired & Expired, Unobligated Balance, End of Year	225,735	245,459	(19,724)	-8.0%
<b>Status of Budgetary Resources</b>	<b>\$ 36,100,471</b>	<b>\$ 33,967,703</b>	<b>\$ 2,132,768</b>	<b>6.3%</b>

The DOI receives most of its funding from general government funds administered by Treasury and appropriated for DOI's use by Congress. A portion of DOI's resources come from Special and Trust Funds, such as Conservation Funds (the Land and Water Conservation Fund and Historic Preservation Fund), the Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

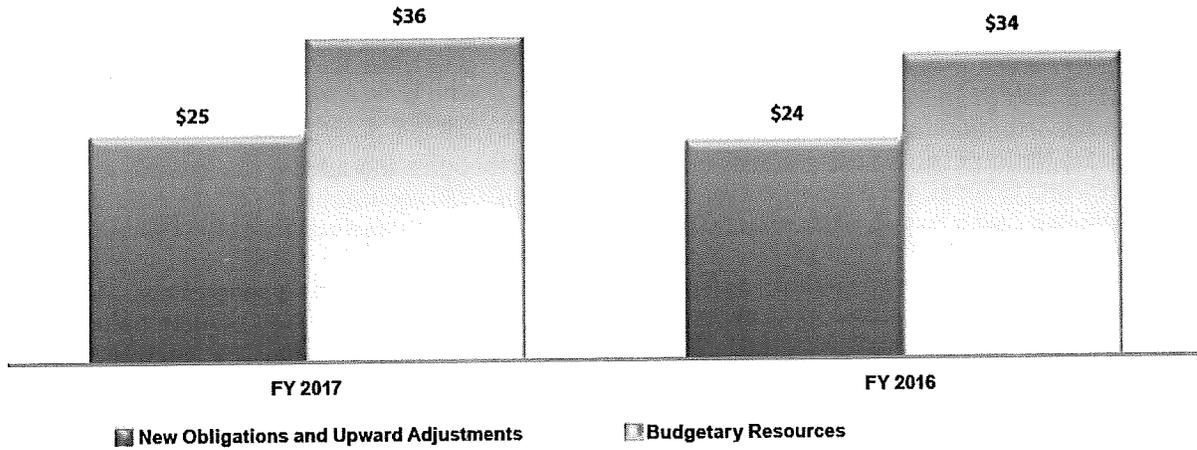
The FY 2017 slight increase in Budgetary Resources is primarily a result of increases in Appropriations, Recoveries and Other Changes in Unobligated Balance, and Offsetting Collections, Borrowing & Contract Authority. The majority of the increase relates to a new significant contract for DO which increased Offsetting Collections for FY 2017.

The DOI budgetary sources and new obligations and upward adjustments relative to resources are depicted in the graphs that follow.

**Budgetary Resources**  
*(dollars in billions)*



### New Obligations and Upward Adjustments (dollars in billions)



### Analysis of Custodial Activity

Custodial Activity (dollars in thousands)	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Rents and Royalties	\$ 5,970,908	\$ 4,817,280	\$ 1,153,628	23.9%
Onshore Lease Sales	343,854	60,426	283,428	469.0%
Offshore Lease Sales	344,966	168,953	176,013	104.2%
<b>Total Custodial Revenue</b>	<b>\$ 6,659,728</b>	<b>\$ 5,046,659</b>	<b>\$ 1,613,069</b>	<b>32.0%</b>

The DOI custodial activity primarily includes mineral leasing revenue collected by DOI resulting from OCS and onshore oil, gas, and mineral sales and royalties. This activity is considered to be revenue of

the Federal Government as a whole and is therefore excluded from DOI's Statement of Net Cost. The FY 2017 increase in custodial activity is attributable to a increase in commodity prices.

### Custodial Revenue (dollars in billions)



### Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for DOI pursuant to the requirements of Chapter 31 of the U.S.C. Section 3515(b). While these statements have been prepared from the records of DOI in accordance with GAAP and formats prescribed in OMB Circular

No. A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

The Department of the Interior (DOI) conserves and manages the Nation's natural resources and cultural heritage for the benefit and enjoyment of the American people, provides scientific and other information about natural resources and natural hazards to address societal challenges and creates opportunities for the American people, and honors the Nation's trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities to help them prosper. The DOI's diverse mission plays a crucial role in enriching the lives of all Americans and promoting economic growth across America. As the largest land management agency in the Federal Government, DOI is responsible for the oversight and management of America's public lands, national parks, mineral resources, grazing lands, and more. As stewards of this public trust, DOI meets the diverse needs of Americans by managing America's public lands for multiple uses, ensuring these lands are available for recreation, energy development, and for job growth and creation. By embracing a balanced stewardship approach, DOI is positioned as a leader in boosting job creation and spurring economic growth in the land, energy and recreation industries.

The DOI strives to fulfill the Secretary's vision to:

- ▶ **Promote energy and minerals independence** to create jobs for Americans, insulate our Nation from volatile political developments overseas, and generate revenue for all levels of government so they in turn have the resources to better serve the American people.
- ▶ **Increase access to outdoor recreation opportunities for all Americans** so that our people can be healthier, more fully enjoy the wonderful features of their Federal lands, and take advantage of hunting, fishing, and other wildlife oriented pursuits that are the roots of the conservation movement.
- ▶ **Enhance conservation stewardship** whereby all levels of government and private landowners work cooperatively together in an atmosphere of mutual respect to achieve shared natural resource management goals.
- ▶ **Improve management of species and their habitats** by focusing our financial and staff resources on improving the status of our Nation's fish and wildlife and the healthy habitats that support them, and by streamlining bureaucratic processes to help us spend relatively more of our funding productively on the ground, so we can more quickly and effectively respond to societal needs and our own natural resource management responsibilities.

- ▶ **Uphold trust and related responsibilities** recognizing that Indian tribes, the U.S. territories, and certain Pacific islands with whom we have a special relationship are all sovereign governments, deserving of our respect, and who have a right to expect we will have their interest in mind as we carry out our mission.

Through a thoughtful stewardship approach, DOI will ensure that America's natural treasures – the lands and waters of the United States – are conserved for the benefit, use, and enjoyment of current and future generations. The bureaus within DOI use the best modern natural resource management techniques, science, technology and engineering, and efficient decisionmaking processes. The bureaus also focus on robust partnerships, improved land use planning to ensure balanced stewardship, and a wise use of the public lands to include wildlife and fish species.

In alignment with the President's Executive Order on Promoting Energy Independence and Economic Growth, which prioritizes our Nation's energy development, DOI is committed to achieving and maintaining American energy dominance, with an "all-of-the-above" energy strategy. Serving as a leader in energy development, DOI manages and provides access to energy and other resources including oil, gas, coal, water, timber, grazing, and non-energy minerals on public lands and the Outer Continental Shelf. The use of these resources, and the further growth of these energy-based industries, enrich the lives of Americans and provide a source of economic growth at many local communities across the Nation. To achieve the responsible productivity of the public lands, DOI will balance conservation principles with multiple-use strategies, which will provide economic benefit to both present and future generations.

Outdoor recreation is integral to a healthy lifestyle for millions of Americans. As the largest Federal land management agency, DOI seeks to further promote use of public lands for outdoor recreational activities, by establishing recreation on public lands as a cornerstone of DOI's multiple-use land strategy. Through DOI's multiple-use policy, Americans have the opportunity within DOI managed public lands to hunt, fish, hike, camp, climb, sail on boats, view wildlife, and to pursue other outdoor activities. Visitors to DOI's public lands and waters experience the physical, mental, and social benefits that outdoor recreation provides and form an integral connection with America's great lands. The visitors to our lands today will be our conservation leaders of tomorrow. Outdoor activities on public lands enrich the lives of Americans, provide greater opportunities for

future generations to connect with nature, and will help to shape future leaders in conservation.

The DOI upholds the Federal Government's unique trust responsibilities by fostering the government-to-government relationships between the Federal Government and federally recognized Tribes by providing services to individual American Indians and Alaskan Natives. The U.S. has important relationships with the insular areas including the Territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The DOI also administers and oversees Federal assistance to the three Freely Associated States: the Federated States of Micronesia; the Republic of the Marshall Islands; and the Republic of Palau.

The DOI's activities are guided by a Strategic Plan and a set of Priority Performance Goals. The following initiatives exemplify how DOI will maintain and build the capacity to carry out these responsibilities on behalf of the American people in the future.

**Ensuring Effective and Accountable Leadership** - A critical role for DOI's senior executives is providing the necessary leadership to guide the efforts of DOI's offices, bureaus, and field locations in effectively achieving Presidential and Secretarial goals: ensuring cost effective operations and quality service to the public; facilitating cooperation and collaboration across organizations within DOI and its Federal and non-Federal partners; providing a workplace environment that is safe, fair, and conducive to employee productivity; resolving conflicts as needed; and holding individuals accountable for their actions. The DOI embraces a zero tolerance policy for sexual harassment and expects all leadership to serve as role models in following and enforcing this policy.

**Empowering the Field** - Accomplishing the multi-faceted missions of DOI involves the skills of 9 bureaus and the Departmental offices spanning 2,400 locations across the U.S. These locations are often remote and present managers with unique challenges. Managers and experts in the field must exercise judgement and discretion, and must have a skilled workforce to address the issues in managing their operations. Decisions are frequently made at higher levels in the organization at a regional or headquarters level, which are far removed from the realities present in the field. To address this challenge, DOI plans to further empower the managers and employees in the field by shifting more of the decisionmaking out to the field from the headquarters level. This initiative will help to reengage the workforce and increase employee morale at the front lines.

**Engaging the Nation in Cooperative Stewardship** - In managing such a broad range of resources for the benefit of the public, DOI works closely with other Federal agencies, state, tribal, territorial, and local governments, and the public. The DOI is working to increase coordination across agency lines and levels of government to achieve common goals and resolve differences without litigation.

With a focus on cooperative stewardship, DOI will focus on leveraging taxpayer investment with public and private resources through wildlife conservation, historic preservation, and recreation grants. These programs encourage partnerships by providing matching funds that produce greater benefits to taxpayers for the Federal dollars invested. For example, the FY 2018 budget for NPS includes \$15 million in current funding for the Centennial Challenge matching program to leverage private donations for park projects. This and other bureau programs highlight the strong cooperative spirit that DOI fosters through partnerships with many Federal agencies, state, tribal, territorial, and local governments, and the public to build out the cooperative stewardship model of the future.

**Improving Infrastructure** – The DOI manages an infrastructure asset portfolio with a replacement value exceeding \$300 billion. Most well-known are DOI's iconic and unique national treasures, which have priceless historical significance. The DOI owns approximately 43,000 buildings, 100,000 miles of roads, and 80,000 structures; including dams, laboratories, employee housing, Indian schools, visitor facilities, historic structures and power infrastructure. The related deferred maintenance backlog has grown to over \$16 billion in FY 2017, of which over \$11 billion belongs to NPS.

Taking care of this significant asset portfolio is a persistent challenge. The DOI is committed to looking into ways to address this backlog and to maintaining its facilities for the safety and productivity of its workforce, and the enjoyment of the American public. Due to the magnitude of the infrastructure maintenance backlog, this will be a long term initiative that is vital for the preservation of DOI's assets for future generations.

The DOI's transportation assets, such as roads and bridges, account for about half of DOI's deferred maintenance backlog. The Federal Lands Transportation Program, funded by Congress via the Department of Transportation Highway Trust Fund, will provide more than \$300 million for Interior projects in FY 2018.

A portion of these funds will help NPS conduct much needed repairs to the Arlington Memorial Bridge, linking Virginia to Washington, DC.

The DOI also is participating in a government-wide effort to improve agency management and streamline permitting for energy and other infrastructure projects. The DOI is one of 13 Federal agencies implementing Title 41 of the *Fixing America's Surface Transportation Act* – commonly referred to as FAST-41 – which was designed to improve the timeliness, predictability, and transparency of the Federal environmental review and authorization process for specific infrastructure projects. The DOI is the lead agency for eight projects, and either a coordinating or cooperating partner for 14 projects.

**Striking a Regulatory Balance** - In accordance with the Executive Order on Enforcing the Regulatory Reform Agenda, DOI will identify regulations for repeal, replacement, or modification that eliminate jobs, inhibit job creation, are outdated, unnecessary, ineffective, impose costs that exceed benefits, or rely on data or methods that are not publicly available or insufficiently transparent to meet the standard for reproducibility. When implementing any future regulatory actions, DOI plans to take a measured and thoughtful approach. This will ensure future DOI regulations seek to strike a stronger balance of regulation with the practicality of application.

**Generating Revenue, Jobs, and Economic Activity** - The DOI grants access to public lands and offshore areas for conventional and renewable energy development—representing roughly a quarter of the Nation's domestic supplies of oil and natural gas—while ensuring safety, environmental protection, and revenue generation for the American public. It is important to the Nation's future that these natural resources are managed wisely and made accessible for public use to help generate revenues and grow the U.S. economy.

During FY 2017, Secretary Zinke started several efforts to put America on track to achieve the President's vision for energy dominance. The DOI lifted the 2016 moratorium on all new coal leases on Federal land, and will review areas closed off by the 2017-2022 program for oil and gas leasing without disrupting scheduled lease sales. To ensure American taxpayers continue to receive the full value of natural resources produced on Federal lands, in April 2017, Secretary Zinke signed a charter establishing a Royalty Policy Committee of 28 local, tribal, state, and other stakeholders, to

advise him on the fair market value of and revenue collection from Federal and Indian mineral and energy leases, including renewable energy sources.

The DOI provides technical assistance and continues funding for the multi-bureau Indian Energy Service Center established to expedite the leasing, permitting, and reporting for conventional and renewable energy on Indian lands. Income from energy is one of the larger sources of revenue generated from trust lands, and these programs assist tribal landowners optimize sustainable stewardship and use of resources, providing benefits such as revenues and jobs.

**Restoring Trust** - As true stewards of the Nation's natural and cultural resources, it is critical that DOI can be trusted to operate in the best interest of the American public. Key to maintaining public trust and confidence in the integrity of government is the adherence to high ethical standards and ensuring that government business is conducted with impartiality and integrity. The DOI embodies this principle, follows the law, and holds people accountable. Decisions are based on the best interest of the public, with the goal of promoting and supporting transparency, accountability, and efficiency.

With a strong focus on maintaining trust, DOI is committed to effective financial operations and accountability including high quality and timely reporting, robust internal controls, clean audits, and effective follow-up on audit and internal control findings. The DOI utilizes FBMS for the integration of business functions including budget execution, finance, acquisition, improved internal controls, a secure information technology environment, and a community of business innovation, efficiency, and transparency.

The DOI has a deep commitment to strengthen America's economic and energy security, focus on the Nation's infrastructure, to be responsible stewards of this magnificent land, encourage public access for outdoor recreation, and strengthen and respect tribal sovereignty. At the same time, DOI is committed to fiscal responsibility and, through the President's budget for FY 2018, is proposing sensible and rational reductions and making hard choices to reach a balanced budget by FY 2027.



---

FY 2017

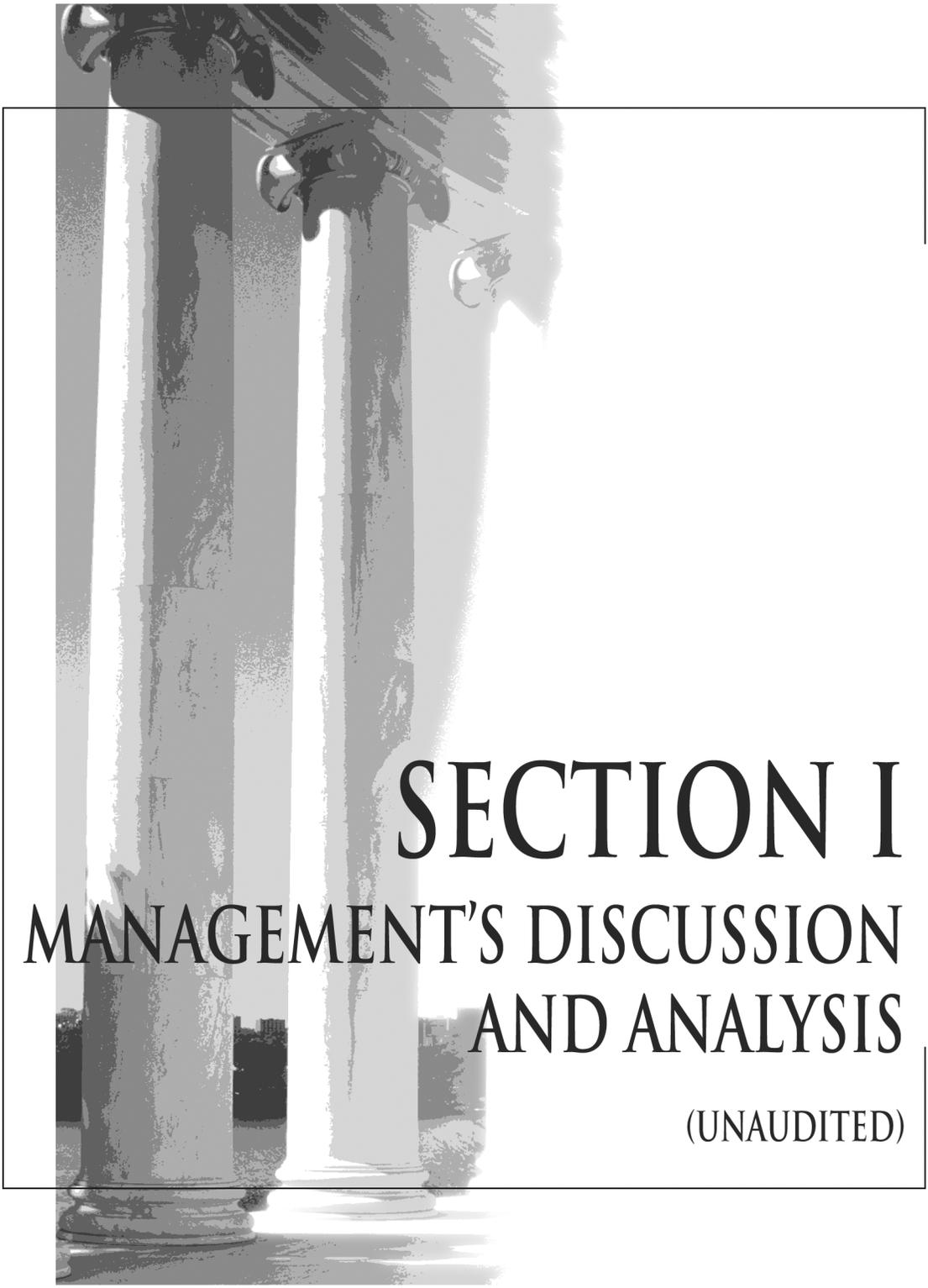
---

AGENCY FINANCIAL  
REPORT



---

U.S. DEPARTMENT OF JUSTICE



**SECTION I**  
**MANAGEMENT'S DISCUSSION**  
**AND ANALYSIS**

(UNAUDITED)



# Section I

## Management's Discussion and Analysis (Unaudited)

---

Established July 1, 1870 (28 U.S.C. § 501 and 503), the Department of Justice (DOJ or the Department) is headed by the Attorney General of the United States. The Department was created to control federal law enforcement, and all criminal prosecutions and civil suits in which the United States has an interest. The structure of the Department has changed over the years, with the addition of a Deputy Attorney General, Associate Attorney General, Assistant Attorneys General, and the formation of Divisions and components; however, unchanged is the commitment and response to securing equal justice for all, enhancing respect for the rule of law, and making America a safer and more secure Nation.

### Mission

The mission of the Department of Justice, as reflected in the Strategic Plan for fiscal years (FY) 2014-2018, is as follows:

*To enforce the law and defend the interests of the United States according to the law, to ensure public safety against threats foreign and domestic, to provide federal leadership in preventing and controlling crime, to seek just punishment for those guilty of unlawful behavior, and to ensure fair and impartial administration of justice for all Americans.*

In carrying out the Department's mission, we are guided by the following core values:

---

**Equal Justice Under the Law.** Upholding the laws of the United States is the solemn responsibility entrusted to us by the American people. We enforce these laws fairly and uniformly to ensure that all Americans receive equal protection and justice under the law.

---

**Honesty and Integrity.** We adhere to the highest standards of ethical behavior.

---

**Commitment to Excellence.** We seek to provide the highest levels of service to the American people. We are effective and responsible stewards of the taxpayers' dollars.

---

**Respect for the Worth and Dignity of Each Human Being.** We treat each other and those we serve with fairness, dignity, and compassion. We value differences in people and ideas. We are committed to the well-being of our employees and to providing opportunities for individual growth and development.

---

### Strategic Goals and Objectives

From our mission and core values stem the Department's strategic and annual planning processes. The Department embraces the concepts of performance-based management. At the heart of these concepts is the understanding that improved performance is realized through greater focus on mission, agreement on goals and objectives, and timely reporting of results. In the Department, strategic planning is the first step in an iterative planning and implementation cycle.

Consistent with the Government Performance and Results Modernization Act of 2010 (GPRAMA), the Department is in the process of developing a new Strategic Plan that will guide it during FYs 2018 through 2022. For FY 2017, the Department’s strategic goals and objectives were as follows.

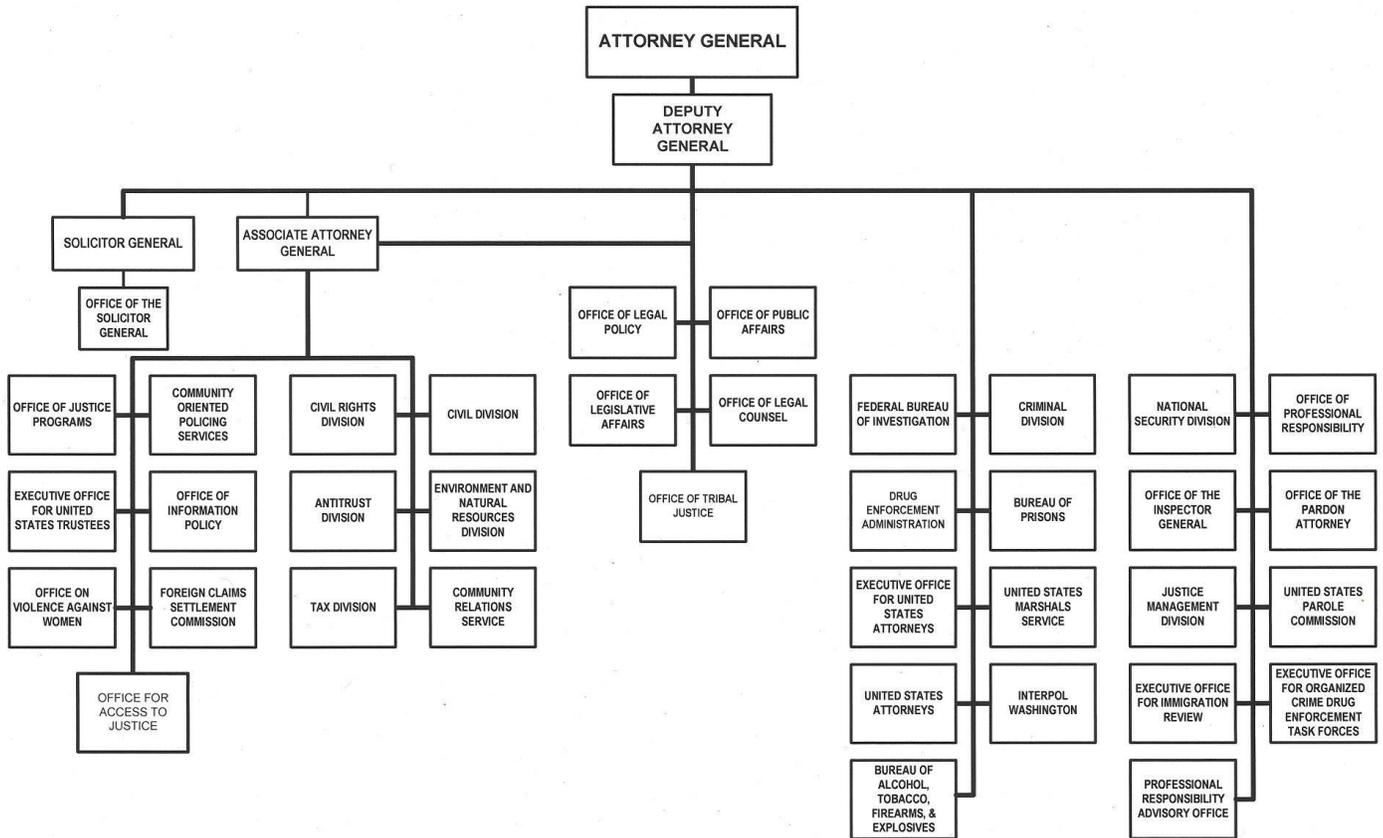
	<b>Strategic Goal</b>	<b>Strategic Objectives</b>
1	Prevent Terrorism and Promote the Nation’s Security Consistent with the Rule of Law	<p><b>1.1</b> Prevent, disrupt, and defeat terrorist operations before they occur by integrating intelligence and law enforcement efforts to achieve a coordinated response to terrorist threats</p> <p><b>1.2</b> Prosecute those involved in terrorists acts</p> <p><b>1.3</b> Investigate and prosecute espionage activity against the United States, strengthen partnerships with potential targets of intelligence intrusions, and proactively prevent insider threats</p> <p><b>1.4</b> Combat cyber-based threats and attacks through the use of all available tools, strong public-private partnerships, and the investigation and prosecution of cyber threat actors</p>
2	Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law	<p><b>2.1</b> Combat the threat, incidence, and prevalence of violent crime by leveraging strategic partnerships to investigate, arrest, and prosecute violent offenders and illegal firearms traffickers</p> <p><b>2.2</b> Prevent and intervene in crimes against vulnerable populations and uphold the rights of, and improve services to, America’s crime victims</p> <p><b>2.3</b> Disrupt and dismantle major drug trafficking organizations to combat the threat, trafficking, and use of illegal drugs and the diversion of licit drugs</p> <p><b>2.4</b> Investigate and prosecute corruption, economic crimes, and transnational organized crime</p> <p><b>2.5</b> Promote and protect American civil rights by preventing and prosecuting discriminatory practices</p> <p><b>2.6</b> Protect the federal fisc and defend the interests of the United States</p>
3	Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels	<p><b>3.1</b> Promote and strengthen relationships and strategies for the administration of justice with law enforcement agencies, organizations, prosecutors, and defenders through innovative leadership and programs</p> <p><b>3.2</b> Protect judges, witnesses, and other participants in federal proceedings by anticipating, deterring, and investigating threats of violence</p> <p><b>3.3</b> Provide safe, secure, humane, and cost-effective confinement and transportation of federal detainees and inmates</p> <p><b>3.4</b> Reform and strengthen America’s criminal justice system by targeting the most serious offenses for federal prosecution, expanding the use of diversion programs, and aiding inmates in reentering society</p> <p><b>3.5</b> Apprehend fugitives to ensure their appearance for federal judicial proceedings or confinement</p> <p><b>3.6</b> Prevent and respond to genocide and mass atrocities and ensure that perpetrators of such crimes are held accountable in the United States, and if appropriate, their home countries</p> <p><b>3.7</b> Adjudicate all immigration cases promptly and impartially in accordance with due process</p> <p><b>3.8</b> Strengthen the government-to-government relationship between tribes and the United States, improve public safety in Indian Country, and honor treaty and trust responsibilities through consistent, coordinated policies, activities, and litigation</p>

## Organizational Structure

Led by the Attorney General, the Department is comprised of forty separate component organizations. There are 115,760 employees who ensure that the Department carries out the individual missions of its components. These include the U.S. Attorneys (USAs) who prosecute offenders and represent the United States government in court; the major investigative agencies – the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), which deter and investigate crimes and arrest criminal suspects; the U.S. Marshals Service (USMS), which protects the federal judiciary, apprehends fugitives, and detains persons in federal custody; the Bureau of Prisons (BOP), which confines convicted offenders; and the National Security Division (NSD), which brings together national security, counterterrorism, counterintelligence, and foreign intelligence surveillance operations under a single authority.

The Department's litigating divisions represent the rights and interests of the American people and enforce federal criminal and civil laws. The litigating divisions are comprised of the Antitrust (ATR), Civil (CIV), Civil Rights (CRT), Criminal (CRM), Environment and Natural Resources (ENRD), and Tax (TAX) Divisions. The Office of Justice Programs (OJP), the Office on Violence Against Women (OVW), and the Office of Community Oriented Policing Services (COPS) provide leadership and assistance to state, local, and tribal governments. Other major Departmental components include the Executive Office for U.S. Trustees (UST), the Justice Management Division (JMD), the Executive Office for Immigration Review (EOIR), the Community Relations Service (CRS), the Office of the Inspector General (OIG), and several offices that advise the Attorney General on policy, law, legislation, tribal justice matters, external affairs, and oversight. Headquartered in Washington, D.C., the Department conducts its work in offices located throughout the country and overseas.

# U.S. DEPARTMENT OF JUSTICE



## Financial Structure

The Department's financial reporting structure is comprised of nine principal components.

### Components:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)
- Bureau of Prisons (BOP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Federal Prison Industries, Inc. (FPI)
- Office of Justice Programs (OJP)
- Offices, Boards and Divisions (OBDs)\*
- U.S. Marshals Service (USMS)

### \*OBDs

#### Offices

Office of the Attorney General  
Office of the Deputy Attorney General  
Office of the Associate Attorney General  
Community Relations Service  
Executive Office for Immigration Review  
Executive Office for U.S. Attorneys  
Executive Office for U.S. Trustees  
Executive Office for Organized Crime  
    Drug Enforcement Task Forces  
INTERPOL Washington  
Office for Access to Justice  
Office of Community Oriented Policing Services  
Office of Information Policy  
Office of Legal Counsel  
Office of Legal Policy  
Office of Legislative Affairs  
Office of Professional Responsibility  
Office of Public Affairs  
Office of the Inspector General  
Office of the Pardon Attorney  
Office of the Solicitor General  
Office of Tribal Justice  
Office on Violence Against Women  
Professional Responsibility Advisory Office  
U.S. Attorneys

#### Boards

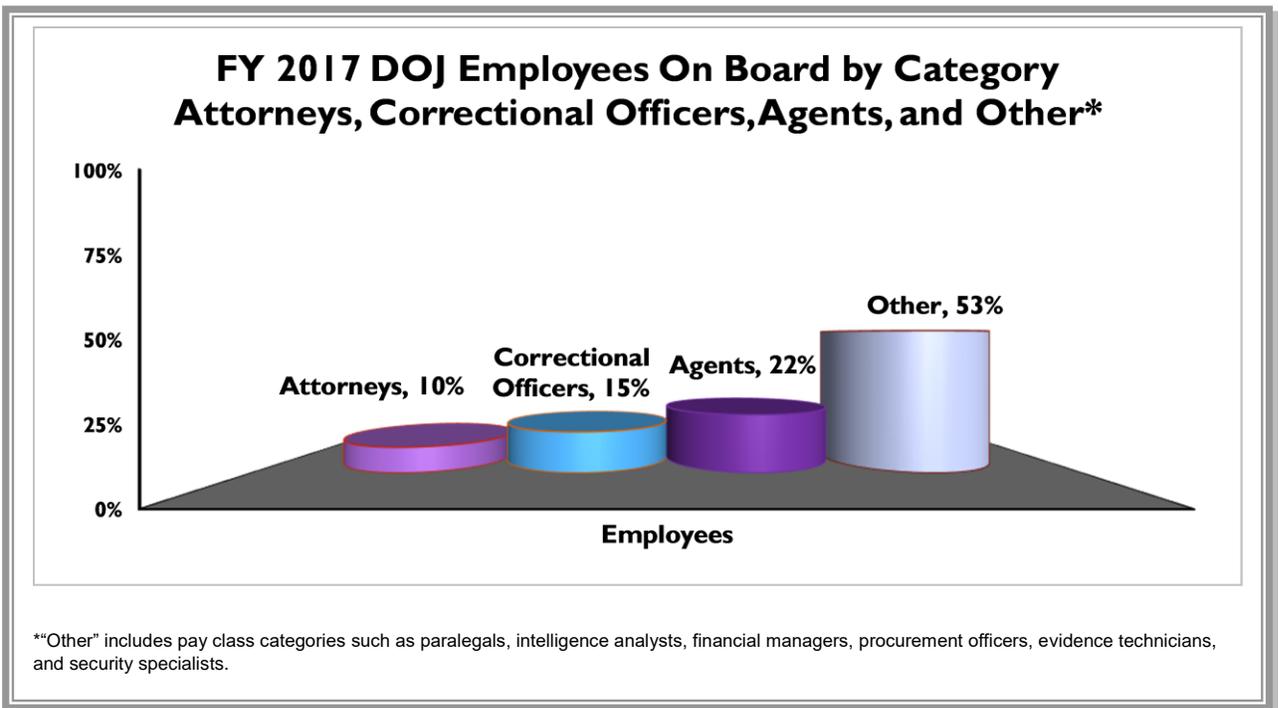
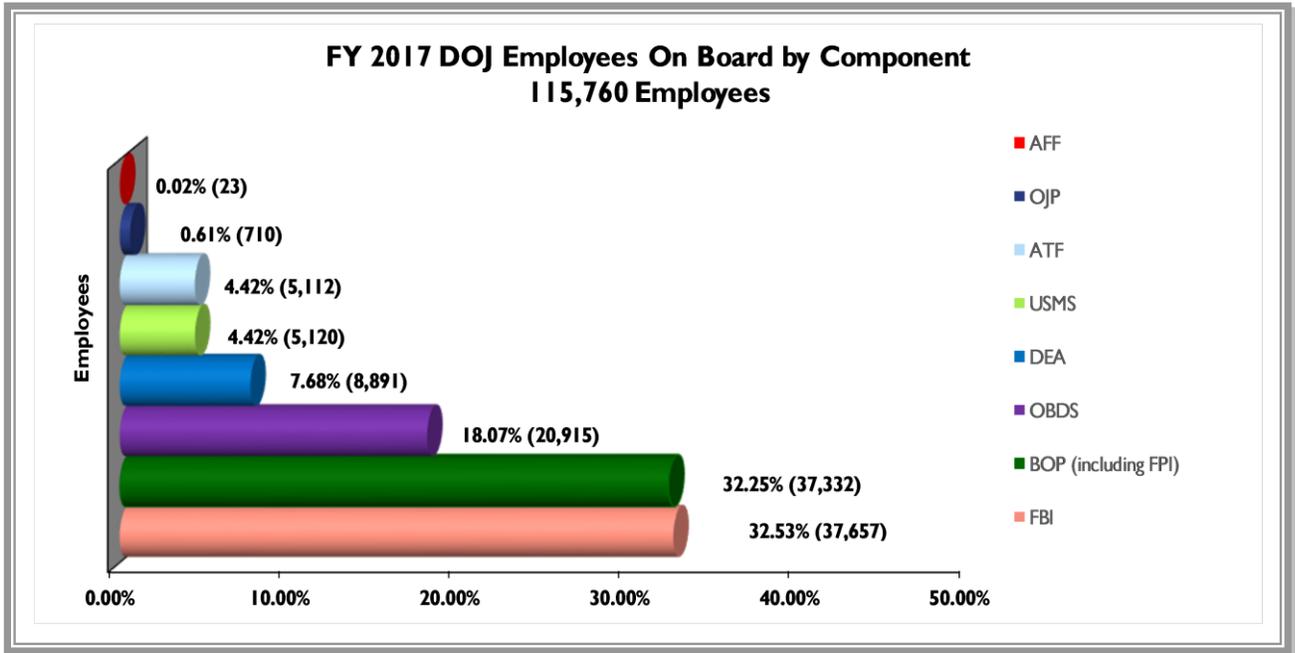
Foreign Claims Settlement Commission  
U.S. Parole Commission

#### Divisions

Antitrust Division  
Civil Division  
Civil Rights Division  
Criminal Division  
Environment and Natural Resources Division  
Justice Management Division  
National Security Division  
Tax Division

## FY 2017 Resource Information

The following pages provide summary-level resource and performance information regarding the Department's operations for FY 2017. The charts on this page reflect employees on board as of September 30, 2017.



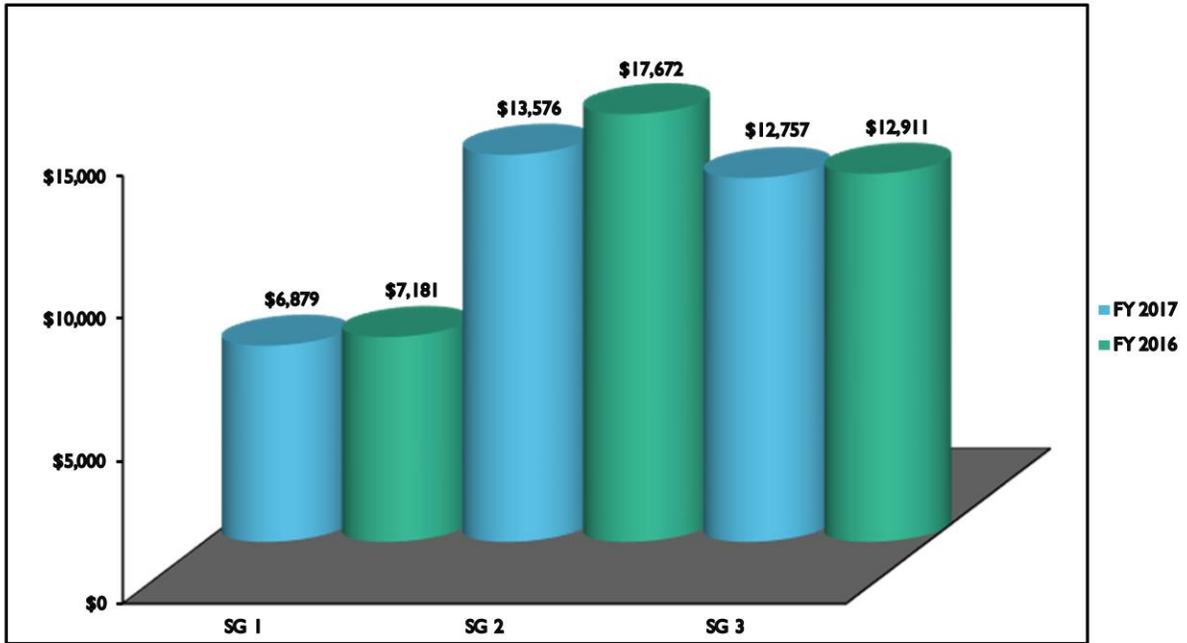
**Table 1. Sources of DOJ Resources**  
(Dollars in Thousands)

Source	FY 2017	FY 2016	% Change
<b>Earned Revenue:</b>	\$ 2,834,883	\$ 3,050,988	(7.08%)
<b>Budgetary Financing Sources:</b>			
Appropriations Received	35,463,968	31,668,095	11.99%
Appropriations Transferred-In/Out	1,250,532	378,414	230.47%
Nonexchange Revenues	7,157,288	1,521,189	370.51%
Donations and Forfeitures of Cash and Cash Equivalents	1,378,432	1,764,050	(21.86%)
Transfers-In/Out Without Reimbursement	(496,397)	(1,897,872)	(73.84%)
Other Budgetary Financing Sources	-	(80,767)	(100.00%)
Other Adjustments	(177,123)	(1,221,050)	(85.49%)
<b>Other Financing Sources:</b>			
Donations and Forfeitures of Property	370,007	200,868	84.20%
Transfers-In/Out Without Reimbursement	21,168	(1,619)	(1407.47%)
Imputed Financing	725,702	801,660	(9.48%)
Other Financing Sources	(649,352)	(7,849)	8173.05%
<b>Total DOJ Resources</b>	<b>\$ 47,879,108</b>	<b>\$ 36,176,107</b>	<b>32.35%</b>

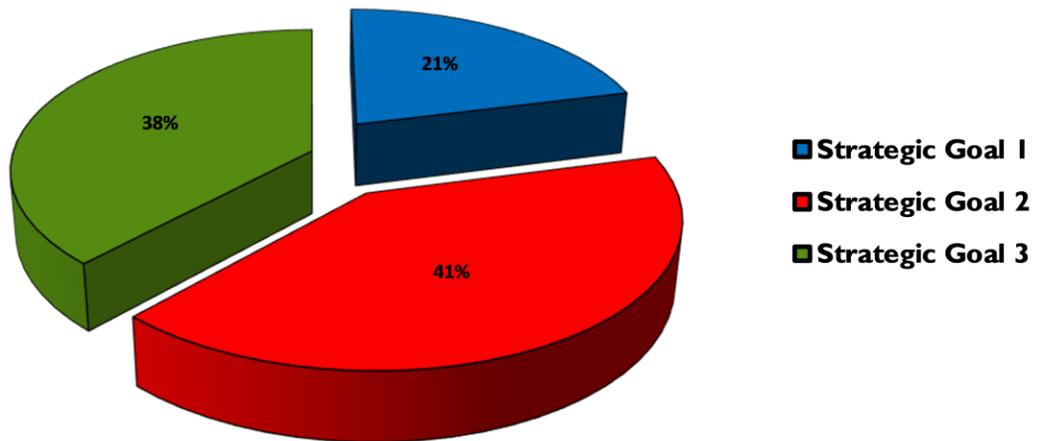
**Table 2. How DOJ Resources Are Spent**  
(Dollars in Thousands)

Strategic Goal	FY 2017	FY 2016	% Change
1 Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law			
Gross Cost	\$ 7,169,392	\$ 7,492,891	
Less: Earned Revenue	290,694	311,505	
<i>Net Cost</i>	6,878,698	7,181,386	(4.21%)
2 Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	14,882,824	19,009,890	
Less: Earned Revenue	1,307,215	1,338,387	
<i>Net Cost</i>	13,575,609	17,671,503	(23.18%)
3 Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels			
Gross Cost	13,993,537	14,311,779	
Less: Earned Revenue	1,236,974	1,401,096	
<i>Net Cost</i>	12,756,563	12,910,683	(1.19%)
<b>Total Gross Cost</b>	<b>36,045,753</b>	<b>40,814,560</b>	
<b>Less: Total Earned Revenue</b>	<b>2,834,883</b>	<b>3,050,988</b>	
<b>Total Net Cost of Operations</b>	<b>\$ 33,210,870</b>	<b>\$ 37,763,572</b>	<b>(12.06%)</b>

**Comparison of Net Costs by Strategic Goal (SG) - FY 2017 and 2016**  
 (Dollars in Thousands)



**FY 2017 Percentage of Net Costs by Strategic Goal**



## Analysis of Financial Statements

The Department's financial statements, which are provided in Section II of this document, received an unmodified audit opinion for the fiscal years ended September 30, 2017 and 2016. These statements were prepared from the accounting records of the Department in accordance with the accounting principles generally accepted in the United States and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These principles are the standards promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The following information highlights the Department's financial position and results of operations in FY 2017. The complete set of financial statements, related notes, and the opinion of the Department's auditors are provided in Section II of this document.

**Assets:** The Department's Consolidated Balance Sheet as of September 30, 2017, shows \$60.7 billion in total assets, an increase of \$12.1 billion over the previous year's total assets of \$48.6 billion. The increase was primarily due to increases in the September 11th Victim Compensation Fund funding and Crime Victims Funds receipts. Fund Balance with U.S. Treasury (FBWT) was \$43.0 billion, which represented 71% percent of total assets.

**Liabilities:** Total Department liabilities were \$21.4 billion as of September 30, 2017, an increase of \$213.0 million from the previous year's total liabilities of \$21.2 billion. The increase is primarily related to various large amounts for custodial activities.

**Net Cost of Operations:** The Consolidated Statement of Net Cost presents Department's gross and net cost by strategic goal. The net cost of the Department's operations totaled \$33.2 billion for the fiscal year ended September 30, 2017, a decrease of \$4.6 billion from the previous year's net cost of operations of \$37.8 billion. The decrease is primarily related to the September 11th Victim Compensation Fund recording of an unfunded liability of \$4.6 billion in FY 2016.

Brief descriptions of some of the major costs for each Strategic Goal are as follows:

Strategic Goal	Description of Major Costs
1	Includes resources dedicated to counterterrorism initiatives for ATF, CRM, DEA, FBI, NSD, USAs, and USMS
2	Includes resources for the AFF/SADF, ATF, BOP, COPS, CRS, DEA, FBI, Foreign Claims Settlement Commission (FCSC), Organized Crime Drug Enforcement Task Forces (OCDETF), OJP, Office of Legal Counsel (OLC), Office of the Pardon Attorney (OPA), Office of the Solicitor General (OSG), OVW, USAs, USMS, INTERPOL Washington, UST, ATR, CIV, CRT, CRM, ENRD, TAX and services to America's crime victims
3	Includes resources for BOP, EOIR, Fees and Expenses of Witnesses, FBI, FPI, OJP, and USMS

Management and administrative costs, including the costs for the Department's leadership offices, JMD, and others, are allocated to each strategic goal based on full-time equivalent (FTE) employment.<sup>1</sup>

<sup>1</sup> FTE employment means the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees, divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, compensatory time off, and other approved leave categories are considered "hours worked" for purposes of defining FTE employment.

**Budgetary Resources:** The Department's FY 2017 Combined Statement of Budgetary Resources shows \$54.0 billion in total budgetary resources, an increase of \$5.6 billion from the previous year's total budgetary resources of \$48.4 billion. The majority of the increase is related to budgetary authority received for the September 11th Victim Compensation Fund and the United States Victims of State Sponsored Terrorism Fund.

**Net Agency Outlays:** The Department's FY 2017 Combined Statement of Budgetary Resources shows \$33.8 billion in net agency outlays, an increase of \$1.5 billion from the previous year's total net agency outlays of \$32.3 billion. The increase is primarily due to claimant payments from the September 11th Victim Compensation Fund and the United States Victims of State Sponsored Terrorism Fund.

## Summary of Performance Information

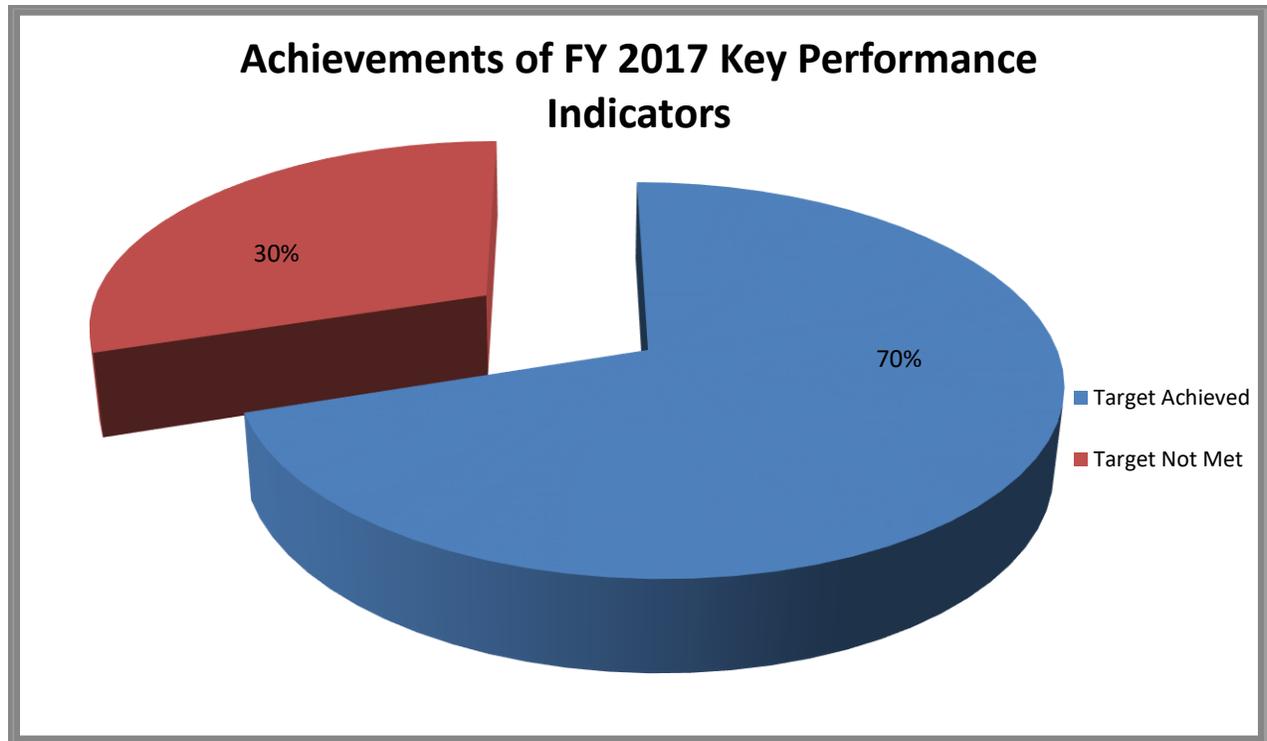
The Government Performance and Results Act Modernization Act of 2010 (GPRAMA) requires an agency's Strategic Plan to be updated every four years and cover a period of not less than four years forward from the fiscal year in which it is submitted.

The Department's FY 2014 – 2018 Strategic Plan, which contains three strategic goals, is used for this report. It includes 30 key performance measures addressing DOJ's priorities toward achieving its long-term outcome goals; the performance measures are summarized in this document. This report provides the final reporting on this Plan and associated measures; the next Strategic Plan will be released with the FY 2019 President's Budget in February 2018, consistent with GPRAMA.

During FY 2017, Departmental leadership continued to display a clear commitment to performance management through the reliance on formal quarterly status reviews. Additionally, Departmental components continued to work on improving the quality and timeliness of financial and performance information that inform quarterly status reporting and operating plans.

For this summary report, 90 percent of the performance measures have actual data for FY 2017. The Department achieved 70 percent of its key measures that had data available as of September 30, 2017. For some of the performance measures, the actual data will not be available until early 2018. The Department continues to emphasize long-term and annual performance measure development, placement of key performance indicators on cascading employee work plans, and Department-wide quarterly status reporting.

The chart below and the table that follows summarize the Department's achievement of its FY 2017 long-term outcome goals (key performance indicators).



**FY 2017 Long-term Outcome Goals**  
**(Key Performance Indicators)**

	[ ] Designates the reporting entity	FY 2016 Revised Actual	FY 2017 Target	FY 2017 Actual	Target Achieved/ Not Met
<b>Strategic Objective</b>	<b>Strategic Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law</b>				
1.1	Number of terrorism disruptions [FBI]	460	200	723*	Target Achieved
1.2	Percentage of counterterrorism defendants whose cases were favorably resolved [NSD]	99%	90%	100%	Target Achieved
1.3	Percentage of counterespionage actions and disruptions against national counterintelligence priorities that result from FBI outreach [FBI]	17%	Not Disclosed	Not Disclosed <sup>2</sup>	N/A
	Percentage of counterespionage defendants whose cases were favorably resolved [NSD]	100%	90%	100%	Met
1.4	Number of computer intrusion program disruptions and dismantlements [FBI]	259	500	262*	Not Met
	Percentage of cyber defendants whose cases were favorably resolved [NSD]	100%	90%	100%	Target Achieved

\*FY 2017 actual is preliminary.

<sup>2</sup> FBI discontinued the counterespionage performance measure. Due to national security reasons, the FBI's Counterintelligence Divisions implemented new Counterintelligence measures and analyses that are classified.

	[ ] Designates the reporting entity	FY 2016 Revised Actual	FY 2017 Target	FY 2017 Actual	Target Achieved/ Not Met
<b>Strategic Objective</b>	<b>Strategic Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>				
2.1	Number of gangs/criminal enterprise dismantlements non-Consolidated Priority Organization Target (non-CPOT) [FBI]	123	124	178*	Target Achieved
	Percent of criminal cases favorably resolved [USA, CRM]	93%	90%	93%	Target Achieved
2.2	Number of communities with improved capacity for a coordinated response to domestic violence, dating violence, sexual assault, and stalking [OVW]	5,176	4,050	5,149	Target Achieved
	Percent of children recovered within 72 hours of an issuance of an AMBER alert [OJP]	95%	92%	96%	Target Achieved
2.3	Consolidated Priority Organizations Target (CPOT)-linked drug trafficking organizations [DEA, FBI (Consolidated data-OCDETF)]				
	Dismantled	185	188	106*	Not Met
	Disrupted	268	233	191*	Not Met
2.4	Number of criminal enterprises engaging in white collar crime dismantled [FBI]	302	400	438*	Target Achieved
	Percentage of dollar amounts sought by the government recovered [CIV]	88%	85%	92%	Target Achieved
2.5	Percent of civil rights cases favorably resolved: criminal cases [CRT]	85%	85%	98%	Target Achieved
	Percent of civil rights cases favorably resolved: civil cases [CRT]	100%	85%	98%	Target Achieved
2.6	Case resolution for DOJ litigating divisions – percent of criminal cases favorably resolved [ATR, CIV, CRM, ENRD, TAX, USA]	97%	90%	93%	Target Achieved
	Case resolution for DOJ litigating divisions – percent of civil cases favorably resolved [ATR, CIV, CRM, ENRD, TAX, USA]	85%	80%	82%	Target Achieved

\*FY 2017 actual is preliminary.

\*\*Final actual figure will be available in early 2018.

	[ ] Designates the reporting entity	FY 2016 Revised Actual	FY 2017 Target	FY 2017 Actual	Target Achieved/ Not Met
<b>Strategic Objective</b>	<b>Strategic Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels</b>				
3.1	Percent of grantees implementing one or more evidence-based programs [OJP/OJJDP]	71%	55%	TBD**	TBD
3.2	Assaults against protected court members [USMS]	0	0	0	Target Achieved
3.3	Percent of system-wide crowding in federal prisons [BOP]	16%	13%	13%	Target Achieved
3.4	Number of inmate participants in the Residential Drug Abuse Program [BOP]	17,588	18,591	16,641	Not Met
	Percent of youths who exhibit a desired change in the targeted behavior [OJP]	68%	73%	TBD**	TBD
3.5	Percent and number of USMS federal fugitives apprehended or cleared [USMS]	64%/32,831	60%/29,638	64%/34,261	Target Achieved
	Number of red and green notices published on U.S. fugitives and sex offenders [IPOL]	Red-384 Green-566	Red-346 Green-460	Red-343 Green-538	Not Met <sup>3</sup> Target Achieved
3.6	Number of training sessions or presentations given with the goal of building the capacity of foreign law enforcement, prosecutors, and judicial systems regarding the investigation and prosecution of serious criminal offenses, including genocide and mass atrocities [CRM]	5,695	4,197	5,271	Target Achieved
3.7	Percent of Institutional Hearing Program cases completed before release [EOIR]	72%	85%	79%	Not Met
	Percent of detained cases completed within 60 days [EOIR]	67%	80%	63%	Not Met
	Percent of detained appeals completed within 150 days [EOIR]	98%	90%	94%	Target Achieved
3.8	Number of meetings conducted with the Tribal Nations Leadership Council and the OTJ to further the government-to-government relationship between tribes and the Department, obtain perspective on the Department's activities in Indian Country, and raise issues that have tribal implications [OTJ]	12	10	12	Target Achieved
	Number of individuals in Indian Country that are receiving substance abuse treatment services (in-patient or out-patient), including Healing-to-Wellness Court [OJP]	788	947	TBD**	TBD

\*\*Final actual figure will be available in early 2018.

<sup>3</sup> The number of red and green notices published on U.S. fugitives and sex offenders is reported as a single performance measure. In FY 2017, IPOL partially achieved its target for total notices published – achieving only 99% of its target for red notices published.

## Analysis of Systems, Controls, and Legal Compliance

### Internal Control and Risk Management in the Department of Justice

The Department of Justice's internal control and risk management system is designed to provide reasonable assurance that the objectives of the Department will be achieved. The objectives and related risks are broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations

The Department identifies emerging risks and issues through a strong governance framework that consists of a network of oversight councils and internal review teams. These include the Department's Senior Assessment Team, Risk Management Committee, Chief Information Officers Council, Justice Management Division's Internal Review and Evaluation Office and Quality Control and Compliance Group, and Department component internal review and inspections offices. In addition, the Department considers reports issued by the Office of the Inspector General (OIG) and Government Accountability Office (GAO) when assessing risks and internal control.

In FY 2017, the Department made significant strides in developing its Enterprise Risk Management (ERM) program with the goal of integrating ERM with strategic planning and internal control processes to foster better performance-based management and decision-making. The Department convened a Risk Management Committee to identify and prioritize enterprise-wide risks associated with mission and mission-support operations across the Department. The Committee included representatives from material reporting components, a litigating division, and the Justice Management Division (JMD). Discussions of existing and planned management controls associated with the risks led to the development of an initial ERM Risk Profile.<sup>4</sup>

Efforts will continue in FY 2018 to further develop the Department's ERM program, to include implementing a framework for integrating ERM practices with strategy setting and performance management initiatives, consistent with the framework provided in OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The governance structure will evolve to incorporate representatives from additional components, and Management Working Groups will be established to support detailed analyses of risks, risk responses, and internal control monitoring. Communication, training, and awareness building will be key areas of focus to leverage existing ERM practices and gain further integration between strategic planning, internal control monitoring, and performance assessment.

The Department's internal control system continues to improve through ongoing assessments and corrective actions implemented by management. The Department's commitment to management excellence, accountability, and compliance with applicable laws and regulations is evidenced by continuing actions to establish effective controls, make sound determinations on corrective actions, and verify and validate the results. This commitment is further evidenced by the many control improvements and actions taken by Department management in response to new legislation, OMB initiatives, and OIG and GAO recommendations.

---

<sup>4</sup> The components contributing to the initial risk profile included the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Bureau of Prisons (BOP); Drug Enforcement Administration (DEA); Federal Bureau of Investigation (FBI); Office of Justice Programs (OJP); United States Marshals Service (USMS); National Security Division (NSD); and the following JMD offices – Budget Staff, Finance Staff, Human Resources Staff, and the Office of the Chief Information Officer.

## Management Assurances

### Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (FMFIA or Integrity Act) provides the statutory basis for management's responsibility for and assessment of internal control. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires federal agencies to establish controls that reasonably ensure obligations and costs 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. The Integrity Act also requires agencies to annually assess and report on the internal control that protects the integrity of federal programs (FMFIA § 2) and whether financial management systems comply with government-wide requirements (FMFIA § 4).

### FMFIA Assurance Statement

Department of Justice management is responsible for managing risks and maintaining effective internal control to meet the objectives of FMFIA § 2 and § 4. In accordance with OMB Circular A-123, the Department conducted its assessment of risk and internal control. Based on the results of the assessment, we can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2017.

The Department of Justice is committed to maintaining strong program and financial management as we continue our mission of fighting terrorism and protecting our communities from crime. We take our program and financial accountability seriously and are dedicated to ensuring that the funds we receive are used in a responsible and transparent manner. We will continue to strengthen our controls in areas identified through the Department's internal review activities and by the Office of the Inspector General and Government Accountability Office. We look forward in FY 2018 to building on our achievements as we continue the important work of the Department.



Jefferson B. Sessions III  
Attorney General  
November 13, 2017

## **Federal Financial Management Improvement Act of 1996**

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, as well as by the President, Congress, and public. The FFMIA requires agencies to have financial management systems that substantially comply with federal financial management system requirements, applicable federal accounting standards, and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. Guidance for implementing the FFMIA is provided through OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*.

### **FFMIA Compliance Determination**

During FY 2017, the Department assessed its financial management systems for compliance with the FFMIA and determined that, when taken as a whole, they substantially comply with the FFMIA. This determination is based on the results of reviews conducted pursuant to the Federal Information Security Management Act (FISMA) and testing performed for OMB Circular A-123, Appendix A. Consideration was also given to issues identified during the Department's financial statement audit. A summary of the Department's compliance with the specific requirements of the FFMIA is provided at the end of this section.

### **Financial Management Systems Strategy, Goals, and Framework**

The Department's financial management systems strategy is to ultimately replace the one remaining major non-integrated legacy accounting system in use in the Department with the single, integrated financial management system the Department is deploying – the Unified Financial Management System (UFMS). UFMS delivers standard, core accounting and acquisition processes, as well as the data needed for effective financial and budget management. In FYs 2009 through 2017, the Department made measurable progress in implementing UFMS. In FY 2009, the DEA successfully migrated to UFMS and, importantly, obtained an unqualified audit opinion on its financial statements produced from UFMS. As expected, the DEA project was a large, complex, and difficult migration, but one that helped to lay the foundation for the migrations of the ATF, USMS, AFMS, and FBI that occurred in FYs 2011 through 2014. In FYs 2015 and 2016, the Department continued its planning efforts to ensure the smooth migrations of three components in October 2015 and four components and 10 United States Attorneys' Offices in October 2016.<sup>5</sup> In FY 2017, the Department continued its planning efforts for the FY 2018 migrations of eight components and the remaining United States Attorneys' Offices.<sup>6</sup> The UFMS implementation goals leverage lessons learned from previous migrations and are based on and aligned with operational risks and requirements unique to each component.

---

<sup>5</sup> The three components migrated to UFMS in October 2015 were the Executive Office for Immigration Review, OIG, and Office of the Pardon Attorney. The four components migrated in October 2016 were the Community Relations Service, Foreign Claims Settlement Commission, National Security Division, and United States Parole Commission. The 10 United States Attorneys' Offices migrated in October 2016 are using UFMS to process witness activity only; full use of UFMS is scheduled for FY 2018.

<sup>6</sup> The eight components to be migrated in FY 2018 are the Civil Division, Criminal Division, Civil Rights Division, Environment and Natural Resources Division, INTERPOL, Office of Legal Counsel, Office of the Solicitor General, and Tax Division.

The Department's UFMS implementation has enabled components to improve financial and budget management and realize increased efficiencies. For example, UFMS has standardized and integrated financial processes to more effectively support accounting operations, provide accurate and timely financial information throughout the year, facilitate preparation of financial statements, and streamline audit processes.

### Summary of Financial Statement Audit and Management Assurances

The following table summarizes the results of the Department's financial statement audit. The table on the following page summarizes the management assurances regarding the effectiveness of internal control over operations and financial reporting (FMFIA § 2), compliance with financial management system requirements (FMFIA § 4), and compliance with the FFMIA.

**Table 3. Summary of Financial Statement Audit**

<b>Financial Statement Audit Opinion and Material Weaknesses</b>					
<b>Audit Opinion</b>	Unmodified				
<b>Restatement</b>	No				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
None	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Table 4. Summary of Management Assurances**

<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>						
<b>Statement of Assurance</b>	Unmodified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Prison Crowding	1	0	1	0	0	0
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)</b>						
<b>Statement of Assurance</b>	Unmodified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
None	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Compliance with Financial Management System Requirements (FMFIA § 4)</b>						
<b>Statement of Assurance</b>	Federal Systems Comply					
<b>Non-Compliances</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
None	0	0	0	0	0	0
<b>Total Non-Compliances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Compliance with Section 803(a) of Federal Financial Management Improvement Act (FFMIA)</b>						
<b>Compliance with Specific Requirements</b>						
<b>Specific Requirements</b>	<b>Agency</b>			<b>Auditor</b>		
<b>Federal Financial Management System Requirements</b>	No Lack of Compliance Noted			No Lack of Compliance Noted		
<b>Applicable Federal Accounting Standards</b>	No Lack of Compliance Noted			No Lack of Compliance Noted		
<b>USSGL at Transaction Level</b>	No Lack of Compliance Noted			No Lack of Compliance Noted		

## **Analysis of Legal Compliance**

Department of Justice management is committed to ensuring compliance with applicable laws and regulations. In FY 2017, the OIG conducted an examination of the Department's compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). The DATA Act requires the Inspector General of each Federal agency to review a statistically valid sample of the agency's spending data on USASpending.gov and submit to Congress a publicly available report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the agency's implementation and use of the government wide financial data standards. The OIG found that the Department submitted complete and timely data to the DATA Act broker system by May 9, 2017, as required by the DATA Act, and the Department successfully implemented and used the government-wide financial data standards. However, the OIG identified a material weakness in internal controls that contributed to the Department being materially noncompliant with standards for the quality and accuracy of the data submitted. Management of the components with findings have reviewed the findings and have already taken corrective actions or actions are underway. The Department will develop a Department-level Corrective Action Plan as part of management's response to the recommendations in the OIG's report.

## Possible Effects of Existing, Currently Known Demands, Risks, Uncertainties, Events, Conditions, and Trends

The Department's leadership is committed to ensuring its programs and activities will continue to be focused on meeting the dynamic demands of the changing legal, economic, and technological environments of the future.

### National Security

- Going Dark: Criminals and terrorists are using encryption and other anonymous or hidden services to avoid detection, identification and capture. Conducting court-approved intercepts has become more challenging. Providers offer encryption as a selling point. Even when legal authority exists, technical ability is lacking, as are storage and data retention policies. A coordinated strategic response is urgently needed.
- Foreign Intelligence and Insider Threat: Both international and domestic terrorists threaten Americans at home and abroad. Foreign governments and state-sponsored actors threaten U.S. national security through foreign operations and espionage.

### Law Enforcement

- Cyber Threat: Cyber issues straddle both national security and criminal areas, with the United States facing daily telecommunications network attacks from a range of nations, criminals and terrorists, all with potentially devastating consequences. The Department of Justice itself is under constant cyber-attack. The threat is pervasive and persistent and the methods of adversaries are always evolving.
- Opioid Epidemic: Drug overdoses are now the leading cause of injury-related deaths in the United States – more than which include prescriptions, heroin and fentanyl.
- Transnational Organized Crime: Transnational criminal organizations pose the greatest threat to national security and the safety of American citizens.

### Immigration

- Increasing Workload: The Executive Office for Immigration Review's (EOIR) immigration court caseload continues to increase to record levels, growing by more than 125 percent since FY 2010 to 560,000 cases currently pending adjudication.
- Illegal Aliens: An increase in DHS apprehensions will result in more fugitive investigations for individuals with immigration warrants; more protective investigations and details for members of the judiciary; and more prisoners to receive, process, and detain.
- Immigration Enforcement Prosecutors: Federal prosecution of border crime is an essential part of the nation's defense and security and critical to public safety. U.S. Attorneys' Offices address the criminal and civil caseloads generated by law enforcement activities to ensure aggressive enforcement of all immigration statutes.

### Hiring and Staffing

- Given an aging population in the federal workforce, the Department faces a series of difficulties in the coming years. Most components have experienced reduced staffing levels in the past several years. The hiring process can be lengthy and complex, especially the added time needed for background investigations.

### Budget Constraints and Uncertainties

- From 2001 to 2010, the Department's discretionary budget rose steadily, from \$18 billion to \$28 billion. However, since then, the discretionary budget has been largely flat, with components absorbing inflationary costs.

**Unpredictable**

- Responses to unanticipated natural disasters and their aftermath, such as the three major hurricanes the United States endured in 2017, require the Department to divert resources to deter, investigate, and prosecute disaster-related federal crimes, such as charity fraud, insurance fraud and other crimes.
- Changes in federal laws may affect responsibilities and workload.
- Much of the litigation caseload is defensive. The Department has little control over the number, size, and complexity of the civil lawsuits it must defend.

## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Justice, pursuant to the requirements of 31 U.S.C. § 3515(b).

While the statements have been prepared from the books and records of the Department in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control 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.

This page intentionally left blank.



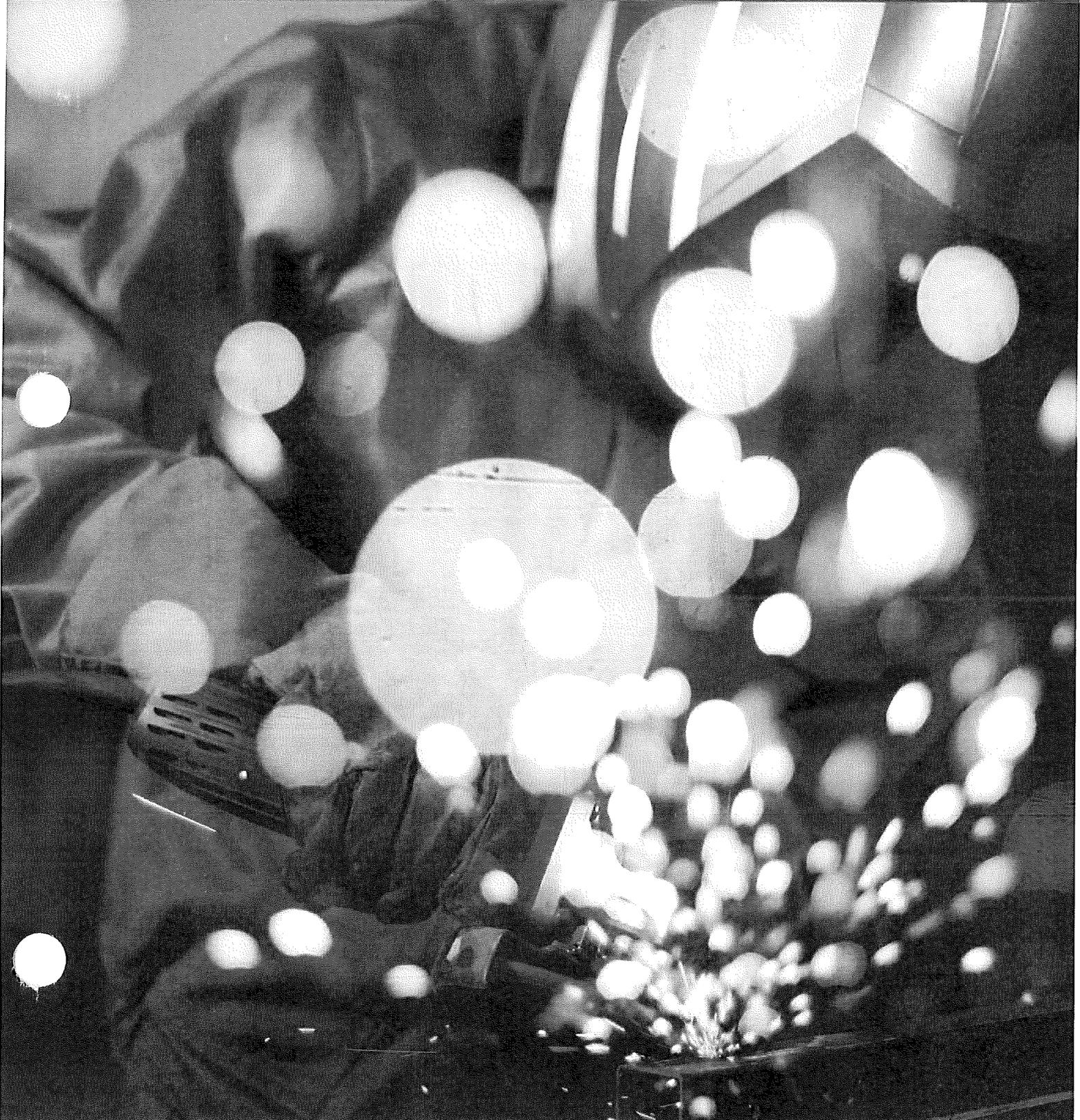
UNITED STATES DEPARTMENT OF LABOR

# Agency Financial Report

FISCAL YEAR 2017



# Management's Discussion and Analysis





# Our Mission:

**To foster, promote, and develop  
the welfare of the  
wage earners,  
job seekers,  
and retirees of the United States;  
improve working conditions;  
advance opportunities  
for profitable employment;  
and assure work-related  
benefits and rights.**



The Department of Labor's (DOL or the Department) annual Agency Financial Report (AFR) provides fiscal data and summary performance results that enable the President, Congress, and American people to assess the Department's accomplishments for each fiscal year (October 1 through September 30). This report provides an overview of programs, accomplishments, challenges, and management's accountability for the resources entrusted to the Department. The AFR is prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

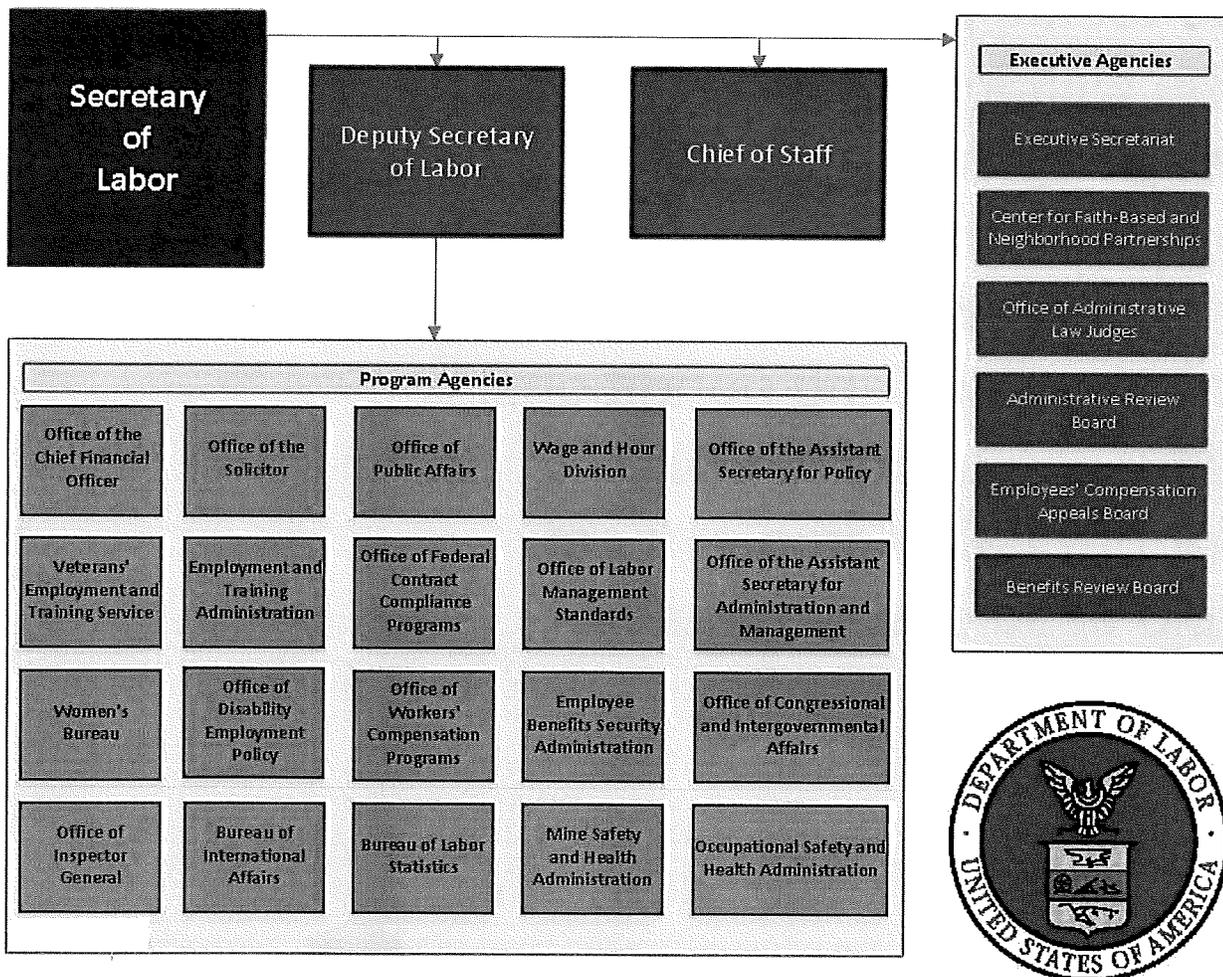
## Mission Statement and Organizational Structure

DOL's mission remains as relevant today as at the Department's founding in 1913:

*"To foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights."*

The Department accomplishes this mission through component agencies and offices that administer various statutes and programs. These programs are carried out through a network of regional offices and smaller field, district, and area offices, as well as through grantees and contractors.

US Department of Labor Organizational Chart



U.S. Department of Labor Headquarters: Frances Perkins Building



DOL Headquarters, Frances Perkins Building  
Washington, D.C., USA

## Program Performance Overview

The Program Performance Overview discusses the Department's key performance measures and program priorities. This section includes results for measures related to spending as reported in the following Financial Section. Performance results for outcome measures reported under the Government Performance and Results Act are included in the *Annual Performance Report*, which will be published by February 6, 2018 with the FY 2019 Congressional Budget Justification. These reports will be posted at <http://www.dol.gov/dol/aboutdol/#budget>.

The Program Performance Overview broadly organizes DOL program agencies into three categories that report FY 2017 performance data. The Department's mission is also supported by administrative, policy, legal, public affairs, and Congressional liaison offices.

<b>Employment and Statistical Programs</b>
Employment and Training Administration (ETA) Veterans' Employment and Training Service (VETS) Office of Disability Employment Policy (ODEP) Women's Bureau (WB) Bureau of Labor Statistics (BLS)
<b>Worker Protection Programs</b>
Occupational Safety and Health Administration (OSHA) Mine Safety and Health Administration (MSHA) Wage and Hour Division (WHD) Office of Federal Contract Compliance Programs (OFCCP) Bureau of International Labor Affairs (ILAB) Office of Labor-Management Standards (OLMS)
<b>Compensation and Benefits Programs</b>
Office of Workers' Compensation Programs (OWCP) Federal-State Unemployment Insurance (UI) Program (administered by ETA) Employee Benefits Security Administration (EBSA)

The following section presents a brief description of the programs administered by each agency, a brief statement of forward-looking information, and the most recent results for key performance measures. The Department tracks performance through over 400 output and outcome measures. The selected measures below are most representative of agency activities.

### EMPLOYMENT AND STATISTICAL PROGRAMS

#### **Employment and Training Administration (ETA)**

ETA provides employment assistance, labor market information, and job training through the administration of programs authorized by the Workforce Innovation and Opportunity Act (WIOA) for adults, youth, dislocated workers, and other targeted populations. Additionally, ETA administers the Job Corps program; Trade Adjustment Assistance (TAA) program; Employment Services (ES), authorized under the Wagner-Peyser Act; Foreign Labor Certification activities; the Community Service Employment for Older Americans program (CSEOA); and Apprenticeship programs. Grants monitoring is a major component of ETA's grants management function. All ETA grants are monitored throughout their period of performance requiring a substantial amount of human capital and financial resources.

*Percent of Grants Monitored Annually by Regional Offices* – Staff in the six ETA Regional Offices monitor grants to ensure compliance with federal statutes and regulations and assess performance progress through enhanced desk monitoring reviews and on-site monitoring reviews. WIOA underscores the importance of strategic efforts and strong communication with our federal partners. ETA is working with its federal partners to ensure technical assistance and monitoring activities are coordinated, as appropriate. ETA monitored 27.83% of all active grants assigned to the regions in FY 2017, exceeding the target of 26%. This outcome includes all monitoring that resulted in a monitoring report, whether on-site or Enhanced Desk Monitoring Review (EDMR).

**Looking Forward:** As of October 1, 2017, ETA has a total of 2,439 active grants with a total funding portfolio of \$21.9 billion; 2,085 grants are assigned to 233 regional FTE and 354 grants assigned to approximately 16 FTE in the national office. In light of workload demands, ETA will continue to work towards the FY 2018 grant monitoring target of 26% in FY 2018.

### **Veterans' Employment and Training Service (VETS)**

VETS is committed to meeting the employment and training needs of veterans, transitioning service members, and eligible spouses - especially those with significant barriers to employment. VETS also focuses on connecting employers across the country with work-ready veterans. VETS' mission is to prepare America's veterans, service members, and their spouses for meaningful careers, provide them with employment resources and expertise, protect their employment rights, and promote their employment opportunities. One focal point on preparing America's veterans for meaningful careers is the Homeless Veterans' Reintegration Program (HVRP). HVRP addresses the needs of one of the most vulnerable populations of veterans, those who are homeless or at risk of homelessness. HVRP provides employment and training services to homeless veterans, equipping them with the skills to gain meaningful employment. VETS has increased the grant ceiling for each HVRP grantee to \$500,000 to aid them in serving a complex and vulnerable population with barriers to employment. The target population of this grant program requires specialized services to include supportive services that are costly. VETS achieved 98% of its target with an HVRP participant job placement rate of 67%.

VETS is also responsible for administering the Uniformed Services Employment and Reemployment Rights Act (USERRA) program, which protects civilian job rights and benefits for active duty service members, veterans, and members of the National Guard and Reserves. USERRA provides anti-discrimination provisions that prohibit employers from taking adverse actions against any current or prospective employee, due in part to those individuals' past, present, or future military service, status, or obligations. To provide prompt resolution for both claimants and employers, VETS assesses the percent of closed USERRA cases meeting the agency's quality standard and customer satisfaction of USERRA cases. VETS FY 2017 performance exceeded previous year's performance with a result of 99.0%, against a 97.0% target. VETS is currently assessing other agencies' metrics and quality assessment procedures in an effort to consider alternative methods to gauge the quality of USERRA investigations and referrals. In FY 2017, VETS worked closely with the Office of the Solicitor and Department of Justice (DOJ) to develop and implement a new Memorandum of Referral template that includes sections requiring VETS investigators and reviewers to ensure that relevant evidence is obtained to support conclusions reached in the investigations before they are referred to DOJ. Additionally, VETS is developing an improved interactive Quality Assurance Review (QAR) mechanism, which will better reflect actual performance and quality in investigations, as well as ensure proper supervisory review of those cases. VETS is no longer including the USERRA timeliness metric in this report as VETS has consistently maintained high levels of case closures and is now focusing efforts on continuous improvements for quality and efficiency.

**Looking Forward:** In FY 2018, VETS will continue to measure HVRP success by using the job placement metric in conjunction with average hourly wages of those job placements. One key to assisting this population is to provide quick job placement into a career path with sustainable wages. VETS will continue to work closely with the Office of the Solicitor to explore ways to engage with regional solicitors earlier in the USERRA investigation process to ensure

issues are being identified and investigated. The revised QAR has undergone a three-month field test in two regions, and following Solicitor review VETS anticipates that it will be implemented in early FY 2018.

<b>Veterans' Employment and Training Service (VETS)</b>						
<b>Measure</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Percent of USERRA Closed Cases Meeting the Agency's Quality Standard (Annual)	83.3%	83.4%	91.5%	91.7%	95.5%	99.0%

**Office of Disability Employment Policy (ODEP)**

ODEP uses data and evidence to promote the adoption and implementation of policy strategies and effective practices to increase the number and quality of job opportunities for people with disabilities. Based on research and evaluation, ODEP develops or identifies effective policy and practices, conducts outreach to share this critical information, and provides technical assistance to all levels of government and employers to aid them in adoption and implementation.

In FY 2017 ODEP monitored "Policy Outputs" as a key performance measure using a revised definition from previous years and implemented two new key performance measures, "Implementation Tools" and "Analyses, Research and Evaluation." ODEP issued 43 "Policy Outputs," against a target of 23, which include documents recommending or implementing a significant policy change or an interpretation of existing policy related to disability employment. ODEP issued 147 "Implementation Tools," which are technical assistance and informational materials developed to aid entities in adopting and implementing proven practices.

ODEP has produced a steady stream of policy outputs, capitalizing on interest by states in implementing effective practices that prioritize competitive, integrated employment and an increased interest by employers in hiring people with disabilities spurred by new regulations. In FY 2017, the majority of ODEP's resources were invested in developing implementation tools and policy guidance, providing technical assistance, and conducting outreach to support the implementation of legislations such as the Workforce Innovation and Opportunity Act (WIOA), as well as Section 501 and Section 503 of the Rehabilitation Act. ODEP's implementation tools remain critical to the successful adoption and implementation of the referenced legislation and regulations. Additionally, ODEP continued working with states to promote the adoption of implementation tools and policies through its State Exchange on Employment and Disability initiative.

**Looking Forward:** In FY 2018, ODEP will research Stay-at Work/Return-to-Work (SAW/RTW) policies and practices and begin a project to build evidence for what works in retaining employees or bringing them back to work after a temporary absence due to occupational, as well as non-occupational illness and/or injury. ODEP plans to work with states that are interested in adopting systemic changes that facilitate retention and return-to-work rates after a temporary work disability.

**Women's Bureau (WB)**

WB conducts research to formulate practices and policies aimed at increasing equal economic and employment opportunity and advancement for working women and their families. WB identifies trends, data gaps, policy and programmatic needs, and strategic interventions necessary to safeguard the interest of working women. These efforts allow the WB to inform and educate individuals and organizations at the local, state, and national levels about the issues facing women in the labor force.

In 2017, WB oversaw a research study, conducted by the Urban Institute, quantifying the economic impact on women providing unpaid caregiving for children, elders, and family members with disabilities. Additionally, WB published a comprehensive catalog of women's employment rights; updated its web-based map identifying state-

level pregnancy discrimination and accommodation and workplace lactation protections; and updated its online compendium of information on federal and state-level equal pay and pay transparency protections for workers. WB also developed a brief guide to WIOA for individuals and organizations concerned with women's economic security. The guide details strategies for ensuring that WIOA is a reliable and consistent vehicle for low-income women's access to the education, training, and support services they need to succeed.

**Looking Forward:** In FY 2018, WB plans to examine how the costs of child care affect women's labor force participation using county-level data. WB will also disseminate research findings on the effects of providing informal care on women's long-range financial security. WB will continue to work with the CEO on its five-year evaluation of the American Apprenticeship Initiative, which involves testing an intervention related to outreach to and recruitment of women into apprenticeship programs. Additionally, WB will collaborate with ETA and VETS to support ETA's grant work on state licensing and promote employment for military spouses.

### **Bureau of Labor Statistics (BLS)**

BLS is the principal federal statistical agency responsible for measuring labor market activity, working conditions, and price changes in the economy. Its mission is to collect, analyze, and disseminate some of the nation's most sensitive and important economic data to support public and private decision-making. BLS serves the general public, the U.S. Congress, DOL and other federal agencies, state and local governments, and business and labor by providing data products that are accurate, objective, relevant, timely, and accessible, as well as technical assistance and consulting services. Policies and decisions based on BLS data affect virtually all Americans, and the wide range of BLS data products is necessary to fulfill the diverse needs of a broad customer base.

BLS strives to ensure that its data products are readily accessible to its customers through the internet, most commonly through [www.bls.gov](http://www.bls.gov), and meet users' needs. BLS uses the average number of website page views to track the dissemination of its data. In addition, BLS uses the ForeSee Experience Index (FXI), formerly known as the E-Government Satisfaction Index (EGSI), to measure customer feedback with its website. The FXI survey prompts users for feedback while they are on the [www.bls.gov](http://www.bls.gov) website regarding the extent to which the website meets their needs. BLS uses these results to improve the website, to better serve its stakeholders, and to measure mission achievement.

In FY 2017, BLS reached 100 percent of the underlying timeliness, accuracy, and relevance targets (each set at 100%) for all of its Principal Federal Economic Indicators (PFEIs). BLS experienced fewer average website page views when compared to FY 2016, averaging approximately 15.5 million page views each month. BLS scored slightly lower in the FXI when compared to FY 2016, with a year-end score of 75.

**Looking Forward:** BLS will continue to report timeliness, accuracy, and relevance for its PFEIs, track dissemination of its website, and measure customer satisfaction with its website. BLS also will continue to evaluate its targets in the interest of continuous improvement.

Bureau of Labor Statistics (BLS)						
Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Percentage of Timeliness Targets Achieved for the Principal Federal Economic Indicators (PFEIs).	100%	100%	100%	100%	100%	100%
Percentage of Accuracy Targets Achieved for the PFEIs.	100%	100%	95%	100%	100%	100%
Percentage of Relevance Targets Achieved for the PFEIs.	90%	100%	100%	100%	100%	100%
Average Number of BLS Website Page Views Each Month (Dissemination) <sup>1</sup>	--	--	17,423,845	16,965,254	16,324,885	15,514,973
Customer Satisfaction with the BLS Website Through the ForeSee Experience Index (Mission Achievement) <sup>2</sup>	77	77	77	75	76	75

1 In FY 2015, BLS replaced its dissemination measure due to a change in software. The FY 2014 result is shown for trend comparison purposes.

2 In FY 2017, the E-Government Satisfaction Index (EGSI) was renamed to the ForeSee Experience Index (FXI). FXI Score is calculated on a 100 point scale.

## WORKER PROTECTION PROGRAMS

### **Occupational Safety and Health Administration (OSHA)**

OSHA is authorized by the Occupational Safety and Health Act of 1970 (OSH Act) to assure safe and healthful conditions for working men and women by setting and enforcing standards and providing training, outreach, education, and technical assistance. OSHA aims to reduce the number of work related illnesses, injuries, and fatalities and contributes to the broader goal to promote competitiveness of America's economy. The most recent data for key measures of OSHA's activity – the number of safety and health inspections – are presented in the table below.

Safety inspections conducted in general industry and construction take place in a variety of high-hazard industries. Health inspections are conducted in general industry and construction and address chemical, biological, physical, and ergonomic hazards.

Preliminary results show there was a slight increase in Safety Inspections to 26,516 in FY 2017. The preliminary number for completed Health Inspections is 5,767, which is below the number of previous years' inspections. OSHA continued to allocate significant enforcement resources to respond to employer-reported incidents in accordance with OSHA's severe injury reporting (SIR) requirements. These requirements stem from the Occupational Injury and Illness Recording and Reporting Requirements--NAICS Update and Reporting Revisions regulation which took effect January 1, 2015. The SIR increased the number of employer-reported referrals, as employers must now report hospitalizations of one employee or more and any fatality to the Agency. OSHA addressed these reports through either unprogrammed inspections<sup>1</sup> or non-formal rapid response investigations (RRI). This activity reduced the time and resources available for previously programmed inspection activity, which prioritized high hazard industries or focused emphasis program related inspections. Preliminary data indicates the RRI activity increased unprogrammed workload by adding almost 7,700 non-formal investigations for FY 2017.

OSHA administers the whistleblower protection provisions of Section 11(c) of the OSH Act. Section 11(c) prohibits any person from discharging or in any manner retaliating against any employee because the employee has exercised rights under the OSH Act. Also, OSHA protects workers from retaliation through 21 other whistleblower protection statutes; this includes reported violations of various airline, commercial motor carrier, consumer

product, environmental, financial, food safety, health care, nuclear, pipeline, public transportation agency, railroad, maritime, and securities laws. In FY 2017, according to preliminary data, OSHA completed 3,347 whistleblower investigations, exceeding the targeted 2,900 investigations, awarding more than \$28 million to complainants including 81 reinstatements.

**Looking Forward:** In FY 2018, OSHA's effort to promote Safety and Health Programs (SHP) and move employers along the path to safety excellence will unite the various programmatic components of the agency in a common, proactive, and positive message addressing the agency's core mission. Companies that adopt a SHP improve both their safety culture and safety performance. In addition, OSHA cooperative program participants often reach stakeholders that OSHA may not otherwise interact with through dissemination of safety and health information locally, within their company, or industry. OSHA will also refine current enforcement strategies and implement new programs to target inspection resources to the most egregious employers and serious hazards.

### Occupational Safety and Health Administration (OSHA)

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Number of Safety Inspections	33,580	31,948	29,356	28,903	25,704[r]	26,516[p]
Number of Health Inspections	7,381	7,280	6,818	6,917	6,244[r]	5,767[p]

[r] Indicates revised result from the FY 2016 AFR.

[p] Indicates preliminary result.

### Mine Safety and Health Administration (MSHA)

MSHA protects the safety and health of the nation's miners under the provisions of the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response (MINER) Act of 2006. MSHA focuses on the prevention of death, disease, and injury from mining and on promoting safe and healthful workplaces for America's miners.

MSHA is required to conduct four inspections annually at active underground mines and two inspections annually at active surface mines. The table below shows the number of inspections conducted by mine type. Fluctuations in the number of inspections over time reflect variation in the number of mines operating during any given year. In FY 2017, MSHA met its target, performing all mandated inspections at coal and metal and nonmetal mines (MNM).

**Looking Forward:** MSHA will use the following strategies in pursuit of achieving this target: increasing inspection and enforcement effectiveness, strengthening and modernizing training and education, strengthening health and safety regulations, and increasing efforts to protect miners from discrimination.

### Mine Safety and Health Administration (MSHA)

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Number of Regular Mandated MNM Underground Inspections	850	857	964	862	905	883
Number of Regular Mandated Coal Underground Inspections	2,308	2,068	1,657	1,642	1,342	1,220
Number of Regular Mandated MNM Surface Inspections	15,770	15,767	15,289	15,656	15,642	16,073
Number of Regular Mandated Coal Surface Inspections	2,809	2,590	2,519	2,350	1,753	2,042

---

### **Wage and Hour Division (WHD)**

WHD is responsible for administering and enforcing laws that establish the minimum standards for wages and working conditions. WHD enforces and administers the minimum wage, overtime and child labor provisions of the Fair Labor Standards Act (FLSA); the prevailing wage requirements and wage determination provisions of the Davis Bacon Act (DBA) and Related Acts (DBRA), Service Contract Act (SCA), Contract Work Hours and Safety Standards Act (CWHSA), Walsh-Healey Act, and Copeland Act; the wages and working conditions under the Migrant and Seasonal Agricultural Worker Protection Act (MSPA); the Family and Medical Leave Act (FMLA); and the Employee Polygraph Protection Act (EPPA). WHD also enforces the field sanitation and temporary labor camp standards in agriculture and certain employment standards and worker protections of the Immigration and Nationality Act (INA). Collectively, these labor standards cover most private, state, and local government employment. They protect over 135 million workers in more than 7.3 million establishments throughout the U.S. and its territories.

WHD prioritizes resources by using an evidence-based, multi-pronged approach to improve compliance including compliance assistance to employers, investigations in high-violation industries, engagement and education of private and public stakeholders, and the use of communications tools. WHD focuses on (1) prioritizing industries with the greatest compliance problems, and (2) developing strategies that impact compliance. In FY 2017, WHD increased the results for "Percent of Agency-Initiated Investigations," reaching the highest percentage (51% against a 46% target) in recent history. Data show that agency-initiated investigations and the strategic use of enforcement resources have achieved positive results for low-wage workers and result in a greater deterrent effect.

"Percent of Agency-Initiated Investigations in Priority Industries" and "Percent of Complaint Investigations in Priority Industries" reflect WHD's commitment to prioritizing enforcement resources in those industries with the most serious violations rather than burdening compliant employers with investigations that do not uncover compliance problems. The increased level of agency-initiated investigations, as well as prioritization of complaints, has increased the agency's presence in those priority industries that have a history of violations. WHD's performance has led to significant outcomes. In the last 5 years, WHD has helped more than 1.3 million workers and recovered more than \$1.2 billion dollars in back wages. In FY 2017 alone, WHD collected over \$270 million in back wages. WHD enforcement actions in FY 2017 found, on average, more than \$1,120 for each employee due back wages.

*Looking Forward:* To protect fair and vigorous competition, WHD addresses compliance issues systemically and prevents violations through compliance assistance to reach a broader audience. The combination of compliance assistance and enforcement increases compliance with the laws. Moving forward, WHD is focused on the challenge of advancing effective enforcement while identifying areas for increased efficiency. To ensure a level playing field for all employers, WHD will conduct its business smarter and more effectively by assessing existing evidence and generating new knowledge to achieve agency goals. Compliance assistance to the employer community is a central component of WHD's efforts to meet its mission and the demand for accessible information about the laws WHD enforces remains high. WHD will expand on efforts to modernize compliance assistance information and reach and inform a broader audience.

### **Office of Federal Contract Compliance Programs (OFCCP)**

OFCCP ensures that nearly 200,000 Federal contractor establishments provide equal employment opportunity leading to a fair and diverse workplace. OFCCP administers and enforces three legal authorities: **Executive Order 11246, as amended; Section 503 of the Rehabilitation Act of 1973, as amended; and the Vietnam Era Veterans' Readjustment Assistance Act (VEVRAA) of 1974, as amended.** Together, these legal authorities prohibit discrimination and require Federal contractors and subcontractors to take affirmative action to ensure that all individuals have an equal opportunity for employment, without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, disability, or status as a protected veteran. Additionally, federal contractors and subcontractors are prohibited from, under certain circumstances, taking adverse employment

actions against applicants and employees for asking about, discussing, or sharing information about their pay or the pay of their co-workers.

OFCCP's compliance evaluations and complaint investigations play a critical role in assessing Federal contractor compliance with legal obligations under these authorities. Since 2009, OFCCP has refocused its efforts almost exclusively from systemic hiring discrimination on the basis of sex or race in low-wage jobs to systemic compensation discrimination to ensure workers also receive equal pay without discrimination. This includes placement into lower paying jobs due to gender stereotyping. To accomplish this, OFCCP gradually reduced its case production to focus on fewer, but more complex high quality cases that span a wide variety of industries and job occupations. OFCCP also invested in training front-line compliance officers and managers to carry out this mission. With this strategy, OFCCP closed 1,142 compliance evaluations in FY 2017 that included \$23.9 million in financial remedies for 11,653 victims of discrimination (e.g., hiring, pay, promotion, etc.). Also in FY 2017, OFCCP completed 79% of construction evaluations from high-impact construction projects that have a significant employment and economic impact on communities across the country. Moreover, 93% of the agency's compliance evaluations were free of major deficiencies that could otherwise impact the ability to identify discrimination or failure to engage in affirmative action. This is against a 95% target.

**Looking Forward:** In FY 2018, OFCCP will rebalance the agency's mix of scheduling and conducting compliance evaluations, and delivering compliance assistance. This is essential to OFCCP's long-term success as a civil rights agency. OFCCP will explore new ways and launch new initiatives to encourage all contractors to voluntarily meet their mandatory compliance obligations. In addition, OFCCP will seek to implement a scheduling process for compliance evaluations that focuses on industries or sectors that have a greater likelihood of having compliance issues. And, when compliance evaluations are conducted, they will be efficient and thorough, and appropriately transparent.

### **Bureau of International Labor Affairs (ILAB)**

When other countries fail to enforce their labor laws or abide by other trade-related labor commitments, or allow exported goods to be produced through child labor, forced labor, or in other exploitative labor conditions, business in those countries receive an unfair subsidy that can undermine the competitiveness of goods made in the United States. ILAB pursues a comprehensive strategy to promote a level global playing field for American workers and businesses by improving labor conditions around the world. ILAB seeks to make trade fair for U.S. workers and businesses; combat abusive child labor, forced labor, and human trafficking; and improve global labor standards.

ILAB's goal is to support quality job creation in the United States by ensuring U.S. trade agreements and preference programs are fair for American workers; combating international child labor, forced labor, and human trafficking; and improving global working conditions. ILAB has four main cross-cutting strategies for achieving this goal: (1) monitoring, evaluating, and publicly reporting on countries' compliance with international labor standards and related trade commitments, including international labor standards; (2) developing, advocating for, and negotiating policy positions that advance U.S. interests both domestically (e.g., in U.S. government interagency groups) and internationally (e.g., in the G20, International Labor Organization, Organization for Economic Cooperation and Development, and United Nations); (3) undertaking technical assistance and cooperative activities to strengthen implementation of international labor standards and reduce the exploitation of vulnerable workers and children in key countries, including evaluating technical assistance and cooperative activities to provide lessons learned and best practices to the Department of Labor and the international community; and (4) conducting and disseminating research on various international labor, trade, and economic issues and conditions.

**Looking Forward:** In FY 2018, ILAB will pursue a multifaceted strategy to promote workers' rights and strengthen cooperation and collaboration with key countries and international organizations. ILAB will also continue to ensure trade partners comply with their commitments and continue to strengthen labor law enforcement so that U.S.

workers are not placed at a competitive disadvantage. ILAB engages in a variety of negotiating, monitoring, enforcing, reporting and research activities with partners and stakeholders in key countries.

### **Office of Labor-Management Standards (OLMS)**

OLMS protects the rights of American workers by administering the Labor-Management Reporting and Disclosure Act (LMRDA) and related laws, which safeguard union democracy and financial integrity, and promote financial transparency.

OLMS focuses audit resources by using advanced targeting techniques to identify the labor unions most likely to be subject to a violation of the law. The success of audit targeting strategies is measured by Percent of Targeted Audits that Result in a Criminal Case (Fallout Rate). Since the implementation of this performance measure, OLMS has increased the fallout rate from 13.8% to 18.75% between FY 2012 and FY 2017. Timely resolution of union election complaints is a paramount goal of the LMRDA, and OLMS gauges its progress against this goal through the "Average Number of Days to Resolve Union Officer Election Complaints" measure. From FY 2012 to FY 2017, OLMS has reduced the average number of days per case from the target and previous year's outcome of 71 days to 64.7 days.

OLMS is also making it easier for unions, employers, and consultants to file the financial and activity reports required under the LMRDA, and tracks the success of these efforts through the "Percent of Disclosure Reports Filed Electronically" measure. OLMS continues to use existing outreach tools (e.g., seminars, compliance assistance incidental to an audit, and its Voluntary Compliance Partnership program (VCP) to introduce web-based forms and encourage union leaders and other filers to use them.

*Looking Forward:* For the fallout measure, OLMS will continue to refine the targeting techniques to continue saving resources directed at audits and redirecting these saved resources to high priority programs. OLMS continues to enhance efforts to coordinate work between the National Office, SOL, and field staff by identifying new means of communications and extending existing channels to more efficiently process election cases. In the past, these efforts have expedited processing and OLMS believes the number of elapsed days can be further reduced. In FY 2016, OLMS published a regulation that will require filers of LM-3 and LM-4 reports to do so electronically. Once fully implemented in FY 2019, over 80 percent of reports will be required to be filed electronically and electronic filing will be available for 85 percent of the full volume of reports expected to be filed.

## COMPENSATION AND BENEFITS PROGRAMS

### **Office of Workers' Compensation Programs (OWCP)**

OWCP provides workers' compensation benefits through four programs: the *Federal Employees' Compensation Act (FECA) Program* provides wage-loss compensation, payment for medical treatment, and return-to-work assistance for federal employees who are injured or ill on the job; the *Longshore and Harbor Workers' Compensation Act (Longshore) Program* oversees the delivery of benefits by private sector employers and insurance carriers to injured workers in certain maritime and related employment, and to federal government contractors working overseas; the *Black Lung Benefits Act (Black Lung) Program* oversees or provides compensation and medical benefits to coal miners who are totally disabled due to pneumoconiosis; and the *Energy Employees Occupational Illness Compensation Program Act (Energy Program)* provides compensation and medical benefits to employees or survivors of employees of the Department of Energy (DOE) and contractors or subcontractors of DOE, who worked on the nuclear weapons program and became ill due to exposure to radiation or toxic substances.

The FECA program provides disability management intervention and rehabilitative and placement services to assist with injury recovery and to facilitate the return-to-work of the individuals who sustained an injury or illness. There was an unfavorable decline in re-employed injured workers due, in part, to the expiration of the Presidential

Memorandum that established the POWER Initiative. This resulted in less focus on return-to-work efforts by federal agencies.

A major aspect of the Longshore program focuses on ensuring that employer injury reports and first payment of benefits are timely. The percentage of first payments of compensation issued for non-Defense Base Act cases within 30 days from the date disability begins has increased from 85 percent in FY 2012 to 88 percent in FY 2017, which exceeded the 86% target.

The Black Lung program experienced a significant increase in the number of claims filed in FY 2010, another surge in FY 2014, and claims volumes remained high through FY 2017. As incoming claims continued to climb, staffing remained level and the pending claims continued to age. The Black Lung program focused on processing older pending claims in FY 2016 and FY 2017, so the average time to process a Black Lung claim rose from 273 days in FY 2015 to 334 days in FY 2016 and 332 days in FY 2017. In FY 2017, the program issued 7,072 Proposed Decisions and Orders, a record high since FY 2006. The Black Lung program also continued to pursue quality initiatives for issuing accurate decisions.

The Energy program works closely with DOE, the Department of Justice, the Social Security Administration, and the National Institute for Occupational Safety and Health (NIOSH) to issue claim decisions. The average number of days between filing date and final decision for cases not sent to NIOSH when a hearing was not held was reduced from 177 days in FY 2012 to 169 days in FY 2017 (exceeding the FY 2017 target of 170 days); this measure accounts for approximately 70 percent of all claims.

*Looking Forward:* In FY 2018, OWCP will continue development of the OWCP Workers' Compensation System (OWCS), an integrated claims processing and management system for all four programs. OWCP expects the Longshore program to begin using OWCS by the end of 2018. OWCP will continue to use data analytics and process improvement strategies to manage the pending Black Lung claims, improve stakeholder partnerships and data sharing, and recruit and train credentialed physicians available for diagnostic examinations.

#### **Federal-State Unemployment Insurance (UI) Program (administered by ETA)**

The Federal-State UI Program, authorized under the Federal Unemployment Tax Act and Title III of the Social Security Act, provides temporary, partial wage replacement for eligible unemployed workers, providing them with income support when suitable work is unavailable. To qualify for benefits, unemployed workers must meet eligibility requirements established by state laws that conform to federal law, including that they have worked recently, are involuntarily unemployed, are able and available for work, and are actively seeking work. The "Total Unemployment Rate" of 4.2% in FY 2017 is calculated using Bureau of Labor Statistics data. It is the sum of the (not seasonally adjusted) unemployment level for October through September divided by the sum of the (not seasonally adjusted) labor force level for October through September.

One of the key measures for this program, "First Payment Timeliness" (Percent of All Intrastate First Payments Made within 21 Days after the Last Day of the First Compensable Week) has a preliminary FY 2017 result of 84.4%. The FY 2017 result is an improvement over previous year's results and ETA will continue efforts to increase timeliness.

In FY 2017, using the states' performance on the first payment timeliness core measure data, ETA worked with all states failing to meet the performance standard by requiring corrective action plans to achieve first payment timeliness in their State Quality Service Plans. In addition, using the new methodology for designating "High Priority" states, ETA selected three states with the poorest overall performance to provide them intensive technical assistance in FY 2018 and increased monitoring to support performance improvement. Please refer to UI Program Letter No. 17-16 for details on the selection criteria for these "High Priority" states:

[https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_17-16.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_17-16.pdf).

**Looking Forward:** In FY 2018, ETA UI staff will work with “High Priority” states to develop comprehensive Corrective Action Plans (CAPs) designed to improve performance. Examples of ETA’s customized technical assistance strategies to support performance improvement for the poor performing states include:

- Work collaboratively with the state(s) to conduct enhanced analysis of all relevant data (including performance data) to inform strategic approaches to performance improvement. The data analysis may also involve examining data in similarly situated states.
- Deploy a team of experts composed of ETA and state subject matter experts, to conduct a thorough review of each High Priority state’s administrative and business processes relevant to the poor performance using business process analysis and process mapping tools, resulting in recommendations and an action plan the state will implement.
- Engage high-level state officials to bring focus to the egregious performance and promote prioritizing state resources to support performance improvement.
- Conduct enhanced monitoring and follow-up that may include additional reporting by the state in area of performance deficiency and on-site visits by ETA or partnering with state staff to assess process changes.

In FY 2018, ETA launches the new UI benefits operations state self-assessment process which will aid states in identifying and addressing operational issues impacting performance. The new process involves a comprehensive review of 15 functional and program areas within UI benefits operations.

ETA, in collaboration with the National Association of State Workforce Agencies’ Information Technology Support Center (ITSC), continues to diligently work with individual states and state consortia to provide appropriate technical assistance in support of their information technology modernization efforts. Pending availability of funding in future years, ETA will continue to support the states’ system modernization efforts.

<b>Employment and Training Administration - Unemployment Insurance</b>						
<b>Measure</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Total Unemployment Rate	9.2%	6.7%	5.5%	4.8%	4.5%	4.2%
First Payment Timeliness (Unemployment Insurance)	82.6% <sup>[r]</sup>	80.6% <sup>[r]</sup>	79.3% <sup>[r]</sup>	83.3% <sup>[r]</sup>	84.1%	84.4% <sup>[p]</sup>

[r] Indicates revised result from the FY 2016 AFR.

[p] Indicates preliminary result.

**Employee Benefits Security Administration (EBSA)**

EBSA is charged with protecting more than 149 million workers, retirees and their families who are covered by nearly 685,000 private retirement plans, 2.2 million health plans, and similar numbers of other welfare benefit plans. Together, these plans hold estimated assets of \$9.6 trillion. EBSA’s proactive enforcement, outreach and education programs protect the most vulnerable populations while ensuring broad compliance with the Employee Retirement Income Security Act of 1974 (ERISA) and related laws. EBSA assists plan fiduciaries and others in understanding their obligations under ERISA by providing interpretive guidance and making related materials available through its website and publications, training programs, and more. EBSA is also committed to helping workers and retirees understand their benefits and receive the benefits they have earned. The primary objectives of EBSA’s enforcement program are to improve ERISA compliance by recovering losses and unjust profits stemming from misconduct by plan fiduciaries and service providers and to increase the deterrent impact of the agency’s enforcement efforts on employee benefit plans, participants and beneficiaries.

EBSA’s enforcement program, within the context of its integrated approach to compliance assistance, seeks to detect and correct violations that result in monetary recoveries for employee benefit plans, participants and

beneficiaries or in other corrective remedies including, but not limited to, significant broad-based reforms for large plans or common service providers. In FY 2014, EBSA developed measures designed to increase the effectiveness of its enforcement program while avoiding reliance on raw case numbers. As a result, EBSA replaced its cases closed measures in FY 2015 with three measures that track investigation timeliness. EBSA's FY 2017 results met or exceeded results from FY 2015 and FY 2016, as well as FY 2017 targets, for these measures. Both civil and criminal investigations exhibited greater efficiencies than expected. EBSA focused its FY 2017 enforcement resources on National Enforcement Projects and the Major Case Enforcement Priority. The Major Case Enforcement Priority concentrates a significant portion of the agency's enforcement resources on those cases likely to have the greatest impact on the protection of plan assets and participants' benefits.

**Looking Forward:** In FY 2018, EBSA will continue to assist individuals in understanding their rights and responsibilities under ERISA. In particular, the agency's participant assistance and outreach and education programs will focus on disseminating information related to health and retirement benefit protections and retirement savings education. EBSA will also continue to implement performance measurement changes designed to increase the effectiveness of its enforcement program. The following overlapping and related attributes will be emphasized: effective targeting, prompt detection and pursuit of violations; the successful pursuit of monetary recoveries; non-monetary results that promote compliance with ERISA; and the aggressive and timely pursuit of participant tips and complaints.

---

## Financial Performance Overview

Sound financial management is an integral part of the Department's efforts to deliver services and administer programs. With the Department's emphasis on internal controls, accurate financial information delivery to key decision makers, and transparent and accountable reporting, the Department's stakeholders can be confident that resources are used efficiently and effectively.

DOL implemented the FY 2016 requirements of OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control (revised July 15, 2016)*, and the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government (revised September 2014)*. DOL's internal control program and centralized processes for reporting financial data help to ensure the relevance and reliability of financial performance data. DOL's comprehensive internal control program has the objective of providing, on a continuing basis, reasonable assurance that all financial, non-financial, performance, statistical records, and related reports are reliable. DOL's internal control program helps ensure that appropriate internal controls are in place for financial performance management and that agencies institute sound, effective internal control policies and procedures for financial performance measurement and regular evaluation of their processes. Financial performance is evaluated during comprehensive ongoing financial management reviews and corrective actions are implemented as required to resolve audit findings and increase efficiency. These business processes help to ensure that reported financial performance information is relevant and reliable.

In FY 2017 and FY 2016, DOL used managerial cost accounting for costing programs and performance indicator results in accordance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*. The statements outline the standards for Federal entities to provide "reliable and timely information on the full cost of Federal programs, their activities, and outputs." This information can be used to allocate resources and evaluate program performance. Managerial cost accounting directly supports the sections of the AFR that address Net Program Cost in the Statements of Net Cost. Total Net Cost of DOL activities was \$49.7 billion for FY 2017 and \$48.7 billion for FY 2016.

### Analysis of Financial Statements and Stewardship Information

The principal financial statements summarize the Department's financial position, net cost of operations, and changes in net position, and provide information on budgetary resources and social insurance.

Figure 1: Summary of Selected Financial Data for FY 2017 and FY 2016

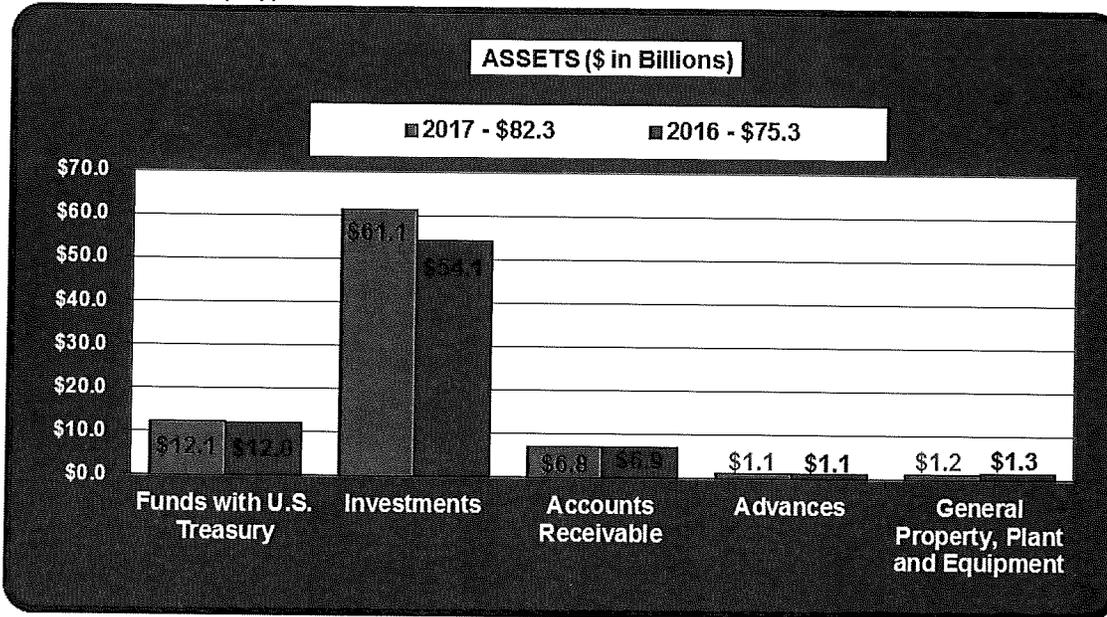
Summary of Selected Financial Data

(Dollars in billions)	2017	2016	Change	
			Amount	Percent
<b>Financial position</b>				
Total assets	\$ 82.3	\$ 75.3	\$ 7.0	9.3%
Funds with U.S. Treasury	12.1	12.0	0.1	0.8%
Investments	61.1	54.1	7.0	12.9%
Total liabilities	\$ 33.4	\$ 34.8	\$ (1.4)	(4.0)%
Debt	8.4	14.3	(5.9)	(41.3)%
Future workers' Compensation benefits	2.6	1.9	0.7	36.8%
Energy employees occupational illness compensation benefits	19.7	15.4	4.3	27.9%
<b>Net cost of operations</b>				
Net cost of operations	\$ 49.7	\$ 48.7	\$ 1.0	2.1%
Income maintenance	41.0	39.8	1.2	3.0%
Employment and training	6.1	6.3	(0.2)	(3.2)%
<b>Budgetary resources</b>				
Appropriations (discretionary and mandatory)	\$ 45.3	\$ 47.6	\$ (2.3)	(4.8)%
Agency outlays, net (discretionary and mandatory)	44.8	46.5	(1.7)	(3.7)%

**Financial Position**

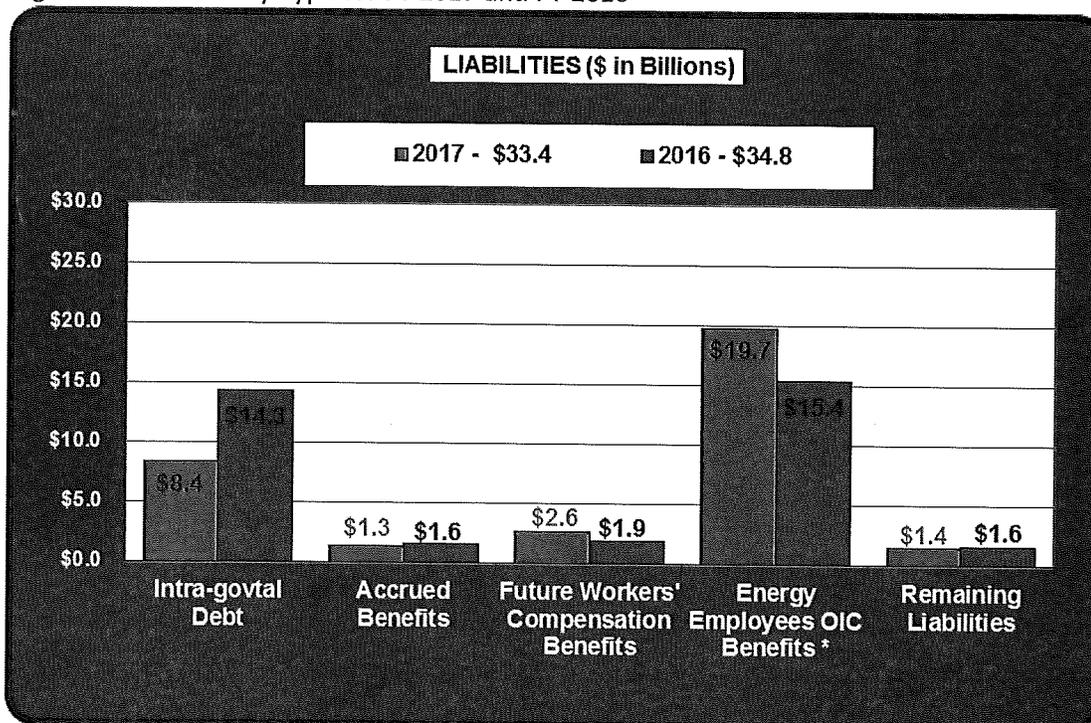
The Department's Balance Sheet presents DOL's financial position through the identification of agency assets, liabilities, and net position, as shown below. The Department's total assets increased from \$75.3 billion at the end of FY 2016 to \$82.3 billion at the end of FY 2017, an increase of 9.3%, primarily due to an increase in investments. Investments increased primarily due to net inflows in the Unemployment Trust Fund (UTF) in excess of immediate program needs for benefit payments and administrative costs. (See Figure 2 on next page for reported Assets by Type for FY 2017 and FY 2016.)

Figure 2: Assets by Type for FY 2017 and FY 2016



Liabilities decreased from \$34.8 billion at the end of FY 2016 to \$33.4 billion at the end of FY 2017, a decrease of \$1.4 billion [(4.0)%]. This decrease was due to a combination of factors, including a decrease in intra-governmental debt of \$5.9 billion [(41.3)%], offset by an increase in future workers' compensation benefits of \$0.7 billion [36.8%] and an increase in Energy employees occupational illness compensation benefits of \$4.3 billion [27.9%]. The decrease in intragovernmental debt was due to Unemployment Trust Fund (UTF) repayments of borrowings from the General Fund of the Treasury as tax collections by the states exceeded the requirements of benefits payments. The increase in future workers' compensation benefits was primarily due to the increase in projected benefits under the War Hazards Compensation Act. The increase in the Energy employees occupational illness compensation benefits was primarily due to the increase in medical inflation assumptions.

Figure 3: Liabilities by Type for FY 2017 and FY 2016

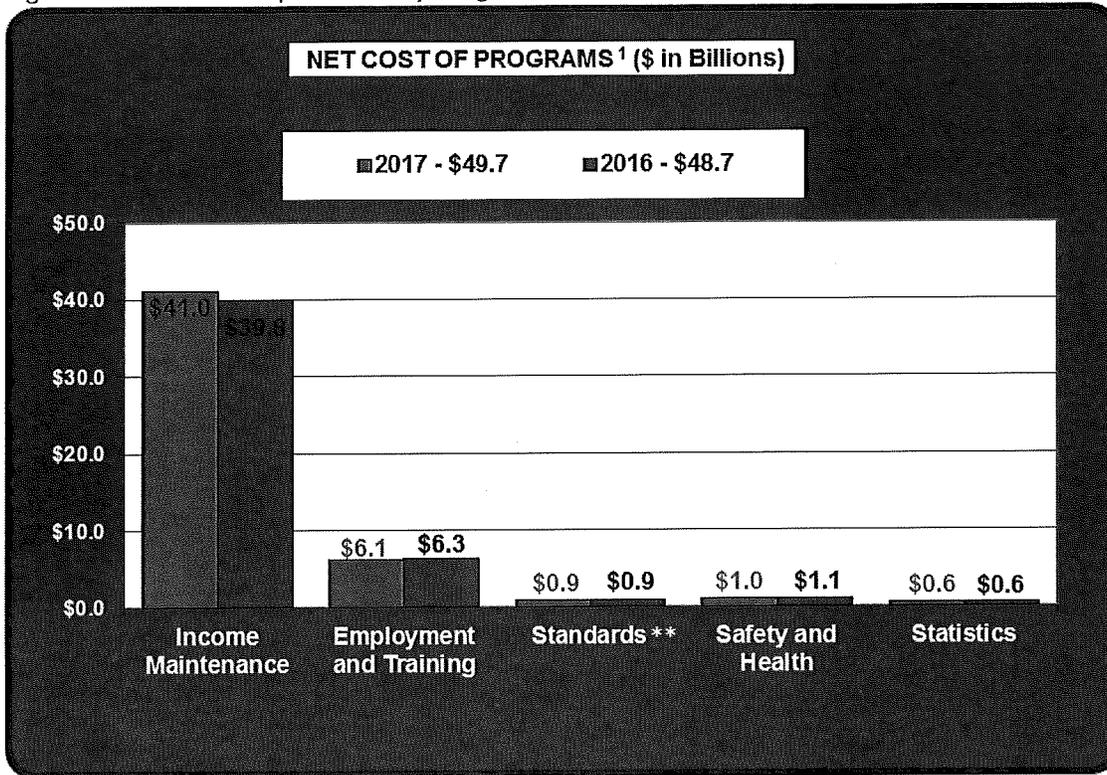


\* OIC = Occupational Illness Compensation.

Net Cost of Operations

The Department's net cost of operations for the year ended September 30, 2017, was \$49.7 billion, an increase of \$1.0 billion [2.1%] from FY 2016. This increase was attributable to the increases in program costs discussed below:

Figure 4: Net Cost of Operations by Program for FY 2017 and FY 2016



<sup>1</sup> The Department's Net Cost of Programs include costs not assigned to specific programs, which were \$0.02 billion and \$0.02 billion for FY 2017 and FY 2016, respectively.  
\*\*Represents Labor, Employment, and Pension Standards.

*Income Maintenance* programs continue to comprise the major portion of departmental costs. These programs include unemployment benefits paid to covered individuals who are out of work and seeking employment, as well as payments to individuals who qualify for disability benefits due to injury or illness suffered on the job, and the costs to administer these programs. Income maintenance net costs were \$41.0 billion in FY 2017, an increase of 3.0% from FY 2016. This increase was primarily due to costs for increases in projected benefits under the workers' compensation program (for War Hazards Compensation Act) and Energy employees occupational illness compensation program, offset by decreases in costs for unemployment insurance benefits.

*Employment and Training* programs comprise DOL's second largest cost. These programs are designed to help individuals deal with the loss of a job, identify new occupational opportunities, find training to acquire different skills, start a new job, and make long-term career plans, as well as connect employers to workers with the skills they need. Employment and training costs were \$6.1 billion in FY 2017, a decrease of 3.2% from FY 2016.

Budgetary Resources

The Statements of Budgetary Resources report the budgetary resources available to DOL to effectively carry out the activities of the Department during FY 2017 and FY 2016, as well as the status of these resources at the end of each fiscal year. During FY 2017, total budgetary resources decreased \$2.2 billion or (3.7)% from \$58.8 billion to \$56.6 billion, primarily due to the decrease in appropriations of \$2.3 billion or (4.8)%. Agency outlays, net decreased by \$1.7 billion or 3.7% primarily due to lower outlays, gross as a result of lower outlays for unemployment benefits.

**Social Insurance and the Black Lung Disability Benefit Program**

FASAB has classified the Black Lung Disability Benefit Program as a social insurance program that is required to report a Statement of Social Insurance (SOSI) and a Statement of Changes in Social Insurance Amounts (SCSIA) for the Black Lung Disability Trust Fund (BLDTF); these are sustainability statements.

The SOSI reports for the projection period (which begins on the September 30 valuation date of the reporting year) for current and new participants (the open group), the open group measure, which is the present value of estimated future coal excise tax income, less the present value of estimated future administrative costs and the actuarial present value of future benefit payments. For the SOSI as of September 30, 2013, 2014, 2015, and 2016, the projection period had a fixed terminus of September 30, 2040. In FY 2017, DOL revised the projection period from the fixed terminus to a rolling 25-year projection period that begins on the September 30 valuation date; the revised projection period became effective for the September 30, 2017 valuation date and the rolling 25-year projection period ends September 30, 2042.

For the five years presented in the SOSI, the open group measure has decreased significantly from \$4.6 billion as of September 30, 2013 to \$31.0 million as of September 30, 2017. The decrease in the open group measure is primarily due to the decrease in the present value of estimated future coal excise tax income, which depends on, among other things, the business and regulatory environment of the coal industry. Assumptions that, among other things, lead to favorable conditions for energy sources that compete with coal will reduce coal's market share; lower demand for coal will lead to lower collections of excise taxes.

Figure 5: Black Lung Disability Benefit Program - Table of Key Measures for FY 2017 and FY 2016

Black Lung Disability Benefit Program – Table of Key Measures				
(Dollars in millions)	2017	2016	Change	
			Amount	Percent
<b>Financial position</b>				
Total assets	\$ 144.7	\$ 108.8	\$ 35.9	33.0%
Less: total liabilities	(5,755.4)	(5,713.2)	(42.2)	0.7%
Net position (assets net of liabilities)	<u>\$ (5,610.7)</u>	<u>\$ (5,604.4)</u>	<u>\$ (6.3)</u>	0.1%
<b>Costs and changes in net position</b>				
Net cost of operations	\$ (370.6)	\$ (339.5)	\$ (31.1)	9.2%
Total financing sources	364.4	379.3	(14.9)	(3.9)%
Net change of cumulative results of operations	<u>\$ (6.2)</u>	<u>\$ 39.8</u>	<u>\$ (46.0)</u>	(115.6)%
<b>Social insurance</b>				
Open group measure, beginning of year	<u>\$ 890.0</u>	<u>\$ 1,596.7</u>	<u>\$ (706.7)</u>	(44.3)%
Open group measure, end of year	<u>\$ 31.0</u>	<u>\$ 890.0</u>	<u>\$ (859.0)</u>	(96.5)%

The increase in the total assets of \$35.9 million [33.0%] was due to a higher Funds with Treasury balance as of September 30, 2017. The increase in the net cost of operations for the year ended September 30, 2017 of \$(31.1) million [9.2%] from FY 2016 was primarily due to an increase in benefit payments to claimants. FY 2017 total financing sources decreased \$(14.9) million [(3.9)%] from FY 2016 mainly due to a decrease in tax collections. The resulting net change of cumulative results of operations for FY 2017 was \$(6.2) million, a decrease of \$(46.0) million [(115.6)%] from FY 2016.

Liabilities increased \$42.2 million [0.7%] at the end of FY 2017 due to an increase in debt. The increase in debt is important because it demonstrates that although the BLDTF repaid debt of \$1.3 billion, the debt balance increased due to additional borrowing of \$1.285 billion and accrued interest of \$55.7 million as of September 30, 2017.

In FY 2017, the open group measure decreased by \$(859.0) million primarily due to projected lower coal excise tax revenues and projected higher costs of beneficiaries as a result of, among other things, projected higher costs for new participants. In FY 2016, the open group measure decreased by \$(706.7) million primarily due to projected lower coal excise tax revenues and higher administrative costs, offset in part due to the change in interest rates used to discount the cash flows from 2.25% in FY 2015 to 1.63% in FY 2016.

The total of open group measure plus fund assets as of September 30, 2017 represents a projected net positive cash flow that may be used to liquidate the liabilities of the BLDTF. As of September 30, 2017, the open group measure plus fund assets is \$175.7 million whereas the BLDTF debt and interest maturing on September 30, 2018 is \$1.86 billion and the carrying value of all BDLTF debt as of September 30, 2017 is \$5.74 billion. The excess of BLDTF debt over the open group measure plus fund assets together with the fund deficit of \$(5.61) billion represent a material concentration of risk for the Department.

Refer to Notes 1-W, 1-Y, and 21, and Required Supplementary Information (RSI) for additional information on the SOSI, including the summary section; SCSIA; the Black Lung Disability Benefit Program; its reported activity and balances; and projections and sensitivity analysis in constant dollars through 2042.

### Limitations on the Principal Financial Statements

As required by the Government Management Reform Act of 1994 (31 U.S.C. 3515(b)), the principal financial statements report the Department's financial position and results of operations. While the statements have been prepared from the Department's books and records in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity, and that liabilities reported in the financial statements cannot be liquidated without legislation providing resources to do so.

### Financial Management Systems and Strategy

The Department maintains and enhances financial management systems, processes, and controls that ensure financial accountability, transparency, and provides information to DOL's decision makers that complies with Federal laws, regulations, and policy. As part of these responsibilities, the Department maintains New Core Financial Management System (NCFMS), the system of record for the Department's financial activities.

In FY 2017, the Department worked with the Unified Shared Services Management (USSM) office, under the U.S. General Services Administration (GSA), using the Modernization and Migration Management (M3) framework, to plan for the migration of NCFMS to a Federal Shared Services Provider (FSSP). The M3 framework is the successor to the Treasury Office of Financial Innovation and Transformation (OFIT) Federal Agency Migration Evaluation (FAME) process. The Department completed the first two phases of the M3 framework to USSM's satisfaction but as a result of a change in direction by USSM, further efforts to convert to a FSSP were postponed.

In FY 2018, NCFMS will continue to be used to support DOL's finance and accounting activities. The Department will work with the USSM office on implementing a government-wide Software as a Service (SaaS) solution for financial management.

## Management Assurances

### Federal Managers' Financial Integrity Act of 1982

The Department of Labor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). DOL conducted an assessment of its internal controls over the effectiveness and efficiency of operations as well as 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, DOL can provide reasonable assurance that its internal controls over operations are operating effectively and efficiently and are in compliance with applicable laws and regulations as of September 30, 2017. A material weakness was identified during the FY 2017 financial statement audit related to the improvement needed in estimate reviews. DOL agrees with the financial statement audit material weakness and expects to implement corrective actions in FY 2018.

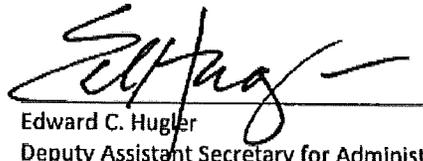
In addition, DOL conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, DOL can provide reasonable assurance that its internal controls over financial reporting as of June 30, 2017, were operating effectively. No material weaknesses were found in the design or operation of the internal control over financial reporting, except for the subsequent auditor identified improvement needed in estimate reviews. DOL is also in conformance with Section 4 of FMFIA.

### Federal Financial Management Improvement Act of 1996

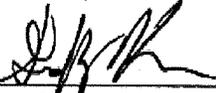
The Federal Financial Management Improvement of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. All DOL financial management systems substantially comply with FFMIA as of September 30, 2017.



R. Alexander Acosta  
Secretary of Labor



Edward C. Hugler  
Deputy Assistant Secretary for Administration and Management



Geoffrey Kenyon  
Principal Deputy CFO

November 15, 2017



# UNITED STATES DEPARTMENT OF STATE AGENCY FINANCIAL REPORT



FISCAL YEAR  
**2017**



Promoting Peace *through* Strength

## SECTION I:

# Management's Discussion and Analysis

“ Providing for the security of the United States must be the number-one goal of our American foreign policy. ”

– Secretary of State, Rex Tillerson

## About the Department

### OUR HISTORY

The U.S. Department of State (the Department) is the lead U.S. foreign affairs agency within the Executive Branch and the lead institution for the conduct of American diplomacy. Established by Congress in 1789, the Department is the nation's oldest and most senior cabinet agency.

The Department is led by the Secretary of State, who is nominated by the President and confirmed by the U.S. Senate. The Secretary of State is the President's principal foreign policy advisor and a member of the President's Cabinet. The Secretary carries out the President's foreign policies through the State Department and its employees.



More information on the duties of the Secretary can be found at: <https://www.state.gov/secretary/2017/index.htm>



More information on the Secretary's travel can be found at: <https://www.state.gov/secretary/travel/index.htm>

## Did You Know?

*Rex Wayne Tillerson has visited 20 countries, traveling over 110,000 miles during his 8 months as Secretary of State. He travels to all corners of the world to do his job. His duties as Secretary include acting as the President's representative at all international forums, negotiating treaties and other international agreements, and conducting everyday, face-to-face diplomacy.*

### OUR ORGANIZATION AND PEOPLE

The Department of State advances U.S. objectives and interests in the world through its primary role in developing and implementing the President's foreign policy worldwide. The Department also supports the foreign affairs activities of other U.S. Government entities including the United States Agency for International Development (USAID). USAID is the U.S.

Government agency responsible for most non-military foreign aid and it receives overall foreign policy guidance from the Secretary of State. The State Department carries out its foreign affairs mission and values in a worldwide workplace, focusing its energies and resources wherever they are most needed to best serve the American people and the world.

The Department is headquartered in Washington, D.C. and has an extensive global presence, with more than 270 embassies, consulates, and other posts in over 180 countries. A two-page map of the Department's locations appears in Appendix B. The Department also operates several other types of offices, mostly located throughout the United States, including over 25 passport agencies, two foreign press centers, one reception center, five logistic support offices for overseas operations, 20 security offices, and two financial service centers.

The Foreign Service officers and Civil Service employees in the Department and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is dedicated to representing America and to responding to the needs of American citizens living and traveling around the world. They are also America's first line of defense in a complex and often dangerous world. The Department's Civil Service corps, most of whom are headquartered in Washington, D.C., is involved in virtually every policy and management area – from democracy and human rights, to narcotics control, trade, and environmental issues. Civil Service employees also serve as the domestic counterpart to Foreign Service consular officers who issue passports and assist U.S. citizens overseas.

Host country Foreign Service National (FSN) and other Locally Employed (LE) staff contribute to advancing the work of the Department overseas. Both FSNs and other LE



Secretary Tillerson shakes hands with a State Department employee in Washington, D.C., May 3, 2017. *Department of State*

staff contribute local expertise and provide continuity as they work with their American colleagues to perform vital services for U.S. citizens. At the close of 2017, the Department was comprised of nearly 75,000 employees.

The U.S. Department of State, with just over one percent of the entire Federal budget, has an outsized impact on Americans' lives at home and abroad. For a relatively small investment, the Department yields a large return in a cost-effective way by advancing U.S. national security, promoting our economic interests, creating jobs, reaching new allies, strengthening old ones, and reaffirming our country's role in the world. The Department's mission impacts American lives in multiple ways.

These impacts include:

1. **We support American citizens abroad.** We provide emergency assistance to U.S. citizens in countries experiencing natural disasters or civil unrest. We assist with international adoptions and work on child abduction cases. In 2016, there were 5,372 adoptions to the United States, and 89 adoptions from the United States to other countries. In calendar year 2016, we worked on parental child abduction cases involving more than 1,600 children – resulting in the return of 230 American children.
2. **We create American jobs.** We directly support millions of U.S. jobs by promoting new and open markets for U.S. firms, protecting intellectual property, negotiating new U.S. airline routes worldwide, and helping American companies compete for foreign government and private contracts.
3. **We promote democracy and foster stability around the world.** Stable democracies are less likely to pose a threat to their neighbors or to the United States. We partner with the public and private sectors in countries in conflict to foster democracy and peace.
4. **We help to make the world a safer place.** Under the New Strategic Arms Reduction Treaty, we are reducing the number of deployed nuclear weapons to levels not seen since the 1950s. The Department has helped over 40 post-conflict countries clear millions of square meters of landmines and unexploded ordnance. We also work with foreign partners to strengthen international aviation and maritime safety and security.



Deputy Secretary Sullivan poses with Secretary Tillerson, Chief Justice Roberts, and new Foreign Service Officers during his swearing-in ceremony in Washington, D.C., June 9, 2017. *Department of State*

5. **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against HIV/AIDS, tuberculosis, malaria, and polio. Better health abroad reduces the risk of instability and enhances our national security.
6. **We help countries feed themselves.** We help other countries plant the right seeds in the right way and get crops to markets to feed more people. Strong agricultural sectors lead to more stable countries.
7. **We help in times of crisis.** From natural disasters to famine to epidemics, our dedicated emergency professionals deliver assistance to those who need it most.
8. **We promote the rule of law and protect human dignity.** We help people in other countries find freedom and shape their own destinies. We advocate for the release of prisoners of conscience, prevent political activists from suffering abuse, train police officers to combat sex trafficking, and equip journalists to hold their governments accountable.
9. **We help Americans see the world.** The Department's Bureau of Consular Affairs supports and protects the American public. In 2017, we issued 21.4 million

passports and passport cards for Americans to travel abroad. We facilitate the lawful travel of international students, tourists, and business people to the United States, adding greatly to our economy. We also keep Americans apprised of dangers or difficulties abroad through our travel warnings.

10. **We are the face of America overseas.** Our diplomats, development experts, and the programs they implement are the source of American leadership around the world. They are the embodiments of our American values abroad and a force for good in the world.

The Secretary of State (S) is supported by a Deputy Secretary, the Executive Secretariat (S/ES), the Office of U.S. Foreign Assistance Resources (F), the Counselor (C) and Chief of Staff (S/COS), six Under Secretaries, and over 30 functional and management bureaus and offices. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Under Secretaries have been established for Political Affairs (P); Economic Growth, Energy and Environment (E); Arms Control and International Security Affairs (T); Public Diplomacy and Public Affairs (R); Management (M); and Civilian Security, Democracy and Human Rights (J). The Under Secretary for Management also serves as the Chief Financial Officer for the Department.



Secretary Tillerson and Ambassador Nikki Haley, U.S. Permanent Representative to the United Nations, meet with Korean Foreign Minister and Japanese Foreign Minister in New York City, New York, April 28, 2017. Department of State

The Department’s political affairs mission is supported through six regional bureaus – each is responsible for a specific geographic region of the world. These include:

- Bureau of African Affairs (AF),
- Bureau of European and Eurasian Affairs (EUR),
- Bureau of East Asian and Pacific Affairs (EAP),
- Bureau of Near Eastern Affairs (NEA),
- Bureau of South and Central Asian Affairs (SCA), and
- Bureau of Western Hemisphere Affairs (WHA).

The Department also includes the Bureau of International Organization Affairs. This Bureau develops and implements U.S. policy in the United Nations, its specialized and voluntary agencies, and other international organizations.

## Did You Know?

*Thomas Jefferson was the first Secretary of State (1790-1793). He later was elected Vice President in 1796 and served two terms as President (1801-1809).*

---

More information on former Secretaries can be found at: <https://history.state.gov/departmenthistory/people/secretaries>

## OUR WORK AT HOME AND OVERSEAS

At home, the passport process is often the primary contact most U.S. citizens have with the Department of State. There are 29 domestic passport agencies and centers, and approximately 8,100 passport acceptance facilities worldwide, of which 7,600 are domestic. The Department designates many post offices, clerks of court, public libraries and other state, county, township, and municipal government offices to accept passport applications on its behalf.

Overseas, in each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy aims, as well as coordinating and managing all U.S. Government functions in the host country. The President appoints each Chief of Mission, who is then confirmed by the Senate. The Chief of Mission reports directly to the President through the Secretary of State. The U.S. Mission is also the primary U.S. Government point of contact for Americans overseas and foreign nationals of the host country. The Mission serves the needs of Americans traveling,

working, and studying abroad, and supports Presidential and Congressional delegations visiting the country.

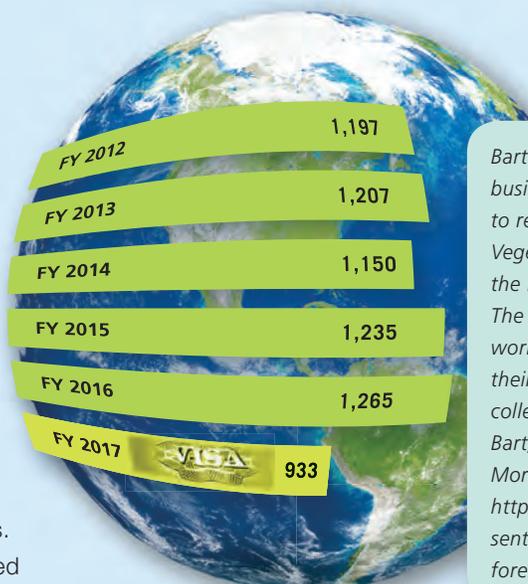
Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking foreign dignitaries and visiting officials. An "In Focus" view of our global visa fraud investigations is shown below.

Additionally, the Department utilizes a wide variety of technology tools to further enhance its effectiveness and magnify its efficiency. Today, most offices increasingly rely on digital video conferences, virtual presence posts, and websites to support their missions. The Department also leverages social networking Web tools to engage in dialogue with a broader audience. See the inside back cover for Department websites of interest.

### FOCUS

## Number of Visa Crime Investigations Opened Globally

The Bureau of Diplomatic Security (DS) is the security and law enforcement arm of the Department. Visa crimes are international offenses that may start overseas, but can threaten public safety inside the United States if offenders are not interdicted with aggressive and coordinated law enforcement action. DS agents and analysts observe, detect, identify, and neutralize networks that exploit international travel vulnerabilities. In 2017, 1,134 cases were closed and DS made 37 arrests.



Bart and Cabrera operated an unregistered business called "Labor Listo," which they used to recruit employers like Svihel, who ran Svihel Vegetable Farm, to hire seasonal workers from the Dominican Republic on temporary work visas. The visa programs require employers to pay for workers' housing and travel expenses to and from their home country, and forbid employers from collecting recruitment fees or wage kickbacks. Bart, Cabrera, and Svihel violated all of these rules. More information on the case can be found at: <https://www.justice.gov/usao-mn/pr/ohio-woman-sentenced-five-years-prison-conspiring-exploit-foreign-workers-minnesota-farm>.

Source: U.S. Department of State, Bureau of Diplomatic Security.



Attendees pose at the 2017 AGOA Forum in Lome, Togo, February 8, 2017. Department of State

## FOCUS

### AGOA: Helping Women Entrepreneurs Succeed

Even now in the 21st Century, many women still lack access to capital, credit, markets, and training to enter the economic lives of countries across the globe. In sub-Saharan Africa, for example, women traders outnumber male traders where cross-border trade is a source of income for 43 percent of the African population. However, African women's limited representation among trade regulators and customs officials, as well as other gender-based barriers, hinder their ability to engage in trade on an equal footing with their male counterparts.

In May of 2000, the United States enacted the African Growth and Opportunity Act (AGOA), a trade preference program available to the countries of Sub-Saharan Africa, to spur trade and investment opportunities in Africa, while advancing development goals and increasing U.S.-Africa economic ties. To explicitly support greater economic enfranchisement for women, the 2015 AGOA reauthorization included a bipartisan amendment that strengthens the trade capacity of smallholder women farmers and entrepreneurs. Supporting economic growth in sub-Saharan Africa is both a domestic and foreign policy priority for the United States, and studies show that investing in women is one of the greatest ways to achieve positive economic, financial, and social impact.

In the 16th annual AGOA Forum on August 8-10, 2017, cohosted by the U.S. Government and the Government

of Togo, women entrepreneurs were featured in a panel discussion called "The Power of Micro, Small and Medium-Sized Enterprises: Inclusive and Sustainable Economic Growth through Textiles and Agribusiness." The discussion, which included panelists from one of America's healthiest grocery stores and women business leaders from Togo and Benin, highlighted the impact and success women entrepreneurs have had under AGOA, while also addressing the continued need to reduce and eliminate barriers. The panel also centered around an American-Togolese company that creates women cooperatives to alleviate poverty and empower communities in West Africa through the fair trade of shea butter and other indigenous resources from Togo. These entrepreneurs have used their success to not only enable other entrepreneurial women to gain income to support their families, but also to create opportunities within their communities.

From the United States perspective, the case for advancing women's full participation in the global economy is clear. Advancing women in the labor force is good for companies' bottom lines, good for countries' economic growth, and good for global security, prosperity, and stability. AGOA provides the United States a tool to support these goals. Engaging women to foster economic growth will create mutual opportunities and benefits for the United States and sub-Saharan Africa for years to come.

# Strategic Goals and Government-wide Management Initiatives

## MANAGING FOR RESULTS: PLANNING, BUDGETING, MANAGING, AND LEARNING

The Department has an enterprise-wide framework that elevates and improves strategic planning, aligns budgets to plans, and creates better monitoring and evaluation systems. State remains committed to providing employees with training, technical assistance, and tools for planning and management as part of the Department's Managing for Results (MfR) Framework. The MfR Framework is a step-by-step integrated process, managed by State and coordinated with USAID, by which State links strategy to resources, supports program activity with strengthened program and project management guidelines, and uses performance data for decision making.

The Framework also integrates strategic planning, budgeting, program management, and learning to improve the effectiveness of how the Department carries out its business. These integrated processes inform and facilitate one another. As part of the 2017 Redesign, the Department is proposing to further strengthen our strategic alignment by leveraging the Managing for Results framework to develop, deconflict, and prioritize foreign policy priorities with a more rigorous use of implementation plans and strategic reviews. The Redesign also aims to improve knowledge management practices, expand the use of enterprise-wide data analytics, incorporate enterprise risk management, streamline governance structures, and more explicitly tie accountability for achieving results to employee performance reviews. The Department is also completing program management guidance that will require bureaus to align their programs and projects to higher-level strategies.

These efforts aim to improve the quality and utility of the Department's and USAID's major strategic planning documents, which include:



**Managing for Results Framework**

- The Joint Strategic Plan (JSP) – Four-year strategic plan that outlines State and USAID overarching goals and objectives, and guides bureau and mission planning.
- The Joint Regional Strategy – Four-year strategic plan for each region that sets joint State and USAID priorities and guides key partner bureau and mission level planning.
- The Functional Bureau Strategy – Four-year strategic plan that sets priorities for each State functional bureau and guides key partner bureau and mission level planning.
- The Integrated Country Strategy (ICS) – Four-year strategic plan that articulates whole-of-government priorities in a given country and incorporates higher-level planning priorities. As a whole-of-government document, each ICS includes the relevant USAID mission's Country Development Cooperation Strategy and the official U.S. Government strategy for all Security Sector Assistance in the respective country.

## JOINT STATE-USAID STRATEGIC GOALS

---

Secretary Tillerson has outlined that the Department's priorities are to rebalance our diplomatic efforts to the needs of a competitive globalized era and to adapt how the Department delivers on mission. In conjunction with the employee-led Redesign effort and as directed by OMB, the Department of State and USAID are developing a new FY 2018-2022 JSP. The JSP will lay out the strategic direction of U.S. diplomacy and development efforts over the next four years.

Through an expansive and consultative process spanning the Department, USAID, and relevant interagency stakeholders, working groups are developing Strategic Goals, Strategic Objectives, Performance Goals, and Agency Priority Goals (APG). These working groups are organized around four goal areas informed by policy guidance from the Secretary of State, Congressional requirements, and dialogue with the National Security Council. The Department is currently working through the following goal areas to develop the JSP:

1. Protecting America's Security at Home and Abroad
2. Renewing America's Competitive Advantage for Sustained Economic Growth and Job Creation
3. Promoting American Leadership Through Balanced Engagement
4. Ensuring Effectiveness and Accountability to the U.S. Taxpayer

The Department intends to publish the JSP as part of the President's next Budget submission to Congress. With improved strategic review and performance management capabilities stemming from the Redesign effort, the Department expects the FY 2018-2022 JSP will improve transparency and accountability to the American public through a more useful and coherent review and reporting process.

## AGENCY PRIORITY GOALS

---

An Agency Priority Goal supports improvements in near-term outcomes, customer service, or efficiencies, and advances progress toward longer-term, outcome-focused strategic goals and objectives in the agency's Strategic Plan. It is a near-term result or achievement that leadership wants to accomplish within approximately 24 months that relies predominantly on agency execution to be accomplished, not new legislation or additional funding. APGs reflect the top implementation-focused, performance improvement priorities of agency leadership and the Administration, and therefore do not reflect the full scope of the agency mission.

With the Redesign effort and revision of the JSP, the Department is focused on establishing priorities and operations that are balanced to meet the challenges of the twenty-first century. As part of this effort, the Department will develop APGs that reflect the updated goals and objectives in the FY 2018-2022 JSP. The latest Department performance reporting can be found in the FY 2016 *Annual Performance Report* at <https://www.state.gov/s/d/rm/rls/perfplan>. The Department's official reporting on APGs can be found at <https://www.performance.gov>.

## CROSS-AGENCY PRIORITY GOALS

---

Established by the GPRA Modernization Act of 2010, Cross-Agency Priority (CAP) goals accelerate progress on a limited number of Presidential priority areas where implementation requires active collaboration between multiple agencies. CAP goals address horizontal problems across vertical agency silos. Each goal has a named senior leader both within the Executive Office of the President and within key delivery agencies to ensure effective leadership and accountability across Federal Government. Where applicable, the Department contributes to these goals. Progress updates are published on <https://www.performance.gov>. At the time of this report, OMB is actively working to establish the new set of CAP goals.



Ivanka Trump speaks during a session on action to end forced labor, modern slavery, and human trafficking during the United Nations General Assembly in New York City, New York, September 19, 2017. ©AP Image

## FOCUS

### United States Awards \$25 Million to the Global Fund to End Modern Slavery

On September 14, 2017, the State Department announced a groundbreaking \$25 million award to the Global Fund to End Modern Slavery for transformational programs around the world to reduce the prevalence of modern slavery – also known as human trafficking.

This initiative reflects the United States' broad and bipartisan commitment to increase U.S. and global funding to reduce the prevalence of modern slavery in specific countries and regions, leverage U.S. funds to build a significant resource base with contributions from other governments and private donors, and develop a global platform of data, analysis, and lessons learned to inform and improve global efforts to combat modern slavery.

Reducing the prevalence of human trafficking globally should be a shared effort. That is why this initiative seeks to raise commitments of \$1.5 billion in support from other donors. With this Department of State funding, the Global Fund to End Modern Slavery will invest, over the next three years, in projects

to combat all forms of modern slavery that align with the global anti-trafficking framework, which addresses prosecution, protection, and prevention. The Program also seeks to ensure that survivor voices are integrated throughout project design and implementation.

The Global Fund to End Modern Slavery is a nonprofit § 501(c)(3) organization with a mission to create a public-private partnership to dramatically expand resources and develop focused, coherent strategies across countries and industries to reduce the prevalence of modern slavery. The Global Fund was awarded the grant after a rigorous and competitive process by the Office to Monitor and Combat Trafficking in Persons, which will also manage the award.



More information about the Office to Monitor and Combat Trafficking in Persons can be found at:  
<https://www.state.gov/j/tip/>

# Performance Summary and Highlights

In FY 2017, the Department of State continued to focus on the analytical rigor built into strategic planning and performance management activities within the Department. The latest reporting on the previous JSP and the

associated major program areas can be found in the joint State/USAID FY 2016 *Annual Performance Report* at <https://www.state.gov/s/d/r/m/r/l/s/perfplan>. The following section provides an overview of the seven major program areas.

## MAJOR PROGRAM AREAS

---

### Peace and Security

The United States faces ever-evolving and multi-dimensional security challenges. Weapons of mass destruction, narcotics, transnational crime, pandemic diseases, trafficking-in-persons, and the underlying conditions for these threats all threaten America's security at home and abroad. To meet these challenges, we support and collaborate with both new and old partners to defend shared interests and to adapt to the changing international environment. This means sustaining our long-term competitive advantage, defeating capable transnational terrorists, deterring Russian aggression, promoting rule of law in the Americas, addressing nuclear threats, and strengthening government and civil society institutions in fragile states. The Department is focusing its efforts on strategically vital regions to prevent crises and foster resilience in ways that align to our broader commitments and that secure our borders.

### Democracy, Human Rights and Governance

Accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, and energy, in peace and in conflict. Our support is a lifeline for nations and individuals striving for change, and is our greatest strength in combating violent extremism. Democratic governments work with the United States to build consensus and solve problems on the global stage. Their respect for the pluralism of ideas, inclusiveness, and vibrant civil societies leads to innovation and entrepreneurship that benefit all.

The State Department and USAID will continue to champion U.S. democratic values and liberty. This includes working to strengthen institutions and processes to improve

electoral administration, enhance citizen oversight and civic participation, strengthen legislative frameworks that protect fundamental freedoms, and other efforts that promote political liberty. Because there is no democracy without the inclusion of women and underrepresented groups, the U.S. Government also works to ensure their full participation in every aspect of these processes. Consistent and balanced U.S. engagement is necessary to contribute to sustainable progress. However, only a nation itself – its people – can truly bring about sustainable democracy within its borders, and this can take decades.

### Health, Education and Social Services

U.S. efforts to improve specific challenges in global health and education advance our broader national security interests by addressing underlying drivers of terrorism and constraints to inclusive economic growth that open markets and reduce fragility. The State Department and USAID use diplomacy and foreign assistance programs to create an AIDS-free generation, end preventable child and maternal deaths, reduce the threat of infectious diseases, and fight pandemic diseases. The U.S. Government partners with multilateral institutions, donor nations, and other organizations to encourage and empower developing countries to build strong, sustainable health care systems. Expanding health care capacity abroad is essential to long-term development. U.S. investments that result in healthier people make for stronger, more prosperous, and more stable countries; they enhance international security and trade; and in turn ensure a safer, more resilient America. Despite successes in recent decades, much remains to be done to strengthen health systems in developing countries so that they can address emerging threats and long-term challenges,

such as HIV/AIDS, tuberculosis, malaria, and maternal and child mortality. Infectious disease outbreaks remain among the foremost dangers to human health and the global economy, as many countries have limited capacity to prevent, detect, and rapidly respond to these threats. Health is the largest component of U.S. development assistance.

The American higher education sector is an engine for American innovation and growth, providing opportunities for international students to partner with Americans in collaboration that furthers market access and increased trade in a global marketplace. Students from around the world who study in the United States also contribute to America's scientific and technical research, and bring international perspectives into U.S. classrooms. This helps prepare American undergraduates for global careers, and often leads to longer-term business relationships and economic benefits. The Department encourages enrollment of these foreign students through EducationUSA centers worldwide, where trained advisers provide accurate, current, and comprehensive information about studying in the United States. Foreign students are particularly important to U.S. colleges' and universities' advanced science and engineering research and coursework, driving U.S. innovation.



Secretary Tillerson chairs a United Nations Security Council meeting on denuclearization of the Democratic People's Republic of Korea in New York City, New York, April 28, 2017.

Department of State

## Humanitarian, Economic Development and Environment

As one of the world's most competitive and innovative economies, the United States benefits from trading in a fair, open, and stable international economy. Fair bilateral trade and investments are the crux to maximizing opportunities for American business abroad. To make trade work for American workers, the Department addresses unfair commercial practices through bilateral trade negotiations aimed at opening markets and locking in trade and investment rules that protect American intellectual property, level the playing field, and spur innovation. However, trade agreements are only part of the story. Around the world, State and USAID work hard to establish fair, transparent, and open markets outside of formal negotiations. U.S. firms succeed abroad when government and private sector procurement decisions are based on commercial and technical merits, when rules and regulations are transparent and enforceable, when intellectual property rights are respected, and when foreign competitors, including state-owned enterprises, do not benefit from unfair advantages or unsustainable labor and environmental practices.

State and USAID also help create new markets and customers for American products through the smart use of foreign assistance and targeted diplomatic efforts to drive inclusive economic growth that underpin open markets. Through the economic development of our partners, the Department is also addressing many of the underlying drivers of threats to our national security.

## International Organizations and Commissions

The United States benefits from a disciplined, purposeful, and deep engagement with the rest of the world. American interests are protected by an international system that allows for cooperation with like-minded partners without compromising our independence. The Department continues to strengthen American leadership both in our partnerships and with multilateral institutions, such as the host of United Nations agencies and organizations. U.S. leadership in these venues is often instrumental to fostering cooperation, sharing the costs of taking action, and protecting the rule of law, human rights, dignity, and democratic values. In the absence of a sustainable and business-like U.S. presence across the international system,



First Lady Melania Trump and Under Secretary Shannon pose with the 2017 International Women of Courage Awardees in Washington, D.C., March 29, 2017. *Department of State*

including at the United Nations, U.S. national interests would not be protected. U.S. leadership ensures that these partnerships remain healthy bidirectional relationships.

U.S. senior officials also engage publicly and privately with citizens in countries eager for progress and those burdened by oppressive governments. The U.S. Government pushes back on attempts to dismantle institutions, and works with like-minded governments. The Department also engages regional mechanisms to advance our ideals and to deter backsliding by governments.

### Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand new approaches to meet our goals. As information can be globally disseminated instantly, our ability to engage quickly and effectively with the multitude of stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. Meeting these challenges requires a flexible and efficient support platform for our global staff. As the Department adapts how it delivers on mission, our ability to keep personnel safe from physical and virtual threats is a top priority. By ensuring that only

the right people are allowed on systems with a sophisticated cybersecurity infrastructure, the Department and USAID can carry out the mission while maintaining security. State and USAID are also striving to ensure that all personnel, whether they are diplomats, development professionals, security agents, or family members, receive the right training at the right time so that everyone is a contributor to overall security in both the real and digital worlds.

A significant component of the Department's work is directly tied to defending our borders. We help to prevent the abuse of the U.S. immigration system by continually improving the visa system. Our work ensures that the United States remains the destination of those "yearning to breathe free" and that the *American Dream* can be more than just a dream.

### Administration of Foreign Affairs

In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires data-informed decision making and risk-based investments that apply new technologies and innovative approaches for strengthening collaboration, ensuring coordinated and integrated strategic planning linked to budget priorities,

and expanding our internal and external networks. In an era when information is disseminated instantaneously worldwide, our ability to engage quickly and effectively is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a nimble and efficient support platform for our professionals representing the United States around the world.

Another focus of the Department is transitioning engagement activities from limited, exclusive, and

direct contacts to an approach based on a culture of openness. This has resulted in expanding the use of digital communications such as social media, video conferencing, and smart phone applications that allow the Department to reach directly to people and to open up our public engagement to all who are interested, not just the limited audience that can be invited to attend events in person. Evidence-based planning and increased operational efficiency and effectiveness are among the factors accounting for the improvements in performance and results.

## MAXIMIZING AMERICA'S INVESTMENT THROUGH INNOVATION AND EVALUATION WHILE MEETING MANAGEMENT CHALLENGES

### Evidence and Evaluation

The State Department supports the analysis and use of evidence in policymaking by training staff, creating groups for knowledge sharing, establishing and monitoring evaluation requirements, providing funding opportunities to gather better evidence, and maintaining a central database to manage and share evaluations. The Department continues efforts to strengthen the use of data and evidence to drive better decision making and achieve greater impacts. Ongoing performance monitoring data provide a picture of how the Department's programs are doing, and the Department employs deeper analysis and program evaluation to understand "why" or "what" about them is working.

The Department's evaluation policy was updated in 2015, to require that all bureaus and independent offices, at a minimum, undertake at least one evaluation per fiscal year. The policy further specifies that those bureaus that receive and directly manage program funds must conduct evaluations of their large programs once in their programs' lifetime. Additionally, pilot programs should be evaluated before being replicated. In 2017, the Department began the process of modifying the Foreign Affairs Manual to add design and performance monitoring requirements. These new policies will improve performance management and the evaluability of Department efforts.

The State Department continues to integrate and facilitate program planning, performance management, and decision support processes. Several bureaus have designated or hired a full-time Bureau Evaluation Coordinator responsible for coordinating evaluations of the bureaus' programs as part of a larger strategy to grow research and performance management capacity.

The Department's Evaluation Community of Practice, with over 400 members, meets monthly to discuss policy issues, share best practices, and host presentations. The Department also hosts evaluation events that bring together the Department's evaluation community and serve as a venue where evaluation leaders can share how they have used the results of evaluations to validate current plans or inform future decisions. These events range from large, multi-day sessions to shorter, topical seminars and workshops.



More information on the Department's Evaluation Policy can be found at: <http://www.state.gov/s/d/rm/rs/evaluation/2015/236970.htm>



Spokesperson Heather Nauert addresses reporters at the Department Press Briefing, in Washington, D.C., June 6, 2017.

Department of State

## Overview of Department Progress and Plans

In the past year, the Department has increased the number of staff trained in the management of evaluations, has completed more evaluations of programs, projects, and processes, and has continued implementation of a knowledge management strategy. The details of this progress are discussed below.

***Train staff in planning, project management, and evaluation process.*** As part of the ongoing effort to solidify the Managing for Results framework, the Department supports activities aimed to equip personnel with the skills needed to develop strategic plans, measure bureau and office performance, and link performance goals to strategic goals and objectives. This includes coursework on strategic planning and performance management. Through the Teamwork@State initiative, the Department advanced the skills of project managers and staff by providing three simple toolkits that help teams develop office-level plans, better manage projects, and improve processes. In the last year, the initiative provided training or hands-on facilitation support to more than 440 staff. Additionally, through the initiative, the Department developed an eLearning course for each of the three toolkits, enabling our globally dispersed workforce to access Teamwork@State training on-demand to improve their management skills regardless of location. Over the past

year, the Department's Foreign Service Institute also trained 540 more people on foundational and advanced skills of project management. Finally, the Department continued to prepare personnel to conduct evaluations by providing formal training on managing evaluations to 73 people and providing formal training on evaluation methods and designs to another 42. This training is yielding a growing base of professionals with the tools to commission and use the evaluation findings.

***Provide staff with management data and a process improvement methodology through the Collaborative Management Initiative.*** Drawing on the Teamwork@State tools, the Collaborative Management Initiative (CMI) promoted a continuous process improvement methodology that encourages International Cooperative Administrative Support Services (ICASS) service providers overseas to draw on stakeholder feedback and service performance data to analyze management operations and to make data-driven decisions about allocating resources. Interactive, in-person training on CMI was provided to management personnel and CMI Quality Coordinators overseas. Additionally, CMI provided hands-on facilitation support to assist missions with applying the continuous process improvement methodology to pertinent challenges, and developed a nine-module course enabling overseas staff to access CMI training on-demand.

***Produce evaluations of projects, processes, and programs.***

In the prior year, the Department completed 19 evaluations of Diplomatic Engagement-funded work, completed 27 evaluations of Foreign Assistance-funded work, and continued an effort to expand the use of evidence in the internal budget development process with senior leadership. To ensure easy access to high-quality evaluation expertise, State partnered with the Department of the Interior to put in place a new indefinite delivery indefinite quantity (IDIQ) contract for the provision of technical expertise in support of our evaluation policy and Managing for Results framework. Contract holders under the IDIQ can provide a range of services to bureaus and offices to include: establishing monitoring systems, logic modeling, performance management plans, and conducting evaluations.

***Implement a comprehensive knowledge management strategy.***

In 2015, Department internal reviews identified the need to apply thoughtful knowledge management to increase the use of evidence in decision making. Significant progress has been made across the Department in gathering data and structuring it to inform and support critical decision making. The Bureau of Information Resource Management (IRM), Enterprise Data Quality Initiative, and related governance boards have developed consistent, repeatable processes to set policies and establish standards that support knowledge management, records management, and Open Data goals. Each quarter, the Department disseminates a Department Data Catalog as part of an Inventory Data Collection submission to Data.gov and OMB. This is the Department's catalog of the collection of public datasets which are owned and maintained by the respective data owners and stewards.

***Advance the use of data in decision making.*** As part of the Department's Redesign effort stemming from the Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch, the Department prioritized the access and extensive use of data from across the organization. This data was compiled and analyzed by the Redesign's Analytics Team to provide the Redesign Team with data products and valuable insights to inform the recommendations in the Redesign report. Through a separate grassroots effort, the Department established a data community of practice (Data Community) with the mission of networking data champions to advance the use of data across the Department. Last year, the Data Community hosted an event dedicated to the

integration of data into foreign policy. Over 200 employees attended the event, where twelve teams across the Department presented their bureau's cutting edge approach to data-driven foreign policy.

**Management Challenges: Providing an Independent Statement of the Agency**

In the 2017 annual statement, the Department's Office of Inspector General (OIG) identified the most serious management and performance challenges for the Department. These challenges were identified in the areas of: protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority.

The OIG statement may be found in the Other Information (OI) section of this report (see pages 103-120). In response to the OIG's recommendations, the Department took a number of corrective actions. Information on management's assessment of the challenge and a summary of actions taken may also be found in the OI section.



Deputy Secretary Sullivan pays tribute at the Diplomatic Security Memorial in Arlington, Virginia, August 9, 2017.

Department of State

FOCUS

# HURRICANE ASSISTANCE

U.S. Department of State | Bureau of Consular Affairs



The safety and security of U.S. citizens overseas is one of our highest priorities. During Hurricanes Irma, Jose, Maria, and their aftermath, we provided emergency consular services to U.S. citizens in need and updated information to U.S. citizens in the area through security and emergency messages on TravelGov's social media sites, *travel.state.gov*, and Embassy websites.



More than **2,600** people evacuated



Responded to over **2,800** inquiries on the welfare and whereabouts of American citizens



Posted 175 Facebook messages reaching people **2.1 MILLION** times



663 messages tweeted reaching people **11.95 MILLION** times



Deployed **67** consular employees to support hurricane response efforts in the Caribbean



**58,568** views on *travel.state.gov* hurricane crisis page

# Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2017 financial statements of the Department of State (the Department). The independent auditor, Kearney & Company, audited the Department's Consolidated Balance Sheet for the fiscal years ending September 30, 2017 and 2016, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources<sup>1</sup>. The Department received an unmodified ("clean") audit opinion on both its 2017 and 2016 financial statements. A summary of key financial measures from the Balance Sheet and Statements of Net Cost and Budgetary Resources is provided in the table below. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Information.

## Summary Table of Key Financial Measures (dollars in billions)

Summary Consolidated Balance Sheet Data	2017	2016	Change	% Change
Fund Balance with Treasury	\$ 55.3	\$ 50.7	\$ 4.6	9%
Investments, Net	18.9	18.4	0.5	3%
Property and Equipment, Net	23.5	21.8	1.7	8%
Cash, Receivables, and Other Assets	2.9	2.9	—	0%
<b>Total Assets</b>	<b>\$ 100.6</b>	<b>\$ 93.8</b>	<b>\$ 6.8</b>	<b>7%</b>
Accounts Payable	\$ 2.3	\$ 2.3	\$ —	0%
After-Employment Benefit Liability	20.6	20.0	0.6	3%
International Organizations Liability	1.9	1.6	0.3	19%
Other Liabilities	2.0	1.8	0.2	11%
<b>Total Liabilities</b>	<b>\$ 26.8</b>	<b>\$ 25.7</b>	<b>\$ 1.1</b>	<b>4%</b>
Unexpended Appropriations	45.1	40.8	4.3	11%
Cumulative Results of Operations	28.7	27.3	1.4	5%
<b>Total Net Position</b>	<b>\$ 73.8</b>	<b>\$ 68.1</b>	<b>\$ 5.7</b>	<b>8%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 100.6</b>	<b>\$ 93.8</b>	<b>\$ 6.8</b>	<b>7%</b>
<b>Summary Consolidated Statement of Net Cost Data</b>				
Total Cost and Loss/Gain on Assumption Changes	\$ 35.3	\$ 36.0	\$ (0.7)	(2)%
Less Total Revenue	8.8	8.6	0.2	2%
<b>Total Net Cost</b>	<b>\$ 26.5</b>	<b>\$ 27.4</b>	<b>\$ (0.9)</b>	<b>(3)%</b>
<b>Summary Combined Statement of Budgetary Resources Data</b>				
Unobligated Balance Brought Forward	\$ 23.7	\$ 23.2	\$ 0.5	2%
Appropriations	34.0	31.8	2.2	7%
Spending Authority from Offsetting Collections	11.8	12.5	(0.7)	(6)%
Other Resources (Adjustments)	1.5	1.8	(0.3)	(17)%
<b>Total Budgetary Resources</b>	<b>\$ 71.0</b>	<b>\$ 69.3</b>	<b>\$ 1.7</b>	<b>2%</b>

<sup>1</sup> Hereafter, in this section, the principal financial statements will be referred to as: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Combined Statement of Budgetary Resources.

To help readers understand the Department's principal financial statements, this section is organized as follows:

- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Combined Statement of Budgetary Resources: Promoting Peace Through Strength,
- The Department's Budgetary Position,
- Resource Management Systems Summary, and
- Limitation of Financial Statements.

### BALANCE SHEET: OVERVIEW OF FINANCIAL POSITION

The Balance Sheet provides a snapshot of the Department's financial position. It displays, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity (Assets), amounts owed (Liabilities), and amounts which comprise the difference (Net Position) at the end of the fiscal year.

**Assets.** The Department's total assets were \$100.6 billion at September 30, 2017, an increase of \$6.8 billion (7 percent) over the 2016 total. Fund Balance with Treasury increased \$4.6 billion (9 percent) as a result of increased appropriations for International Peacekeeping Activities; Embassy Security, Construction, and Maintenance; Diplomatic and Consular Programs; and Global Health and Child Survival. Property and Equipment increased by \$1.7 billion (8 percent) from September 30, 2016. New buildings, structures and improvements accounted for \$1.4 billion of this increase

with the top eight New Embassy Compound projects and two annex/chancery projects accounting for \$947 million of the increase (see "Real Property Projects – 2017 Cost Activity"). Additionally, as part of the Property and Equipment increase, land increased by \$64 million due to an acquisition in Guadalajara, Mexico for \$51 million.

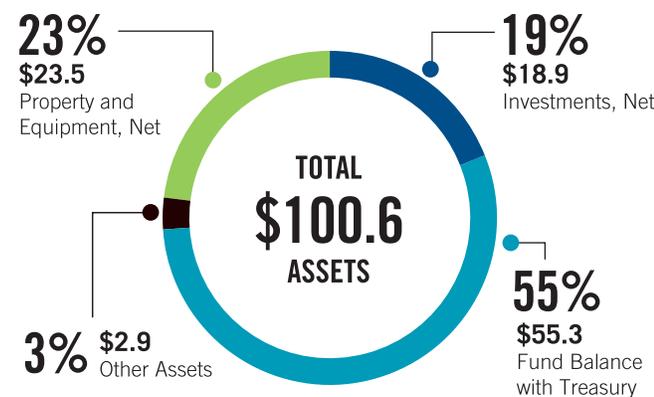
#### Real Property Projects – 2017 Cost Activity (dollars in millions)

Project Name	Amount
Islamabad, Pakistan	\$ 162
London, United Kingdom	148
Kabul, Afghanistan (New Annex Facility and Housing)	138
Jakarta, Indonesia	116
Harare, Zimbabwe	95
Pristina, Kosovo	63
Matamoros, Mexico	58
Amman, Jordan	58
Niamey, Niger	55
Baghdad, Iraq (Office Building Chancery)	54
<b>Total</b>	<b>\$ 947</b>

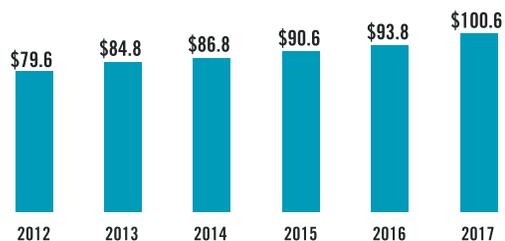
Other assets decreased \$124 million (12 percent) as a result of a decrease in reimbursable agreements with USAID and the United States Postal Service. The decrease in Other Assets was offset by slight increases in reimbursable agreements with the Department of Energy and other Federal agencies; as well as, voluntary contributions for relief of refugees, real property rent, and advances on behalf of USAID. Investments increased \$470 million (3 percent) because contributions and appropriations received to support the Foreign Service Retirement and Disability Fund (FSRDF) were greater than benefit payments. There was also an increase due to an investment in the International Center.

Fund Balance with Treasury, Investments, and Property and Equipment comprise 97 percent of total assets for 2017 and 2016.

#### ASSETS BY TYPE 2017 (dollars in billions)



#### TREND IN TOTAL ASSETS (2012 – 2017) (dollars in billions)

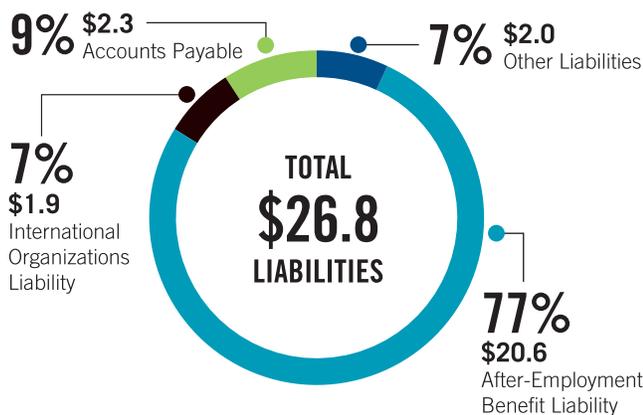


The six-year trend in the Department's total assets is presented in the "Trend in Total Assets" bar chart. Total assets have increased an overall \$21 billion (21 percent) since 2012. This upward trend resulted primarily from an \$11.1 billion increase in Fund Balance with Treasury, a \$7.4 billion increase in Property and Equipment, and a \$2 billion increase in Investments.

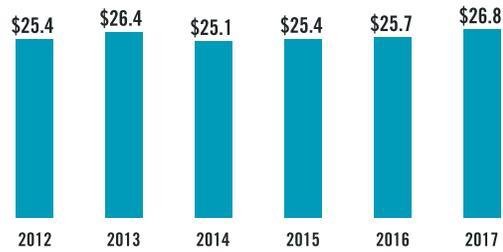
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected as assets on the Department's Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical cost through depreciation of a national treasure or other priceless item intended to be preserved forever as part of our American heritage would not contribute to performance cost measurement. Thus the acquisition cost of heritage assets is expensed not capitalized. The maintenance costs of these heritage assets are expensed as incurred, since it is part of the government's role to maintain them in good condition. All of the embassies and other properties on the Secretary of State's Register of Culturally Significant Property, however, do appear as assets on the Balance Sheet, since they are used in the day-to-day operations of the Department.

**Liabilities.** The Department's total liabilities were \$26.8 billion at September 30, 2017, an increase of \$1.1 billion (4 percent) between 2016 and 2017. Other liabilities increased by \$154 million (8 percent) primarily due to increases in Federal assistance liabilities offset by decreases in funds previously held in trust and deposit accounts for the International Center.

**LIABILITIES BY TYPE 2017** (dollars in billions)



**TREND IN TOTAL LIABILITIES (2012 – 2017)**  
(dollars in billions)



After-Employment Benefit Liability comprises 77 percent of total liabilities and increased \$551 million (3 percent) from 2016.

The six-year trend in the Department's total liabilities is presented in the "Trend in Total Liabilities" bar chart. Over this period, total liabilities increased by \$1.4 billion (5 percent). This change is principally due to the increase in the After-Employment Benefit Liability, a \$1.4 billion increase. The increase is due to a higher number of Foreign Service employees enrolled in the plan and changes in the key economic indicators underlying the actuarial computation over time.

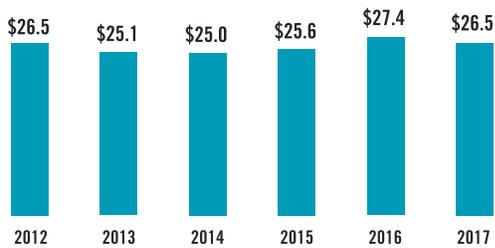
**Ending Net Position.** The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased \$5.7 billion (8 percent) between 2016 and 2017. Cumulative Results of Operations increased \$1.4 billion and Unexpended Appropriations were up \$4.3 billion due in part to the budgetary financing sources used to purchase property and equipment.

**STATEMENT OF NET COST:  
YEARLY RESULTS OF OPERATIONS**

The Statement of Net Cost presents the Department's net cost of operations by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. Net cost is the total program cost incurred less any exchange (i.e., earned) revenue. The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act of 2010. The total net cost of operations in 2017 equaled \$26.5 billion, a decrease

of \$835 million (3 percent) from 2016. This decrease of net costs was mainly due to decreases in spending for International Organizations and Commissions as a result of timing differences in assessments received from the international organizations and decreases in spending for global health programs. This decrease is offset by an increase in pension expense in the FSRDF due to actuarial assumption changes.

**TREND IN NET COST OF OPERATIONS (2012 – 2017)**  
*(dollars in billions)*



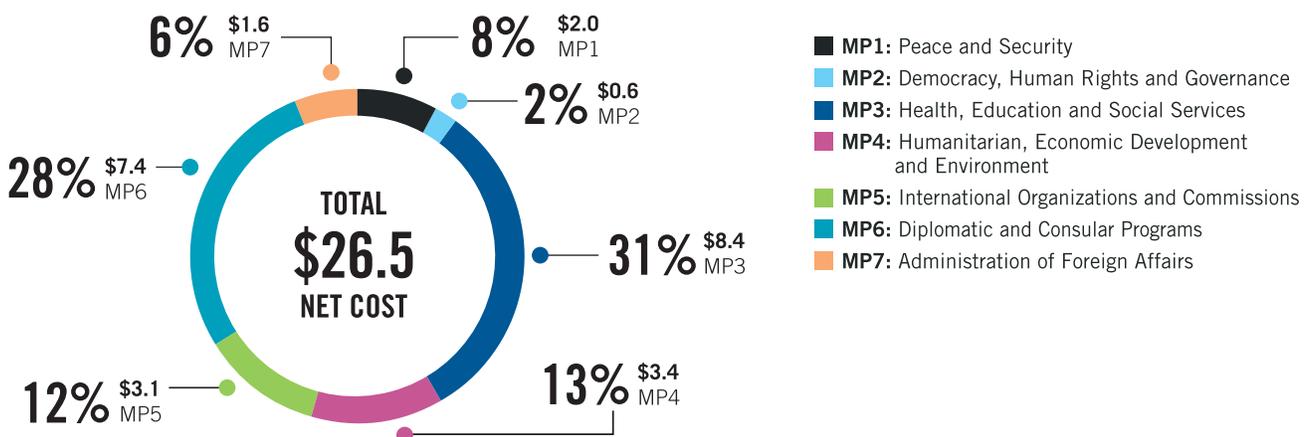
The six-year trend in the Department’s net cost of operations is presented in the “Trend in Net Cost of Operations” bar chart. There is a decrease from 2012 with a return to 2012 levels by 2017. Increases from 2014 generally reflect costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations such as inflation and increased global presence.

The “Net Cost of Operations by Major Program” pie chart illustrates the results of operations by major program, as reported on the Statement of Net Cost. As shown, net costs associated with two of the major programs (Health, Education and Social Services) and (Diplomatic and Consular Programs) represents the largest net costs in 2017 – a combined \$15.8 billion (60 percent). The largest decrease was in the International Organizations and Commissions program. This program decreased by \$927 million as a result of timing differences in assessments received from the international organizations. There were fewer assessments received in 2017. In the Administration of Foreign Affairs program, net costs increased by \$574 million as a result of increases in the actuarial loss on pension assumption changes for the FSRDF. There was a decrease in the ten year rolling inflation rate used to calculate the pension assumption changes.

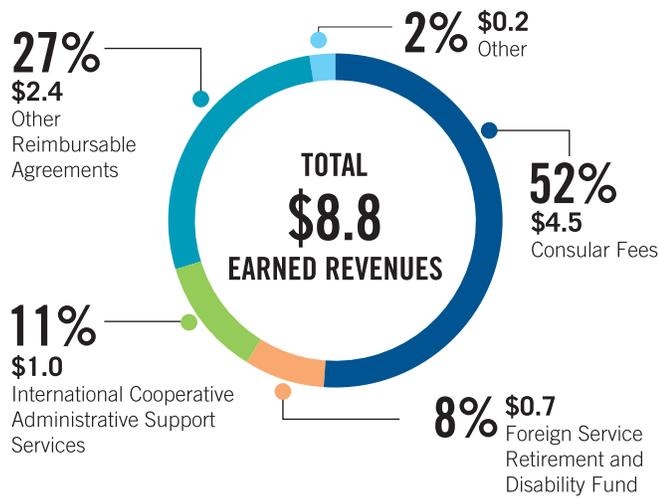
**Earned Revenues**

Earned revenues occur when the Department provides goods or services to another Federal entity or the public. The Department reports earned revenues regardless of whether it is permitted to retain the revenue or remit it to Treasury. Revenue from other Federal agencies must be established and billed based on actual costs, without profit. Revenue from the public, in the form of fees for service (e.g., visa issuance), is also without profit. Consular fees are established on a cost recovery basis and determined by periodic cost studies. Certain fees, such as the machine readable Border Crossing

**NET COST OF OPERATIONS BY MAJOR PROGRAM 2017**  
*(dollars in billions)*



**EARNED REVENUES BY PROGRAM SOURCE 2017**  
(dollars in billions)



Cards, are determined statutorily. Revenue from reimbursable agreements is received to perform services overseas for other Federal agencies. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and investment interest. Other revenues come from ICASS billings and Working Capital Fund earnings.

Earned revenues totaled \$8.8 billion for the fiscal year ending September 30, 2017, and are depicted, by program source, in the “Earned Revenues by Program Source” pie chart. The major sources of revenue were from consular fees (\$4.5 billion or 52 percent), reimbursable agreements (\$2.4 billion or 27 percent), and ICASS earnings (\$1.0 billion or 11 percent). These revenue sources totaled \$7.9 billion (90 percent).

Overall, revenue increased by two percent – \$201 million from 2016 to 2017. This increase is primarily a result of an increase in surcharges from passports and an increase in reimbursable activity with other Federal agencies.

**STATEMENT OF CHANGES IN NET POSITION: CUMULATIVE OVERVIEW**

The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals

the Net Position at year-end. The Department’s net position at the end of 2017 was \$73.8 billion, a \$5.7 billion (8 percent) increase from the prior fiscal year. This change resulted from the \$4.3 billion increase in Unexpended Appropriations and a \$1.4 billion increase in Cumulative Results of Operations.

**COMBINED STATEMENT OF BUDGETARY RESOURCES: PROMOTING PEACE THROUGH STRENGTH**

The Combined Statement of Budgetary Resources (SBR) provides data on the budgetary resources available to the Department and the status of these resources at the fiscal year-end. The SBR displays the key budgetary equation: Total Budgetary Resources equals Total Status of Budgetary Resources.

The Department’s budgetary resources consist primarily of appropriations, spending authority from offsetting collections, unobligated balances brought forward from prior years, and other resources. The “Trend in Total Budgetary Resources” bar chart highlights the budgetary trend over the fiscal years 2012 through 2017. A comparison of the two most recent years shows a \$1.7 billion (2 percent) increase in total resources since 2016. This change resulted from increases in appropriations (\$2.2 billion) and unobligated balances (\$0.5 billion) and decreases in other resources (\$0.3 billion) and offsetting collections (\$0.7 billion).

**TREND IN TOTAL BUDGETARY RESOURCES (2012 – 2017)**  
(dollars in billions)



## THE DEPARTMENT'S BUDGETARY POSITION

The FY 2017 budget for the Department was funded by three appropriations bills: the Zika Response and Preparedness Act (Public Law No. 114-223) enacted on September 29, 2016; the Further Continuing and Security Assistance Appropriations Act (Public Law No. 114-254 (SAAA)) enacted on December 10, 2016; and the FY 2017 Consolidated Appropriations Act (Public Law No. 115-31) enacted on May 5, 2017. The Department's budget is comprised of two funding components: Enduring resources under Titles I-VII, and Overseas Contingency Operations (OCO) under Title VIII. Public Law No. 115-31 continued the prior-year practice of increasing OCO above the Presidents' Budget request, while reducing Enduring, in order to comply with the spending limits set by the Bipartisan Budget Agreement of 2015. The Bureau of Budget and Planning manages the Diplomatic Engagement portion of the budget, and the Office of U.S. Foreign Assistance Resources manages Foreign Assistance funds.

### Budgetary Position for Diplomatic Engagement

The FY 2017 appropriated Diplomatic Engagement budget totaled \$17.2 billion. This includes \$10.3 billion in Enduring funds, \$5.2 billion in OCO funds and an additional \$1.7 billion in SAAA funds. The funding provided in FY 2017 supported the people and programs which carried out U.S. foreign policy and advanced U.S. national security, political, and economic interests at 276 posts in 195 countries around the world. These funds also built, maintained and secured the infrastructure of the U.S. diplomatic platform, from which most U.S. Government agencies operated overseas. The SAAA funds provided in FY 2017 for Diplomatic Engagement activities related specifically to defeating the Islamic State in Iraq and Syria (ISIS) and other terrorist organizations, countering violent extremism in Africa, Europe and Eurasia, the Middle East, and South Central Asia, and countering Russian influence.

In addition to these appropriated resources, the Department earned revenue from user fees. The largest portion of such revenues are derived from passport and visa charges, including Machine Readable Visa fees, Immigrant Visa fees, the Western Hemisphere Travel Surcharge, and others which support the Border Security Programs. The Border Security

Programs provide protection to U.S. citizens overseas and contribute to national security and economic growth. These programs are a core element of the national effort to deny individuals who threaten the country entry into the United States while assisting and facilitating the entry of legitimate travelers, and promoting tourism.

In FY 2017, Diplomatic and Consular Programs (D&CP), the Department's principal operating appropriation, totaled \$8.6 billion, including Enduring and OCO funds. Within the total, \$4.9 billion supported ongoing program operations and \$3.7 billion went toward the Worldwide Security Protection (WSP) program to strengthen security for diplomatic personnel and facilities and to sustain investments in response to the Accountability Review Board report on Benghazi, Libya. Major elements of this funding included \$1.2 billion to support operations of the U.S. Mission in Iraq; \$914 million for activities in Afghanistan; \$145 million for key programs and activities in Pakistan; \$490 million, all OCO, for supporting operations in other areas of unrest including high threat, high risk posts; and \$595 million for public diplomacy programs to counter misinformation and secure support for U.S. policies abroad.

The Department's Information Technology (IT) Central Fund for FY 2017 investments in IT was a total of \$271 million. This included \$13 million from the Capital Investment Fund appropriation and \$258 million in revenue from Expedited Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications, systems, and projects to facilitate collaboration, knowledge management, and data sharing internally and with other agencies.

The Embassy Security Construction and Maintenance (ESCM) appropriation was a total of \$2.4 billion, including \$1.2 billion in OCO, which provides U.S. missions overseas with secure, safe, and functional facilities. This supported maintenance and repairs of the Department's real estate portfolio, which exceeds \$87 billion in replacement value and includes approximately 24,000 properties.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at \$634 million. Elements of the Department's public diplomacy strategy include Educational

and Cultural Exchange programs that engage both domestic and foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2017 funding included: \$320 million for Academic Programs, such as the J. William Fulbright Scholarship Program, \$215 million for Professional and Cultural Exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program, and \$29 million for the Young Leaders Initiatives. This appropriation also funds over 400 employees of the Bureau of Educational and Cultural Affairs.

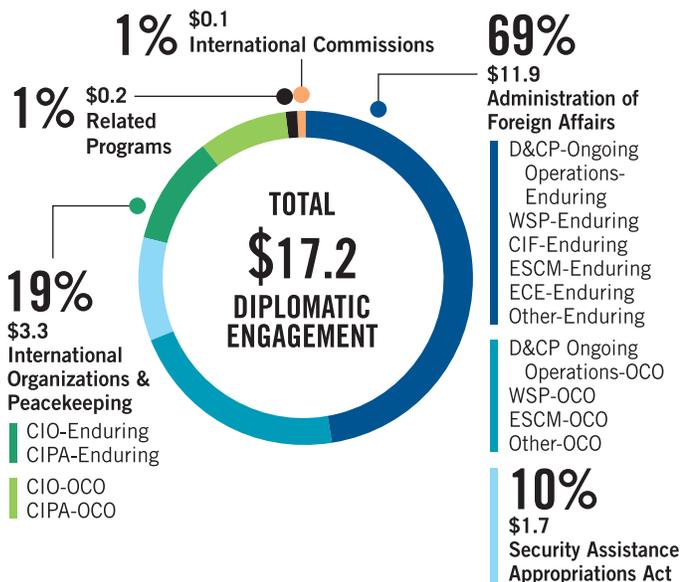
The FY 2017 appropriation provides a total of \$1.4 billion for the Contributions to International Organizations (CIO) account, including \$96.2 million for Overseas Contingency Operations/Global War on Terrorism, and \$1.3 billion in Enduring funds for assessed contributions to international organizations including the United Nations and its specialized agencies, regional and Inter-American organizations, and other international organizations. The FY 2017 appropriation provides \$1.9 billion for the Contributions for International Peacekeeping Activities (CIPA) account, including \$1.4 billion in OCO, and \$552.9 million in Enduring funds for assessed contributions to international peacekeeping activities directed to the maintenance or restoration of international peace

and security. The remainder of the Diplomatic Engagement enduring operations budget is comprised of Related Programs (\$204 million) and International Commissions (\$127 million) appropriations.

Looking ahead, the Department's FY 2018 Diplomatic Engagement budget request totals \$12.3 billion, including \$4 billion in OCO, and reflects the President's "America First" agenda that prioritizes the well-being of Americans, bolsters U.S. national security, secures the nation's borders, and advances U.S. economic interests. The President's request reflects a commitment to rebuild the nation's military within fiscal constraints, while working to advance national security objectives and foreign policy goals such as defeating ISIS and other transnational terrorist groups, combat illegal migration and trafficking, and level the playing field for American workers and businesses.

The FY 2018 Diplomatic Engagement Enduring request of \$8.3 billion represents the Department's ongoing investment necessary to advance the U.S.'s security and economic interests around the world. The FY 2018 OCO request includes \$2.98 billion for D&CP and WSP, \$1.02 billion for CIO and CIPA, and \$54.9 million for the Special Inspector General for Afghanistan Reconstruction. The majority of the D&CP OCO request continues to support the unique operating environment in Iraq, and the Kabul-centric presence in Afghanistan. The FY 2018 request will allow the Department to advance the nation's most important foreign policy goals and national security interests while ensuring that U.S. taxpayer dollars are used as effectively and efficiently as possible.

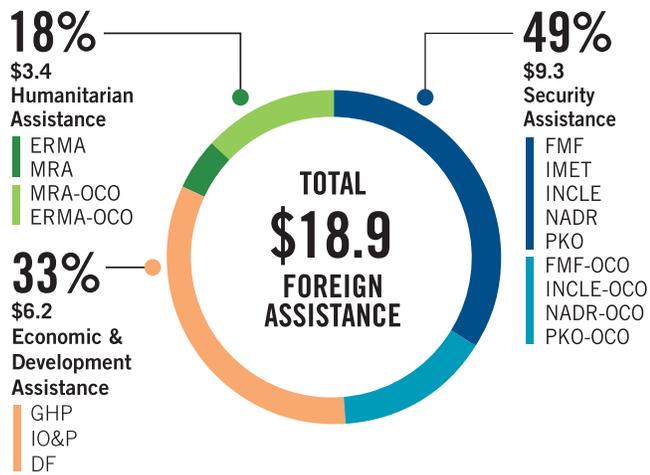
**DIPLOMATIC ENGAGEMENT BUDGET FY 2017**  
*(dollars in billions)*



**Budgetary Position for Foreign Assistance**

The FY 2017 Department of State Foreign Assistance budget totaled \$18.9 billion, including \$0.7 billion from the FY 2017 Security Assistance Appropriations Act. Foreign Assistance programs support the President's "America First" vision with a commitment to four key national priorities: Defending U.S. national security, asserting U.S. leadership and influence, fostering opportunities for U.S. economic interests, and ensuring effectiveness and accountability to the U.S. taxpayer.

**FOREIGN ASSISTANCE BUDGET FY 2017**  
(dollars in billions)



Foreign Assistance programs under the purview of the Department of State are the Democracy Fund (DF); Foreign Military Financing (FMF); Global Health Programs (GHP); International Military Education and Training (IMET); International Narcotics Control and Law Enforcement (INCLE); International Organizations and Programs (IO&P); Migration and Refugee Assistance (MRA); U.S. Emergency Refugee and Migration Assistance (ERMA); Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR); and Peacekeeping Operations (PKO). The Department also implements funds from the Assistance for Europe, Eurasia, and Central Asia account and the Economic Support Fund account.

An important aspect of the Department's FY 2017 budget is the Overseas Contingency Operations (OCO) component. OCO funds enable us to prevent, address, and help countries recover from manmade-caused crises and natural disasters, particularly in Africa, the Middle East and South Central Asia. The Department's Foreign Assistance portion of the FY 2017 budget for OCO totaled \$5.4 billion in ERMA, FMF, INCLE, MRA, NADR, and PKO.

The Democracy Fund appropriation totaled \$210.5 million in FY 2017; the funds were split, however, between the Department and USAID. The Department was allocated \$145.4 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments

are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The FY 2017 FMF appropriation totaled \$6.3 billion, of which \$1.5 billion is designated as OCO and \$4.8 billion supports core programs. FMF promotes U.S. national security by contributing to regional and global stability, strengthening military support for key U.S. allies and regional partner governments, and countering transnational threats, including terrorism and trafficking in narcotics, weapons, and persons. The provision of FMF assistance to partner militaries establishes and facilitates strong military-to-military cooperation, promotes U.S. trade and economic interests, and enables friends and allies to be interoperable with U.S., regional, and international military forces. The majority of FMF is allocated to Israel, Egypt, Jordan, Pakistan, and Iraq, and OCO funds are concentrated in Eastern Europe (Georgia, Ukraine, and Moldova) and the Near East and South Asia (Egypt, Iraq, Jordan, Lebanon, Tunisia, and Pakistan).

In FY 2017, the portion of the Global Health Programs appropriation managed by the Department totaled \$5.7 billion. This is the primary source of funding for the President's Emergency Plan for AIDS Relief. These funds are used to control the epidemic through data-driven investments that strategically target geographic areas and population where the initiative can achieve the most impact for its investments. The majority of the funds (\$3.2 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread. There was also a \$1.35 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

The FY 2017 International Military Education and Training (IMET) appropriation totaled \$110.3 million. IMET is a key component of U.S. security assistance that promotes regional stability and defense capabilities through professional military training and education. IMET students from allied and friendly nations receive valuable training and education on U.S. military practices and standards. IMET is an effective mechanism for strengthening military alliances and international coalitions critical to the global fight against terrorism.

The INCLE appropriation for FY 2017 totaled \$1.3 billion, of which \$377.1 million is OCO and \$878.5 million is for core programs. INCLE supports the safety and security of the United States through bilateral, regional, and global programs that address and mitigate security threats posed by illicit trafficking in narcotics, persons, and wildlife, among other pernicious forms of transnational crime. INCLE programs assist U.S. partners in developing their criminal justice systems and capabilities in order to protect the national security and economic interests of the United States from the impact of crime and instability overseas. In FY 2017, many INCLE resources were focused where security situations are most dire, and where U.S. resources were used in tandem with host-country government strategies to maximize impact.

The FY 2017 International Organizations and Programs appropriation totaled \$339 million. It provided international organizations voluntary contributions that advanced U.S. strategic goals by supporting and enhancing international consultation and coordination. This approach is required in transnational areas where solutions to problems are best addressed globally, such as protecting the ozone layer or safeguarding international air traffic. In other areas, the United States can multiply its influence and effectiveness through support for international programs.

In FY 2017, the MRA appropriation totaled \$3.4 billion, of which \$2.5 billion was OCO and \$912.8 million was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2017, MRA contributed to key multilateral organizations such as the UN High Commissioner for Refugees and the International Committee of the Red Cross, and to non-governmental organizations that address pressing humanitarian needs overseas and resettle refugees in the United States.

The FY 2017 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled \$50.0 million, including \$40.0 million of OCO. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment.

## Did You Know?

*Abel Parker Upshur, the 15th Secretary of State, served both as the Secretary of the Navy (1841-1843) and the Secretary of State (1843-1844).*



More information on former Secretaries can be found at: <https://history.state.gov/departmenthistory/people/secretaries>

The NADR appropriation in FY 2017 totaled \$970.5 million, of which \$469.8 million is OCO and \$500.7 million supported core programs. NADR funding is used to support U.S. national interests through critical, security-related programs, especially in the areas of nonproliferation and disarmament, export control, and other border security assistance; global threat-reduction programs, antiterrorism programs; and conventional weapons destruction.

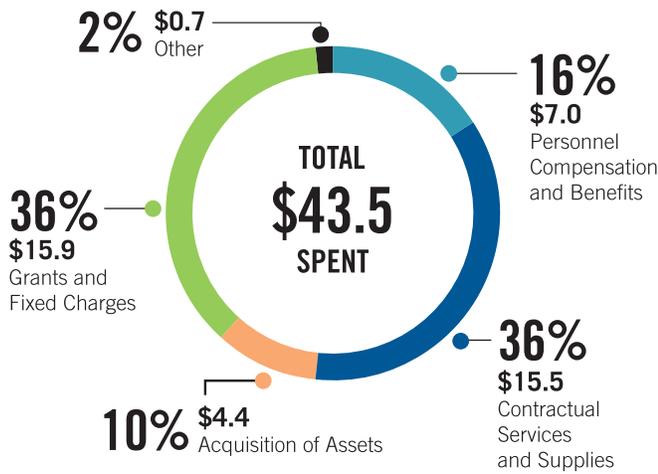
The PKO appropriation totaled \$659.0 million, of which \$524.0 million was OCO and \$135.0 million supported core programs. PKO is used to support programs that bolster the capacity of partner nations to conduct critical peacekeeping and counterterrorism operations, support stabilization in countries grappling with violent conflict, enhance maritime security, and promote security sector reform. In FY 2017, the PKO program supported ongoing requirements for the Global Peace Operations Initiative, security sector reform in Liberia, South Sudan, and the Democratic Republic of the Congo, as well as multinational peacekeeping and regional stability operations, particularly in Somalia.

The Department of State's FY 2018 budget request for Foreign Assistance is currently under congressional consideration. The request is for \$14.8 billion, of which \$11.6 billion supports core programs and another \$3.2 billion is for OCO funding.

### Budgetary Spending

The “How was the Agency’s Money Spent” pie chart presents the use of budgetary funds representing 2017 total obligations incurred, as reflected on the SBR. It shows how resources were spent in 2017, by category. As illustrated, the categories contractual services \$15.5 billion (36 percent), grants and fixed charges \$15.9 billion (36 percent), and personnel compensation and benefits \$7.0 billion (16 percent) represent 88 percent of the agency’s spending.

**HOW WAS THE AGENCY'S MONEY SPENT 2017**  
*(dollars in billions)*



### RESOURCE MANAGEMENT SYSTEMS SUMMARY

Other Information, Section III of this AFR, provides an overview of the Department’s current and future resource management systems framework and systems critical to effective agency-wide financial management operations, financial reporting, internal controls, and interagency administrative support cost sharing. This summary presents the Department’s resource management systems strategy and how it will improve financial and budget management across the agency. This overview also contains a synopsis of critical projects and remediation activities that are planned or currently underway. These projects are intended to modernize and consolidate Department resource management systems.

### LIMITATION OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 31 of the U.S. Code Section 3515(b). While these statements have been prepared from the books and records of the Department in accordance with FASAB standards using OMB Circular A-136, *Financial Reporting Requirements*, revised, and other applicable authority, these statements are in addition to the financial reports, prepared from the same books and records, used to monitor and control the budgetary resources. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

# Management Assurances and Other Financial Compliances

## MANAGEMENT ASSURANCES

The Department's Management Control policy is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over all Department operations.

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Department of State's (the Department's) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Department conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017.

Management's responsibility for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets, is an important reporting requirement. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was operating effectively and

the Department found no material weaknesses in the design or operation of the internal control over financial reporting.

As a result of its inherent limitations, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective, it can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.



Rex W. Tillerson  
Secretary of State  
November 17, 2017

## DEPARTMENTAL GOVERNANCE

### Management Control Program

The Federal Managers’ Financial Integrity Act (FMFIA) requires the head of each agency to conduct an annual evaluation in accordance with prescribed guidelines, and provide a Statement of Assurance to the President and Congress. As such, the Department’s management is responsible for managing risks and maintaining effective internal control.

The FMFIA requires the GAO to prescribe standards of internal control in the Federal Government. Commonly known as the Green Book, these standards provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of reporting for internal and external use.

OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control* provides implementation guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by identifying and managing risks, establishing requirements to assess, correct, and report on the effectiveness of internal controls. OMB Circular A-123 implements the FMFIA and Green Book requirements. FMFIA also requires the Statement of Assurance to include assurance on whether the agency’s financial management systems comply with government-wide requirements. The financial management systems requirements are directed by Section 803 (a) of the FMFIA and Appendix D to OMB Circular A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*.

The Secretary of State’s 2017 Statement of Assurance for FMFIA is provided on the previous page. We have also provided a Summary of Financial Statement Audits and

Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, in the Other Information section of this report. In addition, there are no individual areas for the Department on GAO’s bi-annual High-Risk List issued in February 2017.

The Department’s Management Control Steering Committee (MCSC) oversees the Department’s management control program. The MCSC is chaired by the Comptroller, and is comprised of eight Assistant Secretaries, in addition to the Chief Information Officer, the Deputy Comptroller, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, the Director for Human Resources, the Director for Management Policy, Rightsizing, and Innovation, the Director for the Office of Overseas Buildings Operations, and the Inspector General (non-voting). Individual statements of assurance from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department’s FMFIA statement of assurance issued by the Secretary. The statements of assurance are based on information gathered from various sources including managers’ personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the



Office of Inspector General, the Special Inspector General for Afghanistan Reconstruction, and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management.

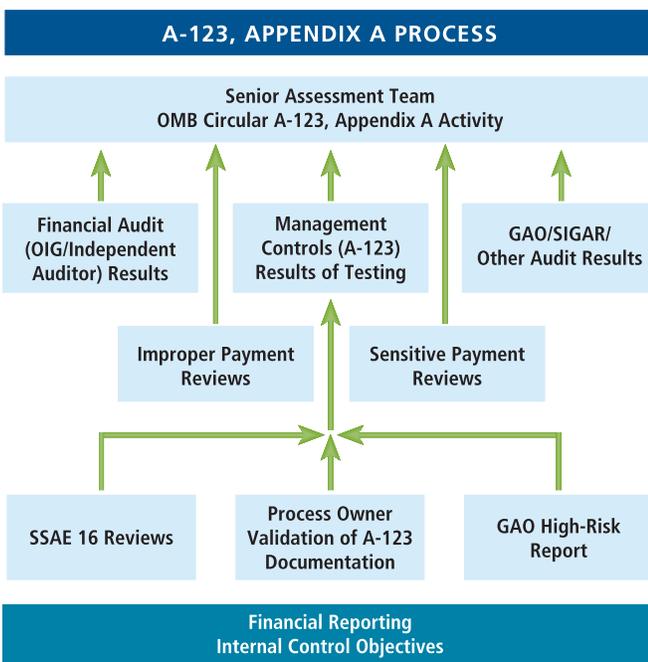
The Senior Assessment Team (SAT) provided oversight during 2017 for the internal controls over financial reporting program in place to meet Appendix A to OMB Circular A-123 requirements. The SAT reports to the MCSC and is comprised of 16 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting. The SAT also includes executives from the Office of the Legal Adviser and the Office of Inspector General (non-voting). In addition, the Department's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, Appendix C (regarding the Improper Payments Information Act, as amended), and the FMFIA. The Department employs a risk-based approach in evaluating internal controls over financial reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the Office of Management Controls, the Department evaluated issues on a detailed level. The 2017 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several

significant deficiencies in internal control over financial reporting that management is closely monitoring.

The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. The Department complied with the requirements in OMB Circular A-123 during FY 2017 while working to evolve our existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. Actions were taken during FY 2017 to expand our work on the Green Book requirements that are directly related to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls are mostly within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further required to be analyzed by 17 underlying principles of internal control. For the Department, all five components and 17 principles were operating effectively and supported the Department's unmodified Statement of Assurance.

The Department also places emphasis on the importance of continuous monitoring. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to fix the weakness. The plan combined with the individual statements of assurance and Appendix A assessments provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct and focus efforts to resolve significant deficiencies in internal control identified by management and auditors.

During FY 2017, the Department continued to take important steps to transform how the Department will implement an Enterprise Risk Management (ERM) System. A principal element will be to integrate better risk management into our everyday work across all of our operations. The Department's Office of Policy, Rightsizing, and Innovation (M/PRI) leads the Department's ERM implementation. M/PRI, in collaboration with the Office of Budget and Planning and the Office of the Comptroller,



worked closely with offices throughout the Department to establish the Department's risk profile. Additionally, M/PRI is working on an implementation plan with tools, training, and communication components that will establish a more structured approach to Risk Management.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Federal agencies' financial management systems provide reliable financial data that complies with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level.

OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, provides guidance the Department used in determining compliance with FFMIA. The Department considered results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Modernization Act Report, and other relevant information. The Department's assessment also relies upon evaluations and assurances under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), including assessments performed to meet the requirements of OMB Circular A-123 Appendix A. When applicable, particular importance is given to any reported material weakness and material non-conformance identified during these internal control assessments. The Department has made it a priority to meet the objectives of the FFMIA.

In its Report on Compliance and Other Matters, the Independent Auditor identified instances, when combined, of substantial noncompliance with Federal financial management systems requirements and the USSGL at the transaction level. The Department acknowledges that the Independent Auditor has noted certain weaknesses in our financial management systems. OMB's Appendix D provides a revised compliance model that entails a risk-and outcome-based approach to assess FFMIA compliance. In our assessments and evaluations, the Department identified similar weaknesses. However, applying the guidance and the assessment framework noted in Appendix D to OMB Circular A-123,

the Department considers them deficiencies versus substantial non-conformances relative to substantial compliance with the requirements of the FFMIA. Nonetheless, the Department is committed to continuing to work to address all identified financial management system deficiencies.

## FEDERAL INFORMATION SECURITY MODERNIZATION ACT

The Federal Information Security Modernization Act of 2014 (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to protect government information and information systems that support the operations and assets of the agency. The 2014 Act superseded the original Federal Information Security Management Act of 2002. The 2014 Act provided a leadership role for the Department of Homeland Security, created new cyber breach notification requirements, and modified the scope of reportable information from primarily policies and financial information to specific information about threats, security incidents, and compliance with security requirements. FISMA was reinforced by an Executive Order 13800, *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure* (EO 13800), dated May 11, 2017.

The Department takes the responsibility of being compliant with FISMA very seriously. The five core functions as described in the National Institute of Standards and Technology Cybersecurity Framework outline activities to achieve cybersecurity outcomes and characterize the accomplishments to improve the state of cybersecurity at the Department.

### Identify

- The Department procured a Governance, Risk Management, and Compliance application to improve Authority to Operate and Plans of Action and Milestones management and began deployment and implementation in 2017.
- The Department established the Cloud Computer Governance Board to ensure appropriate and authorized use of cloud services.
- The Department identified the needed resources to move towards standing up an Enterprise Risk Management Office within the Bureau of Information Resource Management.

- The Enterprise Risk Officer for Cybersecurity coordinated the response to EO 13800 Section 1 which was submitted in accordance with OMB Memorandum-17-25, *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*.
- The Department reduced the backlog of pending security assessments by assessing and authorizing 28 percent of that backlog of systems during 2017.

### **Protect**

- The Department significantly reduced the number of stale accounts (accounts not logged into in the last 90 days) and misconfigured accounts (i.e., shared mailboxes not configured to use SmartCards) on the Department's network in order to improve access controls.
- The Department deployed a phishing awareness tool and quarterly exercises that test and train employees how to recognize and correctly respond to phishing attacks to provide enterprise-wide awareness on how to identify and avoid phishing threats.

### **Detect**

- The Department continues to leverage the Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) Program. The CDM Program enhances our existing tools to ensure all hosts, regardless of operating system, are identified and monitored for vulnerabilities.
- The Department implemented the first phase of CDM including hardware and software identification.
- The Department deployed cyber detection dashboards to aggregate server logs in an effort to quickly identify anomalies on the network.
- The Department conducted penetration tests by both internal and external partners.

### **Response**

- The Department established the Cybersecurity Integrity Center, under the Joint Security Operation Center concept, to further enhance cyber monitoring activities and the Department's ability to detect anomalous behavior on the network.

- The Department is updating the Joint Security Operation Center's Incident Response Plan with clear roles and responsibilities.

### **Recover**

- The Department established High Availability/Disaster Recovery for critical functions.
- The Department updated and tested the annual Contingency Plan (CP) tests following the recent changes to the accredited cybersecurity posture. The Department's CP assessments will continue to be reviewed as needed.

In its FY 2017 FISMA Report, the OIG cites significant weaknesses to information systems security. The Department acknowledges the weaknesses identified by the OIG in its FISMA review but does not believe that any of the FISMA findings, either individually or collectively, rise to the level that requires reporting of a material weakness under FMFIA. The Department of State remains committed to adopting the best cybersecurity practices and embedding them into the Department's culture. As a result, we continue to improve our cybersecurity posture and provide transparency across the Department and with external partners.

## **OTHER REGULATORY REQUIREMENTS**

The Department is required to comply with a number of other legal and regulatory financial requirements, including the Improper Payment Information Act (IPIA, as amended), the Debt Collection Improvement Act, and the Prompt Payment Act. The Department determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. In addition, the Department does not refer a substantial amount of debts to Treasury for collection, and has successfully paid vendors timely over 97 percent of the time for the past three fiscal years. A detailed description of these compliance results and improvements is presented in the Other Information section of this report.



U.S. Department  
of Transportation

# AGENCY FINANCIAL REPORT

Fiscal Year 2017

# MANAGEMENT'S DISCUSSION AND ANALYSIS



## DOT MISSION AND VALUES

---

### MISSION

The Department's mission is to serve the United States by ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and into the future.

### VALUES

#### Professionalism

As accountable public servants, DOT employees exemplify the highest standards of excellence, integrity, and respect in the work environment.

#### Teamwork

DOT employees support each other, respect differences in people and ideas, and work together in ONE DOT fashion.

#### Customer Focus

DOT employees strive to understand and meet the needs of the Department's customers through service, innovation, and creativity. We are dedicated to delivering results that matter to the American people.

## ORGANIZATION

---

### HISTORY

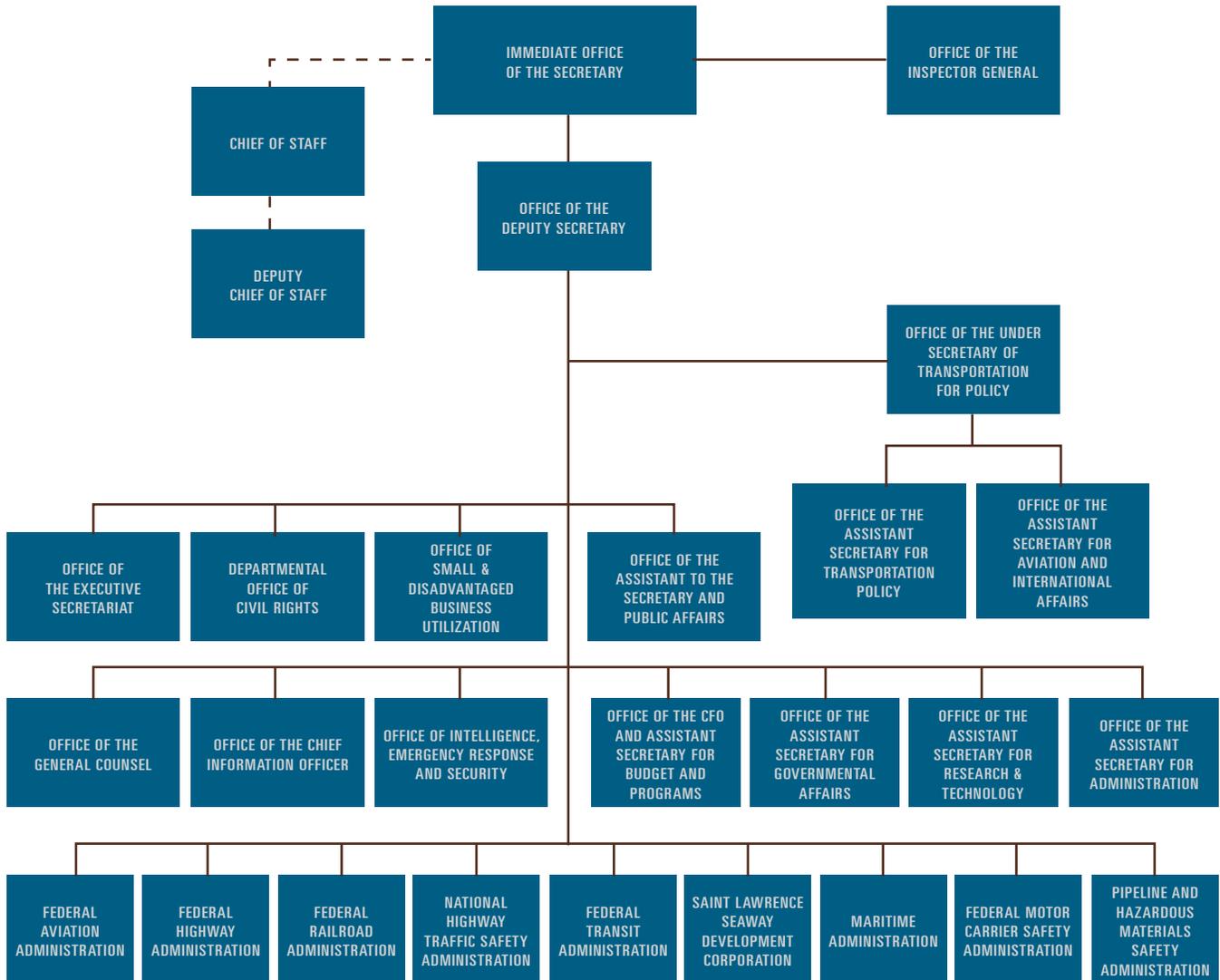
Established in 1966, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer, simpler, and smarter transportation system is the guiding principle as the Department moves forward to achieve specific goals.

### HOW DOT IS ORGANIZED

DOT employs more than 55,000 people in the Office of the Secretary (OST) and through 10 Operating Administrations (OAs) and Bureaus, each with its own management and organizational structure.

OST provides overall leadership and management direction, administers aviation economic and consumer protection programs, and provides administrative support. The Office of Inspector General (OIG), while formally part of DOT, is independent by law.

ORGANIZATIONAL CHART



## OVERVIEW OF LEGISLATIVE AUTHORITIES

---

The Secretary of Transportation, under the direction of the President, exercises leadership in transportation matters. Section 101 of Title 49 United States Code describes the United States Department of Transportation purposes as follows:

- (a) The national objectives of general welfare, economic growth and stability, and security of the United States require the development of transportation policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with those and other national objectives, including the efficient use and conservation of the resources of the United States.
- (b) A Department of Transportation is necessary in the public interest and to—
  - (1) ensure the coordinated and effective administration of the transportation programs of the United States Government;
  - (2) make easier the development and improvement of coordinated transportation service to be provided by private enterprise to the greatest extent feasible;
  - (3) encourage cooperation of Federal, State, and local governments, carriers, labor, and other interested persons to achieve transportation objectives;
  - (4) stimulate technological advances in transportation, through research and development or otherwise;
  - (5) provide general leadership in identifying and solving transportation problems; and
  - (6) develop and recommend to the President and the Congress transportation policies and programs to achieve transportation objectives considering the needs of the public, users, carriers, industry, labor, and national defense.

## OPERATING ADMINISTRATIONS AND INDEPENDENT ORGANIZATIONS

---

### OFFICE OF THE SECRETARY (OST)

The Office of the Secretary oversees the formulation of national transportation policy and promotes intermodal transportation. Other responsibilities include negotiating and implementing international transportation agreements, assuring the fitness of U.S. airlines, enforcing airline consumer protection regulations, issuing regulations to prevent alcohol and illegal drug misuse in transportation systems, and preparing transportation legislation.

### FEDERAL AVIATION ADMINISTRATION (FAA)

The Federal Aviation Administration's mission is to provide the safest, most efficient airspace system in the world.

### FEDERAL HIGHWAY ADMINISTRATION (FHWA)

The mission of the Federal Highway Administration is to improve mobility on our Nation's highways through national leadership, innovation, and program delivery.

**FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION (FMCSA)**

The Federal Motor Carrier Safety Administration's primary mission is to reduce crashes, injuries, and fatalities involving large trucks and buses.

**FEDERAL RAILROAD ADMINISTRATION (FRA)**

The mission of the Federal Railroad Administration is to enable the safe, reliable, and efficient transportation of people and goods for a strong America, now and in the future.

**FEDERAL TRANSIT ADMINISTRATION (FTA)**

The Federal Transit Administration's mission is to improve public transportation for passengers and America's communities.

**MARITIME ADMINISTRATION (MARAD)**

The Maritime Administration's mission is to improve and strengthen the U.S. marine transportation system to meet the economic, environmental, and security needs of the Nation.

**NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)**

The National Highway Traffic Safety Administration's mission is to save lives, prevent injuries, and reduce economic costs due to road traffic crashes, through education, research, safety standards, and enforcement activity.

**OFFICE OF INSPECTOR GENERAL (OIG)**

The Inspector General Act of 1978, as amended, established the Office of Inspector General as an independent and objective organization within the DOT. The OIG is committed to fulfilling its statutory responsibilities and supporting members of Congress, the Secretary, senior Department officials, and the public in achieving a safe, efficient, and effective transportation system.

**PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)**

The Pipeline and Hazardous Materials Safety Administration's mission is to protect people and the environment from the risks inherent in transportation of hazardous materials by pipeline and other modes of transportation.

**SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)**

The Saint Lawrence Seaway Development Corporation's mission is to serve the marine transportation industries by providing a safe, secure, reliable, efficient, and competitive deep draft international waterway, in cooperation with the Canadian St. Lawrence Seaway Management Corporation.

## PERFORMANCE SUMMARY AND HIGHLIGHTS

DOT is the primary agency in the Federal Government responsible for ensuring our Nation has the safest, most efficient, and most modern transportation system in the world. This improves the quality of life for all American people and communities, from rural to urban, and increases the productivity and competitiveness of American workers and businesses.

A complete report of DOT's performance for FY 2017 will be found in the Combined Performance Plan and Report that will be released with the FY 2019 President's Budget. A brief discussion of DOT's safety goal follows.

Safety is DOT's top priority. DOT's goal is to bring a Department-wide focus to reducing transportation-related fatalities and injuries. DOT tracks the safe movement of people and products on the roadways, in the air, on transit systems, on railroads, and through pipelines.

### ROADWAY SAFETY

In FY 2016, there were 37,461 motor vehicle traffic fatalities in the United States, a 5.6-percent increase from FY 2015. Fatalities increased across all segments of the population—occupants of cars, SUVs, vans, and trucks as well as pedestrians, bicyclists, and motorcyclists.

Alcohol-impaired driving fatalities rose at a lower rate of 1.7 percent in FY 2016 to 10,497, and speeding-related fatalities increased by 4 percent to 10,111. Two specific risk areas saw decreases from FY 2015: distracted driving and drowsy driving fatalities declined by 2.2 percent and 3.5 percent, respectively.

Pedestrians saw the greatest percent increase in fatalities at 9 percent to 5,987. This is the highest number of pedestrian deaths since 1990. Bicyclists had a much smaller fatality increase in FY 2016 of 1.3 percent to 840. Occupant fatalities increased by 4.7 percent in passenger vehicles and by 8.6 percent in large trucks in FY 2016.

Motorcyclist fatalities increased by 5.1 percent in FY 2016 to 5,286. This is the largest number of fatalities in this category since 2008. Riders 60 or older accounted for more than 50 percent (156 of 257) of the increase in motorcyclist fatalities. Motorcyclists not wearing helmets continues to be a contributing factor in the number of motorcycle-related fatalities. NHTSA estimates that motorcycle helmets saved 1,859 lives in FY 2016. An additional 802 lives could have been saved if all riders had worn helmets. In FY 2015, the year with the most recent statistics, motorcycle helmet use was nearly 80 percent in States with universal helmet laws compared to 43 percent in those without the helmet laws.

The overall fatality rate in FY 2016 was 1.18 per 100 million vehicle-miles traveled (VMT), 2.6 percent higher than in FY 2015. The VMT also increased in FY 2016 by 2.2 percent. This increases the risk exposure to vehicle crashes and was likely a contributing factor in the higher number of fatalities in FY 2016. This measure is also sensitive to changes in the economy. Historically, as unemployment and gas prices go down, discretionary travel goes up, especially by younger drivers. The number of drivers 16 to 20 years old involved in fatal crashes increased by 3.6 percent in FY 2016.

**ROADWAY SAFETY (FHWA, FMCSA, NHTSA)**

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
<b>AGENCY PRIORITY GOAL:</b> Highway fatality rate per 100 million VMT	1.08	1.13	1.02	1.18	Not met
Passenger vehicle occupant fatality rate per 100 million VMT	0.78	0.81	0.82	TBD	TBD
Motorcyclist rider fatality rate per 100,000 motorcycle registrations	54.48	57.85	62	TBD	TBD
Non-occupant (pedestrian and bicycle) fatality rate per 100,000 population <sup>(1)</sup>	0.19	0.21	1.78	2.19	Not met
Large truck and bus fatality rate per 100 million total VMT	0.138	0.140	0.114	0.144	Not met

TBD = to be determined. VMT = vehicle-miles traveled.

<sup>(1)</sup> In FY 2016, this measure changed from fatalities per 100 million VMT to fatalities per 100,000 population to better align with the DOT Strategic Plan. The 1.78 target in 2016 reflects this change.

Notes: Prior-year information may have been updated from previous reports. FY 2016 data are preliminary.

**AVIATION SAFETY**

Aviation fatality rates are at historic lows and continue to drop over time. However, FAA recognizes the need to continue addressing precursors to accidents in order to continue to improve the current level of safety in the national airspace. FAA is on track to meet the General Aviation (GA) Fatal Accident Rate for its third consecutive year. The Commercial Aviation Fatality Rate is once again well below target, showcasing the great strides undertaken to ensure the safety of the American public. Although the Fatal Accident Rate is declining, too many lives are still being lost. In FY 2017, 347 people died in 209 GA accidents. The United States has the largest and most diverse GA community in the world, with more than 220,000 aircraft, including amateur-built aircraft, rotorcraft, balloons, and highly sophisticated turbojets. Inflight loss of control—mainly stalls—accounts for the largest number of GA fatal accidents.

Runway safety is also a high priority for FAA. FAA's voluntary safety reporting culture has contributed to an increase in reporting of runway safety events. As a result, FAA has been able to act on this precursor information instead of responding to accidents and fatalities, which has reduced the risk. This metric is limited to the rate of Category A and B runway incursions, which are the most serious.

**AVIATION SAFETY (FAA)**

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
<b>AGENCY PRIORITY GOAL:</b> Number of U.S.-registered, commercial air carrier fatalities per 100 million persons onboard	0.1	0.6	6.4	0.3	Met
<b>AGENCY PRIORITY GOAL:</b> Number of fatal general aviation accidents per 100,000 flight hours	0.99	0.91	1.01	0.84	Met
<b>AGENCY PRIORITY GOAL:</b> Category A&B runway incursions per million operations	0.302	0.380	0.395	0.130	Projected to meet

Notes: Prior-year information may have been updated from previous reports. FY 2016 and 2017 data are preliminary.

## PIPELINE AND HAZARDOUS MATERIALS SAFETY

PHMSA projects 29 pipeline incidents involving death or major injury, which is within the target range. While pipelines are by many measures the safest mode for transporting hazardous liquid and natural gas, the products they carry are inherently dangerous. Coordination with State pipeline agencies and private industry to strengthen the safety and reliability of pipelines along with a continued focus on preventing excavation- or construction-related damage have played an important role in reducing the number of deaths and major injuries from pipeline incidents.

Preliminary data for FY 2017 show 13 confirmed hazardous materials incidents involving death or major injury. PHMSA is projected to achieve its target of fewer than 31 hazardous materials incidents involving death and or major injury, with 29 incidents projected by the end of the year. Hazmat incidents involving death or major injury have declined an average of 5 percent every five years since 1988. In FY 2016, 30 percent of hazmat incidents involving death or major injury were the result of crashes/rollovers of cargo tank motor vehicles (down from 40 percent in FY 2015). PHMSA continues to analyze incident data to identify potential contributions to cargo tank rollovers by focusing on top safety rulemakings, the safe transportation of energy products, risk-based inspection and outreach activities, and improving data quality.

### PIPELINE AND HAZARDOUS MATERIALS SAFETY (PHMSA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Pipeline incidents involving death or major injury	34	33	32	30	Met
Hazardous materials incidents involving death or major injury	39	27	31	13	Met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

## RAIL SAFETY

The rate of train accidents and incidents per million train-miles has fallen 4 percent in the past decade. From FY 2008 through FY 2017, total train accidents declined by 35 percent, total derailments declined by 35 percent, total highway-rail grade crossing incidents declined by 18 percent, and the number of highway-rail grade crossing fatalities decreased by 15 percent.

### RAIL SAFETY (FRA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Rail-related accidents and incidents per million train-miles	15.838	16.185	15.925	15.850	Met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

### TRANSIT SAFETY (FTA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Transit fatalities per 100 million passenger-miles traveled	0.471	0.510	0.500	0.577	Not met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

## FINANCIAL HIGHLIGHTS

The financial statements and financial data presented in this report have been prepared from the accounting books and records of DOT in conformity with generally accepted accounting principles (GAAP). GAAP for Federal entities are the standards and other authoritative pronouncements prescribed by the Federal Accounting Standards Advisory Board (FASAB). Department management is responsible for the integrity and fair presentation of the financial information presented in these statements.

Since FY 2012, the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF) have been granted extensions of authority to collect excise taxes and to make expenditures. Following several extensions of the FAA Modernization and Reform Act of 2012 (Public Law [P.L.] 112-95), the FAA Extension, Safety and Security Act of 2016 (P.L. 114-190) extended AATF authority through September 30, 2017. Following several extensions of the Moving Ahead for Progress in the 21st Century (MAP-21, P.L. 112-141), which extended and expanded the previous law, the Fixing America's Surface Transportation Act, or "FAST Act" (P.L. 114-94), extended MAP-21 policies and HTF authority through September 30, 2020, and transferred an additional \$70 billion from the Treasury general fund to the HTF. The law allocated \$51.9 billion to the Highway Account and \$18.1 billion to the Mass Transit Account.

During FY 2017, broad Department funding levels remained flat from continuing resolution authorizations. In December 2015, the FAST Act greatly restored HTF funding levels. During FY 2017, the Department continued to spend down authority received from the FAST Act, which is intended to supplement emergency relief authorizations and funding through FY 2020.

## OVERVIEW OF FINANCIAL POSITION

### Assets

The Consolidated Balance Sheets report total assets of \$127.2 billion at the end of FY 2017, compared with \$138.3 billion at the end of FY 2016. The Fund Balance with Treasury line item decreased by \$2.7 billion, primarily the result of funding cancellation of high-speed rail projects. Investments decreased by \$12 billion as HTF expenditures exceeded excise tax collections.

The Department's assets reflected in the Consolidated Balance Sheets are summarized in the following table.

### ASSETS BY TYPE

Dollars in Thousands	2017	%	2016	%
Fund Balance With Treasury	\$29,729,631	23.4	\$32,395,776	23.4
Investments	68,052,871	53.5	80,034,930	57.9
Direct Loans and Guarantees, Net	14,693,297	11.6	10,968,657	7.9
General Property, Plant and Equipment	13,151,814	10.3	13,475,244	9.8
Inventory and Related Property, Net	947,285	0.7	937,585	0.7
Accounts Receivable	229,691	0.2	306,702	0.2
Cash and Other Assets	438,704	0.3	151,998	0.1
<b>Total Assets</b>	<b>\$127,243,293</b>	<b>100</b>	<b>\$138,270,892</b>	<b>100</b>

## Liabilities

The Department's Consolidated Balance Sheets report total liabilities of \$27.8 billion at the end of FY 2017, as summarized in the table below. This number represents a \$3.9 billion increase from the previous year's total liabilities of \$23.8 billion. The Debt line increased by \$3.4 billion as borrowings from Treasury were required to support higher disbursement levels in the Department's credit loan programs.

### LIABILITIES BY TYPE

Dollars in Thousands	2017	%	2016	%
Debt	\$ 14,298,084	51.5	\$10,868,042	45.6
Grant Accrual	7,513,159	27.1	7,918,633	33.3
Other Liabilities	3,123,372	11.2	2,388,556	10.0
Environmental and Disposal Liabilities	1,203,762	4.3	1,102,669	4.6
Federal Employee Benefits Payable	881,188	3.2	869,658	3.7
Accounts Payable	667,703	2.4	508,075	2.1
Loan Guarantees	75,858	0.3	161,961	0.7
<b>Total Liabilities</b>	<b><u>\$27,763,126</u></b>	<b><u>100</u></b>	<b><u>\$23,817,594</u></b>	<b><u>100</u></b>

## RESULTS OF OPERATIONS

### Net Costs

The Department's Net Cost of Operations was \$79.6 billion for FY 2017. Surface and air costs represent 98.4 percent of the Department's total net cost of operations. Surface transportation program costs represent the largest investment for the Department at 77.5 percent of the net cost of operations. Air transportation is the next largest investment at 20.9 percent of total net cost of operations.

### NET COSTS

Dollars in Thousands	2017	%	2016	%
Surface Transportation	\$61,700,255	77.5	\$63,066,926	78.3
Air Transportation	16,586,959	20.9	16,148,627	20.0
Maritime Transportation	335,781	0.4	450,828	0.6
Cross-Cutting Programs	468,615	0.6	434,515	0.5
Costs Not Assigned to Programs	507,490	0.6	478,116	0.6
<b>Net Cost of Operations</b>	<b><u>\$79,599,100</u></b>	<b><u>100</u></b>	<b><u>\$80,579,012</u></b>	<b><u>100</u></b>

### Net Position

The Department's Consolidated Balance Sheets and Consolidated Statement of Changes in Net Position report a Net Position of \$99.5 billion at the end of FY 2017, a 13.1 percent decrease from the \$114.5 billion from the previous fiscal year. The decrease is mainly attributable to the excess of expenditures over HTF funding levels in FY 2017. Net Position is the sum of Unexpended Appropriations and Cumulative Results of Operations.

## RESOURCES

### Budgetary Resources

The Combined Statements of Budgetary Resources provide information on how budgetary resources were made available to the Department for the year and their status at

fiscal year-end. For FY 2017, the Department had total budgetary resources of \$145.6 billion, which represents a 30.9 percent decrease from FY 2016 levels of \$210.7 billion. Budget Authority of \$145.6 billion consisted of \$50.7 billion in unobligated authority carried over from prior years, \$21.2 billion in appropriations, \$61.7 billion in borrowing and contract authority, and \$12 billion in spending authority from offsetting collections. The Department's FY 2017 obligations incurred totaled \$95.6 billion compared with FY 2016 obligations incurred of \$161.1 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2017, the Department had net outlays of \$82.9 billion compared to FY 2016 levels of \$80.1 billion, a 3.4 percent increase.

**RESOURCES**

Dollars in Thousands	2017	2016	% (Decrease)
Total Budgetary Resources	\$145,553,949	\$210,668,653	(30.9)
New Obligations and Upward Adjustments	95,644,818	161,120,491	(40.6)
Agency Outlays, Net	82,862,002	80,115,073	3.4

**HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION**

Heritage assets are property, plant and equipment that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics.

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general property, plant and equipment.

The Department's Heritage assets consist of artifacts, museum and other collections, and buildings and structures. The artifacts and museum and other collections are those of the Maritime Administration. Buildings and structures include Union Station (rail station) in Washington, D.C., which is titled to FRA.

The Department holds transportation investments (Stewardship Land) through grant programs, such as the Federal-Aid Program, mass transit capital investment assistance, and airport planning and development programs.

Financial information for Heritage assets and Stewardship Land is presented in the Financial Report section of this report in the Notes to the Principal Statements and Required Supplementary Information.

**LIMITATIONS OF THE FINANCIAL STATEMENTS**

The principal financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Transportation, pursuant to the requirements of 31 U.S.C. 3515 (b).

These statements have been prepared from the books and records of the U.S. Department of Transportation in accordance with GAAP for Federal entities and in formats prescribed by OMB. The statements are in addition to the financial reports used to monitor and control 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 U.S. Government.

## FY 2017 FMFIA ASSURANCE LETTER TO THE PRESIDENT



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, DC 20590

November 9, 2017

The President  
The White House  
Washington, DC 20500

Dear Mr. President:

This letter reports on the effectiveness of the internal control and financial management systems for the U.S. Department of Transportation (DOT) during fiscal year (FY) 2017. It also provides DOT's FY 2017 Federal Managers' Financial Integrity Act (FMFIA) assurance statement, and summarizes noteworthy internal control and management efforts in support of that assurance for the fiscal year that ended on September 30, 2017.

The FMFIA holds Federal managers accountable for establishing and maintaining effective internal control and financial management systems. All DOT organizations are subject to Sections 2 and 4 of FMFIA, except the Saint Lawrence Seaway Development Corporation, which reports separately under the Government Corporations Control Act of 1945.

DOT management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of FMFIA. DOT conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, DOT can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017.

**FMFIA (Public Law (P.L.) 97-255)**

In FY 2017, DOT reviewed the control deficiencies that resulted from the assessments and audits performed during FY 2017, and open items from previous assessments and audits. DOT considered the identified control deficiencies both separately and in the aggregate to identify issues that may rise to the level of a significant deficiency, material weakness, or financial system non-compliance.

DOT is reporting no material weaknesses under Section 2 of FMFIA and no instances of financial system non-compliance related to Section 4 for the fiscal year that ended on September 30, 2017.

Page 2  
The President

**Management's Responsibility for Enterprise Risk Management and Internal Control**  
***OMB Circular A-123, Appendix A: Internal Control over Financial Reporting<sup>1</sup>***

DOT management is responsible for establishing and maintaining effective internal control over financial reporting. DOT conducted an assessment of the effectiveness of its internal control over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. During FY 2017, DOT documented and assessed internal controls over several business processes. Appendix A activities in FY 2017 included conducting an entity, process, and transaction level assessment of the controls over financial reporting.

In addition, an assessment was performed on the Department-wide financial management system, Delphi, including obtaining an annual Statement on Standards for Attestation Engagements 18 (SSAE 18) Service Organization Control (SOC) Type II Report from the Enterprise Services Center (ESC) to determine if financial systems complied with Federal Financial Management system requirements.

Based on the results of the assessment, DOT can provide reasonable assurance that internal control over financial reporting was operating effectively and no material weaknesses were identified as of June 30, 2017.

**Government Charge Card Abuse Prevention Act (Charge Card Act) of 2012 (P.L. 112-194)**  
***OMB Circular A-123, Appendix B: Improving the Management of Government Charge Card Programs***

The Charge Card Act establishes reporting and audit requirement responsibilities for executive branch agencies. DOT has reviewed the Purchase and Travel Card programs for compliance with the Charge Card Act, and can provide reasonable assurance that appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

DOT also reviewed the Travel, Purchase, and Fleet Card programs for compliance with OMB Circular A-123, Appendix B requirements. Based on the results of the evaluation, DOT can provide reasonable assurance that these programs are in compliance with OMB Circular A-123, Appendix B.

---

<sup>1</sup> The title of OMB Circular No. A-123 Appendix A was modified to *Internal Control over Reporting* on July 15, 2016 when the new OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* was issued. However, the updated OMB Circular No. A-123, Appendix A, has not been issued. Therefore, DOT utilized the guidance provided in A-123, Appendix A, *Internal Control over Financial Reporting* for the FY 2017 assessment.

Page 3  
The President

**Improper Payments Information Act of 2002 (IPIA; P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248)**

***OMB Circular A-123, Appendix C: Requirements for Effective Estimation and Remediation of Improper Payments***

During FY 2017, DOT conducted reviews of its programs and based on the results, can provide reasonable assurance that the Department conformed to the requirements of IPIA, as amended by IPERA and IPERIA, and OMB Circular A-123, Appendix C.

In its report, *DOT's Fiscal Year 2016 Improper Payment Reporting Does Not Comply with IPERA Requirements*, issued on May 10, 2017, the OIG determined that three DOT programs did not meet their reduction target rates as required by IPERA. DOT met most of the IPERA compliance requirements by publishing the FY 2016 AFR, conducting program specific risk assessments, publishing improper payment estimates, publishing corrective action plans, and reporting an improper payment rate of less than 10 percent for each program and activity susceptible to significant improper payments.

A description and results of our improper payment reviews are reported in the Other Information section of the DOT FY 2017 AFR.

**Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208)**

***OMB Circular A-123, Appendix D: Compliance with the FFMIA***

FFMIA requires implementing and maintaining financial management systems that comply substantially with the following three FFMIA Section 803(a) requirements: Federal Financial Management Systems Requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.

Based on the results of the FFMIA Compliance Determination Framework provided in OMB Circular A-123, Appendix D and management's assessments of its internal controls within financial management systems as described under the OMB Circular A-123, Appendix A section above, DOT determined that financial management systems were in compliance with FFMIA.

**Information Technology (IT) Resource Statements**

***OMB Circular A-11: Preparation, Submission, and Execution of the Budget***

As required by OMB Circular A-11, DOT affirms the following:

- (a) The Chief Information Officer (CIO) has reviewed and provided significant input in approving the IT investments portion of the budget request across all DOT Operating Administrations, in accordance with the Federal Aviation Administration (FAA) authorization, FAA General Procurement Authority, and FAA Air Traffic Control Modernization Reviews (49 §§ U.S.C. 106, 40110, 40121). Therefore, the Department has fully implemented this facet of the CIO Common Baseline under the Federal IT Acquisition Reform Act (FITARA).

Page 4  
The President

- (b) The CFO and CIO certify that the CIO had a significant role in reviewing the planned IT support for major programs and the significant increases and decreases in IT resources reflected in the budget.
- (c) The CIO and CFO certify that the IT Portfolio included appropriate estimates of all IT resources included in the budget request.
- (d) The CIO certifies that incremental development practices were used across all DOT Operating Administrations.

In FY 2016, the DOT CIO, DOT CFO and DOT Senior Procurement Executive (SPE) began requiring all Operating Administrations to submit full year Spend Plans. The CIO has reviewed these Spend Plans and continues to work with Operating Administrations CIOs, the DOT CFO, and the DOT SPE to improve the review process to ensure that the CIO has a significant role in reviewing the requests and ensuring all requests are appropriately included in the IT Portfolio.

**Disaster Relief Appropriations Act, 2013 (P.L. 113-2)**

***OMB Memorandum: Accountability for Funds Provided by the Disaster Relief Appropriations Act (March 12, 2013)***

Based on reviews of DOT's spending practices of Hurricane Sandy recovery-related funding, DOT can provide reasonable assurance that all appropriate policies and controls have been implemented to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy.

Based on the results of our FMFIA assessment in FY 2017, I conclude that the Department has made substantial progress in enhancing the effectiveness of its internal control and financial management systems. Additional enhancements are underway in FY 2018.

Sincerely,



Elaine L. Chao

## ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

---

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FMFIA requires agencies to conduct an annual evaluation of their internal control and financial management systems and report the results to the President and the Congress. Each agency then prepares an annual Statement of Assurance to report on the effectiveness of its internal control and financial management systems' compliance based on the assessment.

For FY 2017, ending September 30, 2017, the Secretary of Transportation provided the President and the Congress a Statement of Assurance stating that DOT can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.

As a subset of the FMFIA Statement of Assurance, DOT is also required to report on the effectiveness of internal control over financial reporting. A separate discussion on internal controls follows at the end of this section.

### FMFIA Annual Assurance Process

DOT management is responsible for establishing and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of FMFIA. DOT is required to provide assurances related to FMFIA and the Federal Financial Management Improvement Act (FFMIA) in the annual Statement of Assurance. The Statement of Assurance represents the Secretary of Transportation's informed judgment as to the overall adequacy and effectiveness of internal control within the Agency related to operations, reporting, and system compliance.

The head of each OA or Departmental office submits an annual FMFIA Statement of Assurance representing the overall adequacy and effectiveness of management controls within the organization to DOT's Office of Financial Management. Any identified FMFIA material weakness, significant deficiency, and/or system noncompliance are reported internally, as well as corrective actions put in place. Guidance for completing the OA or Departmental office Statement of Assurance and reporting on deficiencies is issued annually by DOT's Office of Financial Management.

### Objectives of Control Mechanisms

The objectives of internal control put in place within the Department's operations are consistent with the objectives of FMFIA Sections 2 and 4, which include:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets;
- Audit findings are promptly resolved; and
- Financial systems conform to principles, standards, and related requirements prescribed by the Comptroller General.

### Criteria for Reporting Material Weaknesses

A material weakness is defined by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix A:

- A significant deficiency that the Agency Head determines to be significant enough to report outside of the Agency as a material weakness. In the context of the Government Accountability Office Green Book, nonachievement of a relevant principle and related component results in a material weakness.
- A material weakness in internal control over operations might include, but is not limited to, conditions that:
  - Impact the operating effectiveness of Entity-Level Controls;
  - Impair fulfillment of essential operations or mission;
  - Deprive the public of needed services; or
  - Significantly weaken established safeguards against fraud, waste, loss, unauthorized use, or misappropriation of funds, property, other assets, or conflicts of interest.
- A material weakness in internal control over reporting is a significant deficiency in which the Agency Head determines significant enough to impact internal or external decision making and reports outside of the Agency as a material weakness.
- A material weakness in internal control over external financial reporting is a deficiency, or a combination of deficiencies, 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 material weakness in internal control over compliance is a condition where management lacks a process that reasonably ensures preventing a violation of law or regulation that has a direct and material effect on financial reporting or significant effect on other reporting or achieving Agency objectives.

### Assessing Internal Controls

OMB Circular A-123 defines management's responsibility for Enterprise Risk Management (ERM) and internal control. The Statement of Assurance is based on assessments performed during FY 2017. The assessments for FY 2017 included the following, utilizing applicable guidance:

- Appendix A, *Internal Control Over Financial Reporting*<sup>1</sup>
- Appendix B, *Improving the Management of Government Charge Card Programs*
- Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*
- Appendix D, *Compliance with the Federal Financial Management Improvement Act*

Management's Statement of Assurance, as it relates to OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, is located in the preceding section of this report.

<sup>1</sup> The title of OMB Circular No. A-123, Appendix A, was modified to *Internal Control Over Reporting* on July 15, 2016, when the new OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, was issued. The updated OMB Circular No. A-123, Appendix A, *Internal Control Over Reporting*, has not been issued, however. Therefore, DOT utilized the guidance provided in A-123, Appendix A, *Internal Control Over Financial Reporting*, for the FY 2017 assessment.

### FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

FFMIA requires that each agency implement and maintain financial management systems that comply substantially with the following three FFMIA Section 803(a) requirements: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level.

Based on the results of the FFMIA Compliance Determination Framework utilized from OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act* and management's assessments of its internal controls within the financial management system, Delphi, DOT has determined that financial management systems were in compliance with FFMIA for FY 2017.

### FEDERAL INFORMATION SECURITY MODERNIZATION ACT OF 2014 (FISMA)

FISMA requires Federal agencies to identify and provide security protection commensurate with the risk and magnitude of potential harm resulting from the loss, misuse of, unauthorized access to, disclosure of, disruption to, or modification of information collected to be maintained by or on behalf of an agency. FISMA also requires that each agency report annually on the adequacy and effectiveness of information security policies, procedures, and practices, and on FISMA compliance. OMB further requires that agency heads submit a signed letter that provides a comprehensive overview of these areas. In addition, FISMA requires that agencies have an independent evaluation performed over their information security programs and practices. At DOT, this annual evaluation is performed by OIG. For FY 2017, the annual FISMA report was finalized and submitted, as required by OMB and the Department of Homeland Security (DHS), on October 31, 2017. Beginning this fiscal year, the OIG has separated its FISMA-required assessment and submission to OMB from a narrative audit report of cybersecurity at DOT. The narrative report is expected to be available in December 2017 and will be found at [www.oig.dot.gov](http://www.oig.dot.gov).

In 2017, OST and the 10 OAs and Bureaus operated a total of 476 information systems, an increase of 19 systems over the FY 2016 adjusted inventory, of which 343 belong to FAA. FAA's air traffic control system has been designated by the President as part of the critical national infrastructure. Other systems owned by DOT include safety-sensitive surface transportation systems and financial systems used to manage and disburse over \$99 billion in Federal funds each year.

As reviewed in FY 2017, DOT's cyber security program continues to have deficiencies in its enterprise and systems controls. Specifically, DOT needs to make progress in critical areas, such as:

- Continuing implementation of the use of Personal Identity Verification (PIV) cards for access to information systems;
- Continuing implementation of the Department's continuous monitoring programs;
- Continuing maturation of the Department's risk management program;
- Improving oversight of contingency planning and testing; and
- Improving management oversight of contractor-operated systems to comply with information security requirements.

As part of its commitment to improve security posture, DOT made improvements during FY 2017 including:

- Continued implementation of Information Security Continuous Monitoring over OA information systems, with 83 of the 476 systems converted to an ongoing authorization process;
- Completion of security performance and compliance reviews of all DOT OAs;

- Deployment and implementation of Managed Trusted Internet Protocol Services (MTIPS) at DOT, including migration of EINSTEIN 3A services provided by DHS, and termination of the legacy Trusted Internet Connection (TIC) at DOT;
- Execution of phishing awareness exercises across all DOT OAs, producing a reduction in the average click-through rate for assessed employees to below 8 percent, a reduction of approximately 3 percent over the FY 2016 rate;
- Planning and award of contracts to mitigate the risks identified through the DOT Network Assessment of FY 2016, through an initiative titled Network Assessment Risk Mitigation (NARM), including reengineering of DOT networks to be more secure and resilient and to incorporate automation capabilities;
- Planning and award of contracts to migrate from DOT's legacy data center and disaster recovery site in Frederick, Maryland, to a highly available, resilient Federal shared-service data center in Stennis, Mississippi, managed by the National Aeronautics and Space Administration;
- Initiated two engagements with the General Services Administration (GSA) and DOT OAs to leverage GSA's Login.gov authentication service to provide authentication services to DOT mission applications and websites;
- Continued deployment of Continuous Diagnostics and Mitigation (CDM) capabilities in coordination with DHS, expanding to include the U.S. Merchant Marine Academy (USMMA) and the FAA administrative and mission support networks; and
- Continued vigilance upon, and mitigation of, critical and high vulnerabilities on public-facing websites, maintaining no more than one critical vulnerability older than 30 days for 75 percent of the year and rapidly mitigating those when escalated to senior IT leaders.

For FY 2018, subject to the availability of resources, the Department plans to:

- Update DOT cybersecurity policy to address legislative changes, National Institute of Standards and Technology (NIST) guidance, and audit recommendations by September 30, 2018;
- Perform another series of phishing exercises across all DOT OAs by September 30, 2018;
- Coordinate with DHS to complete the deployment of the agency CDM risk management dashboard by March 31, 2018;
- Begin deployment of CDM Phase 2 capabilities for credential and privilege access management by June 30, 2018;
- Complete the migration to the Stennis data center and close the Frederick data center by January 31, 2018; and
- Complete Phase 1, and begin Phase 2, of DOT's NARM initiative to mitigate risks within the DOT network.

## FINANCIAL MANAGEMENT SYSTEMS STRATEGY

DOT is committed to improving the effectiveness and efficiency of its financial management systems and functions through a shared services approach to support the mission. Routine functions, such as system upgrades, operations and maintenance, and acquisitions support, are performed by DOT's Federal Shared Service Provider (FSSP), the Enterprise Services Center (ESC) in Oklahoma City, Oklahoma. The ESC operates under FAA and has been an OMB-designated FSSP since 2014. As an FSSP, DOT and ESC work collaboratively with the General Services Administration's (GSA) Unified Shared Services Management (USSM) and the Office of Financial Innovation and Transformation (OFIT) at Treasury to ensure our shared services follow the required guidelines for service delivery, pricing, governance, and service-level metrics.

DOT's goal is to not only maintain but evolve its existing financial management systems and services by leveraging technology, innovation, and best practices to support new financial requirements and continue to provide management with accurate and timely financial information. DOT's priorities are to improve current capabilities and increase efficiency and standardization. The following financial systems are used to achieve effective financial management control and oversight: a Department-wide instance of Oracle Federal Financials (Delphi), the Departmental Procurement System (DP2), GSA's Electronic Travel System (E2 Solutions), and OA-specific Financial Assistance Systems.

In FY 2017, DOT implemented Exadata, a high-performance Oracle-engineered database system, to improve system performance and worked toward upgrading Delphi to the latest version of Oracle E-Business Suite version 12.2.6. Also, ESC implemented the Scaled Agile Framework (SAFe) for projects impacting financial systems to improve the delivery of system enhancements and new technologies to improve DOT's ability to support evolving financial and reporting requirements in a timely manner.

The Department is working on several key initiatives aimed at automating processes, strengthening internal controls, and improving financial reporting.

### Integration of Delphi and DP2

The Department continued its Department-wide rollout of DP2, which is a procurement management system, fully integrated with Delphi. This integration between our procurement and financial systems improves internal controls by automating the funds control process and reduces the potential for error by automating the commitments and obligations processes. In addition, DP2 eliminates nearly all previous manual data entry steps and significantly increases efficiencies. In FY 2017, the Department successfully migrated two DOT OAs to DP2; the remaining three will be migrated in FY 2018.

### Expansion of Electronic Invoicing (eInvoicing)

During FY 2017, the Department continued implementation of its eInvoicing system to the vendor community. This system, currently used by the Department's grantees, offers vendors the capability to submit invoices electronically through an online portal.

In addition, DOT further automated its invoice payment process by adding functionality to enable DOT's invoice approvers to electronically route and approve documents in Delphi. Four Department offices migrated to the new invoice approval functionality in FY 2017. The remaining offices are scheduled to migrate in early FY 2018.

DOT also began work to build an interface between Delphi and GSA's system of record for vendor information, SAM.gov, and began developing an e-Authentication integration that will eliminate both manual paperwork for vendors and manual processing for DOT.

Once fully deployed, DOT's eInvoicing system will eliminate the manual entry of vendor and invoice data and will consolidate invoice approvals in Delphi, resulting in significant process improvements and efficiencies.

### Improved Financial Reporting

The Department began developing a consolidated financial Enterprise Data Warehouse/Business Intelligence (EDWBI) service with the goal of providing improved financial reporting to strengthen decision-making capabilities and achieve the mission of the Department. EDWBI will provide users with dashboard views of business activities that they can customize to focus on their critical needs and interests. As part of this effort, the Department acquired system tools and completed several components of the overall EDWBI project in FY 2017. Successes included populating the data warehouse with some historical data, configuring standard reports and dashboards, and providing users with access to financial data via a more flexible reporting tool.

### Implementation of the Digital Accountability and Transparency Act (DATA Act)

The DATA Act called for establishing and implementing Government-wide data standards for financial data to provide consistent, reliable, and searchable spending data and make it easily accessible and understandable to the public. The Department successfully met the mandated implementation date and completed two quarterly submissions to the Treasury. In addition to improving the public's ability to understand and track Federal spending, the Department can claim the following achievements as a direct result of DATA Act requirements and efforts:

- Streamlined budget object class spending codes in accordance with OMB requirements, which improves data required for future rounds of Budget Formulation and Presentation;
- Reconciled spending activities with the program activities reported in the President's Budget request, which will also improve future Budget Formulation and Presentation;
- Initiated collaboration between the procurement and financial communities and ensured that agencies with shared funding streams established consistent records and financial procedures;
- Ensured that all required data are now being reported to the public;
- Provided enhanced visibility and accountability between grants management systems and DOT's financial system and improved programmatic alignment with funds availability; and
- Identified several areas for both Government-wide and DOT-wide financial process improvement for long-term efforts.

### SSAE-18 EXAMINATION ON DOT SYSTEMS

ESC is one of four Federal shared service providers designated by OMB to provide financial management systems and services to other Government agencies. ESC supports other Federal entities, including the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, National Credit Union Administration, Securities and Exchange Commission, Consumer Product Safety Commission, and Government Accountability Office. OMB requires shared service providers to provide client agencies with an independent auditors' report in accordance with the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements 18 (SSAE-18) examination.

SSAE-18 includes a review of general, application, and operational controls over DOT's ESC. ESC performs services including accounting, financial management, systems and implementation, media solutions, telecommunications, and data center services for DOT and other Federal organizations.

This is the first year that an SSAE-18 examination has been conducted on DOT's Delphi financial system and PRISM system. A Statements on Standards for Attestation Engagements 16 (SSAE-16) examination was completed for the previous six years. Effective for reports dated after May 1, 2017, SSAE-16 was replaced with the new standard SSAE-18.

Delphi and PRISM are hosted, operated and maintained by FAA employees at the Mike Monroney Aeronautical Center in Oklahoma City, OK, under the overall direction of the DOT Acting Chief Financial Officer.

This year's SSAE-18 audit of Delphi and PRISM was conducted by KPMG LLP. KPMG concluded that management presented its description of ESC controls fairly in all material respects and that the controls, as described, were suitably designed and operating effectively for all stated control objectives.

## FY 2017 DOT IG MANAGEMENT CHALLENGES REPORT

OIG issues an annual report on the Department's top management challenges to provide a forward-looking assessment for the coming fiscal year. The Reports Consolidation Act of 2000 requires OIG to identify and summarize the most significant management challenges facing the Department each year.

For FY 2017, OIG identified eight significant challenges. What follows is a report on the progress DOT made against these challenges.

### 1) MAINTAINING TRANSPORTATION SAFETY WHILE KEEPING PACE WITH RAPIDLY EVOLVING TECHNOLOGIES

#### 1a) Overseeing an expanding and dynamic Unmanned Aircraft Systems (UAS) industry—FAA

FAA conducted weekly Flight Standards District Offices (FSDO) UAS Focal Point Outreach meetings to update aviation safety inspectors on the latest UAS issues and guidance. It also offered the following Aviation Safety Inspector, UAS-based electronic Learning Management System (eLMS) courses during FY 2017:

- Introduction to Unmanned Aircraft Systems (27100179): 758 completions.
- Unmanned Aircraft Systems—Initial (27100222): 689 completions.
- Part 107 Small Unmanned Aircraft Systems (sUAS) (27100258): 3,768 completions.

Additionally, FAA reinforced its existing commercial UAS inspection process by revising Order 1800.56R, *National Flight Standards Work Program Guidelines*, to include UAS risk-based surveillance. FAA published this revision on July 25, 2017.

#### 1b) Preparing to oversee and regulate autonomous vehicles—NHTSA

NHTSA and the Department developed and released a resource guide, *Automated Driving Systems (ADS): A Vision for Safety 2.0*, to help pave the way for safe deployment of ADS technologies. The resource provides guidance for technology developers to encourage best practices and prioritize safety, as well as technical assistance for States and policymakers.

During FY 2017, NHTSA began conducting initial testing of automated vehicle technology currently in production (e.g., test track and on road, highway auto pilot, traffic jam assist, self parking). NHTSA also utilized cutting edge technology, including surrogate test vehicles and advanced equipment, to test complex scenarios, build upon collaborative research with industry, and remain at the forefront of testing highly automated driving systems. Based on findings from testing and a new collaborative research program with academia, industry, and standards bodies, NHTSA will continue to develop safety test procedures, including Federal Motor Vehicle Safety Standards (FMVSS) test procedures for vehicles without traditional controls.

## 2) BOLSTERING VEHICLE AND SURFACE TRANSPORTATION SAFETY

### 2a) Enhancing processes for collecting and analyzing vehicle safety recall data—NHTSA

NHTSA continued to implement its multifaceted plan to strengthen Office of Defects Investigations and address the 2015 OIG Audit Recommendations. NHTSA closed three of the remaining five 2015 OIG Audit Recommendations (# 8, 9, and 11).

### 2b) Implementing the oversight of safety for the Nation's rail transit system—FTA

FTA extended deadlines to FY 2018 for the following activities related to its role in safety oversight responsibilities:

- Finalize, issue, and communicate policies and procedures for assuming direct safety oversight authority, including criteria and decision-making processes (December 29, 2017);
- Finalize plan to create a data-driven and risk-based safety oversight system (December 31, 2017);
- Update FTA's methodology to meet the triennial audit requirement for all State Safety Oversight Agencies (SSOAs) (December 31, 2017);
- Finalize a plan to periodically update the National Safety Plan (December 31, 2017); and
- Finalize, issue, and communicate policies and procedures for relinquishing oversight authority to efficiently transition responsibilities to the SSOA (June 30, 2018).

### 2c) Removing high-risk motor carriers from the Nation's roads—FMCSA

FMCSA implemented its authority to issue unilateral Records Consolidation Orders to "reincarnated" motor carriers, which link the carrier's multiple safety records into a single record for additional enforcement action and continued monitoring. Specifically, FMCSA completed the following through June 30, 2017:

- 1,685 high-risk carrier investigations;
- 21,047 warning letters;
- 11,039 carrier investigations;
- 21,171 new entrant safety audits; and
- 2,534,138 roadside inspections.

## 3) STRENGTHENING CYBERSECURITY STRATEGIES TO ADDRESS INCREASING THREATS

### 3a) Maximizing benefits from Personal Identity Verification (PIV) cards—OST

Depending on availability of resources, the Department will continue to execute its strategy according the revised plan and timeline described below:

- FY 2018 Q2: Issue clarifying guidance and direction to DOT OAs on PIV authentication for information systems and facilities, update inventory of OA systems and facilities requiring PIV access, and document plans for enhancements.
- FY 2019 Q4: Require configuration of information systems and facilities requiring PIV for authentication and access, subject to availability of funds.

### 3b) Coordinating technological initiatives to efficiently improve security—OST

The Continuous Diagnostics and Mitigation (CDM) program has progressed on schedule, and the Department is planning for the Operational Readiness Review (ORR) to occur by the end of the first quarter of FY 2018. At that point, the Department also expects the initial operational capability of CDM Phase 1 to be prepared for data ingest, including hardware asset management, software asset management, configuration settings management, and vulnerability management configuration.

During the second quarter of FY 2018, the Department will pull data from the Information Technology Shared Services (ITSS) environments to support governance, risk, and compliance processes. As the Department's plans and strategies are subject to availability of resources, the following timeline for remaining CDM phases remains notional:

- FY 2018—Deployment of CDM Phase 2 capabilities for privilege and credential management, as well as trust and behavioral analytics (date established by DHS); and
- FY 2019 or FY 2020—Award for CDM Phase 3 capabilities from DHS, followed by implementation.

Note, the OIG is not currently in scope for the DHS or DOT CDM program. The DOT Office of the Chief Information Officer (OCIO) continues to broker discussions between OIG CIO and DHS to determine the best path forward for OIG.

### 3c) Extending security boundaries to cover all DOT information—FAA, FMCSA

FAA's 39 major systems in the National Airspace System (NAS) utilize Internet Protocol (IP) technology, known as Operational IP (OPIP) NAS systems. The NAS Cyber Operations (NCO) integrated 10 additional OPIP NAS systems in FY 2017. The NCO monitors these OPIP systems and serves as the focal point for all coordination of NAS cyber security activities. When NCO validates that a reportable cybersecurity incident has occurred, it notifies the FAA Security Operations Center (SOC) within a timeframe that ensures compliance with Federal Incident Notification Guidelines.

FMCSA migrated its systems out of the Volpe Datacenter; therefore, it is no longer necessary for third party contractors to sign an agreement with the Volpe Datacenter. FMCSA will continue to work with the Department to strengthen its security posture in mission applications.

#### 4) STRENGTHENING CONTROLS TO DETECT AND PREVENT FRAUD, WASTE, AND ABUSE

##### 4a) Enhancing internal controls to protect Federal investments—FHWA, FTA

DOT and its OAs can strengthen internal controls by providing close monitoring for at-risk grantees.

Responding to this challenge, FTA signed Order 2400.1, *Procedures for Administering Remedies and Sanctions* on December 15, 2016. In Section 10, “Documentation and Tracking,” the Order specifies that the corrective actions required and taken will be documented in formal correspondence to the recipient, which is stored in a central site monitored by an FTA headquarters office. Also, on December 22, 2016, FTA finalized *Grants A to Z Standard Operating Procedure (SOP) C.1.7 Payment Review*. This SOP includes procedures for reviewing invoices from grantees on drawdown restriction.

FHWA will use its performance year (PY) 2018 Compliance Assessment Program (CAP) to determine the level of risk based on a statistically valid sample population. If the PY 2018 CAP results determine that authorizations to advertise projects were not in accordance with Federal regulations, then FHWA will take additional measures commensurate with the level of risk identified. The PY 2018 CAP tool was issued and analysis of the results is on target to be completed by September 30, 2018.

##### 4b) Strengthening Disadvantaged Business Enterprises (DBE) program oversight—FAA

FAA distributes funding to DBE firms for transportation projects, which are administered by State and local transportation agencies or grantees. Although FAA is taking steps to address the challenges that DBEs face, the number of new firms doing business at the Nation’s largest airports has declined, and major barriers impede the success of new and existing disadvantaged firms.

In response to these barriers, FAA implemented a Comprehensive DBE Oversight and Compliance Plan, which included a substantial review of program documents and reports, training, technical assistance, complaint investigations, and airport onsite compliance reviews. Executing on this plan, FAA published information regarding DOT resources that can assist small businesses seeking opportunities at our Nation’s airports, specifically including FAA’s Small Business Office in this year’s Airport Minority Advisory Council conference and posting technical assistance to the FAA website.

FAA also provided area-specific training at a number of conferences. Training addressed goal setting, prompt payment, and DBE certification at the following conferences and offices:

- FAA Office of Civil Rights’ National Civil Rights Training Conference for Airports. For example, FAA provided training on how to properly set goals for car rental concessionaires at airports, including training conducted at the FAA Office of Civil Rights’ National Civil Rights Training Conference for Airports. This training is available on the FAA website.

- Unified Certification Programs offices in Texas and California. Since February 2017, FAA has assessed and documented Unified Certification Program processing timeframes for certification. Certification reviews were required to assess processing timeframes for applications and to ensure that Unified Certification Program staff completed mandatory certification.
- American Contract Compliance Association Conference.
- ACI-NA's Business of Airports Conference.
- Airport Minority Advisory Council Conference.

Finally, FAA analyzed and addressed any significant or noteworthy changes in DBE participation at major airports. All Core 30 airports were required to submit a goal shortfall analysis and action plan to address the shortfall to the regional specialists for approval as applicable. In February 2017, FAA issued a best practices memo to airports that provided information on identifying opportunities for new DBEs. In August 2017, FAA implemented new matchmaking feature within our web-based reporting system that matches certified DBE firms with airport business opportunities.

4c) Leveraging fraud detection and prevention resources—OIG

Effective stewardship of taxpayer dollars requires diligent attention to identify and prevent instances of fraud, waste, and abuse. The Department and its OAs have the opportunity to leverage antifraud resources through OIG to improve their ability to proactively detect and mitigate fraud risks. To increase the use of the OIG's antifraud resources, OIG will continue to work with the Department and its OAs to improve collaboration and raise awareness of these resources.

4d) Analyzing data to proactively identify risks—OIG

DOT has opportunities to harness data to better predict and target possible areas of fraud, waste, and abuse, and OIG is committed to increasing the use of risk-based data analytics and assisting the Department in this challenge.

5) ENHANCING THE CAPACITY, EFFICIENCY, AND RESILIENCY OF THE NATIONAL AIRSPACE SYSTEM—FAA

5a) Keeping near-term NextGen investment priorities on track and addressing key risks

In FY 2017, FAA established near-term NextGen priorities in collaboration with industry stakeholders through the NextGen Advisory Committee (NAC). These priorities are included in NextGen's overall risk management framework. As planned, FAA held three NAC meetings on October 5, 2016; February 22, 2017; and June 28, 2017.

FAA also held monthly NextGen Priorities Integration Working Group status meetings throughout FY 2017. During each status meeting, leadership discussed risks and mitigation strategies, as well as assigned solutions. In addition to regularly scheduled NAC working group meetings, FAA held calls and bimonthly meetings with industry leadership to understand industry risk. Per FAA's risk management process, identified risks were assigned to the appropriate program or portfolio managers for mitigation, or they were elevated to the NextGen Management Board or another higher level body for

mitigation and resolution. The NextGen Management Board reviewed risks and mitigations and tracked the status at the direction of the FAA Deputy Administrator and Chief NextGen Officer.

#### 5b) Defining the costs and benefits of the NextGen transformational programs

FAA approved four NextGen Final Investment Decisions in FY 2017, following the Acquisition Management System (AMS) policy, which is in compliance with OMB Circular A-11. FAA gathered contract cost, benefits, and schedule information for the four programs and is managing them against their baselines:

- En Route Automation Modernization (ERAM) Tech Refresh Segment 1;
- ERAM Sector Enhancements;
- Collaborative Air Traffic Management Technologies (CATMT) Work Package 4; and
- NextGen Distance Measuring Equipment (DME).

In January 2017, the FAA Joint Resources Council (JRC) approved the yearly update of the NAS Enterprise Architecture (EA) with particular focus on the Infrastructure Roadmaps. FAA wrote the 2017 NextGen Implementation Plan (NGIP), which is currently under review for public release.

Late in FY 2016, FAA published the Future of the NAS report. This report describes the future evolution of the NAS. The report helps FAA and the industry plan for the future and prioritizes investments. The EA, NAS Segment Implementation Plan, and annual Capital Investment Plan will align with the Future of the NAS report and balance long-term planning with critical sustainment needs.

#### 5c) Enhancing redundancy and contingency plans for air traffic operations to mitigate disruptions

FAA established the Air Traffic Organization (ATO) Operational Contingency Group (ATOC) as a permanent office in December 2016. The ATOC group unifies contingency and continuity operations throughout the NAS with a focus on air traffic operations with a mission to support continuous service delivery to the flying public.

FAA recently began a detailed review of all En Route and Core 30 airport facility contingency plans by the FAA ATOC national team with the aid of the Service Center staff on a rotating basis. The FAA Service Center already assists the facilities with an annual validation of Operational Contingency Plans (OCPs) per the 1900.47e order, "Air Traffic Control Operational Contingency Plans" revised on May 1, 2017. FAA completed surveys of the facilities and identified key data that will improve the response times in reconfiguring systems to effectively achieve an airspace divestment. The facility continuity plans do address roles and responsibilities for divestment.

FAA also convened a series of meetings with NextGen program officials to identify how NextGen capabilities can functionally enhance the resiliency and continuity strategy of NAS operations and mitigate the impact of future air traffic control disruptions. FAA developed a list of NextGen programs that benefit contingency planning. As these new technologies are deployed, the FAA will update local facility contingency plans as applicable.

#### 5d) Ensuring enough fully certified controllers at critical air traffic facilities

In FY 2017, FAA exceeded its Air Traffic Controller hiring goal of 1,781, hiring a total of 1,889 Air Traffic Controllers. This represents an increase of 6.1 percent over the intended hiring goal. FAA fully implemented its Priority Placement Tool to prioritize the placement of new controllers to the facilities with the greatest need. This model has allowed FAA to place these employees at facilities where they are needed most and will have the most operational impact, ultimately balancing the staffing at Air Traffic Control facilities.

FAA also continued the use and modification of the MITRE model to move current controllers within the system from Air Traffic Control facilities that would not be adversely impacted to facilities with the greatest need. As a result, nearly 500 certified controllers were moved to higher level facilities with the greatest need on an average of three months compared to the previous average of two years. This model allowed FAA to place new controllers at facilities where they are more likely to certify and move our current Certified Professional Controllers (CPCs) to higher level facilities which increase the likelihood of certification. The projected CPC count increased from 86.3 percent to 93.6 percent during the same time period.

FAA continues to modify the model and target remaining facilities that have historically faced challenges with initiatives to balance systemwide controller staffing. This includes incentives and programs that target these facilities while ensuring continued placement to all facilities and facilitating the movement of controllers to ensure a balance of CPCs in training.

### 6) INCREASING OVERSIGHT OF CRITICAL TRANSPORTATION INFRASTRUCTURE

#### 6a) Strengthening stewardship of Federal-aid to Highways funds—FHWA

To enhance its oversight, FHWA conducted a national review to evaluate State Departments of Transportation practices and controls associated with allocating and recovering preliminary engineering (PE) costs in a single project agreement or cost center. In addition, FHWA developed a program assessment tool to assist its Division Offices with evaluating whether State DOTs have adequate controls in place to ensure compliance with the PE requirements. FHWA is also updating its PE Order 5020.1 to clarify roles and responsibilities, providing extensions, and tracking projects approaching the 10-year limit. The Order has been drafted and is undergoing management review. FHWA plans to complete the updated PE policy by January 2018.

#### 6b) Ensuring the integrity of the Nation's highway bridges and implementing a new tunnel safety program—FHWA

Since April 2015, FHWA has collected element-level data for National Highway System (NHS) bridges annually. FHWA continues to assist States experiencing National Bridge Inspection Standards (NBIS) compliance issues in specific program areas. FHWA will also continue to deliver training on element-level bridge inspection to bridge owners upon request.

FHWA has updated its guidance on documenting the NBIS oversight reviews, and established a consolidated location for storing this guidance. In addition, all the FHWA Division Offices were trained on a process to provide oversight to the NBIS.

FHWA will continue to focus and direct its limited resources on addressing the greatest tunnel safety risks and priorities by collecting tunnel data, as well as providing tunnel inspector certification training and tunnel inspector refresher training. FHWA began development of an oversight process for the National Tunnel Inspection Standards that builds off the successes of the similar process for bridges. These actions will lay the groundwork for the new National Tunnel Safety Inspection Program.

#### 6c) Improving guidance to ensure compliance with railroad bridge safety standards—FRA

FRA implemented all six OIG recommendations between April 2016 and January 2017; OIG has closed these recommendations. FRA took the following actions to address the recommendations:

- Implemented its plan to identify and regularly update a comprehensive list of entities regulated by FRA's bridge safety standards.
- Issued guidance to implement a data-driven, risk-based methodology for prioritizing bridge safety review and to instruct bridge safety specialists how to conduct their oversight reviews.
- Required bridge safety specialists report all instances of regulatory noncompliance in their reviews as defects.
- Issued guidance that defines how bridge safety specialists should track and follow up on identified issues of regulatory noncompliance to verify that owners take remedial actions, as well as when and how bridge safety specialists should recommend civil penalties for noncompliance with bridge safety standards.

#### 6d) Addressing willful violations of pipeline safety regulations—PHMSA

PHMSA carries out its safety programs for pipelines and hazardous materials under two different enabling statutes: Federal Pipeline Safety Laws at 49 U.S.C. § 60101 *et seq.* and Federal Hazardous Materials Transportation Laws at 49 U.S.C. § 5101 *et seq.* Congress has established two different criminal standards for violations of these two chapters.

Under the existing pipeline statute, PHMSA has worked closely with the OIG and Department of Justice (DOJ) in appropriate cases. The OIG and DOJ can also conduct their own investigations and decide to bring a criminal prosecution against a pipeline operator. PHMSA has made criminal referrals to OIG and DOJ which have been declined for various reasons; however, PHMSA stands ready to assist on criminal cases under our current statutes and referral process.

In addition, PHMSA has taken a number of other actions in recent years to address willful pipeline safety violations and intends to continue these efforts. For example, PHMSA continues to emphasize better training for Federal and State pipeline inspectors to spot potential criminal violations and to forward

possible criminal cases to PHMSA's Office of the Chief Counsel (PHC) for referral to the OIG or DOJ, or in the case of State inspectors, directly to the OIG. PHMSA will continue to work with DOJ and the OIG to raise the awareness of Federal prosecutors on pipeline safety matters, PHMSA enforcement, and the prosecution of "knowing and willful" violations.

PHMSA has also modified its Pipeline Violation Report and various training procedures to help regional staff pursue civil administrative enforcement actions for deliberate and egregious violations. PHMSA revised the "culpability" assessment factor on its Violation Report to cover (1) deliberate noncompliance and (2) efforts to evade compliance or conceal noncompliance. These penalty assessment criteria enable PHMSA to assess higher civil penalties for safety violations that may not be appropriate for criminal prosecution or where OIG or DOJ has declined prosecution.

## 7) ENSURING OVERSIGHT OF ACQUISITION AND FINANCIAL MANAGEMENT

### 7a) Increasing oversight of high-risk contracts—OST

DOT established the Acquisition Strategy Review Board (ASRB) in 2013 as a Department-wide acquisition planning review function consisting of representatives from the Office of the Senior Procurement Executive (OSE), Office of the Chief Information Officer (OCIO), and the Office of the Chief Financial Officer (OCFO). The ASRB reviews high dollar value/high risk acquisitions and provides OAs with a single unified review forum for feedback on acquisitions of strategic value. With the ASRB in place, OST considers this management challenge to be closed.

### 7b) Keeping current on new acquisition skills and financial tools—OST, FAA

FAA's AMS Procurement Guidance T3.1.4, Delegations was revised in January 2017, updating authorities and warrant requirements to better reflect FAA mission, process, and personnel needs. All 1102 series Contracting Officer Warrants were reissued by FAA on March 1, 2017. The reissuance standardized the language cited on warrants, eliminated inconsistencies that may have existed on previous warrants, and ensured warrant compliance with delegation standards published in AMS.

The *Agile Program Management Practices for the Federal Aviation Administration* was published to the FAA Acquisition System Toolset (FAST) through its January 2017 update, to be used where practicable to promote the efficient delivery of capabilities through focused iteration of planning, execution, and monitoring. FAA also hosted the Acquisition Hot Topics Training, *Screening Information Request (SIR) from a Cost/Price Perspective* on April 4, 2017. This training provided training on how to integrate effective evaluation criteria and cost principles into solicitations to promote the receipt of quality cost proposals and successful source selections.

OST now tracks all DOT contracting officer certifications and warrants in the Federal Acquisition Institute Training Application System (FAITAS); therefore, OST considers this management challenge to be closed.

## 7c) Improving financial stewardship—FRA, FTA, FHWA

The OIG has identified several areas where DOT faces challenges in meeting this critical management responsibility:

- Oversight of Hurricane Sandy relief funds;
- Debt collection practices;
- Contract closeout; and
- Uniform guidance compliance.

In 2017 FRA closed one GAO and 10 OIG recommendations to improve its Financial Management Oversight. In May 2017, the audit “Review of Major Western Capital Programs” closed. FTA has closed one recommendation, and is in process of closing the remaining four recommendations. FHWA revised its Fiscal Management Information System to include specific fields for recording project agreement end dates, indirect cost rates, and the CFDA number as required by the Uniform Guidance.

## 8) MANAGING EXISTING AND NEW MANDATES AND INITIATIVES

## 8a) Implementing performance management requirements and accelerating project delivery—OST

DOT continues to implement the Project Delivery initiatives of MAP-21, with revisions to comply with FAST Act requirements. Process improvements required by MAP-21 are finalized and in effect, with updates for FAST Act requirements pending. The following are accomplishments for FY 2017:

- **MAP-21 §1303—Letting of Contracts for CM/GC:** Regulation on CM/GC—*Complete*.
- **MAP-21 §1305—Efficient Environmental Reviews for Project Decision-making:**
  - Regulation to allow for the use of programmatic approaches—*In Progress* (Draft regulations published September 29, 2017).
  - Guidance on designation of lead agency—*Complete*.
- **MAP-21 §1307—Assistance to Affected Federal and State Agencies:** Guidance on MOA with Federal and State agency—*In progress* (MAP-21 Q&As finalized; FAST Act update underway).
- **MAP-21 Limitation on Claims:**
  - Regulation on revising deadline for filing a claim to 150 days—*In Progress* (draft regulations published September 29, 2017).
  - Guidance on filing deadline for judicial review—*Complete*.
- **MAP-21 §1309—Accelerating Completion of Complex Projects:** Guidance on enhancements for technical assistance for complex projects—*Complete*.
- **MAP-21 §1309—Accelerated Decision-making in Environmental Reviews:** Regulation on accelerated decision making on environmental reviews—*In Progress* (draft regulations published September 29, 2017).
- **MAP-21 §1323—Review of Federal Project and Program Delivery:** Report to Congress on review of CEs, EAs, and EISs for post-2005 projects—*In Progress* (undergoing internal DOT clearance process).

## 8b) Managing new safety requirements from the FAA Extension Act— FAA

### Repair Stations

FAA published two changes to FAA Order 8900.1 to address safety requirements for repair stations, consistent with the oversight and audit reporting requirements specified in the aviation safety agreement and the aviation safety agreement and the Maintenance Annex Guidance (MAG).

- January 13, 2017: Assigning the FAA Coordinator (International Field Office Branch) oversight and audit reporting requirements responsibilities.
- December 28, 2016: Further expanding and integrating the International Field Office's role in the oversight of part 145 repair stations located outside of the United States.

FAA also completed the review of the Safety Assurance System (SAS) on October 30, 2016 and determined that FAA Order 8900.1 policy and guidance materials cover the risk-based oversight of repair stations located outside the United States. SAS contains the tools and resources necessary to ensure it considers inspections and accounts for the frequency and seriousness of corrective actions of part 145 repair stations that conduct scheduled heavy maintenance work on part 121 air carrier aircraft.

Finally, FAA completed development of an online briefing for FAA aviation safety inspectors (ASIs) for the oversight and audit reporting of part 145 repair stations located outside of the United States. This training was completed on July 31, 2017.

### Pilot Training

The FAA published Notice 8900.399, *Enhanced Pilot Training and Qualification*, on January 4, 2017. This Notice was directed to part 121 principal operations inspectors (POI) to provide them with information and policy about the new requirements. This included information for POIs to encourage their assigned carriers to develop a plan to meet those requirements, and provided SAS custom data collection tools for POIs to use to evaluate revisions to training programs to meet the new requirements.

### Pilot Records Database

FAA submitted the Pilot Records Database (PRD) rulemaking, which is going through executive review. Phase II of the PRD web application was completed ahead of schedule in June 2017, and Phase III was completed ahead of schedule in July 2017.

The Office of the Inspector General closed AV2015-079, recommendation 1, *Develop a clearly defined and expedited schedule for the development and implementation of a PRD, including cost estimates and project timeline*, in March 2017.

### Pilot Mental Fitness

The Aviation Rulemaking Committee's Recommendation # 2 regarding Psychological Testing was considered and actions were previously taken in FY 2016. As a result, no further actions were required in FY 2017.

### Alcohol and Controlled Substances Testing

FAA developed a Notice of Proposed Rulemaking (NPRM) in December 2016. The notice required foreign repair station employees who perform maintenance on part 121 aircraft be covered under a drug and alcohol testing program consistent with U.S. Federal and State laws where the repair station is located.

### 8c) Addressing pipeline and hazardous materials safety recommendations and mandates—PHMSA

Since 2016, PHMSA took several actions to address challenges, beginning with the implementation of organizational changes. This included the establishment of an Executive Director/Chief Safety Officer to ensure consistency and continuity of operations. PHMSA also formed a new crosscutting office, the Office of Planning and Analytics (OPA), led by an Associate Administrator to enhance agencywide planning and project management, data analysis, and rulemaking capabilities. Other changes included creating a new Regulatory Steering Committee (RSC) and governance framework to oversee the regulatory development process.

These organizational changes have allowed PHMSA to streamline and accelerate its response to audits and Congressional mandates, as well as recommendations from the OIG, GAO, and National Transportation Safety Board (NTSB), as shown in the table below.

	Beginning in FY 2017	Received in FY 2017	Closed in FY 2017	Remaining Open
Congressional Mandates	41	N/A	14	27
OIG Recommendations	5	10	8	7
GAO Recommendations	9	4	6	7
NTSB Recommendations	62	6	16	52

GAO = Government Accountability Office. N/A = not applicable. NTSB = National Transportation Safety Board. OIG = Office of Inspector General.

During FY 2017, PHMSA reassessed its regulatory process after the issuance of President Trump’s Executive Orders (E.O.s) on regulatory reform to ensure alignment with the direction of the new Administration. PHMSA conducted an initial review of its rulemakings, existing regulations, and other policies for impact on the regulated industry. From this review, PHMSA identified potential deregulatory actions to offset any significant regulatory actions, as required by the E.O.s. PHMSA continues to implement the E.O.s and advance its regulatory agenda, including rulemaking actions that respond to mandates under the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (PSA11), the Fixing America’s Surface Transportation Act of 2015 (FAST Act) and Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2016 (PIPES Act), as well as OIG, GAO, and NTSB recommendations.

In response to Section 3 of the PIPES Act, beginning on October 28, 2016 and every 90 days thereafter, PHMSA posted to its public [website](#) the status of outstanding final rules required for pipeline safety. In fact, PHMSA exceeds the PIPES Act mandate by also listing the status of rulemakings mandated by the FAST Act and the status of additional pipeline rulemakings that are not tied to a statutory mandate.

In response to Section 10 of the PIPES Act, PHMSA convened a working group to consider the development of a voluntary information sharing (VIS) system to improve gas transmission and hazardous liquid pipeline facility integrity risk analysis. The system would accomplish this by encouraging collaborative efforts for improving inspection information feedback and information sharing. The VIS working group convened in December 2016, and its next meeting will occur on November 29 and 30, 2017.

PHMSA is also committed to continually improving internal processes and coordination with other DOT OAs on rulemaking development. PHMSA is taking steps to further streamline the intermodal coordination process on rulemaking, international standards development, and other mission-related activities. PHMSA remains focused on enhancing its oversight controls and policies for timely implementation of Congressional mandates and recommendations. PHMSA also plans to monitor the progress in addressing recommendations from NTSB, GAO, and OIG, as well as efforts to coordinate and address OAs' safety concerns.

#### 8d) Implementing initiatives for increasing enforcement of regulations for transport of hazardous materials by rail—FRA

FRA implemented OIG's seven recommendations between May 2016 and February 2017, which have now been closed by OIG. FRA completed the following:

- Issued guidance on available tools and related data inputs for resource allocation decisions;
- Developed a secure tool that provides training and access to inspection data;
- Updated guidance on recommending penalties and information included in a violation report;
- Strengthened processing procedures by requiring attorneys to document considerations of assessment factors for every hazardous materials violation; and
- Amended policy and procedures to require that staff report to OIG all suspected criminal violations and instances of fraud, waste, and abuse.

FRA continues to complete the following:

- Provides regional hazardous materials specialists with access to information on penalty amounts for closed violations; and
- Periodically performs a comprehensive hazardous material transportation risk assessment that identifies and assesses the relationships associated with achieving program objectives.

#### 8e) Harnessing new financing methods in DOT's credit programs—OST

The structure of the Build America Bureau (the Bureau) includes elements that promote effective implementation of mandated changes in DOT's credit programs, including the following:

- **Bureau funding:** To establish the Bureau, the FAST Act provided temporary transfer authority for the two-year period ending December 2017. The Bureau, in coordination with other offices throughout DOT, will

continue to work with Congress and OMB to seek legislation that provides a more permanent approach to fund transfers and enables the Bureau to fully implement its staffing plans to achieve FAST Act requirements.

- **Consolidation of program guides:** The Bureau consolidated program guides for the Transportation Infrastructure Finance and Innovation (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) Programs to provide a more centralized resource for State and local governments. The Bureau released the consolidated [Credit Programs Guide](#) in January 2017, and it will continue to make additional updates based on clarification and consolidation of credit program applications.
- **Establishment of the Credit Review Team (CRT):** The CRT conducts thorough assessments of each request for Bureau financial assistance and provides informed recommendations to the Council on Credit and Finance (CCF). Weekly CRT meetings include Departmental experts in finance, policy, legal, and project development, as well as representatives from each of the OAs. The CRT structure and approach has created a more efficient process for consideration and communication of key project issues, challenges, and opportunities.



DEPARTMENT OF THE TREASURY

# Agency Financial Report

Fiscal Year 2017





DEPARTMENT OF THE TREASURY

TREASURY DEPAR

## PART 1:

# Management's Discussion and Analysis

(Unaudited)

TREASURY AT A GLANCE .....	9
ORGANIZATION .....	11
FY 2017 PROGRESS TOWARD REFORM .....	14
FY 2017 OPERATIONAL PERFORMANCE MEASURES .....	20
STRATEGIC MANAGEMENT .....	22
ENTERPRISE RISK MANAGEMENT .....	23
FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW .....	25
MANAGEMENT ASSURANCES .....	30
SYSTEMS, CONTROLS AND LEGAL COMPLIANCE .....	31





THE TREASURY DEPARTMENT

ALEXANDER HAMILTON

## TREASURY AT A GLANCE

### FOUNDATION

After the American Revolution, Congress realized that funding a war without proper infrastructure and financial discipline presented an enormous challenge to our country's economic stability. Out of the necessity to levy and collect taxes and manage the U.S. government's finances, Congress established the Department of the Treasury on September 2, 1789. President George Washington appointed Alexander Hamilton as Treasury's first Secretary. Since then, 77 Secretaries have led the Department.

Throughout history, Treasury was the foundation for other federal agencies. The U.S. Postal Service, U.S. Customs Service, Secret Service, Federal Law Enforcement Training Center, and U.S. Coast Guard—to name a few—were all, at one point, under Treasury's jurisdiction.



▲ U.S. Department of the Treasury building, Washington, D.C. (current)  
DEPARTMENT OF THE TREASURY



▲ Treasury building in the late 1800s. The Treasury building colonnade from the southeast side shows the bustle of pedestrian traffic on 15<sup>th</sup> Street as they passed in front of the Treasury building.  
DEPARTMENT OF THE TREASURY

### TODAY'S TREASURY AND HOW WE SERVE THE NATION

Treasury remains as one of the premier financial institutions, responsible for the nation's debt management, cash production, loans made to other federal agencies, tax collection, and economic policy formulation. We are a trusted policy advisor to the President, formulating and recommending domestic and international financial, economic, and tax policy. Our contributions to policy development shape America's economic health and security.

The Department also performs a critical and far-reaching role in enhancing national security and reducing our exposure to international terrorism. We do this by employing the Department's national security tools and authorities—including sanctions—to identify, disrupt, and dismantle priority national security and foreign policy threats.

Additionally, we identify and reduce vulnerabilities in the U.S. and international system to prevent abuse by illicit actors. We also leverage our relationships with our federal partners and the private sector to identify cutting-edge technologies to identify, detect, and prevent threats to our economic stability before they occur.

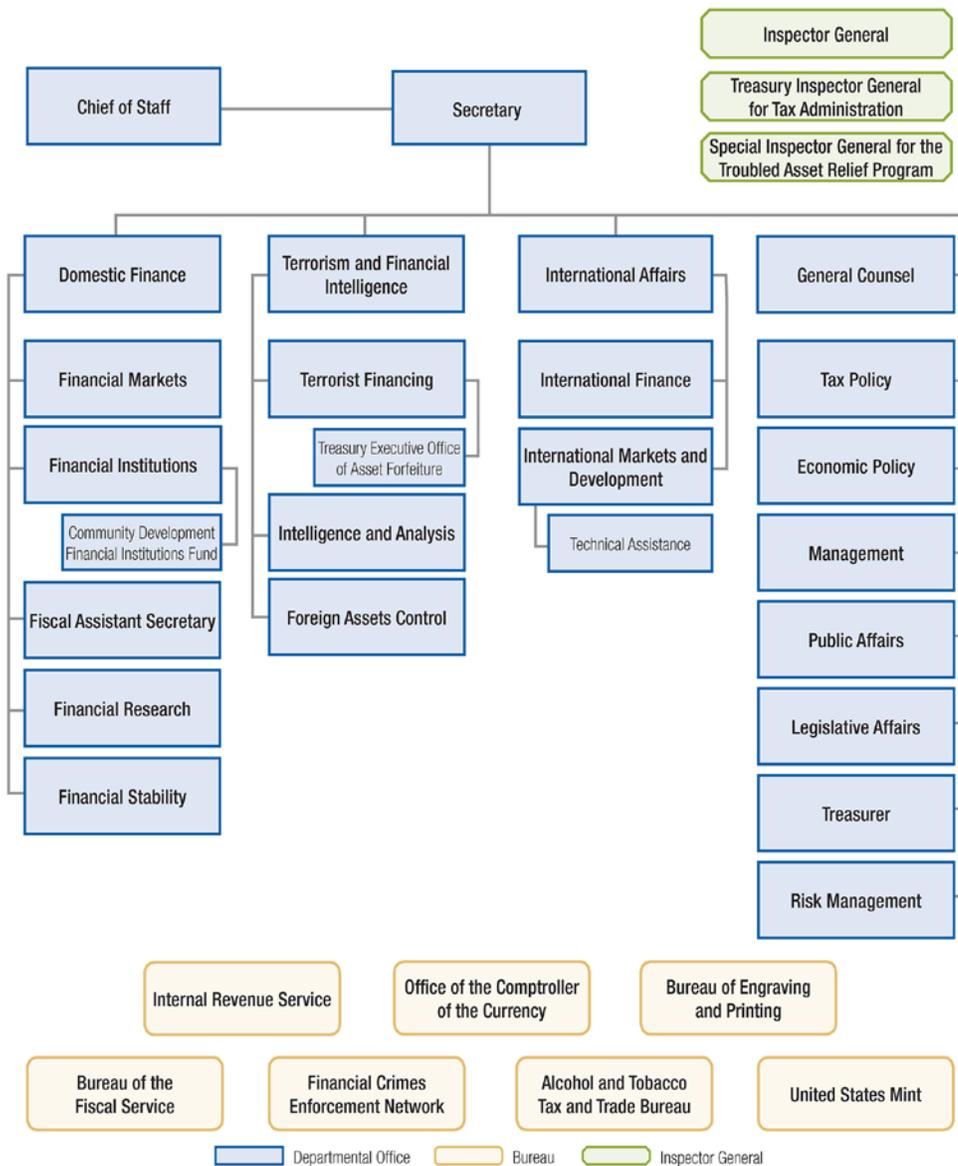
In recent years, we worked to increase opportunities for small businesses, which are the backbone of our economy; helped to create jobs to improve the well-being of U.S. citizens; and led the safeguarding and growth of our national economy. We have been a continuously influential part of the government's service to the American people, growing and developing to meet the nation's needs.

Globally, Treasury represents the U.S. in key economic forums and international financial institutions, including the Group of Seven (G-7) and the Group of Twenty (G-20), which hold annual summits with heads of state to discuss global foreign policy issues. Treasury plays a vital role in promoting stability and growth in the global economy via our leadership roles in the International Monetary Fund, the World Bank, the regional development banks, and other multilateral organizations, like the Financial Stability Board and the Financial Action Task Force.

Although Treasury has evolved to meet the nation's needs, our core mission has remained the same since 1789. Today, with approximately 100,000 employees, we remain steadfast in our commitment to promote conditions that enable economic growth and stability at home and abroad, protect the integrity of the financial system, and effectively manage the U.S. government's finances and resources. We remain the principal steward of the U.S. economy—collecting revenue, meeting financial obligations, and, when appropriate, borrowing.

# ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and three offices of inspector general. The Departmental Offices are primarily responsible for policy formulation, while the bureaus are the operating units of the organization.



## DEPARTMENTAL OFFICES



[Domestic Finance](#) works to preserve confidence in the U.S. Treasury securities market, strengthen financial institutions and markets, and promote access to credit, in service to long-term economic strength and stability.



[Terrorism and Financial Intelligence \(TFI\)](#) uses unique policy, intelligence, enforcement and regulatory tools and authorities to disrupt and disable terrorists, criminals, and other national security threats while also safeguarding the financial system against abuse by illicit actors.



[International Affairs](#) protects economic prosperity and national security by working to foster a most favorable external environment for sustained jobs and economic growth.



[Tax Policy](#) develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, and provides revenue estimates for the President's Budget.



[Economic Policy](#) reports on economic developments and assists in the determination of appropriate economic policies. Reviews and analyzes domestic economic issues and financial market developments.



The [Treasurer of the United States](#) serves as a principal advisor to the Secretary and leads the Office of Consumer Policy, which provides policy leadership, research, and analysis in the areas of fostering economic growth and financial security for American families in a robust consumer marketplace. The Treasurer also oversees the U.S. Mint, including advising the Secretary on coinage matters and liaising with the Federal Reserve.



The [Office of Management](#), including the Chief Financial Officer, manages the Department's financial resources and oversees Treasury-wide programs, including human capital, organizational performance, information technology, acquisition, and diversity issues and inclusion.



The [Office of Risk Management](#) oversees the development and implementation of an integrated risk management framework for the Department, advising Treasury leaders on managing credit, market, liquidity, fraud, operational, and reputational risks.



Other offices within Departmental Offices include the [General Counsel](#), [Legislative Affairs](#), and [Public Affairs](#).

## INSPECTORS GENERAL



Three Inspectors General – the [Office of Inspector General \(OIG\)](#), the [Treasury Inspector General for Tax Administration \(TIGTA\)](#), and the [Special Inspector General for the Troubled Asset Relief Program \(SIGTARP\)](#) – provide independent audits, investigations, and oversight of Treasury and our programs.

## BUREAUS



The [Alcohol and Tobacco Tax and Trade Bureau \(TTB\)](#) collects federal excise taxes on alcohol, tobacco, firearms, and ammunition. Enforces and administers laws covering production, use, and distribution of alcohol and tobacco products.



The [Bureau of Engraving and Printing \(BEP\)](#) develops and produces U.S. currency notes, as well as secure documents for government use.



The [Financial Crimes Enforcement Network \(FinCEN\)](#) safeguards the financial system from illicit use and combats money laundering. Promotes national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.



The [Bureau of the Fiscal Service \(Fiscal Service\)](#) provides central payment services to federal agencies, operates the U.S. government's collections and deposit systems, and delivers administrative shared services to federal agencies. Provides government-wide accounting and reporting, and manages the collection of delinquent debt. Borrows money needed to operate the U.S. government through the sale of marketable, savings, and special purpose U.S. Treasury securities. Accounts for and services the public debt.

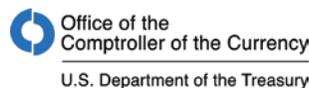


The [Internal Revenue Service \(IRS\)](#) determines, assesses, and collects U.S. tax revenue. Helps taxpayers understand their tax responsibilities and combats tax-related fraud.



UNITED STATES MINT

The [United States Mint \(U.S. Mint\)](#) designs, mints, and issues U.S. circulating numismatic and bullion coins. Strikes Congressional gold medals and other medals of national significance. Maintains physical custody and protection of most of the nation's gold and all of its silver assets.



The [Office of the Comptroller of the Currency \(OCC\)](#) ensures that the federal banking system operates safely and soundly, provides fair access to financial services, treats customers fairly, and complies with applicable laws and regulations. The OCC charters, regulates, and supervises national banks and federal savings associations, and licenses and supervises federal branches and agencies of foreign banks.

## FY 2017 PROGRESS TOWARD REFORM

Treasury has taken steps in the past year to promote the reform agenda of the new Administration, which, in part, calls for higher and more sustainable levels of economic growth for all Americans. In FY 2017, we advanced several key policies in support of this goal in the areas of tax reform, national security, and regulatory reform. We have begun and will continue to study, develop, and implement regulatory reform policies under the new *Core Principles for Regulating the United States Financial System* (Executive Order 13772), issued on February 3, 2017. At the same time, we are making full use of existing economic and financial instruments, both at the domestic and international level, to address national security.



ADOBESTOCK

### A Competitive Tax System

The United States now has the highest corporate tax rate among the 35 advanced economies in the Organisation for Economic Cooperation and Development, 15.9 percentage points higher than the worldwide average. Tax reform will make the U.S. corporate tax rate competitive again.

### TAX REFORM

We continue to advocate improvements to the U.S. tax system by supporting sound tax policies, focusing on the President’s priority of reforming the tax code. We also continue to work with Congress on fundamental tax reform. In September 2017, together with Congress, we jointly released a Unified Tax Reform Framework to deliver on this priority, which:

- Lowers taxes for individuals and families;
- Doubles the Standard Deduction and enhances the Child Tax Credit;
- Eliminates loopholes for the wealthy;
- Repeals the Estate Tax and Alternative Minimum Tax (AMT);
- Creates a new lower tax rate for small businesses;
- Lowers the corporate tax rate to create jobs and promote competitiveness;
- Allows “expensing” of capital investments to boost the economy;
- Moves to an American model for competitiveness by removing incentives to offshore jobs and to keeping foreign profits overseas; and
- Brings profits back home by imposing a one-time, low tax rate on earnings overseas.

Reducing and alleviating taxpayers’ compliance burdens is also a significant aspect of the Administration’s reform agenda. We focused this year on making the tax system simple, fair, efficient, and pro-growth. In addition to proposing actions to modify or revoke specific regulations identified earlier this year, we identified numerous regulations for potential revocation to eliminate or reduce burdens imposed on taxpayers.

## NATIONAL SECURITY

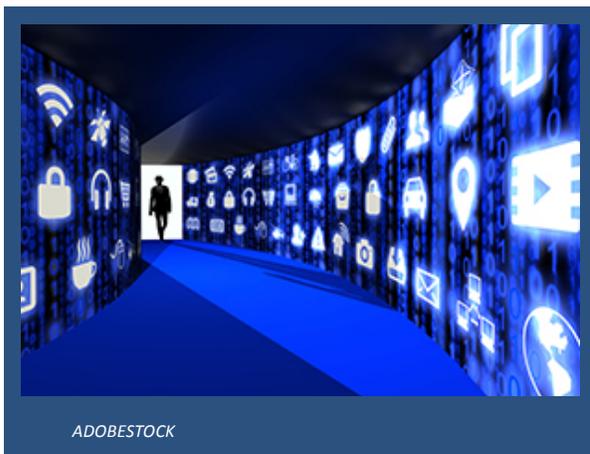
Treasury serves a distinct role in enhancing the security of the nation's financial and economic system. The American people depend on our economic and financial tools, such as sanctions and authorities under the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (or USA PATRIOT Act). We use these tools to protect the U.S. and international financial system from abuse, as well as to counter the financial networks that support terrorists, organized transnational crime, weapons of mass destruction (WMD) proliferators, and other threats to international security. In FY 2017, our continued focus on countering these illicit actors, monitoring of national security impacts of foreign business investments, and cybersecurity all played a pivotal role in protecting taxpayers.

### National Security Tools and Authorities

Treasury maintains a significant complement of targeted national security tools and authorities that help further the nation's security objectives, including countering the financial networks that support terrorists, organized transnational crime, WMD proliferators, and other threats to international security. The unique tools and authorities we maintain to address domestic and international threats are established in the Office of Terrorism and Financial Intelligence (TFI).

Critical to our continued safety and financial stability, in 2017, TFI continued to deploy an array of targeted financial tools to freeze accounts of terrorists and proliferators, enforce sanctions on rogue nations, and stamp out illicit activities throughout the U.S. and international financial systems.

A key element of TFI's continued success in addressing national security challenges was ensuring that the various components—the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), the Office of Intelligence and Analysis (OIA), and the Office of Terrorist Financing and Financial Crimes (TFFC)—were properly integrated, working closely together, and deploying the tools and authorities best suited to each challenge. TFI has a broad range of powerful tools. By using these tools in a complementary and mutually reinforcing way, we increased their impact and better addressed national security concerns.



ADOBESTOCK

### Protecting the U.S. Financial System through Cybersecurity

We must store, process, transmit, and share large volumes of highly sensitive financial and personal information affecting the transaction of trillions of dollars. In FY 2017, as a frame of reference, Treasury managed \$22 trillion in assets.

For example, TFI has adopted this integrated approach to countering North Korea, one of the highest priority threats facing the U.S. and its allies and partners.

All components of TFI worked on attacking North Korea's key financial vulnerabilities. Treasury's OIA provided expert analysis of North Korea's financial networks, identifying key nodes to target for disruptive action.

OFAC tirelessly investigated and targeted individuals and entities that support North Korea's WMD and ballistic missile programs. OFAC also undertook high-profile enforcement actions to make clear that doing prohibited business with North Korea would result in heavy penalties.

FinCEN exercised its information gathering and analytical tools in novel ways to track the financial flows of North Korean entities and front companies, and has used Section 311 of the USA PATRIOT Act to further restrict North Korea's access to the U.S. financial system.

TFFC led our international engagement efforts to work with partner countries, thereby hardening the defenses worldwide and depriving North Korea of alternative financial avenues.

Our goal continues to be to strategically and tactically cut off North Korea's revenue sources and safeguard the international financial system from North Korea's illicit financial activity.

Our approach to North Korea is just one example of this focus on integration. With every national security and law enforcement challenge we face, each component will be thinking about how it can be aggressive in using its authorities in novel, impactful, and complementary ways.

We also focused on better integrating our efforts with those of our allies and partners. For example, earlier this year, the U.S. and Saudi Arabia announced the creation of the Terrorist Financing Targeting Center (TFCT), a collaborative approach to addressing the evolving threats arising from terrorist financing.

The TFCT is a joint effort by the U.S., Saudi Arabia, and others in the Gulf Cooperation Council, and represents a new step forward in sharing information and coordinating joint disruptive actions against terrorism. The creation of the new TFCT focuses our efforts on disrupting the financial and support networks that enable terrorists.

Overall, in FY 2017, we worked to curb terrorist financing, and implemented sanctions and other financial measures to combat the threats our nation faces from Iran, North Korea, Syria, Venezuela, and Russia, among other countries. Our targeted efforts continued against Islamic State in Iraq and Syria (ISIS) global financial and facilitation networks. We also aggressively targeted ISIS, al-Qaida, and Hezbollah leadership, financiers, and financial structures to disrupt their ability to plan and execute terrorist attacks.

Moreover, we produced financial analysis on organized crime groups in the U.S. related to narcotics and third-party money laundering networks, and issued intelligence assessments on the exploitation of emerging payment systems. Illustrative of this work, in August 2017, collaborating with U.S. and Mexican law enforcement actions, the Office of Foreign Assets Control identified 22 Mexican nationals and 43 entities in Mexico as significant foreign narcotics traffickers.

## Foreign Investment in the U.S.

Treasury plays a key role in protecting U.S. national security. We help protect the security of our nation's government, military, businesses, investors, and consumers by safeguarding the United States from threats posed by foreign investment.

To that end, the Committee on Foreign Investment in the U.S. (CFIUS) is an inter-agency committee chaired by the Secretary of the Treasury. CFIUS is authorized to review business transactions (e.g., mergers and acquisitions) that could result in control of a U.S. business by a foreign person, called "covered transactions."

In FY 2017, CFIUS initiated review of approximately 230 notices of covered transactions. CFIUS cleared those transactions that did not pose any national security concerns. CFIUS required the parties to adopt mitigation measures in a number of other instances in which the transactions posed a national security risk. In other instances in which CFIUS identified a national security risk, but concluded that the risk could not be mitigated, CFIUS informed the parties that it was prepared to refer the matter to the President for action. Parties generally voluntarily abandon transactions in such circumstances.

In the one instance in which the parties did not voluntarily abandon their transaction, CFIUS recommended that the President prohibit the transaction. In that instance, consistent with the Administration's commitment to take all actions necessary to ensure the protection of U.S. national security, the President issued an order prohibiting the acquisition of a company called Lattice Semiconductor Corporation. The national security risk posed by the transaction related primarily to the potential transfer of intellectual property to a foreign acquirer and the Chinese government's role in supporting this transaction.

## Cybersecurity

The cybersecurity threat to our nation's critical infrastructure is growing, and represents one of the most significant challenges to our country's national and economic security. Increasing cyber-attacks against U.S. financial institutions could lead to a loss in confidence in our financial system and present significant economic challenges.

Our mission involves addressing a wide range of evolving cybersecurity risks, in collaboration with private and other public sector organizations. Our risks include: (1) limitations of available authentication technologies; (2) reliance on externally managed critical infrastructure; (3) continuing discovery of new vulnerabilities; (4) inadequate information sharing; and (5) a decentralized technology landscape.

The cybersecurity risk facing the Department and, more broadly, the U.S. financial services sector, is magnified by the continuous evolution in technology, as well as the volume, sophistication, and frequency of cyber threats directed against both. As the presidentially-designated agency for the financial services sector, the Department's Office of Critical Infrastructure Protection and Compliance Policy (OCIP) has an all-hazards mission to enhance the security and resilience of the financial services sector's critical infrastructure. We work collaboratively with our public and private sector partners, as well as international partners, to address the hazards that pose an operational risk to the financial services sector, including cyber and physical events, via naturally-occurring and man-made causes.

To mitigate these threats, the *Federal Information Security Modernization Act of 2014* (FISMA) requires that agencies have an annual independent evaluation performed of their information security programs and practices to determine their effectiveness and to report the results to the Office of Management and Budget (OMB). In FY 2017, Treasury implemented FISMA requirements around policies, procedures, and strategy, and will continue to improve safeguards around information technology. Additionally, OCIP coordinates efforts to reduce risk within the financial sector through a focus on: (1) prioritization and collaboration; (2) information sharing; (3) baseline protections; and (4) response and recovery.

Further improving our cybersecurity posture, in FY 2017, we established a Department-wide Cybersecurity Enhancement Account to strategically focus our cybersecurity efforts and avoid fragmentation of information technology management across our bureaus. The new account leads to cost efficiencies and improves our ability to quickly respond in the event of a cyber-attack.

### FINANCIAL REGULATORY REFORM

Outside of national security and tax reform, we focused on addressing the Administration's Core Principles for reforming the financial regulatory system through a series of planned reports. In FY 2017, we directed our attention to improving the financial regulatory system and economy consistent with Executive Order 13772.

The Core Principles include empowering Americans to make independent financial decisions, save for retirement and build wealth, and discourages taxpayer-funded bailouts. The principles also include promoting American competitiveness—both at home and abroad—while making regulation efficient, effective and appropriately tailored.



### Core Principles to Address our Financial Regulatory Structure

Treasury's recommendations seek to improve financial regulation and remove duplication and overlap. In 2016, the Government Accountability Office (GAO) released a report that concluded that significant fragmentation, overlap, and duplication exists within the regulatory framework. Specifically, GAO found the existing structure does not always ensure efficient and effective oversight, consistent financial oversight, and consistent consumer protections.

Per the direction of Executive Order 13772, we issued the first in a series of reports in June 2017 applying these Core Principles to an examination of the U.S. financial regulatory system for depository institutions. We detailed executive actions and recommendations for regulatory reform to provide relief to consumers and businesses.

Given the breadth of the financial system and a complex regulatory environment, we divided our review of the financial system into a series of planned reports with the following subject areas: (1) the depository system; (2) capital markets; (3) asset management and insurance industries, and retail and institutional investment; and (4) non-bank financial institutions, financial technology, and financial innovation.

The U.S. banking system is the strongest in the world, and is critical in supporting the U.S. economy. In our first report, we recognize the unique role of the depository system, banks, and credit unions. In particular, we recommend that capital, liquidity, and leverage rules be simplified to increase the flow of credit so that our banks remain globally competitive, among other recommendations.

We released the second and third reports in response to Executive Order 13772 in October 2017. These reports detail our recommendations of how to streamline and reform the U.S. regulatory system impacting the capital markets and the asset management and insurance industries. Our evaluation found that there are significant reforms possible to promote growth and a healthy financial system, while maintaining strong investor protections.

These reports detail recommendations to streamline disclosure requirements to reduce costs incurred by companies while providing investors key information needed for investment decisions. For example, our reports outline that disclosure and other requirements can be better tailored for companies going public based on their size. We also recommend re-examining the 2012 *Jumpstart Our Business Startups Act* (JOBS Act) to identify how its tools can be improved.

As we continue to evaluate and generate more recommendations for the U.S. financial system, we will programmatically align our operations, to the maximum extent possible, to achieve outcomes within our purview around these findings.

## FY 2017 OPERATIONAL PERFORMANCE MEASURES

In FY 2017, we continued to deliver value to our customers, the American taxpayer. Our performance measures present data on service and operational outcomes for our core programs.

For each measure, we provide definitional information and briefly explain the trend in performance over the past four years. A full discussion of performance trends for all of our programs is included in the APR.

Table 1 contains trend information for key measures used to assess our performance in core services and operations—programs that are critical to the proper functioning of the U.S. government.

**TABLE 1: SELECT PERFORMANCE MEASURES**

Bureau	Measure	FY 14	FY 15	FY 16	FY 17	FY 17 Target	FY 17 Result vs Target
BEP	<b>Manufacturing costs for currency – dollar costs per thousand notes produced</b>	\$42.0	\$42.4	\$44.3	\$43.6	\$50.0	Exceeded
	This measure calculates the actual manufacturing cost for currency notes, which include direct labor costs, the cost of raw materials used, and related manufacturing overhead charges. The FY 2017 cost was lower than anticipated due to savings resulting from decreased spoilage, as well as the recovery of Series 2009 \$100 notes through the Single Note Inspection process.						
U.S. MINT	<b>Seigniorage per dollar issued</b>	\$0.37	\$0.49	\$0.52	\$0.45	\$0.48	Unmet
	This measure calculates the difference between the face value and the cost of minting and issuing circulating coins. “Seigniorage per dollar issued” is the seigniorage generated from each dollar of circulating coinage shipped to Federal Reserve Banks. FY 2017 results fell below the target and prior year performance as a result of a 14 percent decrease in circulating shipment volumes combined with a four percent increase in the cost of metal.						
TTB	<b>Percent of permit applications processed within service standards</b>	58%	47%	32%	48%	85%	Unmet
	This measure indicates how often TTB processes permit applications within the established customer service standard for new businesses seeking to engage in alcohol or tobacco manufacturing or distribution to ensure timely market entry for qualified individuals. TTB maintained its 75-day service standard for permit applications in FY 2017. TTB continues to face challenges in timely service due to resource constraints combined with a high volume of applications.						
	<b>Percent of label and formula applications processed within service standards</b>	67%	75%	75%	62%	85%	Unmet
This measure indicates how often TTB processes alcohol beverage label and formula applications within the established customer service standards to improve consistency and reliability for the business community served. TTB established new service standards of 10 days for both labels and formulas in FY 2017. This marked a significant departure from the 30-day standard for labels and 45-day standard for formulas in place in FYs 2014 - 2016. Through the effective deployment of additional staffing resources, as well as the elimination of formula filing requirements, TTB made significant progress toward achieving the new 10-day standard for 85 percent of label and formula applications.							

TABLE 1: SELECT PERFORMANCE MEASURES (CONTINUED)

Bureau	Measure	FY 14	FY 15	FY 16	FY 17	FY 17 Target	FY17 Result vs Target
Fiscal Service	<b>Percentage of Treasury payments and associated information made electronically</b>	94.4%	94.8%	94.9%	95.1%	95.2%	Unmet
	<b>Percentage of total dollar amount of U.S. government receipts settled electronically</b>	98.0%	98.0%	98.2%	98.3%	98.0%	Exceeded
	Fiscal Service has been promoting the Paperless Treasury initiative for several years in an effort to disburse payments, as well as receive and settle collections, through electronic means. Fiscal Service added a third Digital Wallet provider (Amazon Pay) and expanded agency adoption of Digital Wallet collections by adding 22 agencies in FY 2017. In FY 2017, Fiscal Service increased adoption of public-facing mobile apps by six agencies, and increased adoption of agency-facing mobile apps by eight agencies.						
IRS	<b>Percentage of individual returns processed electronically</b>	84.1%	85.3%	86.4%	86.9%	87.0%	Unmet
	This measure reflects the number of electronically filed individual tax returns divided by the total individual returns filed. The IRS exceeded actual prior year performance but fell slightly short of the annual target for individual returns processed electronically. The IRS will continue to process individual returns as efficiently as possible to meet the FY 2018 plan.						
	<b>Taxpayer Self-Assistance Rate</b>	84.7%	88.7%	89.0%	79.0%	N/A	N/A
	This measure identifies the percentage of taxpayer assistance requests resolved using self-assisted automated services. Starting in FY 2017, the IRS modified the Taxpayer Self-Assistance Rate measures to include additional self-assistance applications, including Get Transcript and payment applications, such as Direct Pay and Online Payment Agreements. Any new self-assistance applications provided to the public will be added to the methodology.						
	<b>Full-year Customer Service Representative Level of Service</b>	64.4%	38.1%	53.4%	77.1%	64.0%	Exceeded
This measure indicates the number of toll free callers that either speak to a Customer Service Representative or receive information messages divided by the total number of attempted calls during the full fiscal year. Level of Service was better than planned due to the demand being lower than expected. Through extensive communication, the IRS encouraged taxpayers to use the Web or automated tools and alternate channels to get their concerns resolved quickly and efficiently. In addition, FY 2018 volumes of demand and successful automation/web activities will also be monitored and reported out on a recurring basis.							
FinCEN	<b>Percentage of users finding that financial intelligence collected by FinCEN pursuant to its regulations provides valuable information</b>	81%	83%	84%	86%	85%	Exceeded
This measure reflects the value of FinCEN's BSA data to law enforcement and evaluates whether the data provided unknown investigative information, supplemented or expanded known investigative information, verified information, or helped identify new leads. In FY 2017, 86 percent of users found the intelligence valuable, thereby surpassing the FY 2017 target of 85 percent. FinCEN will continue to emphasize improvements in data quality and filing information, as well as continued training efforts to improve understanding and utilizing the FinCEN Query tool for the bureau's unique cases and situations.							
Management	<b>Federal Employee Viewpoint Survey (FEVS) Engagement Index – 1 to 100</b>	66%	66%	67%	68%	67%	Exceeded
	The FEVS Engagement Index is comprised of three Office of Personnel Management (OPM) calculated indices — Leaders Lead, Supervisors, and Intrinsic Work Experiences. The Engagement Index denotes the extent to which employees are engaged in their work and motivated by their organization's leadership. Treasury's Engagement Index showed a one percent increase from 67 percent to 68 percent between 2016 and 2017. Nine out of eleven Treasury components continued to show increases in their Engagement Index by one to six points from 2016 to 2017. The increase in Treasury's Engagement Index can be attributed to gains in all three OPM indices.						
	<b>Treasury-wide Footprint in Thousands of Sq. Ft.</b>	36,418	35,439	34,894	TBD	34,310	TBD
This measures the total square footage occupied by Treasury's owned and leased buildings. The Department's real property footprint was reduced by an estimated 1.5 percent (approximately 500,000 square feet) during FY 2016. The reduction was achieved through better use of existing office space, consolidations and co-locations, increased use of telework, and the implementation of new space design standards. The Department projects that the footprint will be reduced by another 500,000 square feet in FY 2017. The final FY 2017 footprint data is expected to be available in late December 2017.							

## STRATEGIC MANAGEMENT

### FRAMEWORK

*The Government Performance and Results Act* (GPRA) and the *GPRA Modernization Act of 2010* require agencies to identify goals, report progress against targets, and conduct data-driven reviews. These practices serve two key purposes for stakeholders within and outside of the organization — to assess the organization's health and impact, and to enhance effective decision-making and strategy, including resource allocation. In this spirit, we developed a strategic framework using best-in-class organizational performance practices to ultimately help achieve our strategic goals and objectives.

### ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Our organizational performance reviews provide a regular forum for open dialogue and coordination between departmental, bureau, and policy office leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. The cycle integrates statutory requirements to conduct quarterly performance reviews of agency goals and a Strategic Objective Annual Review (SOAR), which analyzes cross-cutting performance and identifies a set of strategic objectives as priority focus areas.

At certain points throughout the fiscal year, we set annual priorities, evaluate progress, problem-solve around risks and challenges, and assess funding options in the context of performance outcomes. Treasury's process and framework for managing to our strategic objectives and performance outcomes is described in Table 2 below.

### FY 2018 OUTLOOK

Our FY 2018 – 2022 Strategic Plan will be published in February 2018. In this plan, we will describe the long-term goals and objectives we aim to achieve during this Administration, building from the progress made and challenges identified in FY 2017.

Our FY 2017 SOAR outlined several focus areas that will shape the development of our future priorities: (1) pursuing tax reform and improving the execution of the tax code; (2) increasing the efficiency and transparency of federal financial management; and (3) supporting effective data-driven decision-making.

Looking ahead, we will shape our strategic goals around five key priority areas: (1) boosting U.S. economic growth; (2) promoting financial stability; (3) enhancing national security; (4) transforming federal financial stewardship; and (5) achieving operational excellence within our department.

**TABLE 2: STRATEGIC FRAMEWORK**

Sessions	Fall (October – November)	Winter (February - March)	Spring (April – May)	Summer (June – July)
Focus	Organizational Performance	SOAR	Organizational Performance	Budget
Chair	Assistant Secretary for Management/Performance Improvement Officer (ASM/PIO)	ASM/PIO and Deputy PIO	ASM/PIO	ASM/PIO
Goals/Outcomes	<ul style="list-style-type: none"> <li>Review prior year’s performance at the bureau/office level</li> <li>Set priorities for year ahead</li> <li>Recognize successes</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate cross-agency progress toward strategic objectives</li> <li>Identify strategic shifts/validate Treasury priorities</li> <li>Outline potential topics for annual review with OMB</li> </ul>	<ul style="list-style-type: none"> <li>Assess progress on priorities</li> <li>Identify necessary adjustments/near-term improvements</li> <li>Surface problems or assistance needed</li> <li>Recognize successes</li> </ul>	<ul style="list-style-type: none"> <li>Connect priorities to future funding</li> <li>Explore performance impacts</li> <li>Strengthen information technology acquisition budgeting accountability</li> </ul>

## ENTERPRISE RISK MANAGEMENT

### FRAMEWORK

In July 2016, OMB released an updated Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control* to ensure federal managers are effectively managing risks to achieve strategic objectives. Management, together with the Chief Risk Officer (CRO), is responsible for establishing a governance structure to effectively implement a robust process of risk management and internal control. Successful implementation requires us to establish and foster an open, transparent culture that encourages people to communicate information about potential risks and other concerns with their superiors.

To this end, the CRO chairs regular Risk Management Committee meetings which bring together leaders from across Departmental Offices. The Office of Risk Management (ORM) has also established an Enterprise Risk Management (ERM) Council, chaired by the CRO, which brings together risk managers from each of our bureaus on a regular basis. In FY 2017, ORM worked with offices and bureaus across Treasury to develop a risk profile, which will be updated annually.

Beyond its work at Treasury, ORM led an effort to author a playbook to assist federal agencies in their implementation of an ERM governance structure in accordance with the OMB Circular's guidelines. This playbook was published in July 2016. After the release of the playbook, ORM worked to establish an ERM Point of Contact Working Group. This government-wide working group, comprised of representatives from federal agencies and their key components, meets on a regular basis to discuss common risks and various methods of implementing the guidelines of the Circular.

## ENTERPRISE RISKS AND CHALLENGES

Through the FY 2017 the SOAR and enterprise risk management process, we identified the following cross-cutting risks and challenges that will be reflected in Treasury's FY 2018 – 2022 strategic goals and objectives.

### Human Capital –Workforce Planning/Recruitment:

Issues within the human capital lifecycle (e.g., recruitment, development, and retention), coupled with the lengthy security clearance process, routinely present challenges for achieving the organization's mission. Additionally, expanding the use of workforce planning and metrics to proactively forecast and meet workforce needs proves challenging, particularly in the enforcement, analytics, and regulatory fields.

**Program Oversight and Alignment to Mission:** We identified a need to better understand and meet customer expectations, and to better measure the impact of our programs across a range of mission areas.

**Cybersecurity:** Continued growth of increasingly sophisticated threats requires constant vigilance (enabled by state-of-the-art monitoring, implementation of cyber hygiene, and an insider threat program) and retention and recruitment of top talent (enabled by the use of strategic workforce planning) to ensure proper baseline protections.

**Aging Infrastructure:** We must address risks associated with outdated information technology infrastructure, facilities, and equipment to safeguard employees and systems.

## FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

The financial highlights below are an analysis of the information included in our consolidated financial statements that appear within Part 2, “Financial Section” of this report. Our principal financial statements have been prepared to report Treasury’s financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). These consolidated financial statements have been prepared from our books and records in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats

prescribed by OMB. The consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements are for a component of the U.S. government, a sovereign entity.

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2017, compared to September 30, 2016.

### Summary Financial Information (\$ in billions)

	2017	2016	\$ Change	% Change
Total Assets	\$ 22,686.2	\$ 22,170.9	\$ 515.3	2.3%
Total Liabilities	\$ 22,188.8	\$ 21,667.0	\$ 521.8	2.4%
Total Net Position	\$ 497.4	\$ 503.9	\$ (6.5)	(1.3)%
Total Net Cost of Treasury Operations	\$ 20.1	\$ 17.7	\$ 2.4	13.6%
Net Federal Debt Interest Costs	\$ 413.3	\$ 385.7	\$ 27.6	7.2%
GSEs Non-Entity Revenue, Net	\$ (9.4)	\$ (13.8)	\$ (4.4)	(31.9)%
Total Net Cost of Treasury Operations and Non-Entity Costs	\$ 438.6	\$ 403.6	\$ 35.0	8.7%
Total Budgetary Resources	\$ 818.5	\$ 797.3	\$ 21.2	2.7%
Agency Outlays, Net	\$ 420.5	\$ 400.3	\$ 20.2	5.0%
Net Revenue Received (Custodial)	\$ 3,087.3	\$ 3,048.7	\$ 38.6	1.3%

**Financial Overview.** Our financial performance as of and for the fiscal year ended September 30, 2017, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by \$674.5 billion to \$20.3 trillion to finance the U.S. government’s operations.

Additionally, our “Total Net Cost of Treasury Operations and Non-Entity Costs” for FY 2017 increased by \$35.0

billion, primarily stemming from non-entity activity, including \$27.6 billion of higher net federal debt interest costs and \$4.4 billion of lower revenue from our investments in two Government Sponsored Enterprises (GSEs) — Fannie Mae and Freddie Mac — pursuant to our Senior Preferred Stock Purchase Agreements, as amended (refer to the *GSEs Non-Entity Revenue, Net* discussion below).

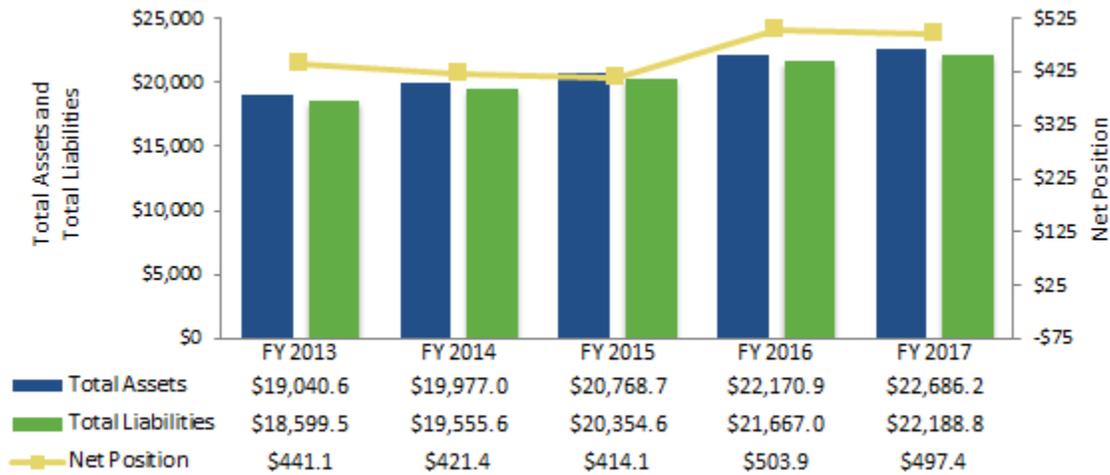


Figure 1: Total Assets, Total Liabilities, and Net Position (in billions)

Total Assets of \$22.7 trillion at September 30, 2017 consist of a receivable due from the General Fund of the U.S. Government (General Fund) of \$20.4 trillion, intra-governmental loans and interest receivable of \$1.5 trillion, and fund balance and various other assets totaling \$856.8 billion (Figure 2).

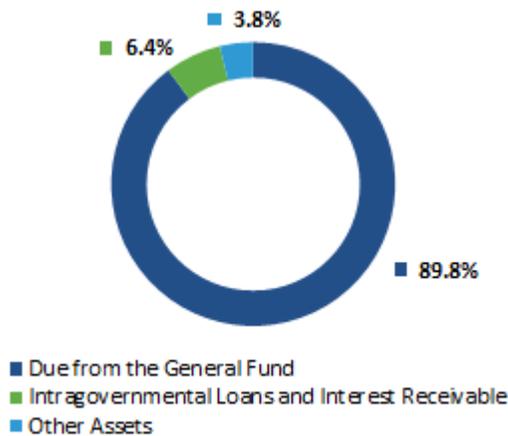


Figure 2: FY 2017 Total Assets (Composition)

The \$515.3 billion (or 2.3 percent) increase in total assets at the end of FY 2017 over the prior year is primarily due to a \$674.6 billion increase in the “Due From the General Fund” account. Of this increase, \$674.5 billion corresponds to an increase in federal debt and related interest payable. The “Due From the General Fund” asset account, represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by \$55.0 billion (or 3.9 percent) to \$1.5 trillion at the end of FY 2017 due to increased borrowings by various federal agencies — such as the Departments of Education, Homeland Security, and Transportation — to fund their existing programs.

Among other things, other assets include operating cash balances (held on behalf of the U.S. government), foreign currency investments and Special Drawing Rights, as well as investments in, and credit program receivables due from, certain financial institutions for which we provide financial assistance in an effort to stabilize financial markets. Other assets decreased by \$214.3 billion, largely reflecting a decrease in the U.S. government’s operating cash balances, offset by an increase in borrowings from the public. Operating cash balances held in depository institutions and Federal Reserve Bank accounts decreased primarily due to adjustments in borrowing in FY 2017 driven by the delay in raising the statutory debt limit.

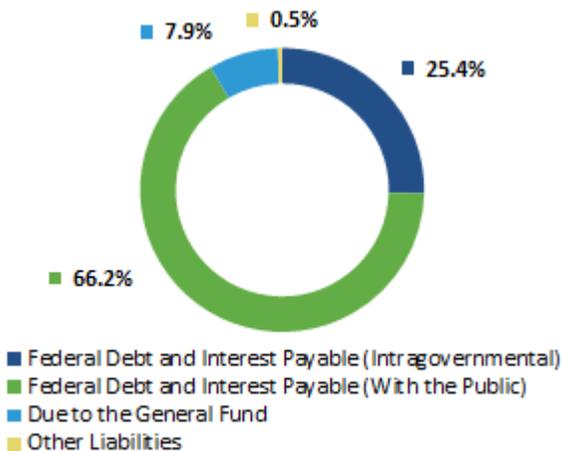


Figure 3: FY 2017 Total Liabilities (Composition)

**Total Liabilities** of \$22.2 trillion at September 30, 2017 principally consist of the federal debt held by the public, including interest, of \$14.7 trillion (Figure 3), which was mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling \$7.4 trillion (of which \$5.6 trillion represents principal and interest on federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling \$83.3 billion. The \$521.8 billion (or 2.4 percent) increase in total liabilities over the prior year is

attributable to a \$674.5 billion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. government’s budget deficits.

The increase in federal debt, including interest, held by the public and federal agencies was offset by a \$151.6 billion decrease in the “*Due to the General Fund*” account, which corresponds primarily to decreases in the U.S. government’s operating cash balances, as discussed above. Through the Fiscal Service, we account for and report on the principal borrowings from and repayments to the General Fund, as well as the related interest due to the General Fund.

**Total Net Position** of \$497.4 billion at September 30, 2017 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The \$6.5 billion (1.3 percent) decrease in the net position at the end of FY 2017 was principally attributable to normal business operations.

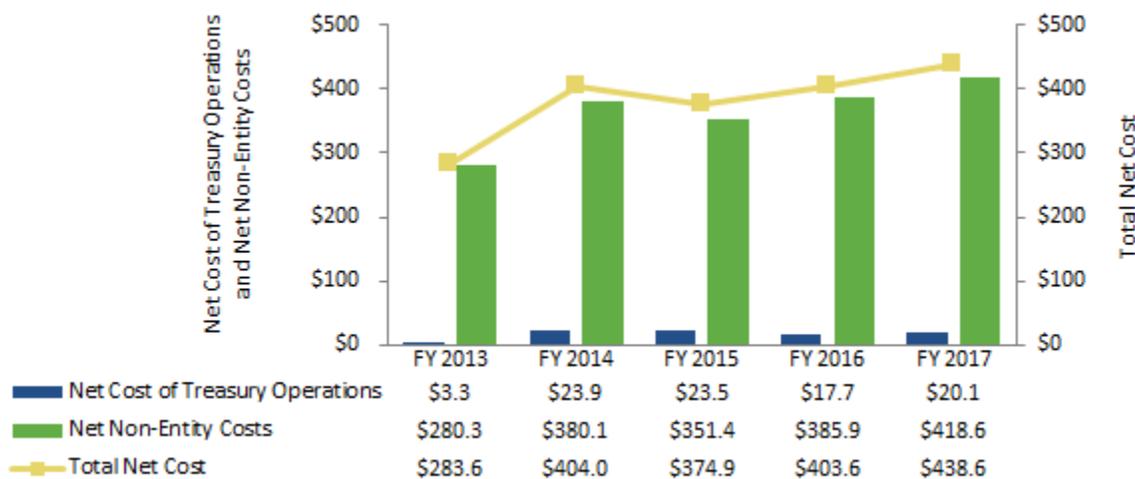
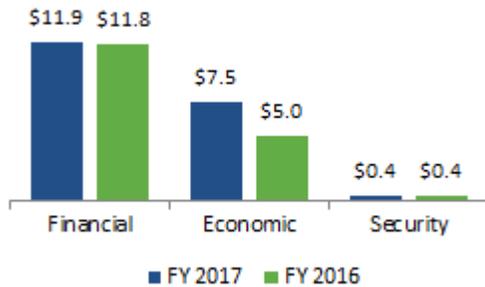


Figure 4: Net Cost of Treasury Operations and Non-Entity Costs (in billions)

**Total Net Cost of Treasury Operations and Non-Entity Costs**, is presented on our Consolidated Statements of Net Cost (Figure 4). “*Net Cost of Treasury Operations*” represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that

are consolidated with the Department. “*Net Non-Entity Costs*” represent the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include federal debt interest costs, net of GSE non-entity revenues. “*Total Net Cost of Treasury Operations and Non-Entity Costs*” totaled

\$438.6 billion and \$403.6 billion for FY 2017 and 2016, respectively, an increase of \$35.0 billion (or 8.7 percent) over the prior year. “*Net Non-Entity Costs*” and “*Net Cost of Treasury Operations*” contributed \$32.6 billion (primarily driven by net federal debt interest costs and GSE net revenue) and \$2.4 billion, respectively, to the year-over-year increase in net costs.



**Figure 5 : Net Cost of Treasury Operations by Strategic Program (in billions)**

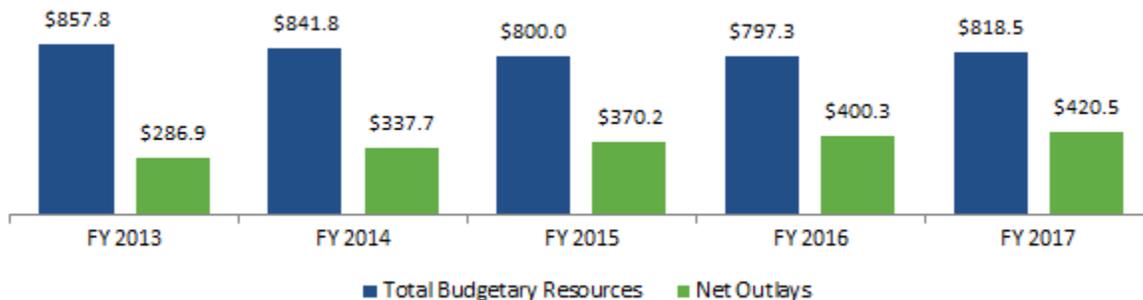
**Net Cost of Treasury Operations** is presented on our Consolidated Statements of Net Cost by strategic program. There are three main categories of strategic programs presented — financial, economic, and security — as well as a management strategic program which is combined with the financial program due to the immateriality of the management program (Figure 5). Our Net Cost of Treasury Operations totaled \$20.1 billion for FY 2017 compared to \$17.7 billion for FY 2016, an increase of \$2.4 billion (or 13.6 percent). This increase is

primarily a result of increased valuation losses associated with our foreign denominated investments due to weakening currency exchange rates on certain foreign currencies against the U.S. dollar.

**Net Federal Debt Interest Costs (a non-entity cost)**

primarily reflects interest expense on the federal debt which increased \$26.7 billion (or 6.3 percent) in FY 2017. The higher cost was primarily attributable to an increase in outstanding debt held by the public, as well as an increased inflation adjustments associated with Treasury Inflation-Protected Securities which are driven by increases in the Consumer Price Index.

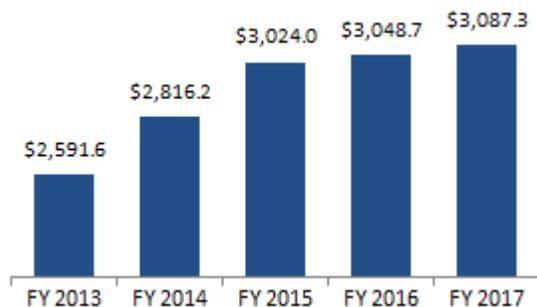
**GSEs Non-Entity Revenue, Net** totaled \$9.4 billion for 2017 compared to \$13.8 billion for 2016. The \$4.4 billion decrease in this net revenue in 2017 was driven by an \$18.2 billion year-to-year decrease in the fair value of our GSE investments. The value of these investments decreased by \$15.9 billion at the end of FY 2017, compared to an increase of \$2.3 billion at the end of FY 2016. The change in value is attributable mainly to a higher discount rate which was driven by a higher long-term Treasury rate. This decrease in revenue was offset by a \$13.8 billion year-to-year increase in senior preferred stock dividends received from the two GSEs due to higher combined GSE earnings in 2017.



**Figure 6 : Total Budgetary Resources and Agency Outlays, Net (in billions)**

**Total Budgetary Resources** of \$818.5 billion in FY 2017 (Figure 6) increased by \$21.2 billion (or 2.7 percent), primarily due to a \$19.0 billion increase in appropriations received to pay interest on the public debt.

**Agency Outlays, Net** of \$420.5 billion were higher in FY 2017 (Figure 6) by \$20.2 billion (or 5.0 percent), primarily due to a \$19.0 billion increase in interest payments on public debt.



**Figure 7 : Net Revenue Received (Custodial) (in billions)**

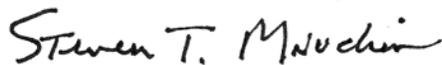
**Net Revenue Received (Custodial)**, representing the net revenue we collected on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was \$3.1 trillion for FY 2017, an increase of \$38.6 billion (or 1.3 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in individual income tax collections, partially offset by reduced estate and corporate income tax collections and deposit of earnings from the Federal Reserve System.

## MANAGEMENT ASSURANCES

### THE SECRETARY'S ASSURANCE STATEMENT

The Department of the Treasury's management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We have evaluated our management controls, internal controls over financial reporting, and compliance with federal financial systems standards. As part of the evaluation process, we considered results of extensive testing and assessment across the Department and independent audits.

We can provide reasonable assurance that the objectives of Section 2 of the FMFIA for financial reporting and operations have been achieved, except for the material weaknesses noted below. Additionally, we are in substantial conformance with Section 4 of the FMFIA for Financial Management System Requirements. In accordance with Appendix A to the OMB Circular A-123, *Internal Control over Financial Reporting*, we can provide a modified assurance that internal control over financial reporting was operating effectively as of June 30, 2017 based on the results of our assessment. We are not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) due to the IRS material weakness related to unpaid tax assessments.



Steven T. Mnuchin  
Secretary of the Treasury  
November 15, 2017

As of September 30, 2017, Treasury had two FMFIA material weaknesses as follows:

**Operations:** The Fiscal Service needs to improve internal controls over the processes used to prepare the U.S. Consolidated Financial Statements

**Financial Reporting:** The IRS needs to improve internal controls over unpaid tax assessments

We continue to make progress on these weaknesses, and will remain committed to focusing management attention and resources on appropriate corrective actions. Overall, we continue our efforts to maintain high standards, minimize internal control weaknesses, and meet federal financial management requirements. Additional information on the material weakness can be found in Part 3, Section E, of this report.

## SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

### FMFIA

#### Background

The FMFIA requires Executive branch agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with applicable laws. The management control objectives under FMFIA are to reasonably ensure that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

FMFIA requires agencies to evaluate and report on the effectiveness of the organization's internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (FMFIA Section 4). Significant deficiencies that are material and affect our ability to

meet these objectives are deemed "material weaknesses." Additional information on our reported material weaknesses can be found in Part 3, Section D, of this report.

#### Internal Control over Reporting

In accordance with Appendix A to OMB Circular A-123, *Internal Control over Reporting*, and GAO's *Standards for Internal Control in the Federal Government*, we use an annual testing and assessment methodology that identifies and documents internal controls over financial reporting and incorporates operational effectiveness. For FY 2017, our components completed their testing and assessment of internal controls for material transactions as of June 30, 2017. Based on the results of this assessment which reported two material weaknesses, we provided a modified statement of assurance regarding the effectiveness of our internal control over financial reporting as of June 30, 2017. Additional information on the material weaknesses can be found in Part 3, Section D of this report.

In conjunction with our OMB Circular A-123, Appendix A, FY 2017 Guidance and Implementation Plan, our components documented their compliance with applicable laws and regulations. Based on our assessment of this documentation, we are in compliance with applicable laws and regulations for FY 2017 with the exception of the FMFIA as addressed below and in Part 3, Section D, of this report.

## FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

### FFMIA

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

The FFMIA Section 803(c) (1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on review of relevant factors. We assess our financial management systems annually for conformance with the requirements of Appendix D to OMB Circular A-123, *Compliance with the FFMIA*, and other federal financial system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, which incorporates a risk model of risk levels against common goals and compliance indicators. OMB Circular A-123, Appendix D contains an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In addition, we assess available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, we concluded that Treasury's financial management systems are substantially compliant with the FFMIA requirements, with the exception of the IRS.

The IRS did not substantially comply with federal financial management systems requirements or applicable federal accounting standards. The IRS has established a robust remediation plan to achieve compliance with the FFMIA requirements. The IRS received agreement from OMB that the current remediation plan satisfies the requirements of Appendix D to OMB Circular A-123, replacing the need for a waiver from OMB for remediating a material weakness taking longer than three years under FFMIA. The remediation plan is updated and reviewed by the IRS and Treasury executives on a quarterly basis. Additionally, the progress of the remediation plan is reviewed annually by TIGTA.

### Financial Management Systems

Our financial management systems framework consists of two foundational components: (1) financial and mixed systems maintained by Treasury bureau components, and (2) the Treasury-wide Financial Analysis and Reporting System (FARS). Bureaus process and record detailed financial transactions and submit summary-level information to the FARS, which maintains the key financial data necessary for Treasury-wide consolidated financial reporting. This framework satisfies the financial operational and reporting needs of our reporting entities as well as our internal and external reporting requirements. The FARS framework plays a key role in the Department's efforts to obtain an unmodified audit opinion.

The FARS includes the following financial applications:

- Treasury Information Executive Repository (TIER) — a financial data repository used to consolidate and validate bureau financial data
- TIER Financial Statements (TFS) — a reporting application used to produce monthly and annual financial statements, notes, and other supporting reports

Our bureaus submit summary-level financial data to TIER on a monthly basis. The TFS application uses the bureau data to produce financial statements and report on a Treasury-wide and component level basis.

Fifteen of our bureaus and offices use centralized financial management, budget formulation and performance management, and IT hosting provided by the Fiscal Service's Administrative Resource Center (ARC). This shared service approach enables bureaus and offices to have access to core financial systems without having to maintain the necessary technical and systems architectures. ARC also provides administrative services in the areas of financial management transaction processing, human resources, procurement, and travel to our bureaus and offices and to other federal entities to support core business activities. Using a shared service reduces the need for Treasury to maintain duplicative financial management systems, thereby promoting efficiency and cost savings while enhancing the quality, timeliness, and accuracy of financial management processes.

In FY 2017, ARC continued to refine financial management and procurement system services to its first cabinet-level customer agency, the Department of Housing and Urban Development. ARC took steps to invest in an application to automate the servicing of customer financial statements and made progress on its service-oriented architecture.

## Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating the current bureau financial management systems, as well as the current FARS applications in order to support new financial requirements and to provide management with data-driven financial decision making. In FY 2017, we continued refining TIER and TFS to meet new and evolving reporting requirements, including the reporting of financial and award data to support compliance with the *Digital Accountability and Transparency Act* (P.L. 113–101) (DATA Act). Supported by new business and

system processes, we successfully submitted and certified the required DATA Act financial and award files for display to the public in FY 2017 on <https://beta.usaspending.gov/#/>. We will continue to refine our reporting efforts and will leverage any insights from the Treasury's OIG and GAO to enhance transparency pursuant to their DATA Act implementation review.

Additionally, in FY 2017, we migrated the FARS applications from the Main Treasury building to the IRS data centers in Memphis, Tennessee, and Martinsburg, West Virginia. The migration supports our data center consolidation initiative and incorporates new physical hardware for hosting the FARS.

Along with bureau financial systems, the TIER and TFS applications form a unified financial governance solution that focuses on improving financial processes and controls. These systems and applications help us to reduce operating costs, provide assurance over the quality of our financial data, improve the timeliness and quality of financial management processes and reporting, enhance internal controls, and improve transparency in the entire reporting process.

We have established and maintained an information security program and practices for its financial systems consistent with applicable FISMA requirements, OMB policy and guidance, and National Institute of Standards and Technology standards and guidelines. Our systems undergo annual security reviews, and security weaknesses identified through those reviews are then remediated by developing and implementing plans of action and milestones. We monitor bureau conformance to government-wide information technology security targets and provides roll-up reports quarterly to OMB. The Department's compliance with FISMA is evaluated annually by representatives of the OIG.

## IMPROPER PAYMENTS

### Background

The *Improper Payments Elimination and Recovery Improvement Act* (IPERIA) of 2012 requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. An improper payment is any payment (including overpayments and underpayments) that should not have been made or that was made in an incorrect amount.

Appendix C to OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, defines “significant improper payments” as gross annual improper payments in a program exceeding both the threshold of 1.5 percent of program outlays and \$10 million of all program or activity payments or \$100 million regardless of the improper payment percentage. Appendix C also requires agencies with programs susceptible to significant improper payments to implement corrective action plans that include improper payment root cause identification, reduction targets, and identification of accountable officials.

### Risk Assessments and Results

In FY 2017, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We performed our assessment of each program, excluding the Earned Income Tax Credit (EITC), using the nine qualitative risk factors identified in Appendix C. We also performed quantitative risk assessments and assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts which define payment programs susceptible to improper payments. As a result of the risk assessments, we determined that the agency’s programs and activities, except for EITC, were deemed not susceptible to improper payments.

### EITC Program

The EITC is deemed a high priority program by OMB, because it is susceptible to significant improper payments. The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2017, 24% (\$16.2 billion) of the total EITC program payments of \$67.9 billion were improper. The IRS has a robust enforcement program for the EITC which consists of examinations and audits, math error notices, and document matching. Additional information on the IRS’s EITC program can be found in Part 3, Section E, of this report.

### Payment Recapture Audits

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends \$1 million or more annually, if conducting such audits would be cost-effective. We performed the payment recapture activities in accordance with OMB Circular A-123, Appendix C. Details on our improper payments and payment recapture program activities and results can be found in Part 3, Section E, of this report.

### Do Not Pay Initiative

Our Do Not Pay Working System (hereafter referred to as “Working System”) is the legislatively mandated and OMB designated source of centralized data and analytic services to help agencies verify eligibility and to identify and prevent potential fraud, waste, and abuse associated with improper payments. The results of the checks against these data sources provide information that an agency should consider in pre-award or prepayment assessments to help prevent improper payments. Fiscal Service, our shared service provider, compares our records in the financial system with payee records in the Working System. We review potential matches on an ongoing basis to prevent improper payments, and incorporate a pre-

award check on potential contractors against the Working System. Additional information on the Do Not Pay initiative can be found in Part 3, Section E, of this report.

[Page intentionally left blank]

**VA**



**U.S. Department of  
Veterans Affairs**



*Advancing the health of Veterans through greater choice and  
innovative resources.*

**Agency Financial Report  
Fiscal Year 2017**

# MANAGEMENT'S DISCUSSION AND ANALYSIS



# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## MISSION AND ORGANIZATIONAL STRUCTURE

### MISSION

President Lincoln's immortal words, delivered in his Second Inaugural Address more than 140 years ago, best describe the VA's mission. *"To care for him who shall have borne the battle and for his widow, and his orphan."* We care for Veterans, their families, and survivors – men and women who have responded when their Nation needed help. Our mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.

VA fulfills these words by providing world-class benefits, medical, and burial services to the millions of men and women who have served this country with honor. President Lincoln's words guide all VA employees in their commitment to providing the best medical care, benefits, social support, and lasting memorials that Veterans and their dependents deserve in recognition of Veterans' service to this Nation.

### ORGANIZATION

VA comprises three Administrations that deliver services to Veterans and Staff Offices that support the Department:

**VA Staff Offices** provide a variety of services to the Department, including information technology (IT), human resources management, strategic planning, Veteran outreach and education, financial management, acquisition, and facilities management.

**Veterans Benefits Administration (VBA)** provides a variety of benefits to Veterans and their families. These benefits include compensation, pension, fiduciary services, educational opportunities, vocational rehabilitation and employment (VR&E) services, home ownership promotion, and life insurance benefits.



VA's Central Office in Washington, D.C., is home to many of VA's staff offices.



VA hosted a major Veteran career fair in Washington, D.C., where federal agencies and private sector companies partnered to hire Veterans on the spot.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

**Veterans Health Administration (VHA)** provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.



*At the Houston VA Medical Center, emergency room physician Dr. Jonmenjoy Biswas checks in with his family overnight. Dr. Biswas and more than 700 staff in Houston stayed at the hospital during Hurricane Harvey to ensure full operations.*

**National Cemetery Administration (NCA)** provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants, headstones and markers, presidential memorial certificates, outer burial receptacles, and medallions.



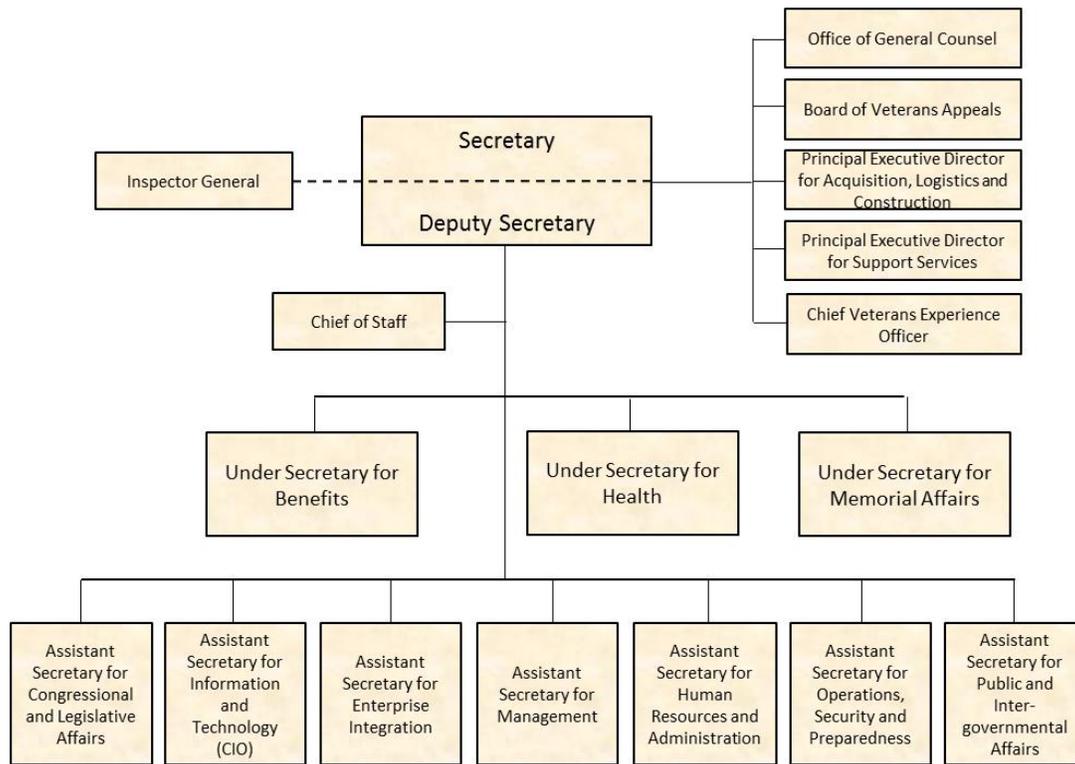
*Tahoma National Cemetery, Kent County, Washington. Photographed on Memorial Day.*

### DID YOU KNOW?

*Coaching into Care provides a “coaching” service for family and friends of Veterans who believe their Veteran needs help. Coaching involves helping the user learn how to motivate a Veteran to seek services. The service is provided by licensed clinical social workers and psychologists. The goal of the service is to help Veterans and family members find the appropriate services in their communities. Coaching into Care can be found at <https://www.mirecc.va.gov/coaching/>.*

# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



On Monday, May 29, 2017, U.S. President Donald Trump and other executive officials, Department of Defense and VA officials, and the general public commemorated Memorial Day at private cemeteries, national cemeteries around the Nation, and at (pictured) Arlington National Cemetery.

# SECTION I: MANAGEMENT’S DISCUSSION AND ANALYSIS

## PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

### IMPROVING VA: MODERNIZING VA FOR VETERANS AND THEIR FAMILIES

VA has made incremental progress over the past few years by focusing on how to do business better. Modernization is about fundamentally changing the way we do business, the speed and scope at which we do it, and the results we achieve.

- VA must focus our resources on the services that VA is in a unique position to provide. No organization can be everything to everyone. We need Veterans to help us focus on what matters most to them, what

VA does best, and what services can be outsourced or eliminated altogether to ensure VA achieves its modernization objectives.

- Veterans deserve access to state-of-the-art facilities and cutting-edge technology. VA is uniquely positioned to lead the Federal Government and the private health care industry into new and exciting directions that will benefit all of the American people.

<b>Modernizing Our Facilities</b>	<b>Modernizing Our IT Systems</b>	<b>VA and DoD Are Finally Working Together</b>
<p>Our buildings and facilities are increasingly falling into disrepair. Close to 60 percent of our buildings are more than 50 years old. We have 499 buildings from the Revolutionary and Civil Wars; of these, 96 are vacant. We will be working with Congress to ensure that we are spending less taxpayer money on out-of-date buildings and more on providing Veterans with clean, safe, comfortable, and modern facilities that they can be proud of.</p>	<p>VA has dozens of IT systems that are decades old that are expensive to maintain, have known security risks, and do not meet business requirements. These old systems are also difficult to use, increasing the amount of time it takes to provide Veterans the care and services they have earned.</p>	<p>The Secretary of Veterans Affairs (SECVA) recently announced that VA will use the same contractor and system that the Department of Defense (DoD) is using for electronic health records (EHRs). This is a major step towards simplifying our systems and processes, creating a smoother transition for our men and women in uniform transitioning back into civilian life.</p>

### BUILDING TRUST THROUGH ACCOUNTABILITY AND TRANSPARENCY

*VA must become the high-performing organization every Veteran expects and deserves and that America can once again take pride in.* In order to build trust, VA must be transparent about the challenges we face.

- The SECVA delivered a State of VA speech, available at <http://www.blogs.va.gov/VAntage/38482/secretary-shulkin-state-va-making-va-organization-veterans-deserve>, in which he

outlined the major challenges and risks to the organization. This is an unprecedented and necessary step towards fixing and modernizing VA as it moves into the 21<sup>st</sup> century.

- Veterans can now see wait time and satisfaction data in an easy-to-use online tool found at <https://www.accesstocare.va.gov/>, empowering them to make more informed

## SECTION I: MANAGEMENT’S DISCUSSION AND ANALYSIS

decisions about their health care. No other health system in America does that.

- VA will continue to increase transparency and publicly acknowledge the challenges we face, and we will engage Veterans,

Congress, the private sector, and Veteran Service Organizations (VSO) in resolving these challenges through a clear and measurable plan of action with results and regular progress updates.

### PRIORITY 1: GREATER CHOICE FOR VETERANS

Veterans and their families deserve greater access, choice, and control over their health care. VA is committed to empowering Veterans to make decisions that work best for them and their families.

<b>Reducing Wait Times</b>	<b>Same-Day Services</b>	<b>Integrated Network for Care</b>
<p>We are committed to reducing wait times. Though we now have same-day services (SDS) for primary care and mental health at all of our 168 medical centers, at just over one percent of our locations across the country Veterans are waiting more than 60 days for new appointments, while patients with urgent care needs are being seen. This is unacceptable and we must do better. In VA’s draft Strategic Plan, to be published in February 2018, VA plans to build a high-performing and integrated delivery network that leverages both virtual and physical delivery of care.</p>	<p>We are committed to providing, by year’s end, SDS at all of our Community Based Outpatient Clinics (CBOCs).</p>	<p>We are working with Congress on new Choice legislation that will streamline our processes, focus our resources, and provide Veterans a high-performing, integrated network for care – bringing together the best of VA and the private sector.</p>

### DID YOU KNOW?

*VA’s Transition Assistance Program will review VA benefits and services, such as education, VR&E, insurance, home loans, health care, and disability compensation. To find out more, visit the program online at <https://www.benefits.va.gov/TAP/>.*

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

### PRIORITY 2: IMPROVE TIMELINESS OF SERVICE

Some Veterans are still waiting too long for care services. We can and must do better.

<b><i>Cutting Down the Wait Time</i></b>	<b><i>Improving the Disability Claim Timeline</i></b>	<b><i>Creating Transparency in Claim Status</i></b>
In just over one percent of our locations across the country, Veterans are still waiting over 60 days for new appointments in primary care and mental health.	The average time a disability claim is awaiting a decision is just over 90 days. Our goal is to cut this time to 60 days over the next two years.	There is little information available to Veterans on the status of their disability claim appeals. This lack of transparency is a major hindrance to providing timely decisions.

#### ***Implementation of Vets.gov***

The VA Digital Service team is currently working to enable Veterans to easily track the status of their appeals in a more secure, clear, and manageable way through [www.Vets.gov](http://www.Vets.gov).

### PRIORITY 3: SUICIDE PREVENTION

Suicide prevention is VA's highest clinical priority. Suicide is a national health crisis that will take a whole government approach along with public-private partnerships to address.

<b><i>Daily Average</i></b>	<b><i>Zero Veteran Suicides</i></b>	<b><i>Getting It Right</i></b>
On average, 20 Veterans die by suicide every day. This is unacceptable and we must act.	We are launching a new initiative to help us get to zero Veteran suicides.	No one is immune to this epidemic. Veterans and their families are relying on us to get this right.

#### ***Reaching the High-Risk Population***

We are now offering former Servicemembers with other-than-honorable discharges – a high-risk population – access to emergent mental health services in our medical centers. In VA's draft Strategic Plan, leadership states its intention to provide comprehensive care for combat/catastrophically ill, injured, and wounded Veterans and provide early intervention and full access to mental health and suicide prevention.

#### ***REACH VET***

We are launching an innovative predictive modeling tool called REACH VET, which allows us to identify and care for Veterans who are at the highest risk of suicide.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

### PRIORITY 4: MODERNIZE OUR SYSTEMS

Veterans and VA employees need systems and technology that enable us to deliver the high-quality care and services our Veterans deserve. Investing in 21<sup>st</sup> century technology is critical for our modernization effort.

<b><i>IT Budget</i></b>	<b><i>Outdated Systems</i></b>
<p>Over 75 percent of our IT budget is spent on legacy systems that are at risk of failing or are in need of major enhancements.</p> <ul style="list-style-type: none"> <li>✓ The SECVA recently announced that VA will use the same contractor and system for EHRs as DoD. This is a major step forward in creating a seamless transition for Veterans.</li> </ul>	<p>VA's scheduling systems and our financial systems are outdated, preventing us from performing critical functions in a streamlined and efficient manner.</p> <ul style="list-style-type: none"> <li>✓ Both systems are in the process of being replaced, but it will take several years to complete.</li> </ul>

### PRIORITY 5: FOCUS RESOURCES MORE EFFICIENTLY

VA owes it to Veterans and taxpayers to ensure resources are being spent on the care and services Veterans need the most. If VA continues to try to be all things to all people, quality and timeliness of services and care will continue to decline.

<b><i>Consolidation of Mental Health Programs – Reducing Red Tape</i></b>	<b><i>Facility Construction and Management</i></b>
<p>VA is reducing red tape at the VA Central Office (VACO) through consolidation of VA's mental health programs, communications, and legislative services:</p> <ul style="list-style-type: none"> <li>✓ We are consolidating multiple mental health programs into a single office.</li> <li>✓ We are consolidating VACO communications programs so that VA can speak with one clear, simple, and unified voice, ensuring that Veterans clearly understand and know how to access the benefits, care, and services available to them.</li> <li>✓ We are consolidating our legislative affairs outreach to ensure that we are effectively engaging Congress and addressing their constituents' concerns in a timely fashion.</li> </ul> <p>We are implementing a shared services plan for the multiple human resources offices across the department, allowing us to streamline efforts in order to expedite filling critical staffing gaps.</p>	<p>Our buildings and facilities are increasingly falling into disrepair. Close to 60 percent of our buildings are more than 50 years old. We have 499 buildings from the Revolutionary and Civil Wars; of these, 96 are vacant. We will be working with Congress to ensure that we are spending less taxpayer money on out-of-date buildings, and more on providing Veterans clean, safe, comfortable, and modern facilities that they can be proud of.</p>

# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

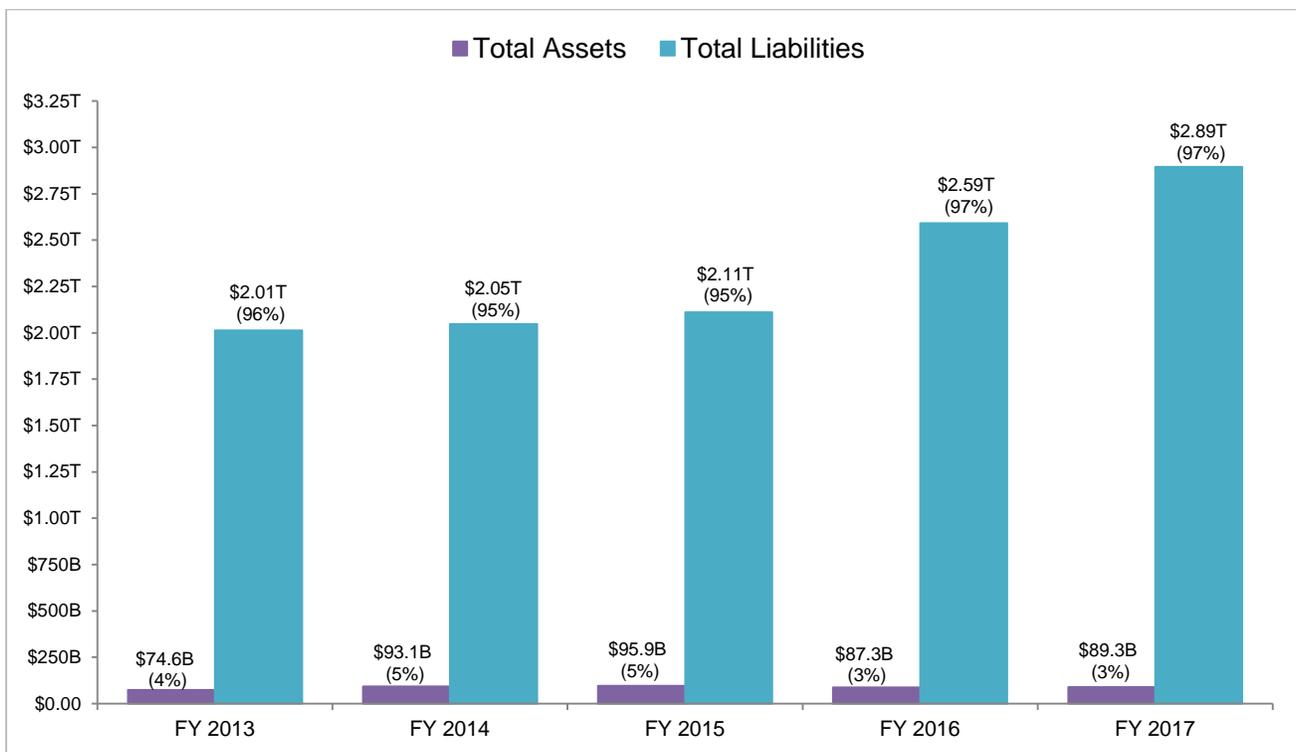
## ANALYSIS OF ENTITY'S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

### BALANCE SHEET

The Balance Sheet provides a snapshot of the Department's financial position. It reports the balances of the Department's assets, liabilities and net position, at a fixed point in time. As shown in Chart 1, the Department's total

liabilities significantly exceed total assets. Chart 2 shows the components of the Department's liabilities, with the largest being Unfunded Federal Employee and Veterans Benefits.

**Chart 1: Comparative Total Assets and Liabilities FY 2013 – FY 2017**

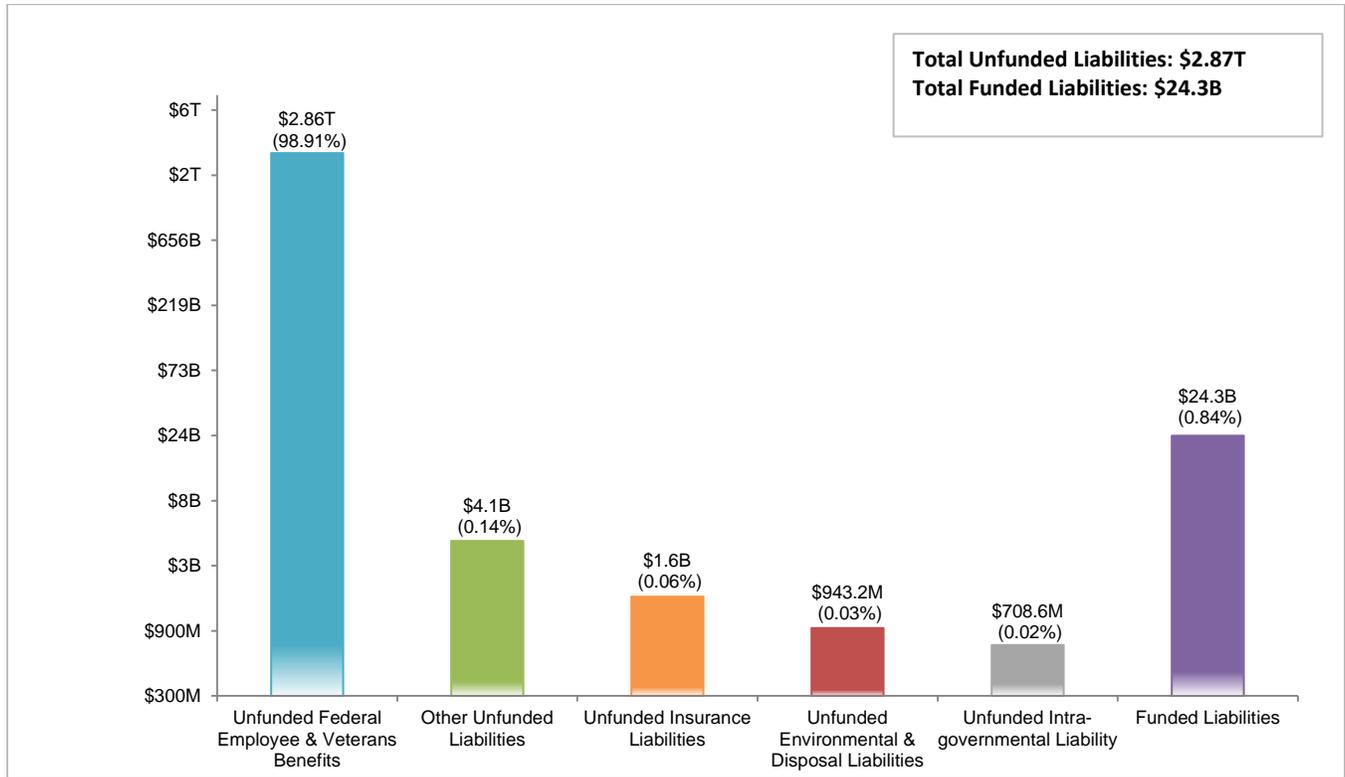


### DID YOU KNOW?

*In April 2017, the Secretary announced a major new initiative to detect and prevent fraud, waste, and abuse in VA. The initiative will improve governance and understanding of current activities as well as identify programs that need additional strategies to mitigate the risk of fraud, waste, and abuse.*

# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

**Chart 2: FY 2017 Breakdown of Funded and Unfunded Liabilities**

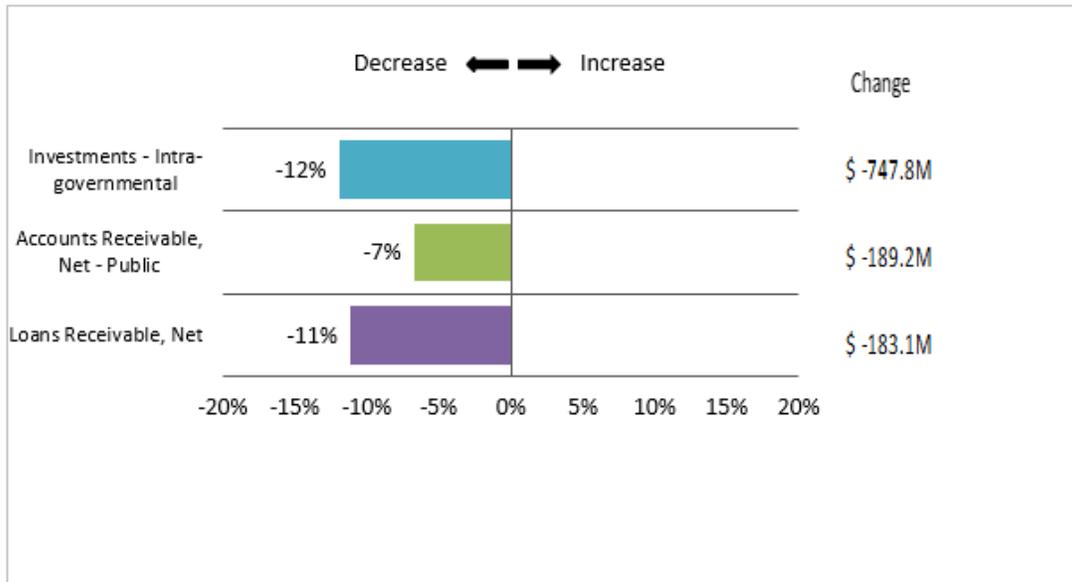


The scale in Chart 2 increases in incremental dollar value due to the wide range of liability component balances from \$464 million to \$2.86 trillion.

## Unfunded Federal Employee and Veterans Benefit Programs

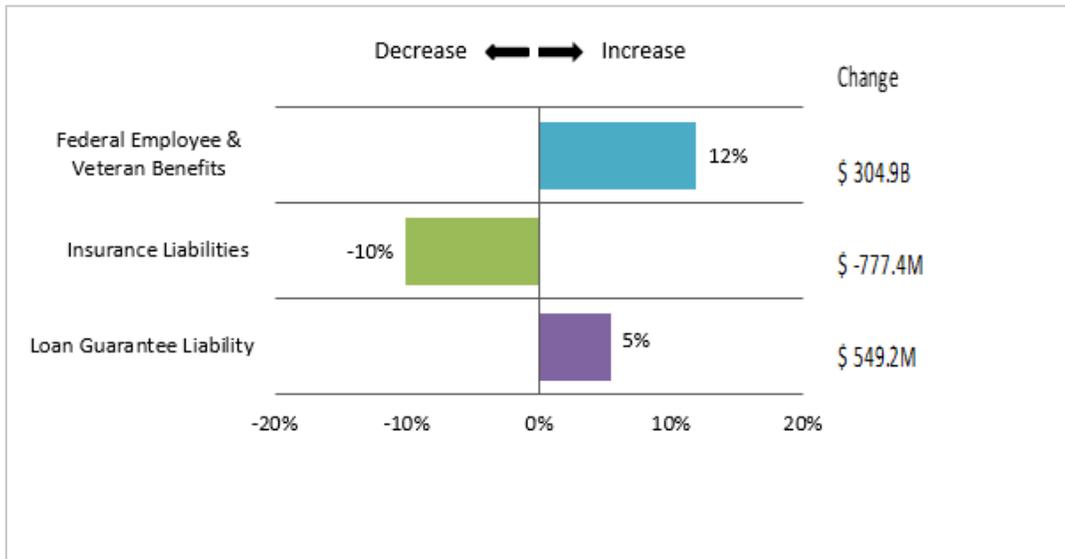
Compensation Benefits	Education Benefits
<p><b>\$2.8 Trillion</b></p> <p>Compensation benefits are the most significant component of Federal Employee and Veterans Benefit liabilities. VA delivers compensation benefits to:</p> <ul style="list-style-type: none"> <li>✓ Veterans with military service-related disabilities</li> <li>✓ Beneficiaries of deceased Veterans.</li> </ul>	<p><b>\$50.7 Billion</b></p> <p>VA delivers benefits through numerous education programs to eligible:</p> <ul style="list-style-type: none"> <li>✓ Veterans</li> <li>✓ Veteran dependents</li> <li>✓ Beneficiaries of deceased Veterans</li> <li>✓ Active duty Servicemembers.</li> </ul>
Burial Benefits	Federal Employee Compensation
<p><b>\$4.9 Billion</b></p> <p>VA provides burial-related benefits to recognize Veterans' sacrifices in service of the Nation. Benefits include:</p> <ul style="list-style-type: none"> <li>✓ Burials</li> <li>✓ Burial flags</li> <li>✓ Headstones, markers, and medallions</li> <li>✓ Presidential Memorial Certificates</li> <li>✓ Outer burial receptacles</li> <li>✓ Other interment needs.</li> </ul>	<p><b>\$2.4 Billion</b></p> <p>The Federal Employee's Compensation Act (FECA) provides compensation benefits to Federal Employees for disability due to personal injury sustained while in performance of duty.</p>

**Chart 3: FY 2017 Significant Changes in Assets**



<b><i>Investments - Intragovernmental</i></b>	<b><i>Accounts Receivable, Net - Public</i></b>	<b><i>Loans Receivable, Net</i></b>
<p>Reserve funds withdrawn to cover life insurance program shortfalls, which are due to:</p> <ul style="list-style-type: none"> <li>✓ The closing of insurance programs to new issues, resulting in lower revenues.</li> <li>✓ An increasing age of existing policyholders, resulting in higher payouts.</li> </ul>	<p>Based on historical collection rates, the allowance for losses on public accounts receivable (AR) in compensation and pension (C&amp;P) programs was increased, resulting in an overall decrease in public AR.</p>	<ul style="list-style-type: none"> <li>✓ Inactive Vendee Loan program, resulting in the absence of new loans while the balance of existing loans are being paid down.</li> <li>✓ Decreased inventory of foreclosed properties in Veterans Housing Benefit programs.</li> <li>✓ Decrease in life insurance policy loans.</li> </ul>

**Chart 4: FY 2017 Significant Changes in Liabilities**



<b>Federal Employee and Veteran Benefits</b>	<b>Insurance Liabilities</b>	<b>Loan Guarantee Liability</b>
Actuarial liabilities increased due to a continued rise in the number of beneficiaries receiving C&P benefits and a decrease in discount rates applied.	Decreases in actuarial life insurance and dividends declared liabilities due to a reduction in the number of active insurance policies.	Loan guarantee liabilities increased due to a change in the subsidy rate of guaranteed loans from 0.25 percent in FY 2016 to 0.51 percent in FY 2017. The rate was increased to cover the higher estimated costs of default claims.

**DID YOU KNOW?**

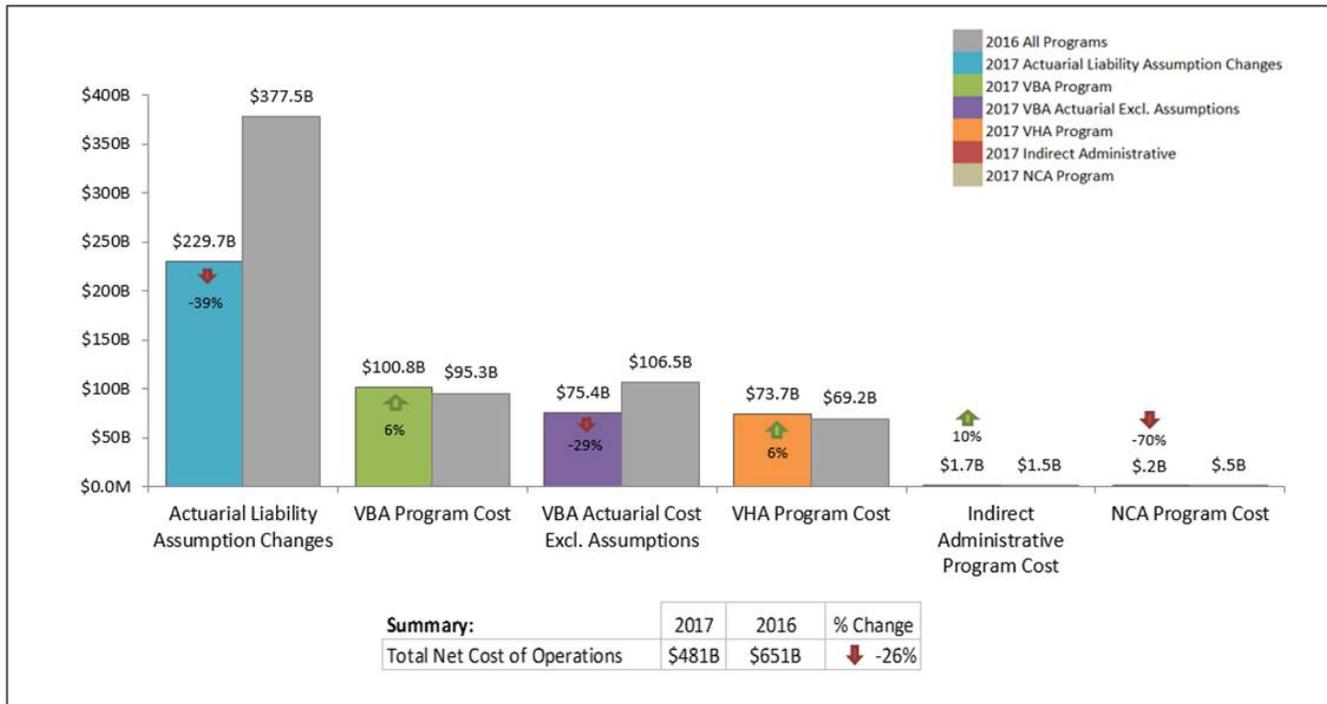
*REBUILDING YOUR FINANCES: Discover financial disaster recovery resources, which can help you rebuild your finances if you were impacted by a hurricane and other natural disaster by visiting [www.mymoney.gov](http://www.mymoney.gov).*

# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## NET COST OF OPERATIONS AND CHANGES IN NET POSITION

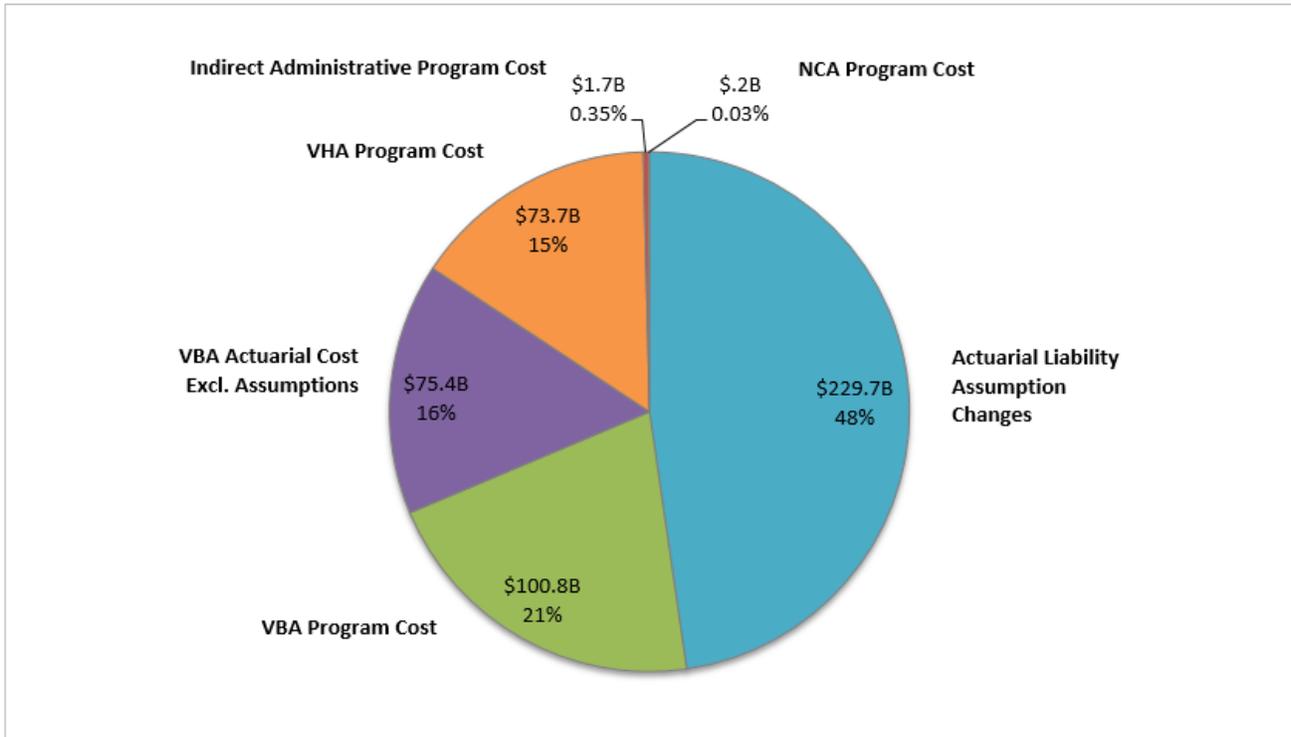
The Net Cost of Operations reports the full costs of VA programs less any exchange revenues earned from those activities. The major program elements of net cost are shown in Chart 5.

**Chart 5: Comparative Statement of Net Cost, FY 2017 – 2016**



<b>Actuarial Liability Assumption Changes</b>	<b>VBA Program</b>
Due to continued increases in the number of beneficiaries receiving compensation benefits, average growth assumptions have been adjusted upward. The FY 2016 adjustment exceeded that of FY 2017, resulting in a decrease of costs.	C&P benefit payments have increased due to efficiency gains from transformational process changes and IT advances, resulting in a higher number of beneficiaries accessing and receiving these benefits.
<b>VBA Actuarial Cost Excluding Assumptions</b>	<b>VHA Program</b>
Decreases due to experience changes resulting from valuation date changes, offset by interest on the liability balance and amounts paid as well as the addition of the following education programs into the estimate during FY 2017: <ul style="list-style-type: none"> <li>✓ Montgomery GI Bill – Active Duty</li> <li>✓ Vocational Rehabilitation and Employment</li> <li>✓ Dependent Education Assistance.</li> </ul>	Due to increases in wages and benefits costs resulting from an increase in the number of personnel employed in the medical services, medical support and compliance, and medical facilities fields which contributes to more Veterans receiving access to quality health care in a timely manner.

Chart 6: FY 2017 Gross Program Costs



The Statement of Changes in Net Position combines the net cost of operations with non-exchange sources of financing to arrive at net

position. Net position changed 12.1 percent from a deficit of \$2.50 trillion in FY 2016 to a deficit of \$2.8 trillion in FY 2017.



*VA is embarking on the largest transformation and modernization effort in recent history. To that end, VA secretary Dr. David Shulkin hosted a meeting of robotics experts in Washington for a VA Robotics in Healthcare roundtable. The meeting brought together a select group of subject matter experts in the health care robotics field across industry and academia.*

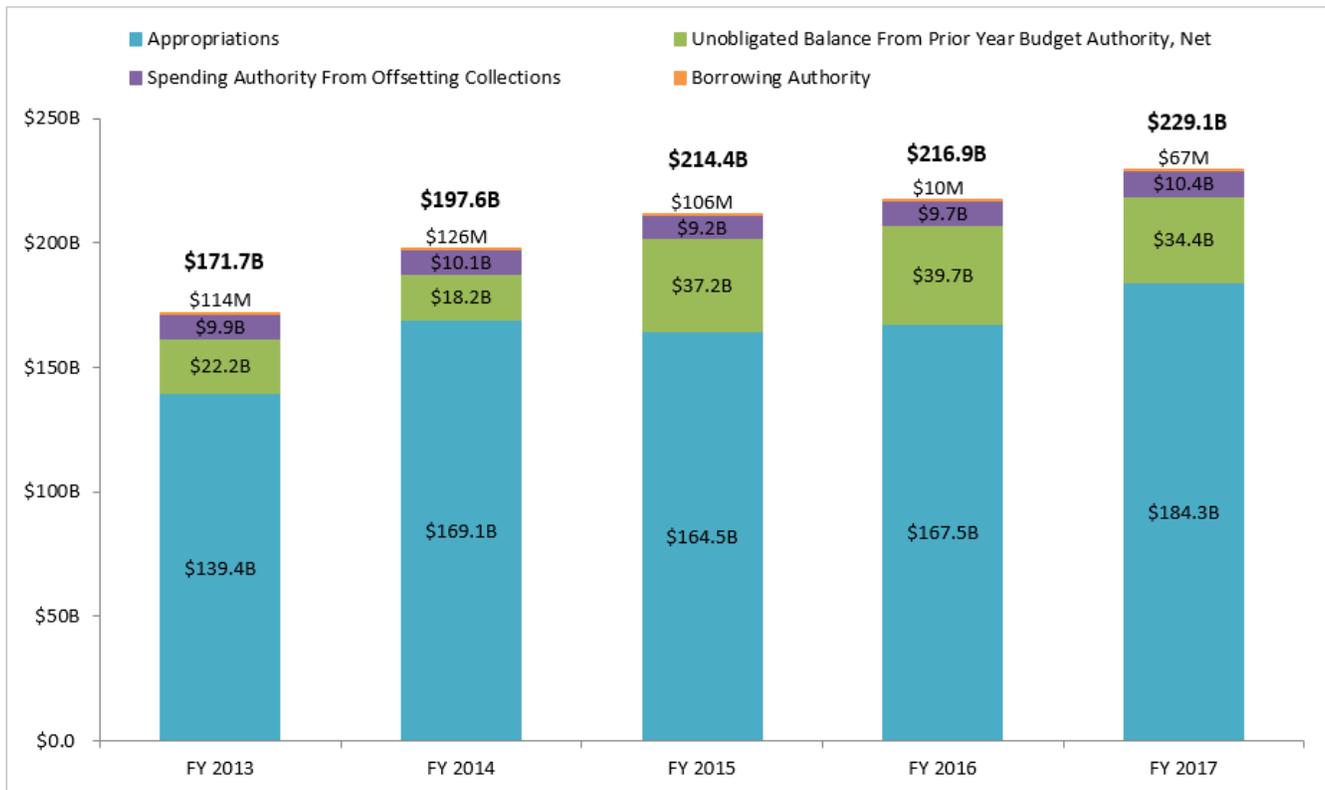
# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUDGETARY RESOURCES

VA expends a substantial amount of its budgetary resources on medical care for Veterans and Veteran's compensation and education benefit programs. The primary

sources of VA funding are appropriations from Congress and unobligated balances from prior year budget authority.

**Chart 7: Comparative Budgetary Resources, FY 2013 – FY 2017**



### Budgetary Resources

The increase in overall budgetary resources between FY 2016 and FY 2017 is reflective of:

- ✓ Growth in medical services benefits provided due to an increase in the number of Veterans receiving care from 6.9 million to 7.1 million in FY 2016 and FY 2017, respectively.
- ✓ The VA Choice and Quality Employment Act of 2017 provided additional funding authorization for the Veterans Choice Program (VCP) to ensure Veterans receive the right care, at the right time, from the right provider.
- ✓ Higher C&P payments as a result of increases in the number of beneficiaries accessing and receiving these benefits.

The additional budgetary resources received in FY 2017 resulted in a 5.8 percent, \$10.7 billion increase in obligations incurred between FY

2016 and FY 2017. Additionally, there was a 3.2 percent, \$5.9 billion increase in gross outlays.

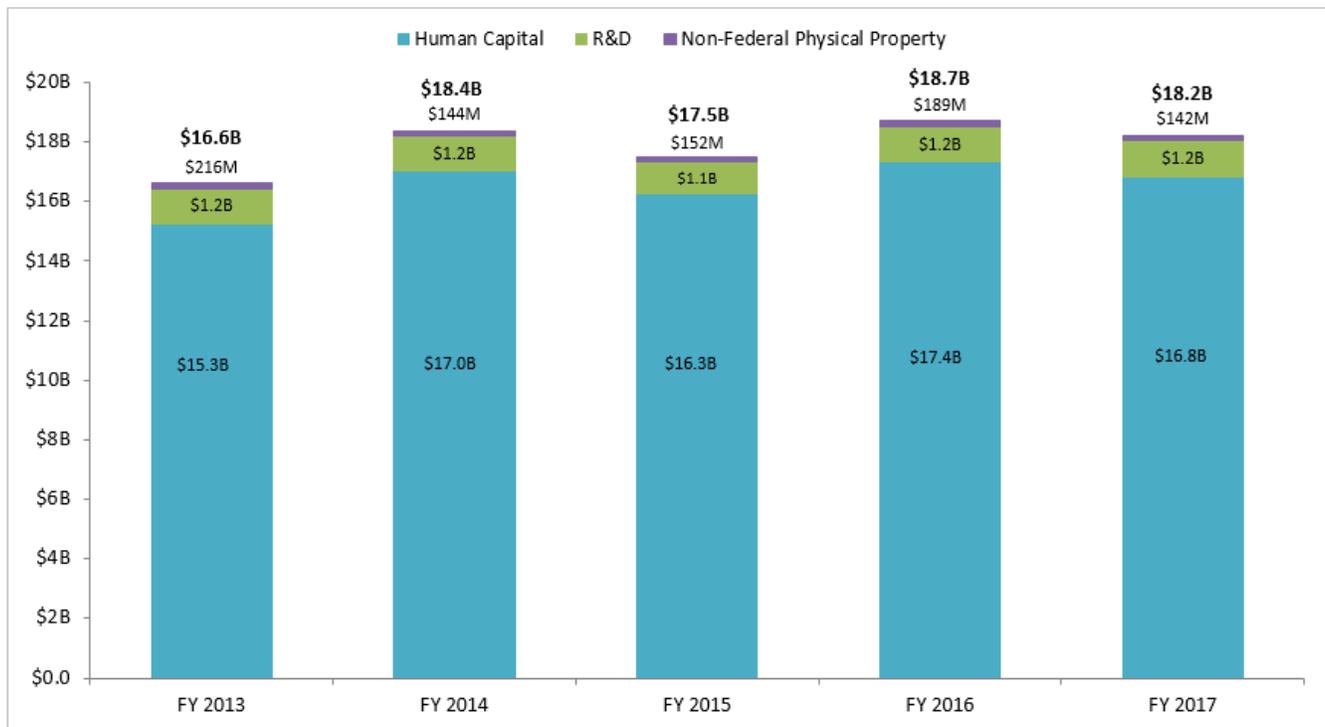
# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation that are not physical assets owned by the Federal

Government. These investments are treated as expenses in determining the net cost of operations. The following chart presents a trend comparison of VA's stewardship investments.

**Chart 8: Comparative Stewardship Investments, FY 2013 – FY 2017**



<b>Human Capital</b>	<b>Research and Development (R&amp;D)</b>	<b>Non-Federal Physical Property</b>
Investment in human capital is comprised of education and training expenses for eligible: <ul style="list-style-type: none"> <li>✓ Servicemembers</li> <li>✓ Veterans</li> <li>✓ Family members</li> <li>✓ Health care professionals to enhance quality of care provided to Veterans.</li> </ul>	Investment in R&D is comprised of expenses that are intended to increase or maintain national economic production capacity or to yield other benefits. VA R&D investment components include: <ul style="list-style-type: none"> <li>✓ Medical research service</li> <li>✓ Rehabilitative R&amp;D</li> <li>✓ Health services R&amp;D</li> <li>✓ Cooperative studies research service</li> <li>✓ Medical research support.</li> </ul>	VA provides funding for the purchase, construction, or major renovation of: <ul style="list-style-type: none"> <li>✓ State extended care facilities</li> <li>✓ State and tribal Veterans cemeteries.</li> </ul>

# SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

## ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### MANAGEMENT ASSURANCES



#### THE SECRETARY OF VETERANS AFFAIRS WASHINGTON

November 15, 2017

Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). VA conducted its assessment of risks and internal control in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017, except for the following reported material weaknesses:

- (1) Government Accountability Office (GAO) High-Risk List Areas: Every 2 years, at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. GAO's 2015 High-Risk List added "Managing Risks and Improving VA Health Care." GAO highlighted five primary risk issues: (1) ambiguous policies and inconsistent processes; (2) inadequate oversight and accountability; (3) information technology (IT) challenges; (4) inadequate training of VA staff; and (5) unclear resources and allocation priorities. VA submitted its management strategy to GAO to address the five high-risk issues. VA senior leadership is overseeing implementation of the strategy.
- (2) Access to Care: Veterans experiencing long wait times for care challenged the Veterans Health Administration (VHA) to develop open scheduling access. Open access means having space in "today's" schedule for patients to be seen, which means transitioning from a fully booked appointment schedule to a schedule with immediate appointment availability. To improve access to care, VA removed wait times from performance plans, retrained schedulers on a simplified scheduling process, established simplified wait time methods, and increased the volume of appointments completed. VHA implemented Same Day Service (SDS) in Primary Care and Mental Health as of December 2016, and is currently implementing SDS in Community-Based Outpatient Clinics, with an anticipated completion of December 2017. In addition, scheduling software enhancements are currently in progress.
- (3) Community Care: VHA has weaknesses in its design and implementation of controls over the Community Care program, specifically regarding transaction authorization and obligation, cost estimation, payment processing, monitoring, and timely liquidation of unfulfilled authorizations, reconciliations, and the related accrued expenses. The VHA Office of Community Care (OCC) has taken corrective actions including (1) preparing monthly Choice Fund accrual and obligation adjustment white papers to assist with validating accrued expenses and obligations, (2) developing contractor performance metrics for appointment fulfillment and mechanisms to assess and monitor compliance with contract terms, (3) publishing monthly and quarterly review checklists on Community Care financial controls, and (4) publishing OCC reconciliation monitoring and follow-up standard operating procedures to assist stations with performing complete and accurate reconciliations.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

- (4) IT Security Controls: VA continues to have an IT material weakness in (1) Agency-Wide Security Management Program, (2) Identity Management and Access Controls, (3) Configuration Management Controls, (4) System Development/Change Management Controls, (5) Contingency Planning, (6) Incident Response and Monitoring, (7) Continuous Monitoring, and (8) Contractor Systems Oversight. VA developed Plans of Action addressing the full scope of the audit recommendations. VA is in the process of developing a refreshed approach to the 2015 Enterprise Cybersecurity Strategy that aims to institutionalize the accomplishments of the Enterprise Cybersecurity Team to date and define VA's Enterprise Cybersecurity Program (ECSP). The ECSP will strive to improve VA's existing enterprise security program and build and execute a Risk Management Framework and Cybersecurity Framework program in alignment with National Institute Standards and Technology and federal guidance and policy. Remediation efforts remain a priority for VA and detailed corrective action plans are closely monitored by senior management.
- (5) Financial Reporting: VA's legacy financial management systems are outdated and driving a myriad of financial reporting deficiencies, including overuse of journal vouchers, increased need for analytics, issues with inter- and intra-governmental activities, lack of reconciliation and timely clearing of deposit/clearing account activities, reconciliations with subsidiary systems, budgetary to proprietary analysis, and fluctuation analysis. VA selected a federal shared service provider solution to modernize VA's financial management systems and processes to mitigate this weakness.
- (6) Veterans Benefit and Education Actuarial Liability: VA's financial statement auditor identified internal control deficiencies in the control environment related to the Compensation, Pension, Burial and Education (CP&E) actuarial estimates along with quality control and errors in the analysis of the models. VBA lacks a qualified and resident Chief Actuary managing and taking full responsibility for VA's CP&E modeling. VBA has awarded a contract for actuarial services and is taking action to hire an actuary. VA also provided estimates for three additional Education Benefits programs for FY 2017.
- (7) Loan Guaranty Liability: VA uses financial models to prepare accounting estimates for its mortgage guaranty liability for financial reporting purposes. A VA initiated independent review and the VA's financial statement auditor identified structural deficiencies, deficient internal controls and a governance environment that have led to several years of misstatements of the mortgage guaranty liability. VBA is working to implement recommendations provided by its independent reviewer and will evaluate and implement where possible the recommendations provided by the financial statement auditor.
- (8) Chief Financial Officer (CFO) Organizational Structure: VA's financial statement auditor reported a material weakness for the CFO organizational structure, noting VA operates under a decentralized environment with a fragmented financial management and reporting structure. The auditor stated the organizational structure does not operate in a fully integrated manner to enable effective financial reporting for internal and external purposes. In response to the material weakness, OM has engaged the VA CFO community and increased both communication and training events with leadership and field personnel and expanded information sharing regarding audit findings and other significant issues impacting the CFO community. Despite multiple collaboration efforts, the need continues for improved accountability and understanding of responsibilities for internal controls throughout the VA CFO community.

The Department noted noncompliance with: (1) FMFIA Sections 2 and 4; (2) the Anti-Deficiency Act; (3) Procurement Policy — Federal Acquisition Regulation and VA Acquisition Regulation; (4) the Improper Payments Information Act of 2002 (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012); (5) Title 38 United States Code (U.S.C.) Section 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States, and 31 U.S.C. Section 3717, Interest and Penalty on Claims; and (6) 38 U.S.C. Section 3733, Property Management.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

VA is responsible for providing an annual certification that management has appropriate policies, controls, and corrective actions to mitigate the risk of fraud and inappropriate use of charge cards as required by OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. The Department can provide reasonable assurance that controls over charge cards are in place and effective with no material weaknesses.

A handwritten signature in black ink that reads "David J. Shulkin, M.D." The signature is written in a cursive style with a large, stylized "D" and "S".

David J. Shulkin, M.D.  
Secretary of Veterans Affairs

## SUMMARY OF INTERNAL CONTROL ASSESSMENT

### SUMMARY OF PROCESS FOR ASSESSING INTERNAL CONTROLS

The Office of Management's (OM) Office of Internal Controls (OIC) oversees the internal control program and assists VA's major organizations in completing an internal controls assessment to support their statements of assurance. OIC developed an entity-level internal controls assessment (ELICA) tool for evaluation of each of the 17 principles in the GAO Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. In 2017, VA assessed the three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2017, the Department required 16 Administrations and major Staff Offices to complete an ELICA, identifying how the entity met the control objectives of each Green Book

principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, management of the Administration or Staff Office, in accordance with OMB Circular No. A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a statement of assurance based on the results of its ELICA. The statement of assurance provides an informed judgment of the overall adequacy and effectiveness of internal control. OIC analyzed ELICA submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the internal controls assessment.

VA's internal controls governing body, the Senior Assessment Team, reviewed the material weaknesses identified by the Administrations and major Staff Offices, as well as those identified as part of the financial statement audit.

*Honor Flights to Washington, D.C., war memorials, and other sites increased significantly just after Labor Day, as D.C.'s fabled heat hopefully began to abate. September 7th saw no less than four flights, including groups from Arizona, Kansas, Florida, Idaho, and Chicago, which celebrated its 74th flight since their inception. Their group of 108 included 18 World War Two and 90 Korean War Veterans.*



## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

### COMPLIANCE WITH LAWS AND REGULATIONS

VA management is required to comply with various laws and regulations in establishing, maintaining, and monitoring internal controls over operations, financial reporting, and financial management systems as discussed below.

#### FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System (FFS) requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.

VA's financial management systems substantially complied with Federal accounting standards, but did not substantially comply with federal financial management systems requirements and USSGL at the transaction level. VA continues to work to remediate this weakness.

#### ANTI-DEFICIENCY ACT



The Anti-deficiency Act (ADA) prohibits federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. As required by the ADA, VA notifies all appropriate authorities of any ADA violations. VA management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. VA remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law.

#### PUBLIC LAW 112-194 (GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012)



The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of government charge card programs. VA, through implemented internal controls, is committed to continued compliance with all aspects of the public law.

#### PROMPT PAYMENT ACT



In 1982, Congress enacted the Prompt Payment Act (PPA) to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. In 2015, VA implemented the Invoice Payment Processing System (IPPS) to standardize electronic invoice submission and provide enhanced monitoring and controls over agency payments. IPPS, together with the FMS, use automated, date-driven processes to enforce compliance with the PPA.

#### DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) expands the Federal Funding Accountability and Transparency Act of 2006 to increase accountability and transparency in federal spending, making

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. VA's legacy system environment and lack of integration between finance and acquisitions presents significant challenges in fully complying with the DATA Act; however, in 2017, VA partially met DATA Act requirements with its first submission. Full compliance cannot be achieved until VA's systems are modernized.

### **VETERANS ACCESS, CHOICE AND ACCOUNTABILITY ACT OF 2014**

---

The Veterans Access, Choice and Accountability Act of 2014 (Choice Act) provided new authorities, funding, resources, and other tools to improve Veteran access to health care and required VA to establish the VCP. This temporary program improves Veterans' access to health care by allowing eligible Veterans to use eligible community health care providers based either on the distance a Veteran lives from a VA facility, or if they are experiencing wait times beyond the 30-day standard. Veterans must be enrolled in the VA health care system and must meet certain eligibility criteria to be eligible for the VCP. This program was originally intended to end in August 2017; however, Congress removed the expiration date in April 2017 and provided \$2.1 billion in additional funding in August 2017 to ensure Veterans continued to have access to community care. VA will continue to work with

stakeholders to secure funding for VCP for the remainder of FY 2018 and to establish a single, consolidated community care program that is simple to understand; easy to administer; and meets the needs of Veterans and their families, community providers, and VA staff.

### **FEDERAL INFORMATION SECURITY MANAGEMENT ACT OF 2002 (AS AMENDED BY FEDERAL INFORMATION SECURITY MODERNIZATION ACT OF 2014)**

---



The Federal Information Security Management Act of 2002, as amended by Federal Information Security Modernization Act of

2014 (FISMA) requires federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. The Office of the Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. Should OIG detect any issues of concern, VA will address these concerns by developing a corrective action plan, inclusive of routine updates until issue closure.

### **GRANTS OVERSIGHT AND NEW EFFICIENCY ACT**

---

The Grants Oversight and New Efficiency (GONE) Act requires the head of each agency to submit to Congress, in coordination with the Secretary of Health and Human Services, a report on Federal grant cooperative agreement awards that have not yet been closed out and for which the period of performance, including any extensions, elapsed for more than two years. The GONE Act also sets forth follow-on reporting and analysis requirements by various entities.

## FINANCIAL SYSTEMS FRAMEWORK

### VA'S FINANCIAL MANAGEMENT SYSTEMS STRATEGY

VA's Financial Management Business Transformation (FMBT) effort will increase the transparency, accuracy, timeliness, and reliability of financial information, resulting in improved fiscal accountability to American taxpayers and offers a significant opportunity to improve care and services to our Veterans. The FMBT program goals capitalize on the opportunities for business process improvements to resolve systemic and procedural issues, including:

- Standardizing, integrating, and streamlining financial processes including budgeting, procurement, accounting, resource management, and financial reporting.
- Facilitating management that is more effective by providing stronger analytics and projections for planning purposes.
- Integrating finance and acquisition solutions.
- Improving customer service and support of goods, supplies, and services for the Veteran.
- Improving the speed and reliability of communicating financial information throughout the VA and providing timely, robust, and accurate financial reporting.

### CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's legacy financial management systems' environment consists of VA's core financial system, the FMS, and a number of interfacing systems:

- Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP)

- Electronic Contract Management System (eCMS)
- Veterans Health Information Systems and Technology Architecture (VistA)
- Management Information Exchange (MinX)
- Centralized Automated Accounting Transaction System (CAATS).

Auditors have repeatedly identified a need for VA to fully integrate these applications and the detailed transactions they contain into the core financial system.

### FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The initial scope of the FMBT program is focused on transitioning VA from its legacy core FMS to a Federal Shared Service Provider's (FSSP) modern financial and acquisition management system solution. The effort includes:

- Migrating to a financial management solution compliant with Federal regulations.
- Standardizing financial and acquisition management business processes across VA.
- Replacing the financial management functionality of IFCAP and CAATS, the debt management functionality of Central



*VA's FMBT effort, bringing VA's legacy systems onto the Federal Shared Services Platform.*

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounting and Reporting System (CARS), and the procurement functionality of eCMS.

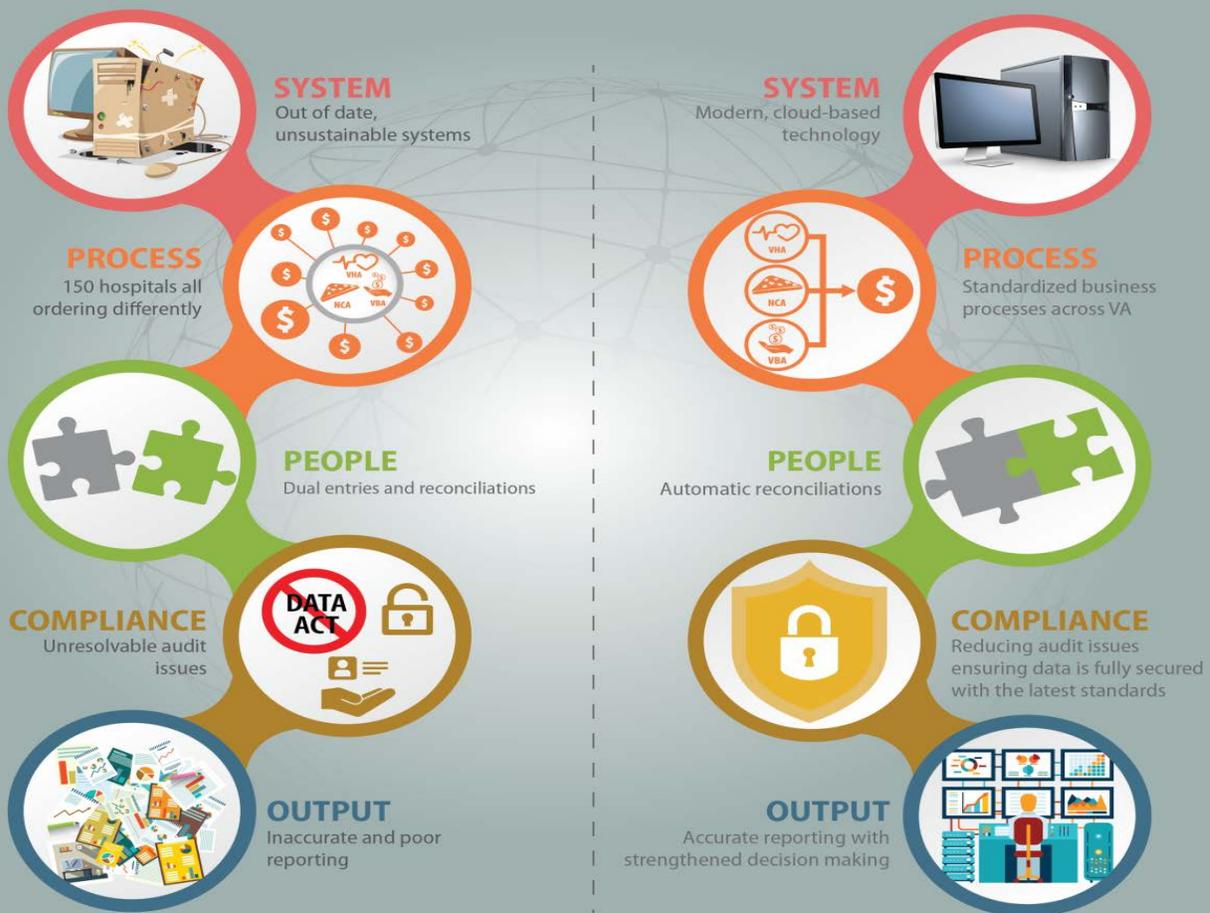
- Implementing a new business intelligence solution and data warehouse for financial reporting.

- Interfacing the FSSP solution with selected legacy VA systems not targeted for replacement.

The initial implementation phasing approach and time frames remain under development in conjunction with the ongoing FSSP planning efforts.

### VA's Financial Management Business Transformation

#### Current State / Future State



VA's enterprise-wide corporate business systems consist of financial, budgetary, procurement, and personnel systems. The table that follows details the major systems used to support effective and efficient operations, reliable reporting, and compliance with laws and regulations.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

### VA Financial Management Systems as defined by OMB Circular A-123, Appendix D

<b>Financial Systems</b>	<b>Financial Management System (FMS)</b>
	FMS is VA's financial system of record for funds control, general ledger balances, and Treasury disbursements. A highly customized version of the FFS and a certified commercial off-the-shelf (COTS) package, FMS, was originally installed at the VA in 1992 and is used throughout the Department.
<b>Financial Systems</b>	<b>Management Information Exchange (MinX)</b>
	The MinX system creates agency consolidated financial statements (CFS), footnotes, required supplemental information, and Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) submission files. MinX was developed in 2005 using Oracle's Hyperion Financial Management software.
<b>Mixed Systems</b>	<b>Veterans Health Information Systems and Technology Architecture (VistA)</b>
	VistA, implemented in 1996, is VA's clinical and administrative system at more than 1,500 sites of care, including each VA Medical Center (VAMC), CBOC, and community living center. A mission-critical operational system, VistA contains nearly 200 modules, both operational and financial. The VistA system interfaces with FMS to send financial transactions such as AR summary-level balances from the AR module, payments from the fee basis module, and fixed-asset detailed transactions.
<b>Mixed Systems</b>	<b>Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP)</b>
	IFCAP is a module of the VistA system. It includes automated budgetary, procurement, reconciliation, and inventory processes in support of VA's purchase order process. The IFCAP system interfaces with FMS to provide purchase order transactions.
<b>Mixed Systems</b>	<b>Electronic Contract Management System (eCMS)</b>
	eCMS supports the acquisition life cycle of VA. The eCMS system, implemented in 2006, interfaces with IFCAP only for procurement requests to begin the procurement cycle.
<b>Mixed Systems</b>	<b>Centralized Automated Accounting Transaction System (CAATS)</b>
	CAATS was developed by VBA to enhance financial transaction data entry at VBA and NCA field offices. Implemented in 2008, CAATS controls data entry of transactions by tailoring the choices allowed for each office. The transactions entered into CAATS are sent to FMS and eCMS for processing.
<b>Mixed Systems</b>	<b>Personnel and Accounting Integrated Data System (PAID) System/ Human Resources (HR) Smart</b>
	In 2016, VA implemented HR Smart. HR Smart moved the Department from a 50-year-old, employee-based HR system – PAID – to a modern, position-based HR system. HR Smart enhancements continue and next year will add features such as customer self-serve and others. HR Smart will eventually lead to the decommissioning of the PAID system.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

### VA Financial Management Systems as defined by OMB Circular A-123, Appendix D

<b>Mixed Systems</b>	<b>VA Time and Attendance System (VATAS)</b>
	In FY 2016, VA continued rolling out its Web-based time and attendance system (VATAS), successfully adding 73,500 users with a total user base of over 235,000 (of 370,000 employees). VACO, NCA, Office of Information Management and Technology (OI&T), and VBA are fully deployed to VATAS. VHA deployments, by Veterans Integrated Service Networks (VISNs), are underway and scheduled to conclude in July 2018.
<b>Mixed Systems</b>	<b>Invoice Payment Processing System (IPPS)</b>
	IPPS is a digital invoice processing platform incorporating electronic invoice submission, automated approval workflow, three-way matching capability, and advanced business rule functionality with interfaces to the VA FMS and Financial Services Center (FSC) electronic content management system. IPPS processed over 1.48 million invoices valued at over 19.8 billion during FY 2017.
<b>Mixed Systems</b>	<b>E-Gov Travel Service 2 (ETS2)/ConcurGov</b>
	ConcurGov is VA's ETS2 solution and is used by all employees who perform temporary duty (TDY) travel, approve official travel, assist others in the creation and/or submission of documents, maintain a system of record, or make TDY travel arrangements. In FY 2017, VA travelers completed over 150,000 TDY travel episodes valued at \$160 million.

<b>FMBT Program Vision</b>	Provide a modern integrated financial management and acquisition solution with transformative business processes and capabilities that enable VA to meet its goals and objectives in compliance with financial management legislation and directives ultimately enhancing service to the Veterans.	
<b>FMBT Program Mission</b>	The FMBT Program will increase the transparency, accuracy, timeliness and reliability of financial information across VA, resulting in improved fiscal accountability to American tax payers and increased opportunity to improve care and services to our Veterans.	

### FMBT Values

**Service to Veterans**  
Transforming the way we respond to Veterans' needs through accessible and transparent management systems.

**Innovation**  
Modernizing and standardizing financial management and acquisition tools enabling effective VA business processes and analytics.

**Data Integrity**  
Making VA financial data accurate, available in real-time, and federally compliant.

## LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31 U.S.C. Section 3515 (b). These are prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB, and are in addition to the financial reports used to monitor and control 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 U.S. Government.

# Fiscal Year 2017 Agency Financial Report



***SECTION I***

***MANAGEMENT'S DISCUSSION AND  
ANALYSIS***

# ABOUT EPA

## History and Purpose

---

All Americans are entitled to a clean, healthy environment where they live, work, and play. Established in 1970 as the hazards of environmental pollution became increasingly evident, EPA has worked for over four decades to identify, evaluate, and execute scientifically sound, sustainable solutions to existing and emerging environmental concerns.

EPA integrates environmental research, monitoring, standard-setting, and enforcement functions under the banner of a single agency. In doing so, the Agency continues to ensure environmental protection remains an integral part of all U.S. policies, whether they concern economic growth, natural resource use, energy, transportation, agriculture, or human health.

Since its commencement, EPA has made great strides in protecting the nation's air, water, and land. Concentrated cleanup efforts have helped remedy the mistakes of the past, while EPA's work to monitor and regulate pollutants, evaluate new chemicals, and inspire better decision-making are helping to safeguard our environmental future.



*"EPA Scientists and researchers work every day to foster innovation that leads to discoveries to better protect human health and the environment."*

<https://www.epa.gov/innovation/research-innovation>

EPA does not work alone. Addressing the complex environmental issues facing the nation and the world requires assiduous, efficient cooperation among a diverse and dynamic group of stakeholders, from state, tribal, and local governments to foreign governments and international organizations.

Everyone has a role to play in creating a healthy, sustainable environment. By serving as the primary federal source of rigorously researched, scientific information on the environment, EPA empowers individuals and organizations to better recognize and engage in environmental protection and develop lasting solutions in their own backyards and around the world.

## Mission

---

### *What EPA Does*

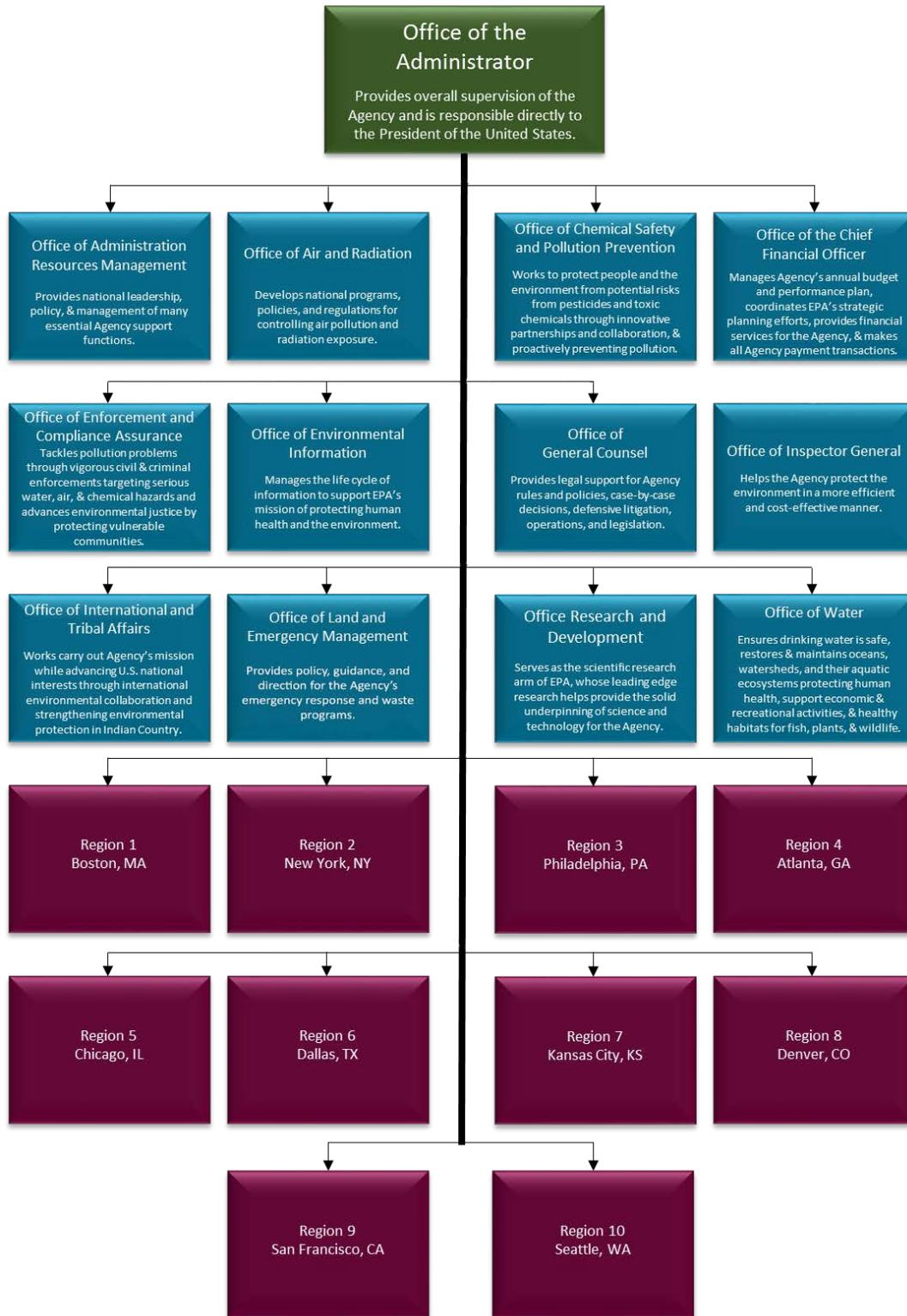
- ✓ *Enforce environmental laws*
- ✓ *Responds to the release of hazardous substances*
- ✓ *Gives grants to states, local communities, and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*

EPA's mission is to protect human health and the environment.

In carrying out this mission, EPA relies on the best available scientific information to inform policy decisions and enforcement actions that protect diverse, sustainable ecosystems and safeguard the nation's human health and environment. Rigorous, peer-reviewed science is the foundation for EPA's decision-making and the basis for understanding and addressing future environmental concerns. By ensuring scientifically sound environmental information is easily accessible to all stakeholders, EPA advances its mission and furthers fostering public trust and understanding of its work.

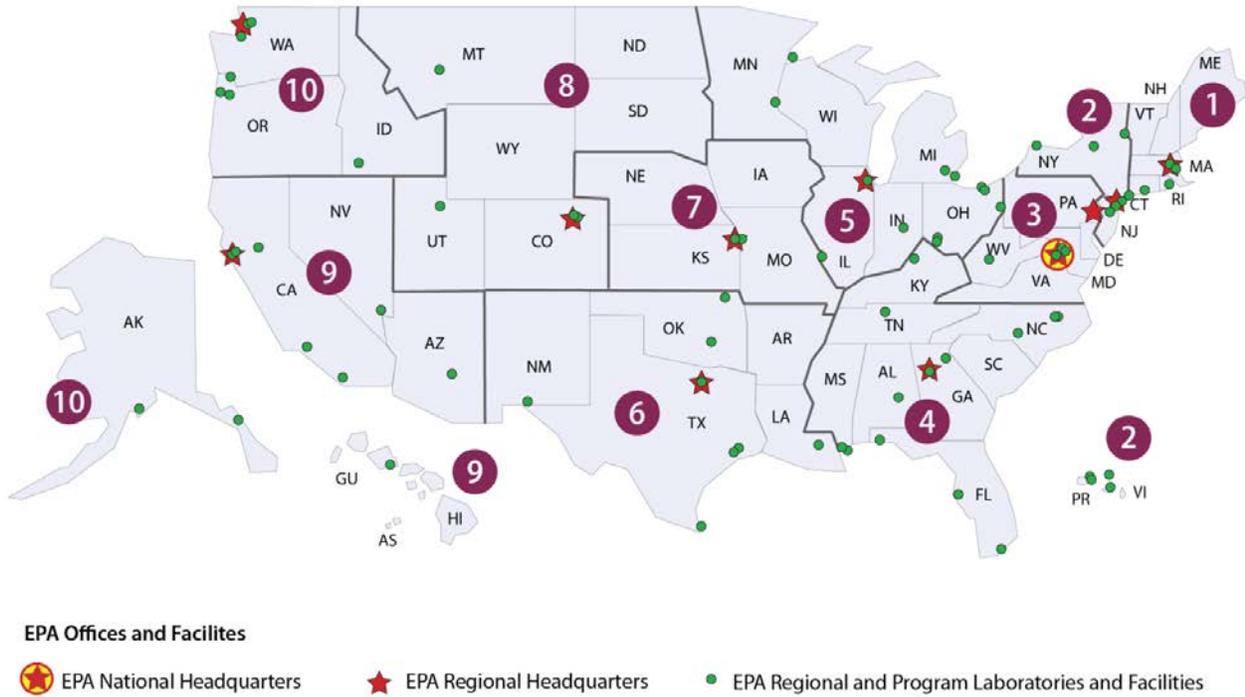
## Organization

EPA's headquarters are located in Washington, D.C. Together, EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ a diverse, highly educated, and technically trained workforce of roughly 15,000 people.



## Regional Map

---



## Collaborating with Partners and Stakeholders

---

EPA's partnerships with states, tribes, local governments, and the global community are paramount to the success of the national environmental protection enterprise. EPA places high value on cultivating these partnerships and has implemented a cross-agency strategy during the *FY 2014-2018 Strategic Plan* period, "Launching a New Era of State, Tribal, Local and International Partnerships," to focus its work. EPA collaborated with its partners to improve coordination, advocate innovation, and leverage resources. Along with its co-regulators, EPA worked with the regulated community, private industry, nonprofit organizations, and the public to use new tools and methodologies to enhance coordination, manage resources effectively, and share information. For example, through tools such as ECHO, "Enforcement and Compliance History Online," the agency has improved the availability and transparency of environmental data.

# FY 2017 PROGRAM PERFORMANCE

Detailed FY 2017 performance results will be presented in EPA's *FY 2017 APR*. EPA has chosen to produce an AFR and an APR, and will include its FY 2017 APR with its *FY 2019 Annual Performance Plan and Budget*. These reports, along with FY 2016 performance results are posted to the EPA internet at <http://www.epa.gov/planandbudget> concurrent with the publication of the FY 2019 President's Budget.

## A Framework for Performance Management

In compliance with GPRMA, EPA develops a *Strategic Plan*, which establishes long-term strategic goals, objectives, and measures to carry out the Agency's mission of protecting human health and the environment. To further its strategic goals and objectives, the agency has developed a performance management framework, which supports the analysis of annual performance results and progress toward longer-term strategic objectives as an integral part of formulating and justifying agency resource requests.

EPA's Performance Management Framework



The Agency also develops [Data Quality Records](#) (DQRs) to present validation or verification information for selected performance measures and information systems, consistent with guidelines from OMB. The DQR documents the management controls, responsibilities, quality procedures, and other metadata associated with the data lifecycle for individual performance measures, and is intended to enhance the transparency, objectivity, and usefulness of the performance results.

# FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

## Sound Financial Management: Good for the Environment, Good for the Nation

---

The financial management overview below highlights some of the EPA's most significant financial achievements carried out during the Agency's efforts to execute its mission to protect human health and the environment during FY 2017:

- **DATA Act.** In FY 2017, the EPA submitted its first Data Accountability and Transparency Act (DATA) reporting to the U.S. Treasury's Data Broker. The DATA Act provides an easier way to understand how the Federal government spends taxpayer dollars by setting data standards to improve the quality of Federal spending data, and through the creation of a standard data exchange codifying this information into readable formats. This report contained information compiled and reconciled through the Agency's internal DATA Act Evaluation and Approval Repository. Use of this repository ensures the integrity of the Agency's data associated with the 57 DATA Act reporting standards provided to Congress through USASpending.gov on a quarterly basis.
- **Payroll Cost Allocation.** This fiscal year the Agency implemented a new Payroll Cost Allocation (PCA) process linked to the PeoplePlus 9.2 Enhancement initiative. This effort improves the efficiency of the Agency's time and attendance system and cost allocation process. On October 1, 2017, PCA moved from PeoplePlus to Compass Financials allowing the Agency to utilize the cost functionality in the software, improving financial system integration.
- **IPERA Reporting.** The EPA continues to maintain sustained low improper payment rates across its principal payment streams. In FY 2017, statistical sampling in the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF) revealed very low improper payment rates of 0.18% and 0.06%, respectively, which is well below the statutory threshold of 1.5%. As a result, the agency plans to request removal of these programs from OMB's high-risk list. In addition, the OIG's Improper Payments Elimination and Recovery Act (IPERA) compliance audit of the agency's FY 2016 reporting determined EPA was in full compliance with IPERA. This marked the fourth consecutive year of compliance for EPA, and the agency anticipates achieving a fifth year of compliance in FY 2017.
- **Financial Leans.** The EPA has sustained operational excellence and maintained a culture of continuous improvement by completing four financial Lean events in FY 2017. These events have helped to reduce and remove waste, created a more transparent business process for customers, and streamlined each process in preparation for financial system enhancement. The Agency plans to continue streamlining financial processes to meet its goals of payment process modernization and to reduce the financial burden on taxpayers.
- **Enterprise Risk Management.** To continue strengthening the Agency's approach on enterprise risk, which is defined as significant risk to accomplishing the Agency's mission, the EPA held two "Risk Based" trainings focused on implementing Enterprise Risk Management and identifying roles and responsibilities of the agency's strategic planners and management integrity advisors. The Agency also established a risk liaison community designed to strengthen risk-based decision making, and developed a risk assessment tool to support senior leaders in completing key phases of the risk assessment process.
- **Agency Financial Statements.** For the 18<sup>th</sup> consecutive year, the EPA's OIG issued a "clean" audit opinion, unmodified, in the Agency's financial statements. This achievement

underscores EPA’s commitment to presenting reliable and accurate financial data that is represented fairly in all material aspects.

- **Data Governance.** An intra-agency governing body was established for the financial data existing within EPA’s IT systems. The primary function of the body is to provide leadership and oversight over the review and approval of data governance strategies and objectives. EPA’s data governance group ensured policies, processes and procedures aligned to deliver data that is accurate, consistent, complete, and available to key stakeholders within the appropriate user

community. This group also manages and communicates the Agency’s data governance process, and continuously works toward improving the Agency’s financial systems process.

- **Travel.** This fiscal year, the OIG performed a risk assessment on the EPA’s travel card payments and purchases. By successfully implementing internal controls, set forth in guidance from OMB and the Agency’s travel policy, the OIG stated a “low risk” declaration for erroneous or illegal travel card purchases and payment.

## Financial Condition and Results

Financial statements are formal financial records that document EPA’s activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

EPA prepares four consolidated statements (a balance sheet, a statement of net cost, a statement of changes in net position, and a statement of custodial activity) and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of EPA’s financial situation. The complete statements with accompanying notes, as well as the auditors’ opinion, are available in Section II of this report.

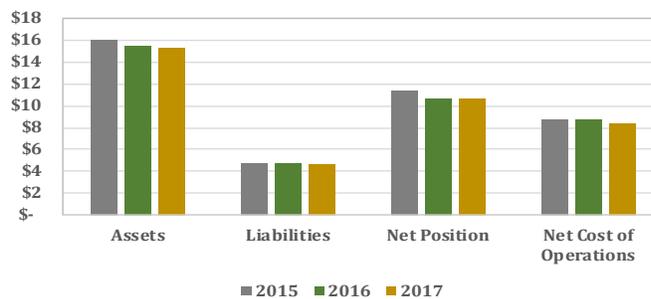
The balance sheet displays assets, liabilities, and net position as of September 30, 2017, and September 30, 2016. The statement of net cost shows EPA’s gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of EPA’s financial condition—assets, liabilities, net position, and net cost of operations. The balance sheet trend chart depicts the Agency’s financial activity levels since FY 2015.



### Key Terms

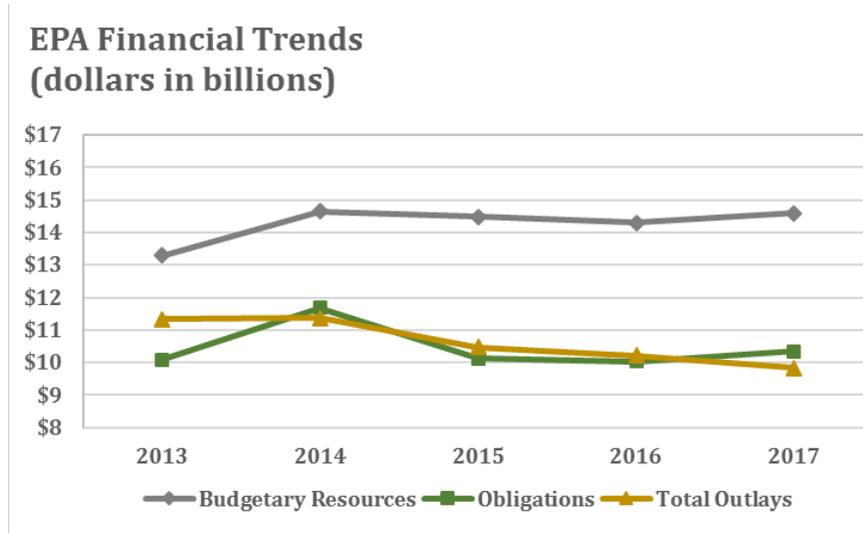
- Assets:** What EPA owns and manages.
- Liabilities:** Amounts EPA owes because of past transactions or events.
- Net position:** The difference between EPA’s assets and liabilities.
- Net cost of operations:** The difference between the costs incurred by EPA’s programs and EPA’s revenues.

**Balance Sheet Trend  
(dollars in billions)**



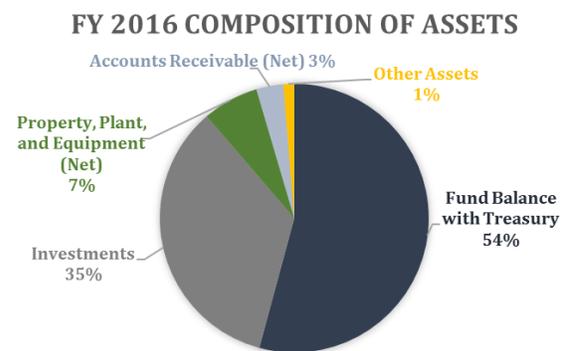
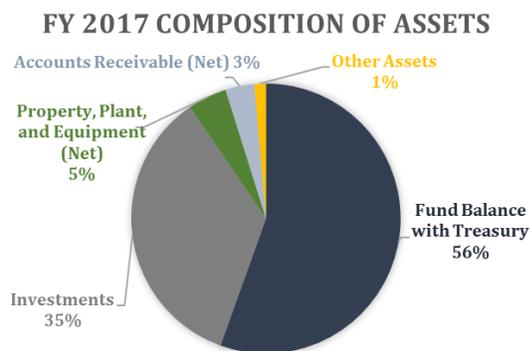
## EPA Resources and Spending

The figure below depicts EPA's aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides more information on the makeup of the Agency's resources.



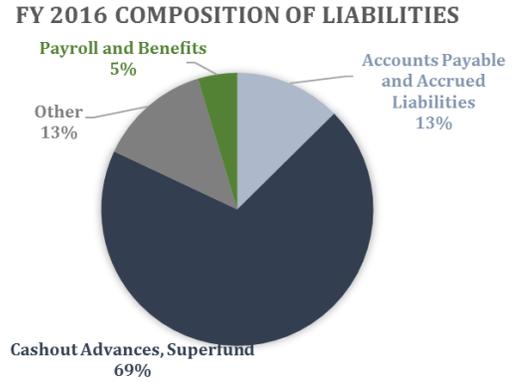
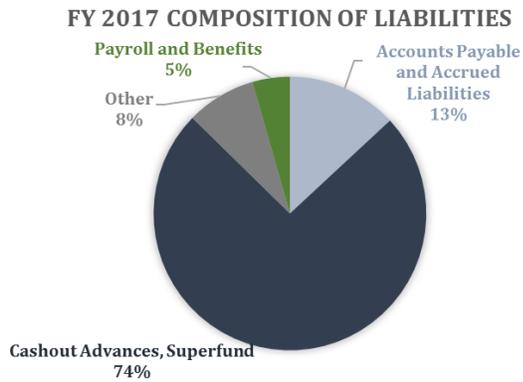
## Assets—What EPA Owns and Manages

EPA's assets totaled \$15.24 billion at the end of FY 2017, a decrease of \$154 million from the FY 2016 level. In FY 2017, approximately 91 percent of EPA's assets fall into two categories: fund balance with Treasury and investments. All of EPA's investments are backed by U.S. government securities. The graph below compares the Agency's FY 2017 and FY 2016 assets by major categories.



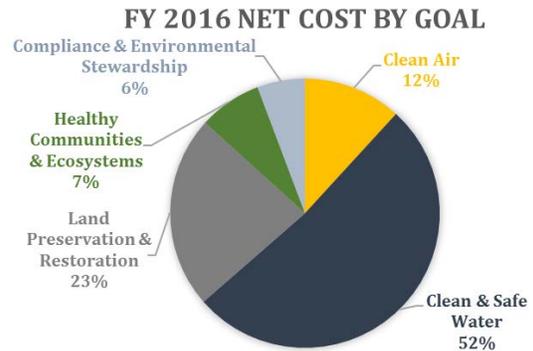
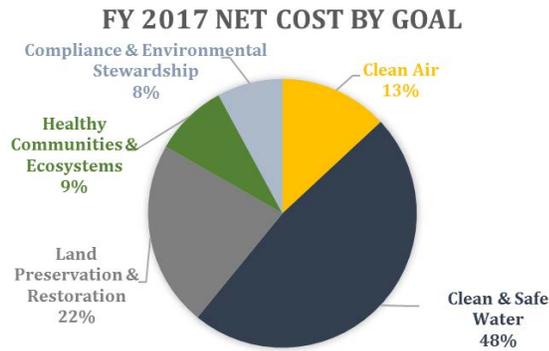
**Liabilities—What EPA Owes**

EPA’s liabilities were \$4.73 billion at the end of FY 2017, an increase of \$26 million from the FY 2016 level. In FY 2017, EPA’s largest liability (74 percent) was Superfund cashout advances that the Agency uses to pay for cleanup of contaminated sites under the Superfund program. Additional categories include payroll and benefits payable, salaries, pensions and other actuarial liabilities, EPA’s debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs compare FY 2017 and FY 2016 liabilities by major categories.



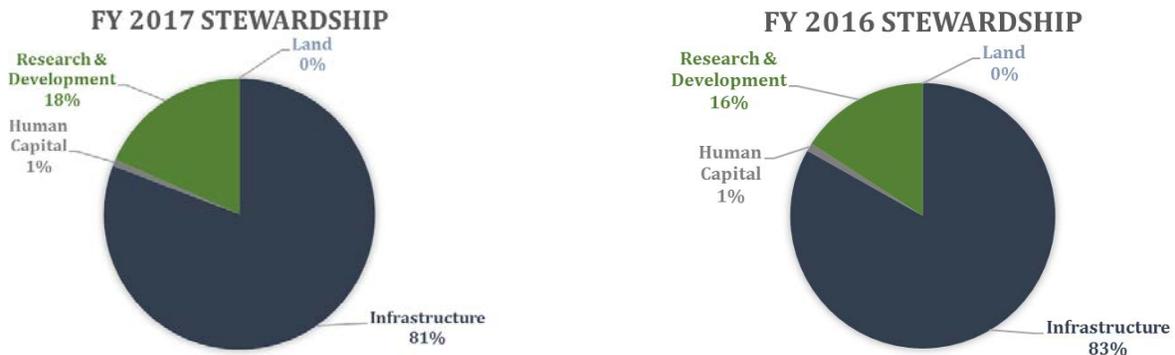
**Net Cost of Operations—How EPA Used Its Funds**

The graph that follows show how EPA’s funds are expended among its five program goal areas in FY 2017 and FY 2016.



## Stewardship Funds

EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2017, EPA devoted a total of \$3.5 billion to its stewardship activities.



Per the Federal Accounting Standards Advisory Board (FASAB), stewardship investments consist of expenditures made by the Agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets.

- The largest infrastructure programs are the CWSRF and DWSRF programs that provide grant funds to states for the construction of wastewater and drinking water treatment facilities. States lend the majority of these funds to localities or utilities to fund the construction and or upgrade of facilities (some may also be used for loan forgiveness or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. EPA's budget included nearly \$2.3 billion in FY 2017 appropriated funds for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous State Revolving Fund (SRF) loans. These funds provide assistance to public drinking water and wastewater systems for the enhancement of water infrastructure, allowing for cleaner waterbodies and crucial access to safer drinking water for millions of people.
- Research and development activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Land includes contaminated sites to which EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.

A detailed discussion of this information is available in Section III of this report, under the Required Supplementary Stewardship Information.

## Financial Management for the Future

---

During times of environmental challenges, sound stewardship of the EPA's financial resources continues to be critical to the Agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for addressing land, water, air and ecosystem issues. To strengthen the EPA's financial stewardship capabilities, the Agency focuses on the fundamental elements of financial management: people and systems.

**People:** EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. Staff members are trained in financial analysis and forecasting to understand financial data and what it means. EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

**Systems:** In FY 2017, the EPA continued using a component-based approach to managing its financial systems. The system, called Compass, is based on a commercial-off-the-shelf software solution that addresses the Agency's most critical business needs. Compass has improved the EPA's financial stewardship by strengthening accountability, data integrity, and internal controls, on the following business areas:

- General ledger
- Accounts payable
- Accounts receivable
- Property
- Project cost
- Intra-governmental transactions
- Budget execution

Compass provides core budget execution and accounting functions and facilitates more efficient transaction processing. The system posts updates to ledgers and tables as transactions are processed and generates source data for the preparation of financial statements and budgetary reports. Compass is integrated with 15 agency systems that support diverse functions, such as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; Agency travel; payroll; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider in compliance with the Financial Management Line of Business.

The EPA's financial systems modernization strategy builds on Compass and the previous migration to a Human Resources shared service provider through the implementation of additional components, subject to future review by OMB:

- Budget formulation
- Digital Accountability and Transparency Act of 2014 implementation
- Time and attendance system modernization/activating Compass' payroll cost allocation component
- Superfund imaging and cost accounting
- Payment systems, such as for travel, purchase card, and grant payments

The Agency continues to use an agile approach to develop, test, and refine Budget Formulation System modules, including performance and document preparation. The EPA is building partnerships with other agencies to expand use of the Budget Formulation System. The Agency is continuing to work on strengthening its financial data/reporting, particularly in its efforts to implement DATA Act requirements.

### **Limitations of the Principal Financial Statements**

---

The EPA prepared the principal financial statements to report the financial position and results of its operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The EPA has prepared the statements from the books and records of the entity in accordance with federal generally accepted accounting principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

# IMPROVING MANAGEMENT AND RESULTS

## Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to the EPA’s mission to improve human health and environmental protection by assessing the efficiency and effectiveness of the Agency’s program management and results. OIG ensures that Agency resources are used as intended, develops recommendations for improvements and cost savings, and provides oversight and advisory assistance in helping EPA carry out its objectives. The OIG detects and prevents fraud, waste and abuse to help the Agency protect human health and the environment more efficiently and cost effectively. The OIG performs its mission through independent oversight of the programs and operations of the EPA. OIG also contributes to the oversight integrity of and public confidence in the Agency’s programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

In FY 2017, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 335 recommendations accounting for over \$847 million in potential savings and recoveries;
- 208 actions taken by the Agency for improvement from OIG recommendations; and
- 298 criminal, civil, or administrative enforcement actions.

## Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2017, the Agency exceeded the grant competition metric by 6%, and was just 1% shy of the 99% grant closeout target.

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2017	Progress in FY 2016
Percentage of eligible grants closed out	90%*	88.2% of grants that expired in 2016	90.6% of grants that expired in 2015
	99%**	98% of grants that expired in 2015 and earlier	99.3% of grants that expired in 2014 and earlier
Percentage of new grants subject to the competition policy that are competed***	90%	96%	96%

\*Percentage of open grants that expired in 2016 that were closed in performance year.

\*\*Percentage of open grants that expired in 2015 and earlier that were closed in performance year.

\*\*\*The Environmental Protection Agency Policy for Competition of Assistance Agreements establishes requirements for the competition of assistance agreements (grants, cooperative agreements, and fellowships) to the maximum extent practicable.

# ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## Federal Managers' Financial Integrity Act (FMFIA)

---

FMFIA requires agencies to conduct annual evaluations of their internal controls over programs and financial systems and report the results to the President and Congress. In addition, agencies are required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of *OMB Circular A-123, Appendix A*.

Each year, the EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's annual statement of assurance on the adequacy of the EPA's internal controls over programmatic operations and financial systems.

In FY 2017, the EPA identified no material weaknesses related to effective and efficient operations. The Agency continues to address material weaknesses identified in previous years and expects to complete corrective actions for all of the material weaknesses within FY 2018. Section III of this report provides details about the Agency's corrective actions underway to address these previously identified material weaknesses. The EPA continues to emphasize the importance of maintaining effective internal controls.

### ***Internal Controls over Financial Reporting***

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123, Appendix A*), the Agency evaluated 435 key controls that span across eight financial processes (including general IT controls). Based on this evaluation, no material weaknesses were identified. Subsequent to the Agency's review, the EPA's OIG identified no new material weaknesses during the FY 2017 financial statement audit.

### ***Internal Controls over Financial Management Systems***

The Federal Financial Management Improvement Act requires agencies to ensure that financial management systems consistently provide reliable data that comply with government-wide principles, standards, and requirements. Based on the Agency's evaluation of its financial management systems, no material weaknesses were identified. The assessment included a review of the Agency's core financial system, Compass Financials, as well as those considered as financially related or mixed systems that support or interface with the core financial system. The EPA has determined that its financial management systems substantially comply with FMFIA requirements.

Based on the results of the Agency's and OIG's FY 2017 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls and financial systems.

## Fiscal Year 2017 Annual Assurance Statement

The U.S. Environmental Protection Agency's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act.

In accordance with Section 2 of FMFIA and the Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Agency assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations. Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* requires management to ensure financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, the Agency evaluated whether financial management systems substantially comply with FMFIA requirements. Additionally, in accordance with Appendix A of OMB Circular A-123, the Agency conducted an assessment of the effectiveness of its internal control over financial reporting.

The EPA did not identify any new material weaknesses during FY 2017. The Agency continues to address previously identified material weaknesses and expects to complete corrective actions for all of the material weaknesses within FY 2018.

Based on the results of the EPA's assessments, I can provide reasonable assurance that the Agency's internal control over programmatic operations was operating effectively and financial management systems conform to government-wide standards as of September 30, 2017. The Agency's internal control over financial reporting was operating effectively.



E. Scott Pruitt  
Administrator

NOV 07 2017

Date

## Management Assurances

---

The EPA did not identify any new material weaknesses for FY 2017. However, the Agency continues to address material weaknesses identified in and previous years. The agency expects to complete corrective actions for these weaknesses within FY 2018. Section III of this report provides details about the Agency's corrective actions underway to address a previously identified material weakness, and a number of other less severe deficiencies. The EPA will continue monitoring progress toward correcting these issues. The EPA continues to emphasize the importance of maintaining effective internal controls.

## Federal Financial Management Improvement Act (FFMIA)

---

FFMIA requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Standard General Ledger (USSGL). Annually, Agency heads are required to assess and report on whether these systems comply with FFMIA.

The EPA's FY 2017 assessment included the following:

- A-123 review found no significant deficiencies.
- The Agency continues to address a material weakness related to undercapitalized software, identified by the Agency and addressed in the OIG's FY 2014 financial statement audit. The Agency expects to complete all corrective actions for this material weakness within FY 2018.
- The Agency's annual Federal Information Security Modernization Act Report did not disclose any material weaknesses.
- The Agency conducted other systems-related activities, including:
  - Third-party control assessments
  - Network scanning for vulnerabilities
  - Annual certification for access to the Agency's accounting system

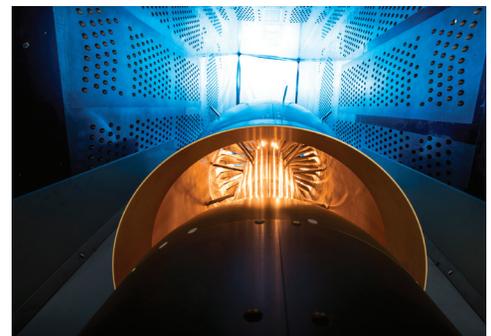
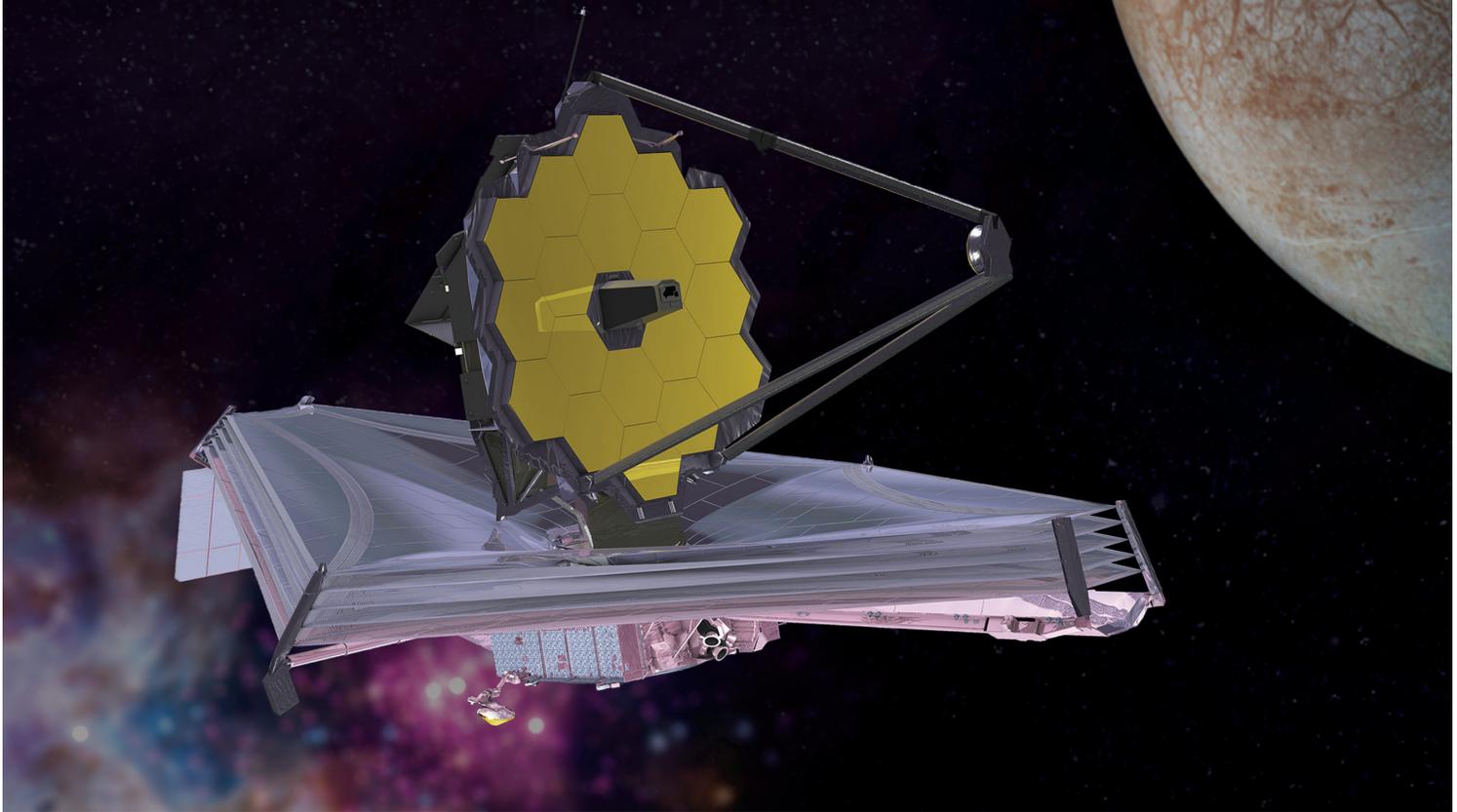
Based on the assessment described above, the agency is in compliance with the FFMIA for FY 2017.

National Aeronautics and Space Administration



# FY 2017

## AGENCY FINANCIAL REPORT



[www.nasa.gov](http://www.nasa.gov)



## Section 1

# Management's Discussion and Analysis



Enginers and astronauts conducted testing in a representative model of the Orion spacecraft at NASA's Johnson Space Center in Houston to gather the crew's feedback on the design of the docking hatch and on post-landing equipment operations. The testing, shown here with astronauts Stephanie Wilson, Karen Nyberg and Rick Mastracchio (L to R), was done to evaluate the equipment used during egress to ensure that a fully suited crew member carrying survival equipment can get out of the spacecraft through the docking hatch if necessary.

While the crew will primarily use the side hatch for entry and exit on Earth and the docking hatch to travel between Orion and a habitation module on long-duration deep space missions, the crew will need to be able to exit out of the docking hatch if wave heights in the Pacific Ocean upon splashdown are too high. The work is being done to help ensure all elements of Orion's design are safe and effective for the crew to use on future missions on the journey to Mars. Photo credit: NASA/Chris Gunn

# WELCOME TO NASA

NASA produces an Agency Financial Report (AFR) and Annual Performance Report (APR). NASA will publish its Fiscal Year (FY) 2017 APR concurrently with the President's Budget Request and will post it on NASA's Web site at <http://www.nasa.gov/news/budget/>.

This FY 2017 AFR provides an overview of NASA's major programmatic and financial results for FY 2017. It integrates financial and program performance to demonstrate stewardship and accountability and highlights FY 2017 achievements.

NASA demonstrates stewardship of its resources and accountability for results through compliance with the Chief Financial Officers Act (CFO Act) and the Government Performance and Results Act Modernization Act of 2010 (GPRAMA). Financial aspects of the Agency's business operations are accounted for according to U.S. Generally Accepted

Accounting Principles (GAAP). GAAP, for Federal entities, are the standards prescribed by The Federal Accounting Standards Advisory Board (FASAB).

NASA presents both performance and financial results of operations by strategic goal. Highlights of key program activities contributing to each strategic goal are provided in the Mission Performance discussion (starting on page 11). A high-level summary of the linkage between program results and the cost of operations is provided in the Statement of Net Cost (SNC), which can be found in the Financial section (starting on page 45). The SNC presents comparative net cost of operations during FY 2017 and FY 2016 by strategic goal and for the Agency as a whole. In addition, the Financial Highlights, which can be found in the Financial Performance section (starting on page 29), explains any significant changes in NASA's financial condition from FY 2016 to FY 2017.

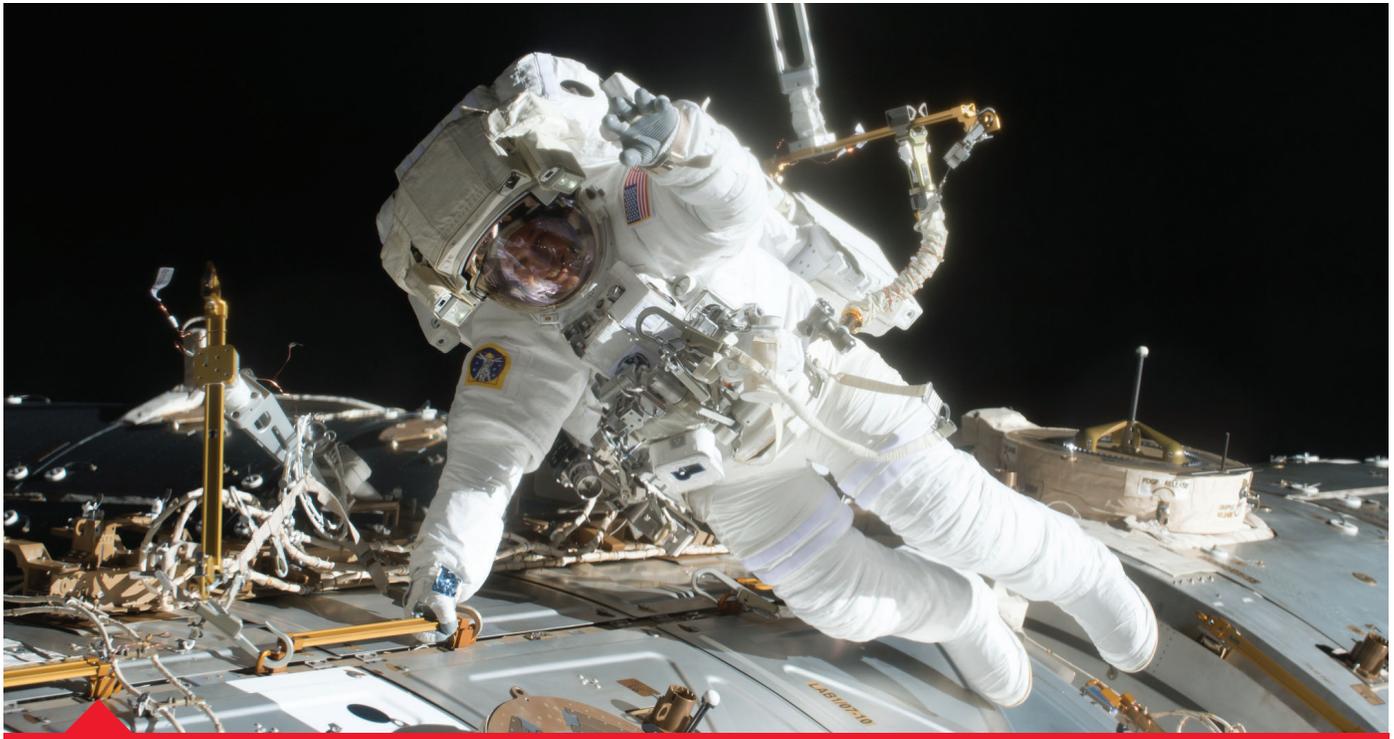


NASA's 2017 Astronaut Candidate Class stopped for a group photo while getting fitted for flight suits at Ellington Airport near NASA's Johnson Space Center in Houston. Photo credit: NASA

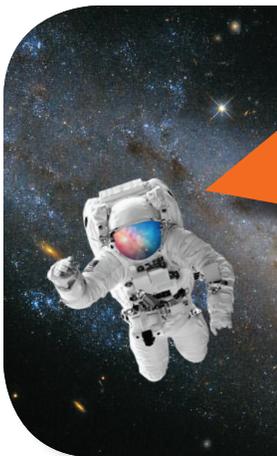
Financial systems that meet requirements of the Federal Financial Management Improvement Act (FFMIA) are vital to NASA's financial management program. The AFR describes NASA's compliance with the FFMIA, as well as the built-in checks and balances required by the Office of Management and Budget's (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, which places responsibility for internal controls over financial reporting on Agency management

for the purpose of safeguarding assets and improving efficiency and effectiveness of operations.

Finally, the AFR presents the Agency's audited FY 2017 and FY 2016 financial statements, the related independent auditors' audit opinion, and other information. The FY 2017 AFR can be found on NASA's Web site at <http://www.nasa.gov/news/budget/>.



Air Force Colonel and NASA astronaut Jack Fischer works outside the U.S. Destiny laboratory module to attach wireless antennas during the 201st spacewalk in support of International Space Station maintenance and assembly. This was a short and unplanned contingency spacewalk whose primary task was the removal and replacement of a failed computer data relay box that controls the functionality of important station components such as solar arrays and radiators. Photo credit: NASA



## Did you know?

On August 21, 2017, the U.S. experienced a coast-to-coast total eclipse for the first time in 99 years! NASA took advantage of this long eclipse path by collecting data that's not usually accessible - including studying the solar corona, testing new corona observing instruments, and tracking how our planet's atmosphere, plants, and animals respond to the sudden loss of light and heat from the Sun. Photo credit: NASA



## VISION AND MISSION

**Our Vision:** We reach for new heights and reveal the unknown for the benefit of humankind.

**Our Mission:** Drive advances in science, technology, aeronautics, and space exploration to enhance knowledge, education, innovation, economic vitality, and stewardship of Earth.

## CORE VALUES

NASA's tradition of excellence is rooted in the four uncompromising shared core values of safety, teamwork, excellence, and integrity as well as the firm belief that we refuse to be deterred by failure.

### 1. SAFETY



### 2. TEAMWORK



### 3. EXCELLENCE



### 4. INTEGRITY



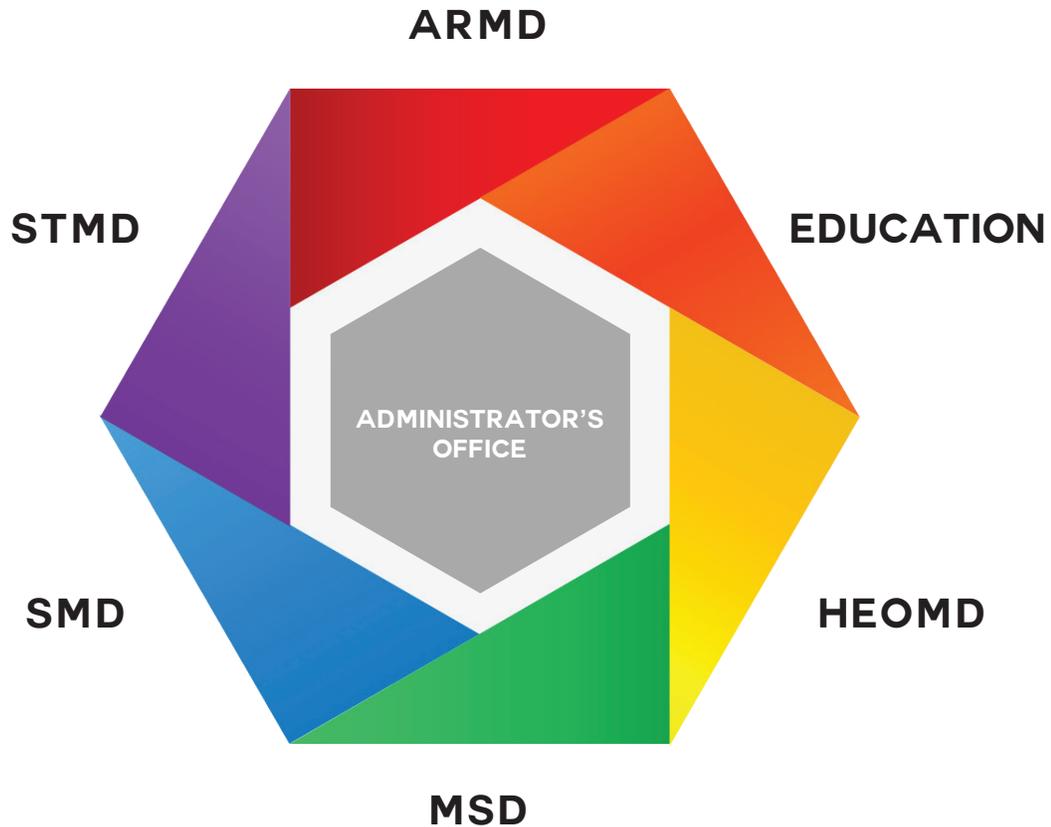
**Photo credit (left to right) 1** At NASA's Kennedy Space Center in Florida, a Fire Rescue vehicle stands by in a parking area near the Vehicle Assembly Building for training with pilots in NASA Aircraft Operations. The exercise is designed to develop procedures for using agency helicopters to transport injured patients to a local hospital. The activity taking place in Kennedy's Launch Complex 39 turn-basin parking lot was only one of several drills. It was part of a new training program that was developed by Kennedy's Fire Rescue Department along with NASA Aircraft Operations to sharpen the skills needed to help rescue personnel learn how to collaborate with helicopter pilots in taking injured patients to hospitals as quickly as possible. Photo credit: NASA/Dan Casper • **2** NASA astronaut Shane Kimbrough is carried into a medical tent shortly after he, Russian cosmonaut Sergey Ryzhikov of Roscosmos, and Russian cosmonaut Andrey Borisenko of Roscosmos landed in their Soyuz MS-02 spacecraft in a remote area near the town of Zhezkazgan, Kazakhstan on Monday, April 10, 2017. Photo credit: NASA • **3** J. Keith Motley, Chancellor, University of Massachusetts Boston, and Chair, Association of Public and Land-grant Universities (APLU) Commission on Access, Diversity and Excellence, speaks at the Symposium on Supporting Underrepresented Minority Males in Science, Technology, Engineering and Mathematics (STEM), Tuesday, February 28, 2012 at NASA Headquarters in Washington. Photo credit: NASA/Carla Cioffi • **4** The Moon, or Supermoon, is seen as it sets over the Martin Luther King Jr. Memorial on Monday, November 14, 2016, in Washington, DC. A Supermoon occurs when the Moon's orbit is closest (perigee) to Earth. Early Monday morning, the Moon was the closest it has been to Earth since 1948 and it appeared 30 percent brighter and 14 percent bigger than the average monthly full Moon. Photo credit: NASA/Aubrey Gemignani

NASA's Vision, Mission, and Core Values are established in the Strategic Plan which can be found on NASA's Website at [https://www.nasa.gov/sites/default/files/files/FY2014\\_NASA\\_SP\\_508c.pdf](https://www.nasa.gov/sites/default/files/files/FY2014_NASA_SP_508c.pdf).

## ORGANIZATION

NASA's organizational structure is designed to accomplish its Mission and provide a framework for sound business operations, management controls, and safety oversight. The Office of the Administrator provides the overarching vision and strategic direction for the

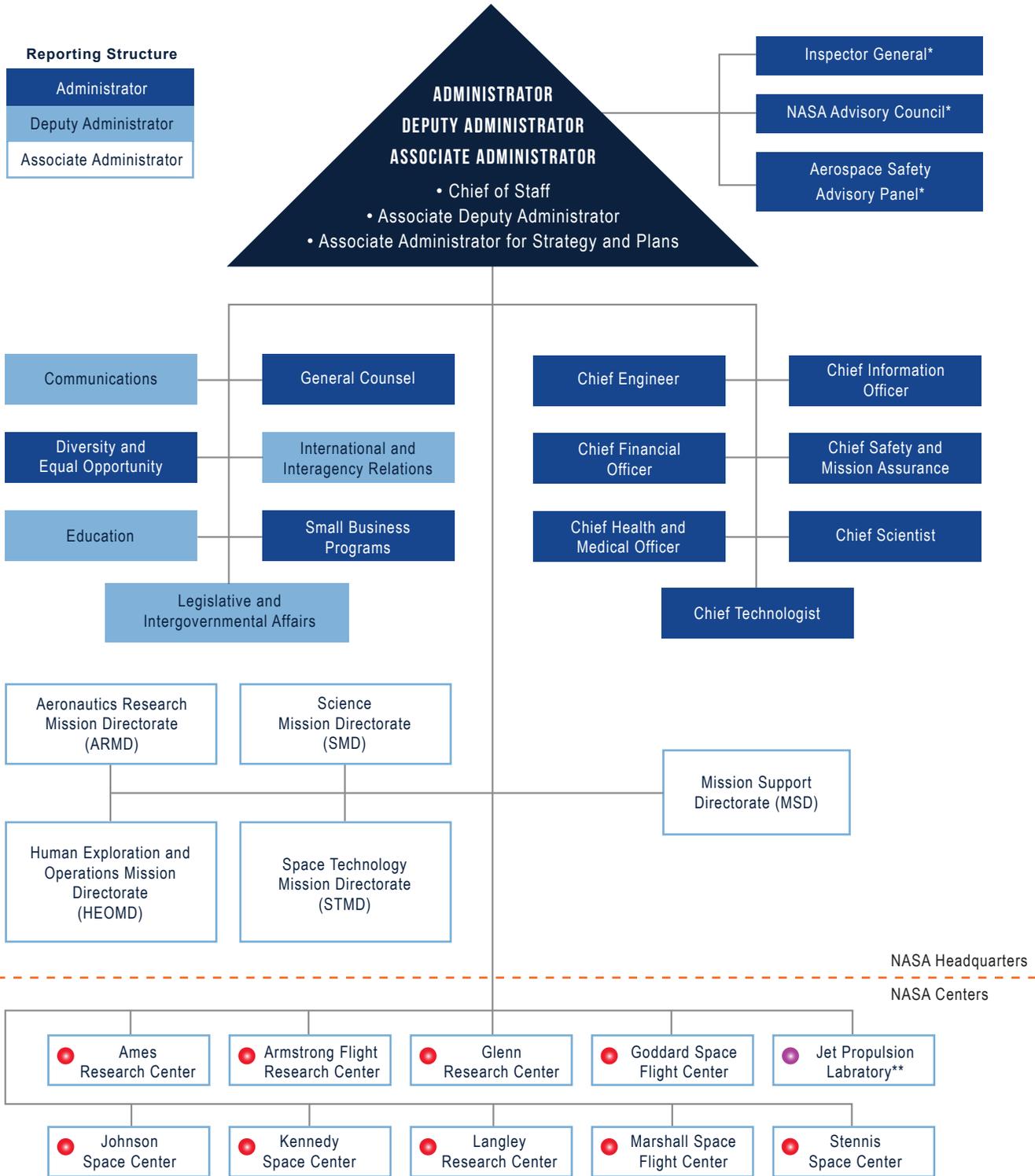
Agency. The Agency's science, research, and technology development work is implemented through four Mission Directorates supported by the Mission Support Directorate and the Office of Education:



- Administrator's Staff Offices  
<https://www.nasa.gov/nasa-leadership>
- Mission Support Directorate (MSD)  
<https://www.nasa.gov/msd>
- Science Mission Directorate (SMD)  
<https://science.nasa.gov/>
- Space Technology Mission Directorate (STMD)  
<https://www.nasa.gov/directorates/spacetech/home/index.html>
- Aeronautics Research Mission Directorate (ARMD)  
<https://www.nasa.gov/aeroresearch>
- Office of Education (Education)  
<https://www.nasa.gov/offices/education/about/index.html>
- Human Exploration and Operations Mission Directorate (HEOMD)  
<https://www.nasa.gov/directorates/heo/index.html>

More information about NASA organization is available at [http://www.nasa.gov/about/org\\_index.html](http://www.nasa.gov/about/org_index.html)

# ORGANIZATIONAL STRUCTURE



**Notes:**

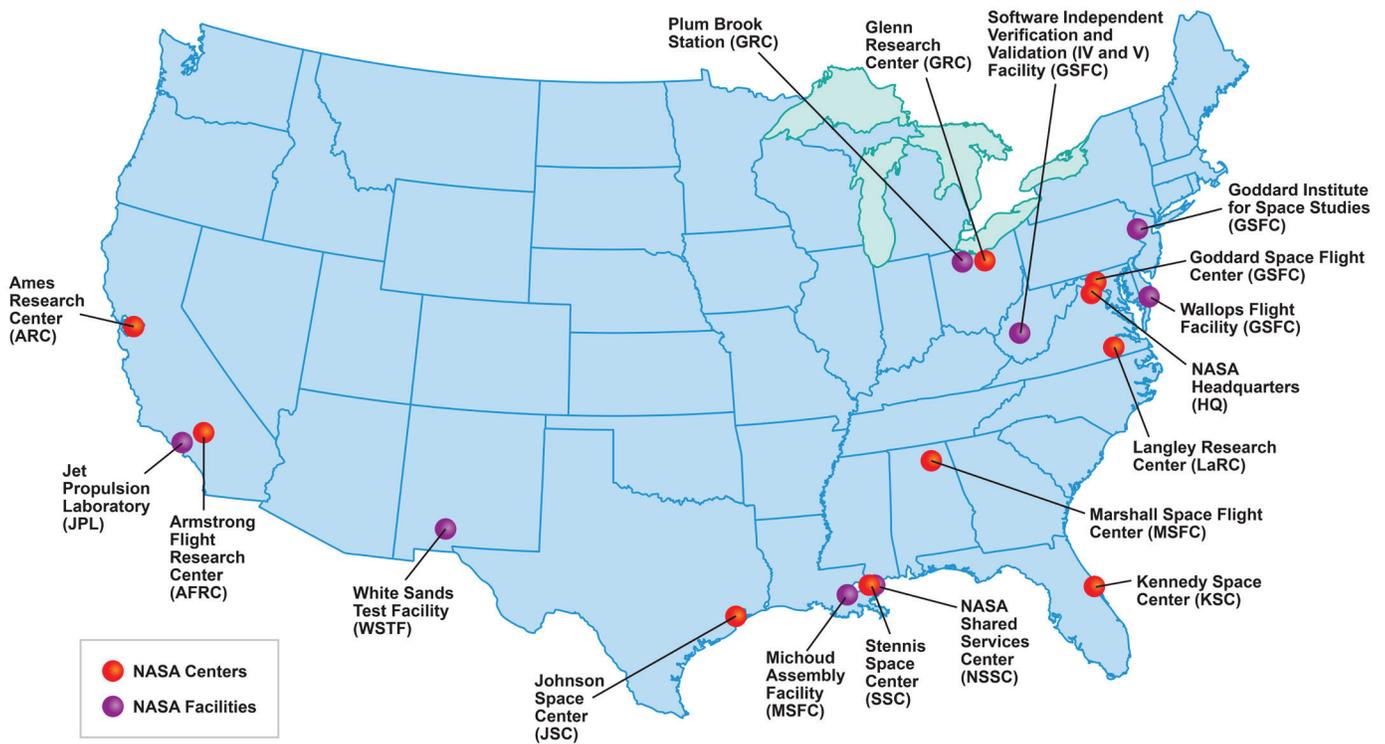
- \* Advisory groups and Inspector General are independent organizations that report to the NASA Administrator.
- \*\* A Federally Funded Research and Development Center managed by the California Institute of Technology.

## CENTERS AND FACILITIES NATIONWIDE

Under the leadership of the Administrator, NASA's Mission Directorates, MSD, and staff offices at Headquarters provide overall guidance and direction to the Agency. NASA's Centers and installations conduct the Agency's day-to-day work in laboratories, on airfields, in wind tunnels, in control rooms, and in NASA's other one-of-a-kind facilities.

The NASA Shared Services Center (NSSC) was established in March 2006 to provide all NASA Centers timely, accurate, and cost-effective support services in the areas of financial management, human resources, information technology, procurement, and business support services.

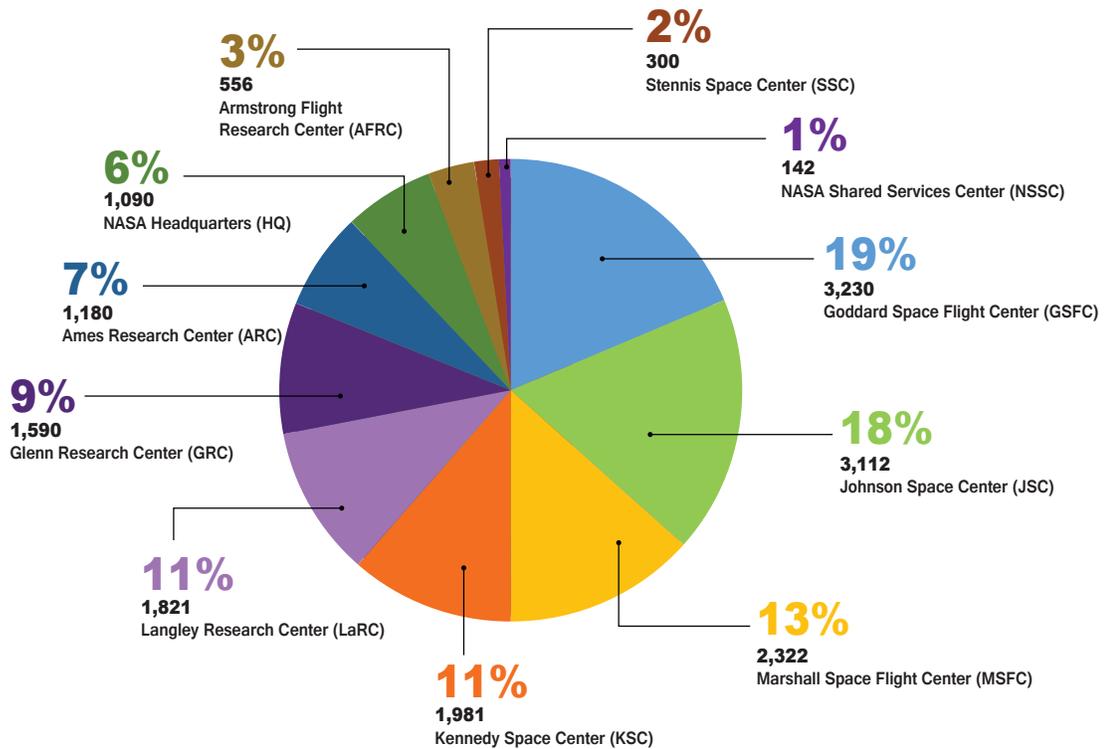
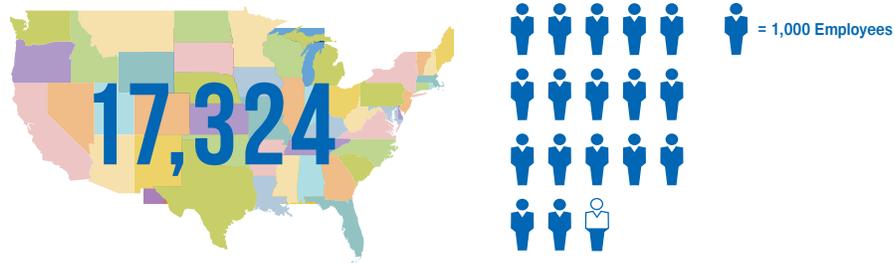
### NASA Centers and Facilities



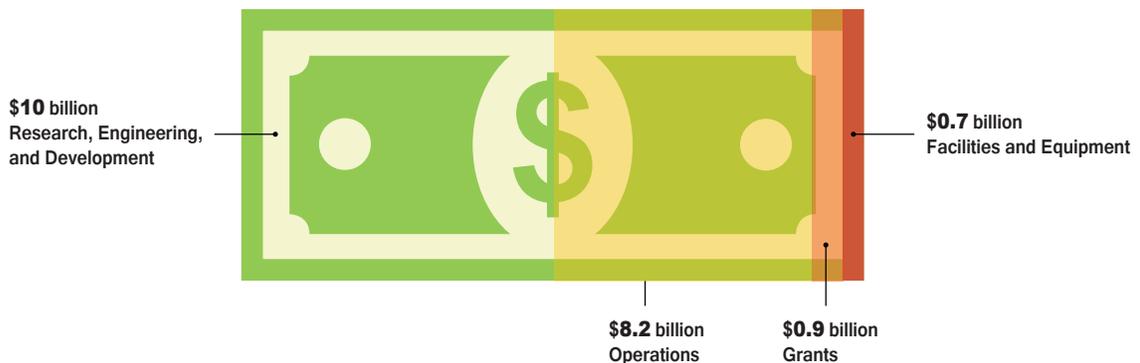
**Note:** JPL is a Federally Funded Research and Development Center in Pasadena, California. The California Institute of Technology manages JPL.

# NASA BY THE NUMBERS

## NASA's Civil Service Workforce



## \$19.8 Billion Budget in FY 2017



More information about NASA's workforce is available at <https://wicn.nssc.nasa.gov/>



# MISSION PERFORMANCE

▲  
The Polar Night Nitric Oxide or PolarNOx experiment from Virginia Tech is launched aboard a NASA Black Brant IX sounding rocket at 8:45 a.m. EST, January 27, 2017 from the Poker Flat Research Range in Alaska. PolarNOx is measuring nitric oxide in the polar night sky. Nitric oxide in the polar night sky is created by auroras. Under appropriate conditions it can be transported to the stratosphere where it may destroy ozone resulting in possible changes in stratospheric temperature and wind and may even impact the circulation at Earth's surface. Photo credit: NASA/Wallops/Jamie Adkins

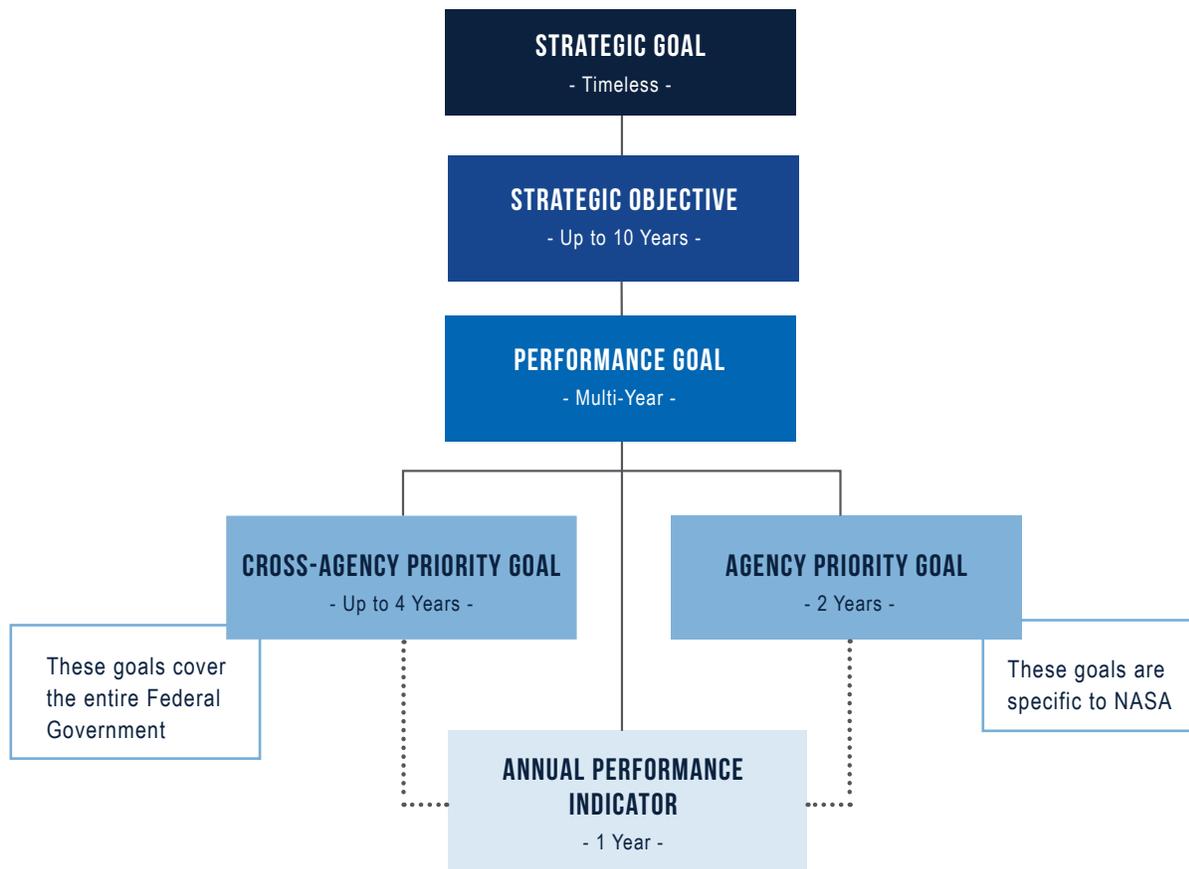
## PERFORMANCE OVERVIEW

In the NASA 2014 Strategic Plan, NASA lays out its strategy to discover, develop, and serve on Earth and in space through three strategic goals. The first strategic goal focuses on expanding knowledge, capability, and opportunity in space. The second strategic goal focuses on our work to improve the understanding of life on Earth. Finally, the third strategic goal focuses on major management priorities and challenges. These three overarching and timeless strategic goals align with a total of fifteen strategic objectives. These strategic objectives are split unevenly, with seven objectives focused on Strategic Goal 1 (Objectives 1.1 – 1.7), four objectives focused on Strategic Goal 2 (Objectives 2.1 – 2.4), and four objectives focused on Strategic Goal 3 (Objectives 3.1 – 3.4).

Within these objective “families,” NASA’s performance and progress is rated through “parent” Performance Goals (PGs) and “child” Annual Performance Indicators (APIs). This hierarchy is best visualized below in Figure 1. PGs are measures used to categorize performance in programs and areas across multi-year periods and may be Agency specific. PGs do not last longer than four years, since they are updated in accordance with each new administration’s priorities. APIs, on the other hand, rate performance in a single year, and are more practical for understanding how well the annual budget funded a portion of a program.

The NASA 2014 Strategic Plan can be found at [https://www.nasa.gov/sites/default/files/files/FY2014\\_NASA\\_SP\\_508c.pdf](https://www.nasa.gov/sites/default/files/files/FY2014_NASA_SP_508c.pdf).

## NASA STRATEGY AND PERFORMANCE FRAMEWORK 2014 STRATEGIC PLAN



**Figure 1:** Hierarchy of performance metrics in the U.S. Federal Government.



In this FY 2017 AFR, NASA presents a high-level summary of performance from FY 2017, reflecting preliminary year-end assessments of progress towards the Performance Goals and Annual Performance Indicators. Final ratings and more detailed information will be provided in the FY 2018 APR, which can be found in the FY 2019 Volume of Integrated Performance, published in February 2018 at <https://www.nasa.gov/news/budget/index.html>.

NASA determines these ratings based on a series of internal assessments that are part of ongoing monitoring of NASA's program and project

performance. External entities, such as scientific peer review committees and aeronautics technical evaluation bodies, validate select ratings prior to publication in the APR.

For reporting purposes, NASA uses a color-coded system to represent the assessment and rating of performance. Every performance metric has specific, individualized rating criteria. The generic rating criteria in the table below are illustrative of the types of individualized criteria assigned to each performance measure and broadly apply to the performance metrics.

## Green

### On Track or Complete

NASA completed or expects to complete this performance measure within the estimated timeframe.

## Yellow

### Slightly Below Target and/or Behind Schedule

NASA completed or expects to complete this performance measure, but is slightly below the target and/or moderately behind schedule.

## Red

### Significantly Below Target and/or Behind Schedule

NASA did not or does not expect to complete this performance measure within the estimated timeframe. The program is substantially below the target and/or significantly behind schedule.

## White

### Cancelled or Postponed

NASA senior management cancelled or postponed this performance measure. The Agency no longer is pursuing activities related to this performance measure or the program did not have activities during the fiscal year.

## Gray

### Unrated

NASA Performance Contacts are delayed in gathering the final rating for this performance measure due to scheduling conflicts, administrative turnover, or prolonged committee reviews. Gray ratings are historically uncommon.

**Note:** These are generic criteria provided for informational purposes only. NASA develops measure-specific criteria to rate all of the Agency's performance goals and annual performance indicators.

## NASA'S THREE STRATEGIC GOALS ARE:

# ONE

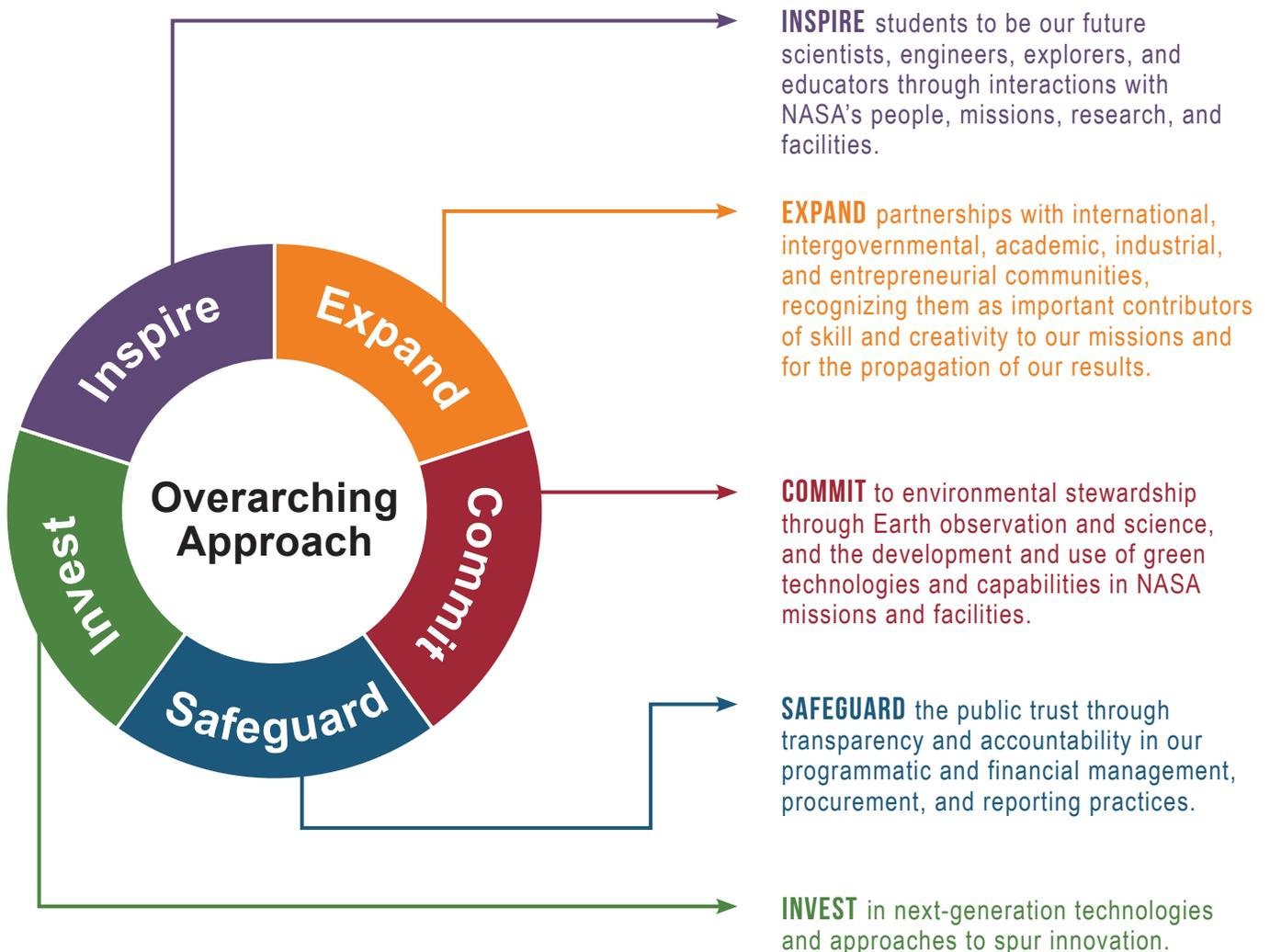
Expand the frontiers of knowledge, capability, and opportunity in space.

# TWO

Advance understanding of Earth and develop technologies to improve the quality of life on our home planet.

# THREE

Serve the American public and accomplish our Mission by effectively managing our people, technical capabilities, and infrastructure.



## FY 2016 - FY 2017 AGENCY PRIORITY GOALS

NASA developed four Agency priority goals for FY 2016 - FY 2017, consistent with the requirements of GPRAMA. The FY 2017 Agency priority goals are listed below. More information is available at <https://obamaadministration.archives.performance.gov/agencies.html>.

### Human Exploration and Operations, Exploration Systems Development:

Achieve critical milestones in development of new systems for the human exploration of deep space. By September 30, 2017, NASA will have begun integration and testing of the Exploration Mission (EM)-1 Orion Crew Module (CM), including the first power-on of the vehicle; delivered all four EM-1 Space Launch System (SLS) Core Stage RS-25 engines to the Michoud Assembly Facility in preparation for integration into the Core Stage; and completed construction of Exploration Ground Systems (EGS) Pad B.

### Human Exploration and Operations, International Space Station Program:

Increase the occupancy of the International Space Station's (ISS) internal and external research facilities by adding new instruments and capabilities. By September 30, 2017, NASA will increase the occupancy of the ISS internal and external research facility sites with science and technology payload hardware to 75 percent.

### Human Exploration and Operations, Commercial Crew Program:

Facilitate the development of and certify U.S. industry-based crew transportation systems while maintaining competition, returning ISS crew transportation to the United States. By September 30, 2017, the Commercial Crew Program (CCP), along with its industry partners, will make measurable technical and programmatic progress toward the certification of commercial crew transportation systems, including the completion of at least one Design Certification Review.

### Science, James Webb Space Telescope Program:

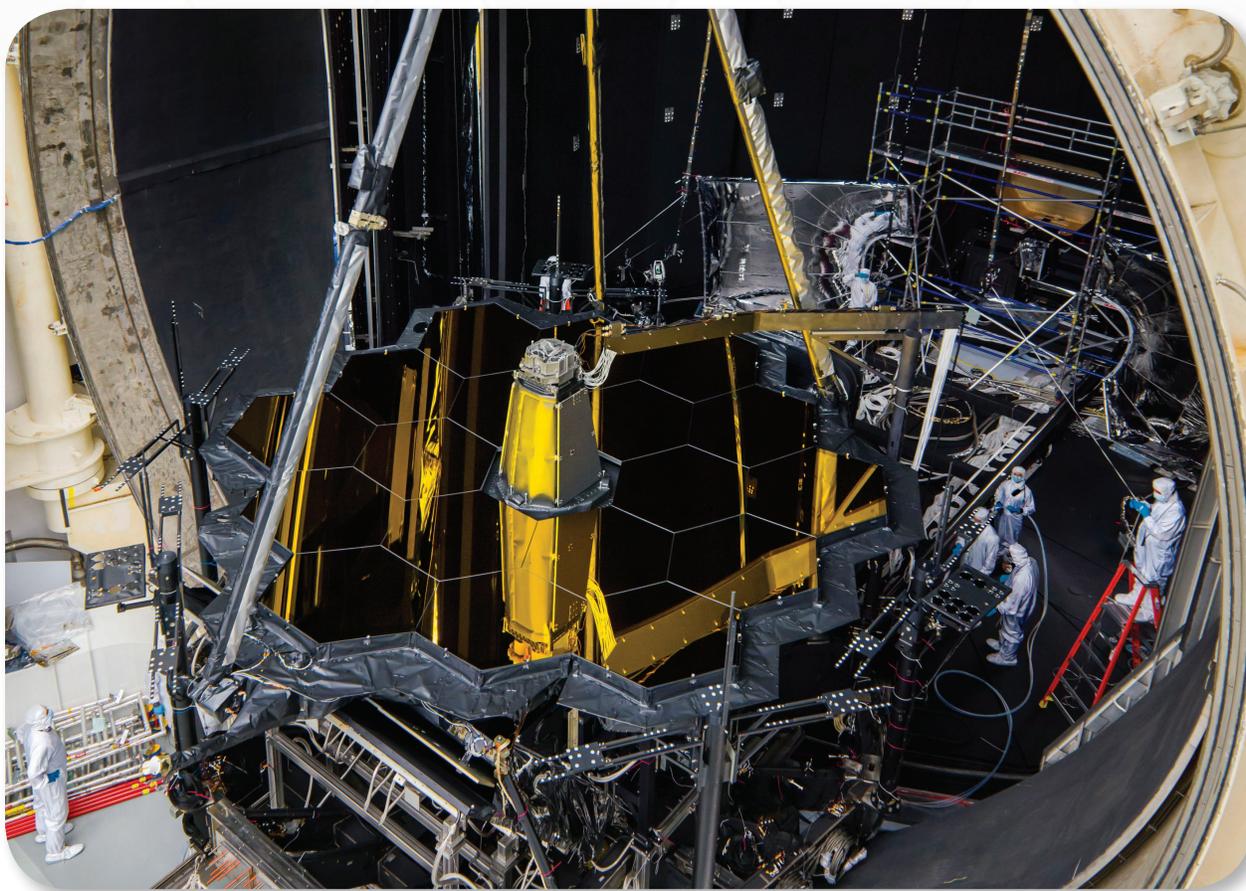
Revolutionize humankind's understanding of the Cosmos and humanity's place in it. By October 2018, NASA will launch the James Webb Space Telescope (Webb). To enable this launch date, NASA will complete the testing of the Webb Optical Telescope Element plus Integrated Science Instrument Module by September 30, 2017.

### DID YOU KNOW?

On April 24, 2017, NASA Astronaut Peggy Whitson established the new record for the most time spent in space by an American astronaut. She has spent more than 76 weeks of her life floating in microgravity! It's not the first time in her career at NASA that Whitson has established new milestones; here are just a few: first NASA Science Officer, first female to command the Space Station, first female Chief of the Astronaut Office, and most spacewalks for a female astronaut. Photo credit: NASA



# Did you know?



It's freezing in Houston! NASA's James Webb Space Telescope was placed in Johnson Space Center's historic Chamber A on June 20, 2017 to prepare for its final three months of testing in a cryogenic vacuum that mimics temperatures in space. Photo credit: NASA



# STRATEGIC GOALS & HIGHLIGHTS

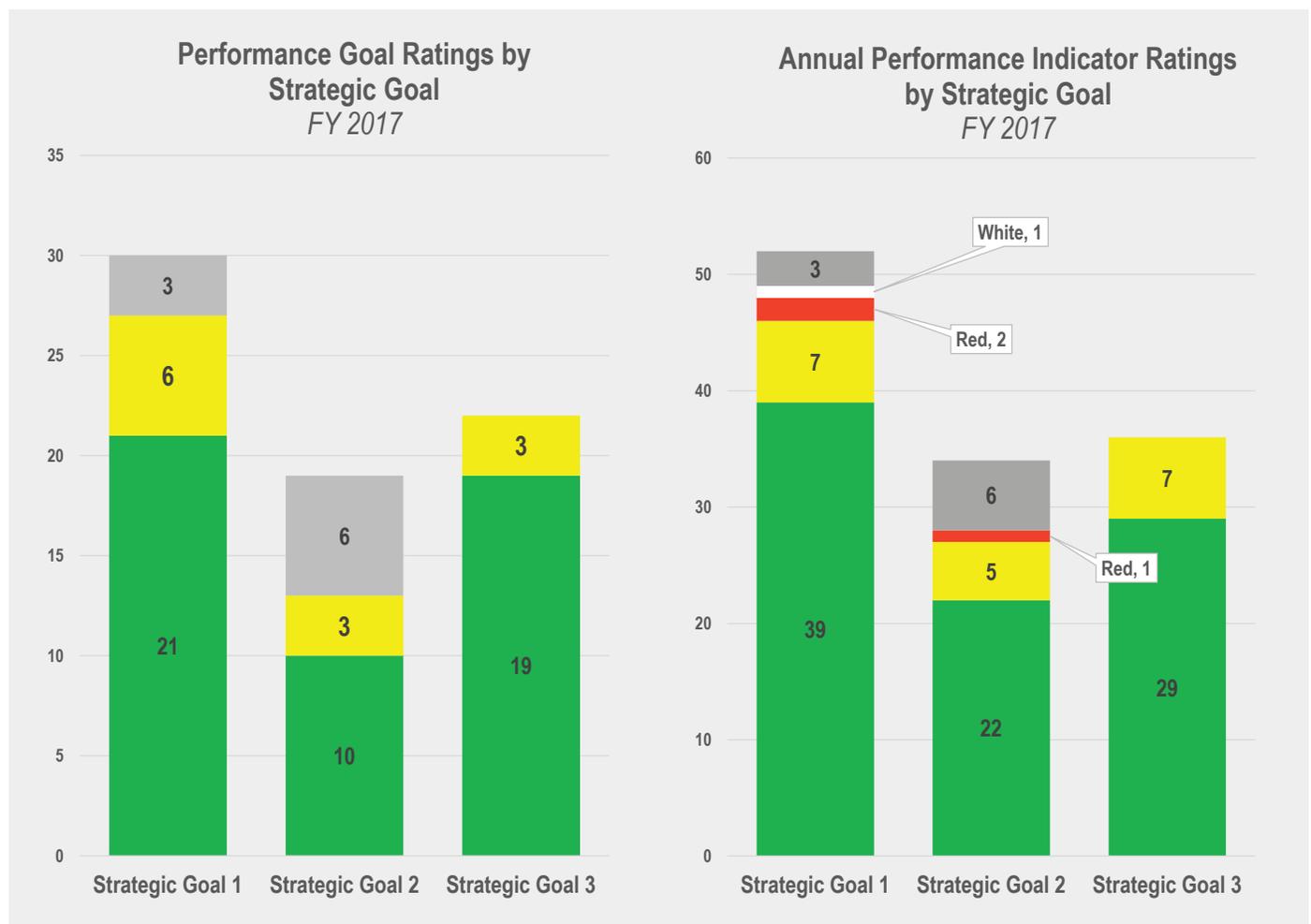


Orion's three main orange and white parachutes help a representative model of the spacecraft descend through sky above Arizona, where NASA engineers tested the parachute system on September 13, 2017, at the U.S. Army Proving Ground in Yuma. NASA is qualifying Orion's parachutes for missions with astronauts.

During this test, engineers replicated a situation in which Orion must abort off the Space Launch System rocket and bypass part of its normal parachute deployment sequence that typically helps the spacecraft slow down during its descent to Earth after deep space missions. The capsule was dropped out of a C-17 aircraft at more than 4.7 miles in altitude and allowed to free fall for 20 seconds, longer than ever before, to produce high aerodynamic pressure before only its pilot and main parachutes were deployed, testing whether they could perform as expected under extreme loads. Orion's full parachute system includes 11 total parachutes -- three forward bay cover parachutes and two drogue parachutes, along with three pilot parachutes that help pull out the spacecraft's three mains. Photo credit: NASA

Given the nature of some NASA programs, which include long-lead procurements and basic research, it may be difficult to quantify program impacts in the initial stages of program implementation. To ensure programs remain on track, NASA uses performance metrics based on rating criteria established by the appropriate mission directorates and program leadership. These criteria define if a performance goal (PG) or annual performance indicator (API) is rated green (on track or complete), yellow (slightly below target and/or behind schedule), or red (significantly below target and/or behind schedule). PGs and APIs can also be rated white (cancelled/postponed) or gray (unrated). This scale is used to understand NASA's performance at a high level and to better determine our progress in all three strategic goal areas.

Below are graphs of FY 2017's PGs and APIs and their associated ratings. Notice there are many more PGs, as they encompass larger programs and qualifications (i.e., send a satellite into orbit before October 2018). There are numerous APIs, associated with various tasks and parts of a program (i.e., test rocket boosters, test satellite operation, create safe transport vehicle for satellite hardware, maintain launch schedule, etc.)



Performance Goals (PG) and Annual Performance Indicator (API) summaries across NASA's three strategic goals in FY 2017

Every four years, corresponding to a change in presidential administration, NASA develops a new Strategic Plan to outline its aspirations. For more information on the strategic plan, please find the 2014-2018 Strategic Plan at [https://www.nasa.gov/sites/default/files/files/FY2014\\_NASA\\_SP\\_508c.pdf](https://www.nasa.gov/sites/default/files/files/FY2014_NASA_SP_508c.pdf).

---

## STRATEGIC OBJECTIVES

---

The strategic objectives are defined below. As a reminder, these objectives can be found in NASA's 2014-2018 Strategic Plan, and are no longer current after the release of the 2018-2022 Strategic Plan.

**Objective 1.1** (Human Exploration): Expand human presence into the solar system and to the surface of Mars to advance exploration, science, innovation, benefits to humanity, and international collaboration.

**Objective 1.2** (ISS): Conduct research on the International Space Station (ISS) to enable future space exploration, facilitate a commercial space economy, and advance the fundamental biological and physical sciences for the benefit of humanity.

**Objective 1.3** (Commercial): Facilitate and utilize U.S. commercial capabilities to deliver cargo and crew to space.

**Objective 1.4** (Heliophysics): Understand the Sun and its interactions with Earth and the solar system, including space weather.

**Objective 1.5** (Planetary Science): Ascertain the content, origin, and evolution of the solar system and the potential for life elsewhere.

**Objective 1.6** (Astrophysics): Discover how the universe works, explore how it began and evolved, and search for life on planets around other stars.

**Objective 1.7** (Space Technology): Transform NASA missions and advance the Nation's capabilities by maturing crosscutting and innovative space technologies.

**Objective 2.1** (Aeronautics): Enable a revolutionary transformation for safe and sustainable U.S. and global aviation by advancing aeronautics research.

**Objective 2.2** (Earth Science): Advance knowledge of Earth as a system to meet the challenges of environmental change, and to improve life on our planet.

**Objective 2.3** (Technology): Optimize Agency technology investments, foster open innovation, and facilitate technology infusion, ensuring the greatest national benefit.

**Objective 2.4** (Education): Advance the Nation's STEM education and workforce pipeline by working collaboratively with other agencies to engage students, teachers, and faculty in NASA's missions and unique assets.

**Objective 3.1** (Mission Support): Attract and advance a highly skilled, competent, and diverse workforce, cultivate an innovative work environment, and provide the facilities, tools, and services needed to conduct NASA's missions.

**Objective 3.2** (Technical Capabilities): Ensure the availability and continued advancement of strategic, technical, and programmatic capabilities to sustain NASA's Mission

**Objective 3.3** (IT Services): Provide secure, effective, and affordable information technologies and services that enable NASA's Mission.

**Objective 3.4** (Safety and Mission Success): Ensure effective management of NASA programs and operations to complete the mission safely and successfully.



## STRATEGIC GOAL 1



**Expand the frontiers of knowledge, capability, and opportunity in space**

### Overview

NASA has continually expanded the boundaries of science, technology, and imagination. Technologies and ideas that once only existed in the realm of science fiction have become science fact. Proving that the seemingly impossible is possible, NASA helps maintain U.S. leadership in space and creates new generations of space entrepreneurs and enthusiasts who believe humanity's future lies among the stars. This goal encapsulates a cycle of discovery, where every advance in our knowledge provides us unique insights and opportunities to improve our understanding of the universe, which leads to enhanced capabilities in space and on Earth. This, in turn, raises new questions and leads not only to new answers, but also new tools.

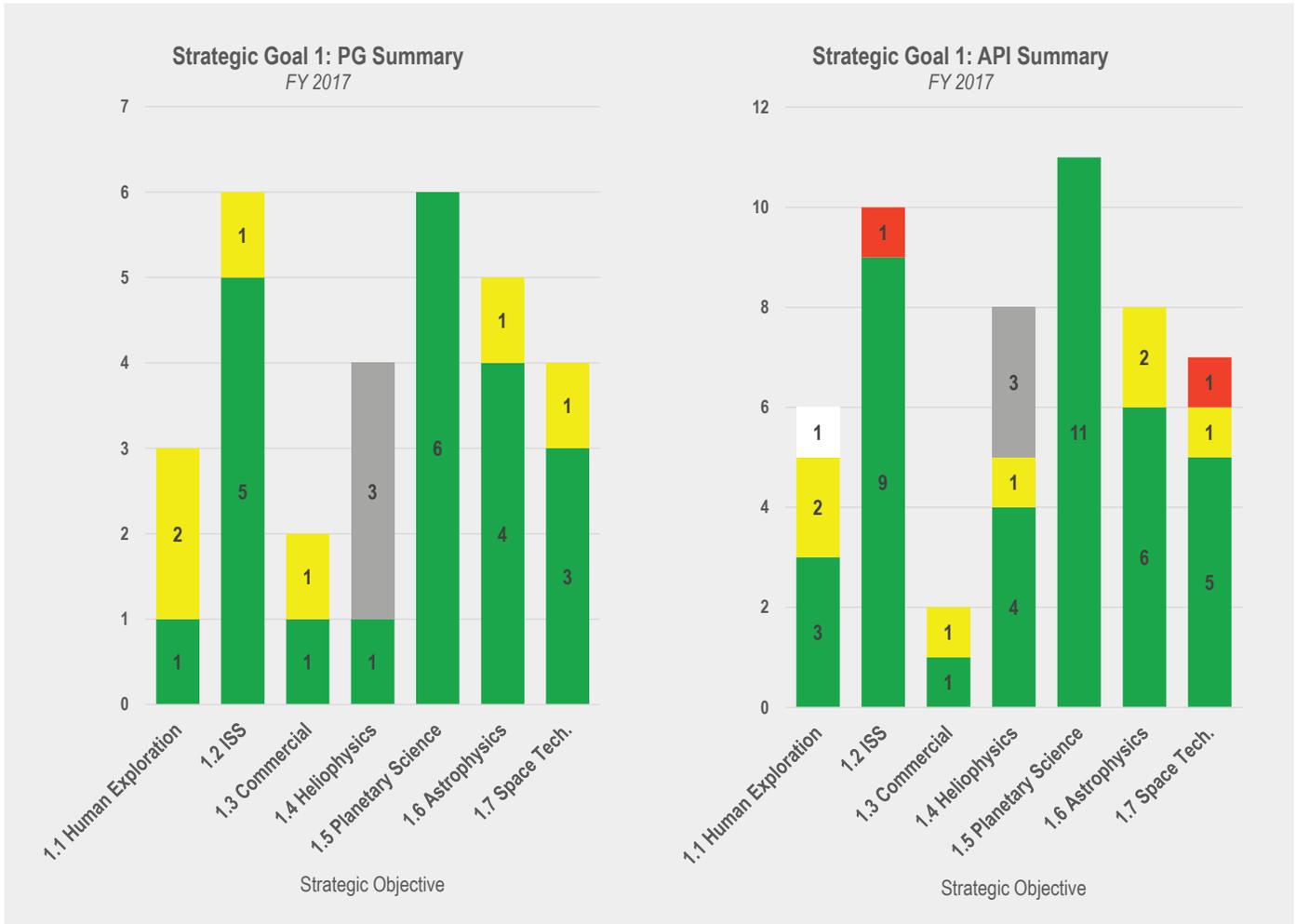
### Highlight: Orion Exit Procedures

When astronauts return to Earth from destinations beyond the Moon in NASA's Orion spacecraft and splashdown in the Pacific Ocean, they will still need to safely get out of the spacecraft and back on dry land. Using the waters off the coast of Galveston, Texas, a NASA and Department of Defense team tested Orion exit procedures in a variety of scenarios July 10-14, 2017.

During the crew egress testing, a joint team from the Orion and Ground Systems Development and Operations programs, along with assistance from the U.S. Coast Guard, Navy and Air Force, evaluated how the crew will get out of the capsule with assistance and by themselves.

Astronauts and engineering test subjects wore Orion Crew Survival System spacesuits, modified versions of NASA's orange Advanced Crew Escape suits in development for use during Orion launch and entry, making the testing as true to mission scenarios as possible. Photo credit: NASA/Josh Valcarcel

# STRATEGIC GOAL 1 | FY 2017 Performance Summary



## Performance Goals

Strategic Goal 1 contains 21 green-rated PGs, 6 yellow-rated PGs, and 3 unrated PGs. The yellow ratings are in Exploration Systems Development, Exploration Research and Development, International Space Station, Commercial Spaceflight, James Webb Space Telescope, and Space Technology. The unrated measures are in Heliophysics.

The ratings are preliminary and subject to change. The final ratings and detailed explanations, including for the unrated measures, will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

## Annual Performance Indicators

Strategic Goal 1 contains 39 green-rated APIs, 7 yellow-rated APIs, 2 red-rated APIs, 1 white-rated API, and 3 unrated APIs. The yellow, red, and white ratings are in Exploration Systems Development, Exploration Research and Development, International Space Station, Commercial Spaceflight, Heliophysics, James Webb Space Telescope, Astrophysics, and Space Technology. The unrated measures are in Heliophysics.

The ratings are preliminary and subject to change. The final ratings and detailed explanations, including for the unrated measures, will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

## STRATEGIC GOAL 2



# Advance understanding of Earth and develop technologies to improve the quality of life on our home planet

### Overview

NASA is committed to improving life right here on Earth. Whether developing new aircraft technologies for safer, more efficient air travel, uncovering the complexities of Earth's natural systems, or transferring technologies to the commercial marketplace, NASA has a record of accomplishments in advancing understanding of Earth and helping to improve life for its inhabitants. Every discovery NASA makes, all knowledge gained through our space endeavors, and every advance in technology benefits us on Earth.

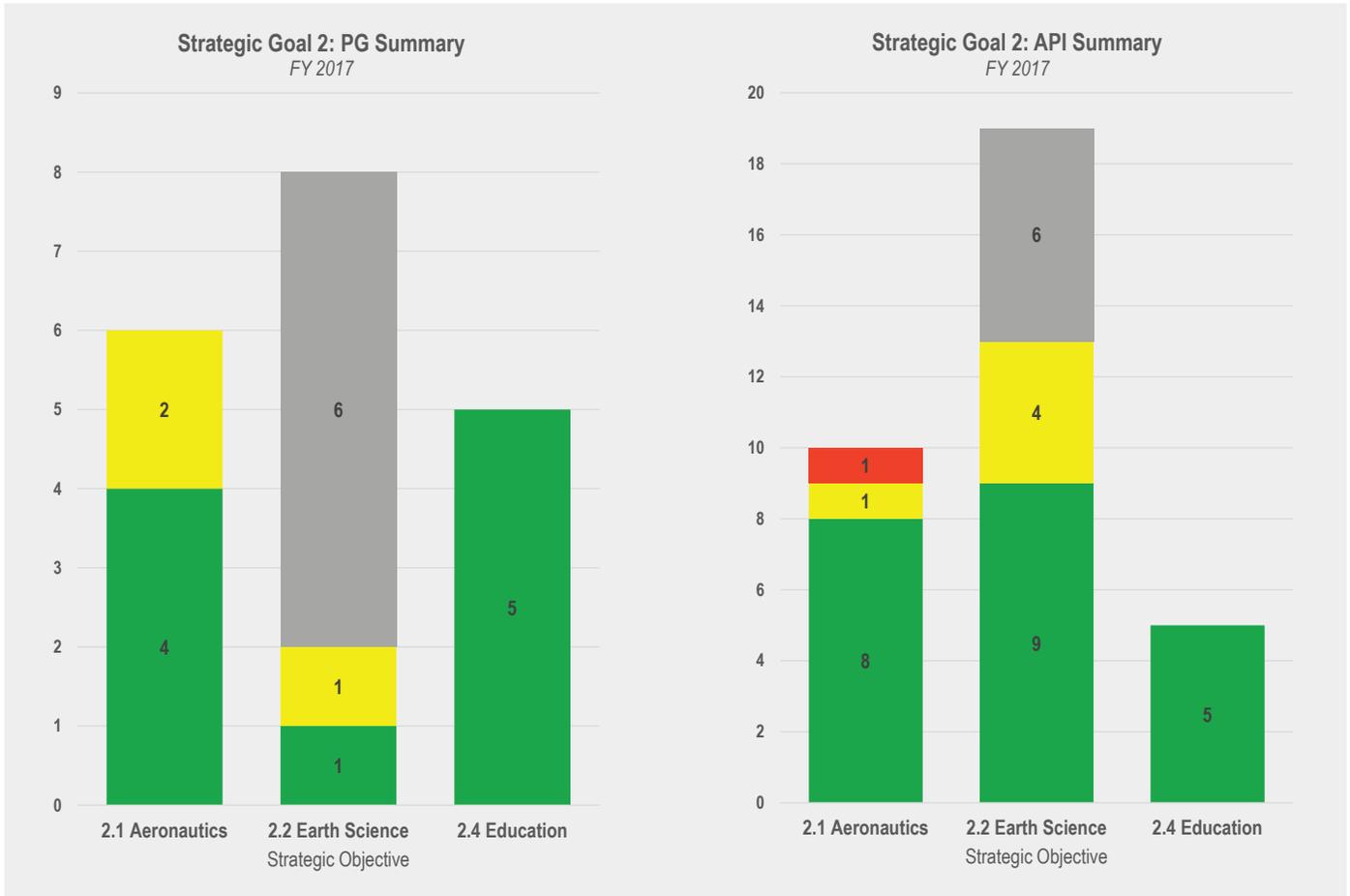
### Highlight: Low Boom Flight Demonstration

As NASA proceeds toward the possible development of a proposed Low-Boom Flight Demonstration aircraft, or LBFD, research done by the Agency's Commercial Supersonic Technology project, or CST, continues to investigate ways to mitigate or minimize the disruptive sonic boom associated with supersonic flight, as well as approaches to overcome other technical barriers to innovation in commercial supersonic flight.

NASA engineers have integrated the 65-degree wing test article that had been previously tested in the wind tunnel, to the underside of a NASA F-15 (shown above). The swept wing model will test several configurations of distributed roughness elements, or DREs, along the test article's leading edge at speeds up to Mach 2. This will allow researchers to examine how different configurations of DREs impact laminar flow (the smooth layer of air near the wing), and consequently, the fuel efficiency of future supersonic aircraft. Photo credit: NASA/Carla Thomas



# STRATEGIC GOAL 2 | FY 2017 Performance Summary



## Performance Goals

Strategic Goal 2 contains 10 green-rated PGs, 3 yellow-rated PGs, and 6 unrated PGs. The yellow ratings are in Aeronautics and Earth Science. The unrated measures are in Earth Science.

Effective in late FY 2016, NASA discontinued reporting under Strategic Objective 2.3. NASA restructured the Office of the Chief Technologist, which was reported under Strategic Objective 2.3, with the Space Technology Mission Directorate, which is reported under Strategic Objective 1.7, to better align functions with roles and responsibilities.

The ratings are preliminary and subject to change. The final ratings and detailed explanations, including for the unrated measures, will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

## Annual Performance Indicators

Strategic Goal 2 contains 22 green-rated APIs, 5 yellow-rated APIs, 1 red-rated APIs, and 6 unrated APIs. The yellow and red ratings are in Aeronautics and Earth Science. The unrated measures are in Earth Science.

Effective in late FY 2016, NASA discontinued reporting under Strategic Objective 2.3. NASA restructured the Office of the Chief Technologist, which was reported under Strategic Objective 2.3, with the Space Technology Mission Directorate, which is reported under Strategic Objective 1.7, to better align functions with roles and responsibilities.

The ratings are preliminary and subject to change. The final ratings and detailed explanations, including for the unrated measures, will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

## STRATEGIC GOAL 3



Serve the American public and accomplish our mission by effectively managing our people, technical capabilities, and infrastructure

### Overview

NASA is proud to be the U.S. agency charged with exploring the unknown in space and driving new advances in aerospace science and technology on behalf of the American public. Reaching for the stars requires dedication, recognizing that we are stewards of taxpayer dollars, critical human capital, and one-of-a-kind facilities. We maintain a large and diverse set of technical capabilities and assets to support NASA missions and the work of other Federal agencies and the private sector to test, validate, and optimize innovations.

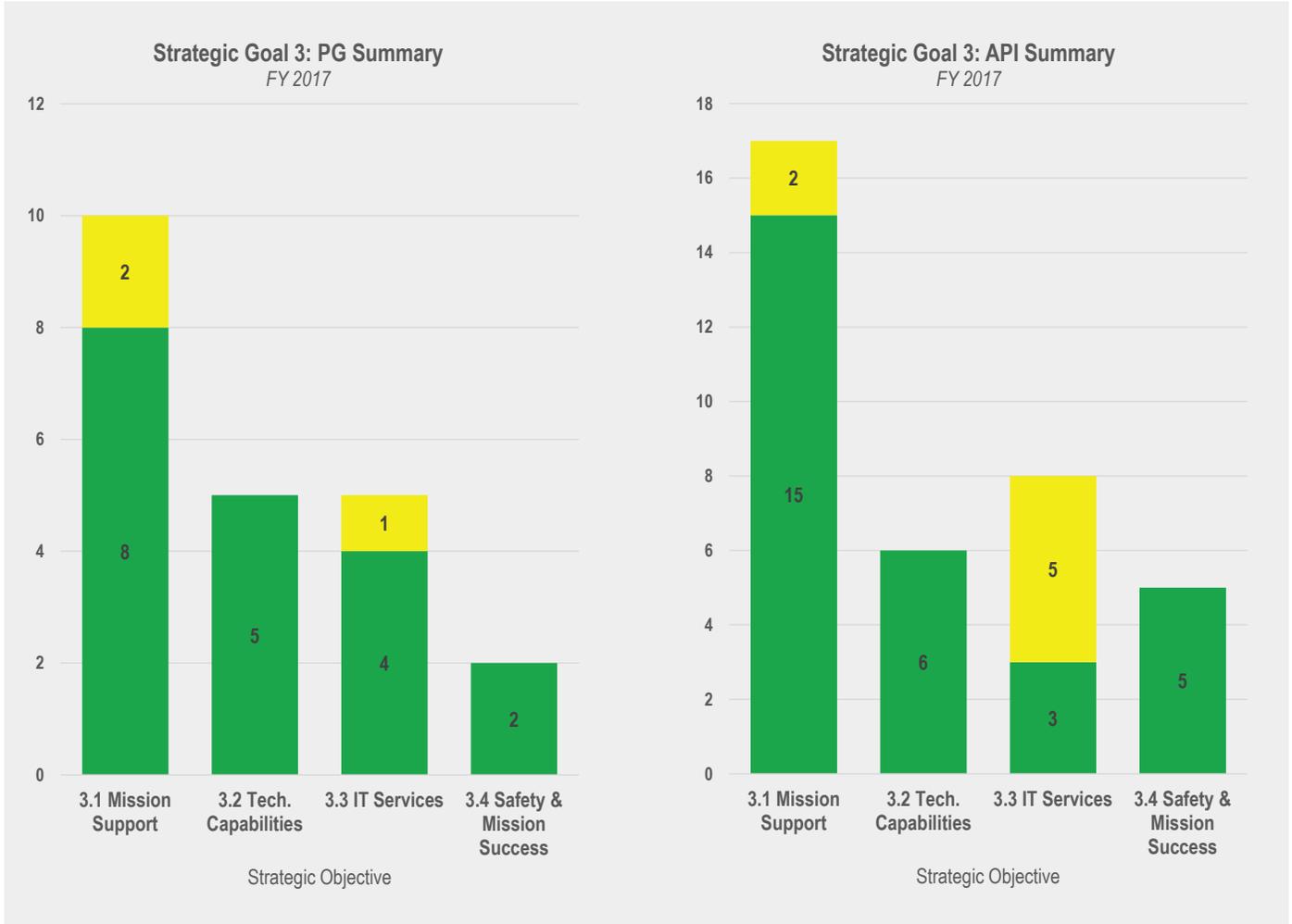
### Highlight: Langley Research Center celebrates 100 years of Excellence!

In 1917 -- just fourteen years after the Wright Brothers made their first historic powered flight -- the United States decided to establish the first civilian laboratory dedicated to unlocking the mysteries of flight. It was on the banks of the Chesapeake Bay in Hampton, VA. For 100 years since then, Langley scientists and engineers created, built and managed a series of instruments, both on planes and on spacecraft, to study the planet's changing climate. Langley set new environmental science standards by collecting and archiving the resultant data.

A better understanding of Earth's atmosphere would lead to work on how best to touch down on other worlds. With the Viking 1 landing in 1976, Langley led the first successful U.S. mission to the surface of Mars, setting the stage for subsequent Red Planet exploration. Another milestone occurred in August 2012, with the successful landing of the Mars Curiosity rover, whose heat shield included a suite of advanced sensors developed by and at Langley.

As aviation lifts into the second decade of the 21st century, Langley continues a rich heritage of aeronautical innovation. For more information on the history of Langley, please visit their website at <https://www.nasa.gov/langley>. Photo credit: NASA

## STRATEGIC GOAL 3 | FY 2017 Performance Summary



### Performance Goals

Strategic Goal 3 contains 19 green-rated PGs and 3 yellow-rated PGs. The yellow ratings are in Agency Management and Operations.

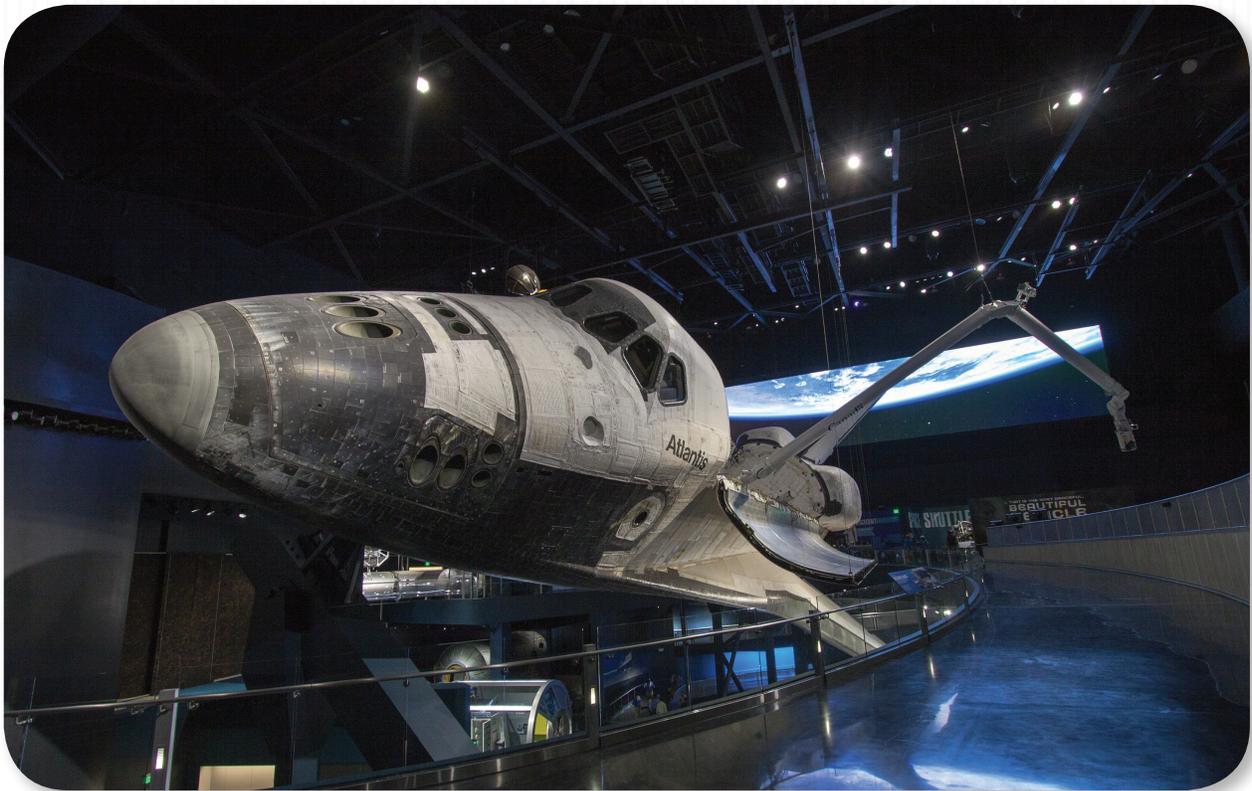
The ratings are preliminary and subject to change. The final ratings and detailed explanations will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

### Annual Performance Indicators

Strategic Goal 3 contains 29 green-rated APIs and 7 yellow-rated APIs. The yellow ratings are in Agency Management and Operations.

The ratings are preliminary and subject to change. The final ratings and detailed explanations will be available in the FY 2019 Volume of Integrated Performance, scheduled for publication in February 2018.

# Did you know?



You can see several of NASA's heritage assets on display at our various visitor centers including Space Center Houston at Johnson Space Center and the Kennedy Space Center Visitor Complex. One of NASA's largest heritage assets on display is the Space Shuttle Atlantis at KSC. Atlantis lifted off on its maiden voyage on October 3, 1985, on Mission 51-J. On July 8, 2011, Atlantis launched for the last mission of the Space Shuttle Program, Mission STS-135, for a cargo delivery to the International Space Station (ISS). Photo credit: NASA



# LOOKING FORWARD



Dr. Patrick Shea inspects a nearly 4 3/4-foot (1.3 percent scale) model of the second generation of NASA's Space Launch System in a wind tunnel for ascent testing at NASA's Ames Research Center in Silicon Valley, California. The tests will help determine the larger, more powerful rocket's behavior as it climbs and accelerates through the sound barrier after launch. To also test a new optical measurement method, Ames engineers coated the SLS model with Unsteady Pressure-Sensitive Paint, which under the lighting glows dimmer or brighter according to the air pressure acting on different areas of the rocket. Dr. Shea, who is from NASA's Langley Research Center in Hampton, Virginia, was SLS aerodynamic test lead for the work at Ames. Photo credit: NASA/Ames/Dominic Hart



NASA is proud to be the U.S. Agency charged with exploring the unknown in space and driving new advances in aerospace science and technology on behalf of the American public. Currently, we are seeking to implement sustainable long-term plans, preparing new missions, and developing new systems for the human exploration of the Moon, Mars, and deep space. We have plans for human missions to explore cis-lunar space (the region between Earth and the Moon), beginning with Exploration Mission-2 (EM-2).

One step we have already taken in this leap is the recruiting and training of a class of 12 new astronaut candidates, the largest astronaut class since 2000. Selected from the record-breaking 18,300 applications, the five women and seven men are training for missions on the International Space Station (ISS), commercial spacecraft, and deep space missions aboard the Orion spacecraft and Space Launch System (SLS) rocket. Before long, American astronauts will return to cis-lunar space to build and begin testing technologies and techniques needed to keep humans safe, healthy, and productive on a mission to Mars. Ranging from environmental control and life support to advanced propulsion and automated rendezvous and docking, these capabilities will be robust, affordable, sustainable, and adaptable to a variety of destinations in deep space.

In addition to human exploration, NASA's James Webb Space Telescope (Webb) is expected to launch in 2019 and be the premier scientific observatory of the next decade – unlocking the mysteries of the universe for humankind. Together, scientific discovery and human exploration are not only reaching out to unlock the mysteries of the cosmos; they are continuously improving and safeguarding life on Earth. NASA missions are contributing to better understanding of weather and natural disasters, like Hurricane Harvey and Hurricane Irma. There are new medical treatments resulting from NASA studies that research the effects of low-gravity and spaceflight impacts on the human body. NASA provides America with tools for leadership and inspiration in aerospace science and technology. Our technology developments are at the root of economic stability and growth for many industries, both bound to Earth and destined for space.

U.S. leadership in space is due in part to NASA's ability to inspire and create access to complex challenges. We continue to retain and serve as a unique national resource of engineers, scientists, technologists, and business specialists. Our goal is to enable all of NASA's space-based, air-based, and Earth-based research and innovation activities producing the best return on the Nation's investment.

Today, men and women all over the world are committed to expanding human knowledge of our place in the universe. Together with NASA, American companies are on the cutting edge of space technology, developing new launch vehicles, spacecraft, and instruments that will take us further into space faster than ever before.

We strive to accomplish our mission with the utmost care—recognizing that we are stewards of taxpayer dollars, critical human capital, and one-of-a-kind facilities. With guidance from the National Space Council, NASA will lead a new era of space technologies and advancements for our Nation.

For more information on our formalized strategic goals, please refer to NASA's 2018-2022 Strategic Plan, set for publication in February 2018.



**USAID**  
FROM THE AMERICAN PEOPLE

**AGENCY FINANCIAL REPORT**

**2017**

FISCAL YEAR



**HELPING PEOPLE  
PROGRESS BEYOND  
ASSISTANCE**

A photograph of a woman and a young girl standing on a paved path. The woman is wearing a black hijab and a black long-sleeved dress with gold buttons. The girl is wearing a green dress over red pants and black sandals. She is holding a book with a colorful cover that has text in Bengali. The background features palm trees and a clear sky. A semi-transparent dark blue banner is overlaid across the middle of the image, containing the text 'MANAGEMENT'S DISCUSSION AND ANALYSIS' in white capital letters.

MANAGEMENT'S DISCUSSION AND ANALYSIS



*(Preceding page)* Joynur's mother encourages her daughter to be enthusiastic about learning. USAID is training teachers in Bangladesh to emphasize reading with comprehension and installing reading corners in classrooms to provide access to books. Meet Joynur at [stories.usaid.gov](https://stories.usaid.gov).

PHOTO: MORGANA WINGARD FOR USAID



*(Above)* Isobel Báez on route to a youth center in the Dominican Republic. The USAID program provides a safety net for at-risk youth ages 11 to 24 and helps prevent crime. Meet Isobel at [stories.usaid.gov](https://stories.usaid.gov).

PHOTO: THOMAS CRISTOFOLETTI FOR USAID



# MISSION AND ORGANIZATIONAL STRUCTURE

## MISSION STATEMENT

We partner to end extreme poverty and to promote resilient, democratic societies while advancing our security and prosperity.\*

USAID has been working toward these goals for more than 50 years. Extreme poverty is multi-dimensional—driven by everything from water insecurity to a lack of stable democratic governance. Resilient societies must have healthy, educated, and well-nourished citizens, as well as a vibrant economy and inclusive, legitimate, and responsive institutions. All of USAID's work—including efforts to increase food security, improve education, and end preventable child death—create pathways for the world's most vulnerable people to escape extreme poverty.

## ORGANIZATIONAL STRUCTURE

USAID is an independent federal agency that receives overall foreign policy guidance from the Secretary of State. With an official presence in 87 countries and programs in 19 non-presence countries, the Agency accelerates human progress in developing countries by reducing poverty, advancing democracy, empowering women, building market economies, promoting security, responding to crises, and improving quality of life through investments in health and education. USAID is headed by an Administrator and Deputy Administrator, both appointed by the

President and confirmed by the Senate. USAID plans its development and assistance programs in close coordination with the Department of State (State), and collaborates with other U.S. Government agencies, multilateral and bilateral organizations, private companies, academic institutions, and non-governmental organizations (NGOs).

To transform USAID into a modern development enterprise, the Agency continues to implement reforms initiated in 2010. This included strengthening the Agency's overseas workforce in key technical areas. In 2017, the Agency's mission was supported by 3,668 U.S. direct hire employees, of which 2,083 are Foreign Service Officers, of which 259 are Foreign Service Limited, and 1,585 are in the Civil Service. Additional support came from 4,547 Foreign Service Nationals, and 1,527 other non-direct hire employees (not counting institutional support contractors). Of these employees, 3,208 are based in Washington, D.C., and 6,534 are deployed overseas. These totals include employees from the Office of Inspector General (OIG).<sup>1</sup>

USAID's workforce and culture continue to serve as a reflection of core American values—values that are rooted in the belief of doing the right thing.

In 1961, the U.S. Congress passed the Foreign Assistance Act to administer long-range economic and humanitarian assistance to developing countries. Two months after passage of the act, President John F. Kennedy established the U.S. Agency for International Development (USAID). USAID unified pre-existing U.S. Government assistance programs and served as the U.S. Government's lead international development and humanitarian assistance agency.

USAID has elected to produce an Agency Financial Report (AFR) and Annual Performance Report (APR) as an alternative to the consolidated Performance and Accountability Report (PAR). The Agency will submit its FY 2017 APR to the Office of Management and Budget in March 2018; and will post it on the Agency's website at <http://www.usaid.gov/results-and-data/progress-data/annual-performance-report>.

\* As of September 30, 2017.

<sup>1</sup> Workforce figures are taken from the Semi-Annual USAID Worldwide Staffing Pattern Report, September 30, 2017, including the OIG.

## ORGANIZATIONAL STRUCTURE IN WASHINGTON

In Washington, D.C., USAID's geographic, functional, and central bureaus are responsible for coordinating the Agency's activities and supporting implementation of programs overseas. Independent offices support crosscutting or more limited services. The geographic bureaus are Africa, Asia, Middle East, Latin America and the Caribbean, Europe and Eurasia, and the Office of Afghanistan and Pakistan Affairs.

There are four functional bureaus that support the geographic bureaus and offices:

- Bureau for Food Security (BFS), which provides expertise in agricultural productivity and addressing hunger and malnutrition;
- Bureau for Economic Growth, Education, and Environment (E3), which provides expertise in economic growth, trade opportunities, technology, education, and environment/natural resource management;
- Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), which provides expertise in democracy and governance, conflict management and mitigation, and humanitarian assistance;
- Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health and HIV/AIDS.

Central bureaus and offices include:

- Bureau for Policy, Planning, and Learning (PPL), which oversees all program, policy, and development and promotes a learning environment;
- Bureau for Foreign Assistance (FA), which provides strategic planning, regional coordination, and program budget formulation in coordination with PPL and the Office of Budget and Resource Management (BRM);
- U.S. Global Development Lab (Lab), which provides expertise in the application of science, technology, innovation, and partnerships to extend the Agency's development impact in helping to end extreme poverty;

- Bureau for Legislative and Public Affairs (LPA), which manages the Agency's legislative engagements, strategic communications, and outreach efforts to promote understanding of USAID's mission and programs;
- Bureau for Management (M), which administers centralized support services for the Agency's worldwide operations.

In addition to these central bureaus, USAID has seven independent offices that are responsible for discrete Agency functions that include legal, budget, diversity programs, security, and partnerships. These offices are: (1) the Office of the Executive Secretariat, (2) the Office of the General Counsel, (3) the Office of Budget and Resource Management, (4) the Office of Security, (5) the Office of Small and Disadvantaged Business and Utilization, (6) the Office of Civil Rights and Diversity, and (7) the Office of Human Capital and Talent Management (HCTM), which oversees the planning, development, management, and administration of human capital for the Agency.

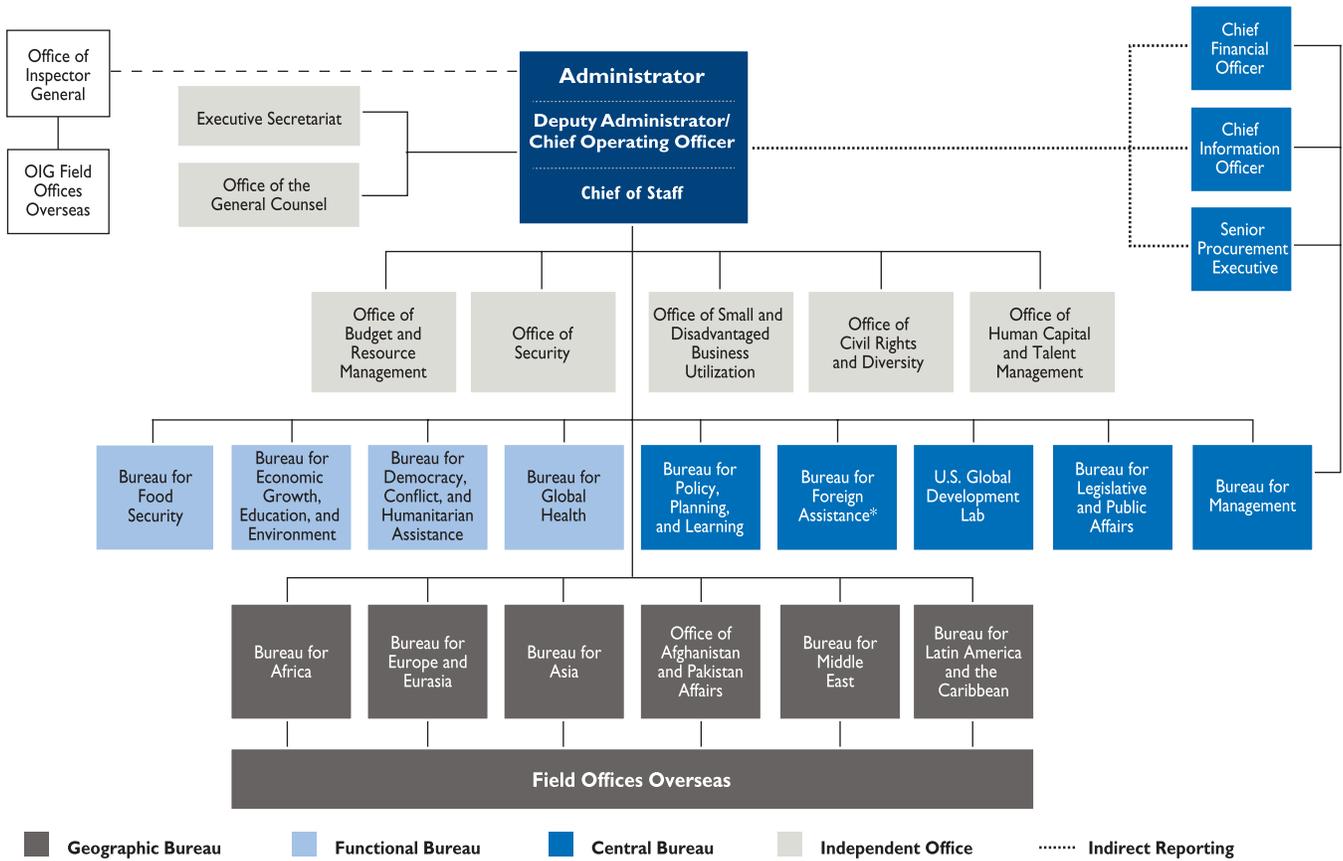
The OIG is independent and separate from the Office of the Administrator. The OIG reviews the integrity of Agency operations through audits, appraisals, investigations, and inspections.

Finally, the Chief Financial Officer, Chief Information Officer, and Senior Procurement Executive report directly to the Assistant Administrator in the Bureau for Management (M/AA) and may indirectly report to the Administrator. The Chief Financial Officers Act of 1990, Chief Information Officer Act of 1996, and the Federal Acquisition Reform Act (FARA) of 1996 mandated the establishment of these positions. The intention was to elevate these positions, to establish clear accountability, and to improve the Federal Government's financial and information management activities.

There is no escaping our obligations: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations—our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy—and our political obligations as the single largest counter to the adversaries of freedom. ”

— John F. Kennedy

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



\* Staff in the Bureau for Foreign Assistance work under the auspices of the Office of the Director of U.S. Foreign Assistance at the Department of State.

### ORGANIZATIONAL STRUCTURE OVERSEAS

USAID’s overseas organizational units are known as field missions. The U.S. Ambassador serves as the Chief of Mission for all U.S. Government agencies in a given country and all USAID operations fall under his or her authority. The USAID Mission Director or representative, as the USAID Administrator’s representative and the Ambassador’s prime development advisor, is responsible for USAID’s operations in a given country or region and also serves as a key member of the U.S. Government’s “country team.” USAID missions operate under decentralized program authorities, allowing missions to design and implement programs and negotiate and execute agreements.

Missions conduct and oversee USAID’s programs worldwide, managing a range of diverse multi-sector programs in developing countries. The Mission Director directs a team of contracting, legal, and project design officers; financial services managers; and technical officers. Bilateral and regional missions work with host governments and NGOs or other partner organizations to promote sustainable economic growth, meet basic human needs, improve health, mitigate conflict, and enhance food security. All missions provide assistance based on integrated development strategies that include clearly defined program objectives and performance targets.

# PROGRAM PERFORMANCE OVERVIEW

As the U.S. Government’s principal leader, coordinator, and provider of international development and humanitarian assistance, USAID advances national security and economic prosperity, while demonstrating American values and goodwill abroad. Agency investments save lives, foster inclusive economic growth, reduce poverty, and strengthen democratic governance while helping other countries progress beyond needing USAID’s assistance.

To help the Agency determine how well it is meeting its goals, and maximizing its relevance and value as a lead development organization, USAID assesses its performance across three key areas: delivering results on a meaningful scale through a strengthened USAID; promoting high-impact partnerships and local ownership that enables countries to sustain development processes and outcomes; and identifying and scaling up innovative, breakthrough solutions to intractable development challenges.

## 1 DELIVER RESULTS ON A MEANINGFUL SCALE THROUGH A STRENGTHENED USAID

To maximize USAID’s impact with every development dollar, the Agency is pursuing a more strategic, focused, and results-oriented approach. The purpose of foreign assistance should be to end its need to exist. The effectiveness of the Agency’s work should be measured by how far each investment moves it closer to that day. The Agency continues to strengthen the impact of its investments by:

- **Designing country and sector development strategies and projects to better align U.S. Government resources with the priorities of its partner countries.** USAID operating units have completed 63 out of 63 Country Development Cooperation Strategies (CDCSs), including two approved

in FY 2017—representing the majority of USAID missions—and published them on USAID.gov (<https://www.usaid.gov/results-and-data/planning/country-strategies-cdcs>).

- **Evaluating projects for what works and what does not.** In 2011, USAID implemented an Evaluation Policy that has been called a “model for other federal agencies” by the Evaluation Policy Task Force of the American Evaluation Association. In FY 2016, USAID operating units completed 138 external evaluations, bringing the total number to over 1 thousand since the Agency established the Evaluation Policy. USAID evaluation reports are available to the public online at the Development Experience Clearinghouse (DEC) (<https://dec.usaid.gov/dec/home/Default.aspx>).
- **Investing in Agency staff by introducing new ways to strengthen and grow the best talent.** USAID’s Mentoring Program enhanced the professional development of more than 1,100 staff over FY 2016, increasing by 22 percent from FY 2015. Since the program’s inception, the number of participants in the mentoring program has increased by more than 73 percent. Leadership support for mentoring has helped the Agency improve teamwork, program management, and performance.

## 2 PROMOTE SUSTAINABLE DEVELOPMENT THROUGH HIGH-IMPACT PARTNERSHIPS AND LOCAL OWNERSHIP

To achieve long-term, sustainable development, USAID collaborates with and supports government institutions, private sector partners, and civil society organizations that serve as engines of growth and progress for their own nations. The Agency is developing the capabilities of its partners to direct their own development by:

- **Promoting local ownership by investing directly in partner governments and civil society organizations where the capacity exists, and strengthening it where there are gaps.** Since 2010, USAID has tripled the percentage of funding obligated through local governments, civil society partners, and local private sector actors. Overall, the Agency obligated 15.9 percent of funding to local actors in FY 2016 (22.5 percent, including cash transfers and qualifying trust funds). These local solutions investments have demonstrated evidence of progress, local resourcing, and sustained results.
- **Encouraging direct engagement of staff with local actors and systems.** The percentage of field staff who engaged with a local partner was 58.5 percent in FY 2016. A high percentage of USAID mission staff continue to work closely with local partners overseas—whether host country governments, regional entities, or local non-governmental organizations or commercial firms—to increase the success and sustainability of interventions. Missions have learned that direct engagement yields results and are using a broad range of approaches, including:
  - direct training to build in-country capacity (financial, procurement, reporting);
  - joint program development and monitoring;
  - policy advice and improved coordination by placing advisors inside national and regional government agencies.
- **Forging public-private partnerships with new and existing partners that leverage new resources and expertise to expand the reach and impact of the Agency’s work.** In FY 2016, USAID missions leveraged commitments of \$484 million in private sector resources for new Global Development Alliances (GDAs), i.e., partnerships with at least 1:1 cost sharing. Since 2001, USAID has built more than 1,800 partnerships with the private sector involving more than 3,900 unique partner organizations, expecting to leverage more than \$38 billion in non-U.S. government funds. These partnerships not only make budgets go farther, they also bring the unique expertise and assets of the private sector such as efficiency and effectiveness.

- **Improving lending to new and emerging markets through the Development Credit Authority (DCA).** USAID’s DCA credit guarantee portfolio grew significantly in 2016, bringing the total credit mobilized since the beginning of the program to nearly \$5.0 billion. Compared to a portfolio of less than \$2.0 billion mobilized from 1999 through 2010, it shows significant growth in both size and importance of the DCA in the last several years. In FY 2016 alone, USAID mobilized \$892 million in private capital through the DCA, which is close to half the size of the total portfolio from the combined first 12 years of the program, through 56 new guarantees signed with 55 financial partners across 27 countries.

### 3 IDENTIFY AND SCALE UP INNOVATIVE, BREAKTHROUGH SOLUTIONS TO INTRACTABLE DEVELOPMENT CHALLENGES

- **USAID fosters a culture of innovation and uses its convening power to test and scale breakthrough innovations to solve development challenges faster and cheaper.** The U.S. Global Development Lab (Lab) seeks to increase the application of science, technology, innovation, and partnerships to achieve, sustain, and extend the Agency’s development impact. The Lab sources, tests, and delivers proven solutions—from expanding the reach of mobile banking to teaching children to read in their local language. The Agency sustains and extends its development impact by:
  - **Encouraging innovation to improve lives.** USAID brings new perspectives to long-standing development challenges through flagship innovation initiatives. More than 16 thousand people have applied for innovation grants, 75 percent of whom have never received USAID funding, and approximately 25 percent of Grand Challenge grantees are from developing countries. In FY 2016, the Lab supported 13 high-potential innovations, which have significant beneficiary reach, sustainable financing, and rigorous evidence of impact. For example, the Securing Water for Food

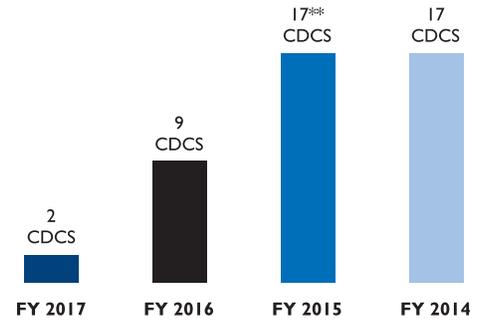
(SWFF) Grand Challenge for Development aims to increase access to innovations that help farmers produce more food with less water, enhance water storage, and improve the use of saline water and soils to produce food. Since launching, SWFF innovators have helped save approximately two billion liters of water, which is equivalent to 800 Olympic-sized swimming pools; helped produce nearly 290 thousand tons of food, equivalent to 58,000 African elephants; and reached more than one million farmers and other customers.

- **Supporting investments in digital finance services.** The Agency continues to foster the growth of digital financial services, which accelerate financial inclusion, help fight corruption, and catalyze private sector development. In FY 2016, 28 missions pursued at least one activity to promote digital finance and financial inclusion. For example, in the Philippines, the E-PESO program is partnering with the Government of the Philippines and the private sector to achieve a 20-fold increase in electronic payment (e-payment) usage and to support the development of an economic infrastructure that will enable Filipinos to access new financial products and spur broad-based and inclusive economic development. Through a range of technical assistance to national and local governments, the project has supported development and implementation of a national retail payment system roadmap and worked with local governments to improve the transparency and efficiency of electronic tax collection and social payments.

## DISCIPLINE OF DEVELOPMENT

The Program Cycle is the foundational framework for evidence-based development. The Program Cycle reinforces the linkages between country-level strategic planning (through CDCSs), project design and implementation, and performance evaluation and monitoring. These components, representing the discipline of development, are informed by continuous learning and adapting, influence the annual budget and resource management processes, and focus on achieving sustainable results. Sixty-

### NUMBER OF CDCSs APPROVED\*



\* One CDCS per country with a population of 63.

\*\* Number of CDCSs approved in 2015 updated after FY 2016 AFR published.

three USAID missions have completed a CDCS, including two approved in FY 2017. The Performance Management Plan (PMP) is a tool used by USAID to help plan and manage the process to monitor, evaluate, and learn from progress against strategic objectives and project performance. Where PMPs have been developed for a CDCS, USAID missions and offices utilize each strategy's PMP to target and track progress toward intended results. They are also responsible for reporting key indicator data in their annual performance reports. These performance reports inform decisions on funding, program development, and implementation.

USAID released updates to the Program Cycle in September 2016 to ensure that it continues to increase the impact of its programs by better integrating and aligning strategic planning, project design, monitoring and evaluation, and learning and adapting activities based on evidence for what works. The updates include assessment of risk and opportunities and sustainability plans to promote country ownership and a road map for when assistance will no longer be necessary. Four principles guide USAID's Program Cycle:

- Apply analytic rigor to support evidence-based decision making;
- Manage adaptively through continuous learning;
- Promote sustainability through local ownership;
- Utilize a range of approaches to achieve results.

## QUALITY OF MONITORING AND EVALUATION

As part of the Program Cycle, USAID’s monitoring and evaluation requirements help the Agency build a body of evidence from which to learn and adapt, as well as increase the quality and transparency of that evidence.

In 2016, USAID published a study titled *Evaluation Utilization at USAID*, which found that at several stages during the USAID Program Cycle, evaluation use was evident, strong, and compared well to those of other U.S. Government agencies. At the country level, 59 percent of approved strategies referenced USAID evaluations, and 71 percent of respondents reported using evaluations to design or modify a USAID project or activity. The study also found the most common changes were actions that refocus ongoing activities. Findings from the study helped inform revisions to USAID’s Automated Directive Service (ADS) Chapter 201, which discusses USAID’s policy on the Program Cycle and emphasizes using and learning from evaluations and other evidence in decision making. To promote internal and external learning from evaluations, USAID requires evaluations (with limited exceptions) to be made publicly available on USAID’s DEC at <https://dec.usaid.gov>.

USAID is also building staff and partner capacity to generate and use quality evidence for decision making and improving program effectiveness. USAID’s capacity building approach focuses on four main areas of work: developing classroom and online training courses, creating tools and guidance to support staff in implementing Program Cycle procedures, direct technical assistance to USAID missions and offices on Program Cycle processes, and facilitating peer-to-peer learning by hosting communities of practice. For example:

- USAID has developed a sophisticated training curriculum with a set of online and classroom courses ranging from introductory to more advanced content and targeted to specific staff roles to build capacity in Program Cycle processes. Courses include: Introduction to the Program Cycle; Project and Activity Design and

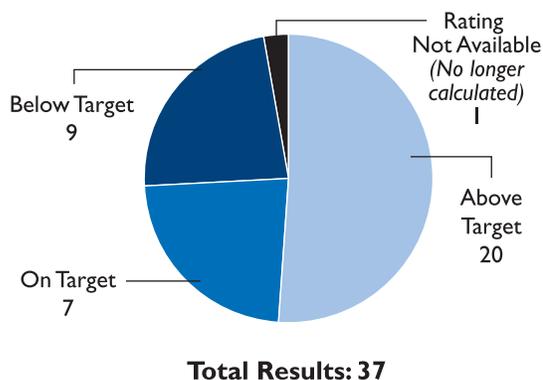
Implementation; Performance Monitoring and Evaluation; and Better Development through Collaborating, Learning, and Adapting.

- As of July 2017, USAID has trained more than 2,600 staff in program evaluation and monitoring since 2011.
- USAID provides templates, checklists, guidance documents and other tools that support staff in planning, designing, managing, and learning from monitoring and evaluation. USAID toolkits for good practice in evaluation (<https://usaidlearninglab.org/evaluation>), monitoring (<https://usaidlearninglab.org/content/monitoring-toolkit>), and learning (<https://usaidlearninglab.org/cla-toolkit>) have been published on USAID’s Learning Lab website (<https://usaidlearninglab.org>).

## PERFORMANCE INDICATORS AND TRENDS

Performance indicators define the data to be collected and enable actual results achieved to be compared with planned results over time. Hence, they are an indispensable management tool for making evidence-based decisions about program designs and activities. While a number of factors contribute to the overall success of foreign assistance programs, analysis and use of performance data are critical components of managing for results. The results of USAID and the Department of State (State) foreign assistance programs for FY 2017 are not reported by operating units

### FY 2016 PERFORMANCE RESULTS



until December 2017, after the required publication date of USAID's Agency Financial Report (AFR). Accordingly, the most recent performance data contained in this report are for FY 2016<sup>2</sup>, with baseline and trend data included when available.

In assessing performance, it is important to underscore the challenges faced by USAID's assistance programs. In spite of a variety of obstacles, most USAID strategic goals met or exceeded their targets in FY 2016.

## DATA QUALITY

Data are only useful for decision making if they are of high quality and provide the groundwork for informed decisions. As indicated in USAID's ADS Chapter 201, USAID missions and operating units are required to follow standard processes to ensure data quality. A Performance Indicator Reference Sheet (PIRS) is the primary document USAID uses to ensure data quality and consistency. A PIRS must be developed for each performance indicator as it: (1) defines the indicator's meaning, use, and the method of data collection; and (2) specifies where the data are sourced and identifies any limitations of the data. A Data Quality Assessment (DQA) is the process by which USAID assesses the validity, integrity, precision, reliability, and timeliness of performance indicator data. All data reported externally from a mission or operating unit must go through the DQA process. USAID obtains performance data from three sources: (1) primary (data collected by USAID or where collection is funded by USAID), (2) secondary (data compiled by USAID implementing partners but collected from other sources), and (3) third-party (data from other government agencies or other international organizations, e.g., World Bank or the United Nations).

## STRATEGIC GOALS AND RESULTS

Development plays an indispensable role, alongside diplomacy and defense, in advancing U.S. national security and economic interests. USAID's programs save lives, promote inclusive economic growth,

strengthen democratic governance, and help avert crises worldwide. USAID continues striving to achieve development results, confront threats to national security and global stability, demonstrate American leadership, and ensure the effectiveness and accountability of its programs to the American taxpayer.

Operationally, USAID and State implement this directive by working cooperatively to pursue U.S. national security objectives abroad. They do this through diplomacy and foreign assistance programs that are implemented by both agencies. One vehicle for this engagement is the National Security Strategy. A draft of the new National Security Strategy, which will have implications for USAID programs in Africa, is currently underway.

Additionally, as of the end of FY 2017, USAID and State are currently developing the FY 2018 – FY 2022 Joint Strategic Plan (JSP). This effort coincides with State's and USAID's reform efforts, pursuant to Office of Management and Budget (OMB) Memo 17-22, currently underway at both agencies. An overview of the new JSP will outline the policy priorities that will facilitate the development of State and USAID strategies, and will align with the President's Management Agenda. This will involve updating the strategic objectives, goals, and targets from the FY 2014 – 2017 JSP, and may include modifying, adding and/or removing current indicators. The FY 2017 Agency Financial Report will serve as the final year for conveying accomplishments under the FY 2014 – FY 2017 JSP.

USAID's and State's joint strategic goals support the U.S. Government's overall efforts to shape and sustain a peaceful, prosperous, just, and democratic world. These goals foster conditions for stability and progress for the benefit of the American people and people everywhere. USAID and State have reiterated their commitment to joint planning to implement foreign policy initiatives and invest effectively in foreign assistance programs.

The Government Performance and Results Act (GPRA) of 2003 require agencies to develop strategic plans. Since 2004, USAID and State have created joint strategic goals and objectives, Agency Priority

<sup>2</sup> Annual targets are set before results of the previous year are calculated. Targets are included in the Performance Plan and Report (PPR) two years in advance. For example, targets for FY 2016 were set in the PPR of FY 2014.

Goals (APGs), and performance goals that reflect State’s and USAID’s global reach and impact as part of the USAID-State Joint Strategic Plan (<http://www.usaid.gov/documents/1868/usaaid-and-department-state-joint-strategic-plan>).

Also per GPRAMA, USAID and State publicly reported, on a quarterly basis, the progress of the APGs (<https://obamaadministration.archives.performance.gov/>). The five APGs for FY 2016 – FY 2017 were in the following areas: Food Security

(USAID), Global Health (USAID), Climate Change (USAID and State), Consular Service Delivery (State), and Outreach to U.S. Businesses (State). Results for each of these APGs are included in the applicable Strategic Goal update sections in this report and on performance.gov. Reporting on these APGs was suspended in early 2017 due to a change in priorities from the new administration. As of the end of FY 2017, USAID and State are currently developing new APGs.

## STATE-USAID JOINT STRATEGIC GOAL FRAMEWORK

Strategic Goal	Strategic Objective	Program Categories*
Strategic Goal 1: Strengthen America’s economic reach and positive economic impact	Strategic Objective 1.1 – Expand access to future markets, investment, and trade	Economic Growth
	Strategic Objective 1.2 – Promote inclusive economic growth, reduce extreme poverty, and improve food security	Education and Social Services
Strategic Goal 2: Strengthen America’s foreign policy impact on our strategic challenges	Strategic Objective 2.1 – Build a new stability in the Middle East and North Africa	Peace and Security
	Strategic Objective 2.2 – Rebalance to the Asia-Pacific through enhanced diplomacy, security cooperation, and development	Humanitarian Assistance
	Strategic Objective 2.3 – Prevent and respond to crises and conflict, tackle sources of fragility, and provide humanitarian assistance to those in need	Health
	Strategic Objective 2.4 – Overcome global security challenges through diplomatic engagement and development cooperation	Education and Social Services
	Strategic Objective 2.5 – Strengthen America’s efforts to combat global health challenges	
Strategic Goal 3: Promote the transition to low-emission, climate-resilient world while expanding access to sustainable energy	Strategic Objective 3.1 – Building on strong domestic action, lead international actions to combat climate change	Economic Growth
	Strategic Objective 3.2 – Promote energy security, access to clean energy, and the transition to a cleaner global economy	
Strategic Goal 4: Protect core U.S. interests by advancing democracy and human rights and strengthening civil society	Strategic Objective 4.1 – Encourage democratic governance as a force for stability, peace, and prosperity	Democracy, Human Rights and Governance
	Strategic Objective 4.2 – Promote and protect human rights through constructive bilateral and multilateral engagement and targeted assistance	
	Strategic Objective 4.3 – Strengthen and protect civil society, recognizing the essential role of local capacity in advancing democratic governance and human rights	
Strategic Goal 5: Modernize the way we do diplomacy and development	Strategic Objective 5.1 – Enable diplomats and development professionals to influence and operate more efficiently, effectively, and collaboratively	Program Development and Oversight

\* USAID implemented the revised Standardized Program Structure and Definition (SPSD) at the beginning of FY 2017. The program categories have been updated to the new SPSD program categories reflected in this table, and in the Financial Statements and Notes to the Financial Statements.

## ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative accomplishments that support achievement of USAID’s strategic goals as outlined in the FY 2014 – FY 2017 USAID-State Joint Strategic Plan.

### STRATEGIC GOAL I

*Strengthen America’s economic reach and positive economic impact*

#### PUBLIC BENEFIT

In the developing world, inclusive economic growth, in which all members of society share in the benefits of growth, can be transformative by reducing poverty, expanding opportunity, and reducing gender inequality. Development assistance in the U.S. economic interest, in its strategic interest, and is a visible expression of its values. Further, expanding international collaboration on science, technology, and knowledge-based industries and fostering the free flow of goods, services, and ideas have a powerful impact on growth and innovation.

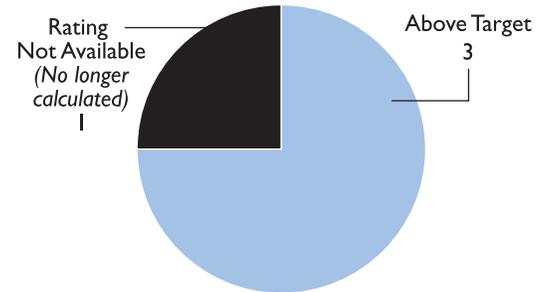
#### LINKING ACTIVITIES TO OUTCOMES

Examples of new technologies and management practices include improved irrigation techniques, use of improved/certified seeds, integrated pest management, sustainable fishing practices, and improved postharvest storage techniques. These interventions help to improve agricultural productivity and household incomes, increase access to nutritious foods, and reduce hunger and undernutrition. This indicator supports USAID’s intermediate goal to enhance human and institutional capacity for increased sustainable agriculture sector development, helping to improve food security in target areas.

In FY 2016, 10.5 million farmers, ranchers, and other agricultural producers applied new technologies or management practices, which is above the target of 8 million. This was accomplished through ongoing efforts to bring proven technologies and innovations to scale, increasing the impact of U.S. investments.

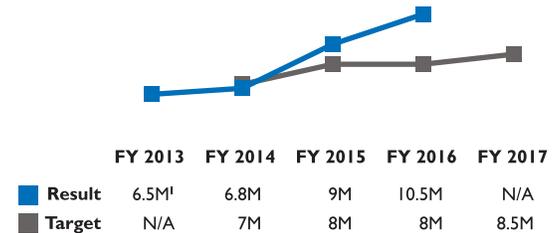
For example, in FY 2016, Feed the Future (FTF) positively impacted over 94 thousand farmers in Malawi by increasing access to certified groundnut seed, providing training in improved agronomic practices, and facilitating collective marketing and linkages to local processors. Given the scale of the aflatoxin problem affecting

### FY 2016 STRATEGIC GOAL I PERFORMANCE RESULTS



**Total Results: 4**

**PERFORMANCE INDICATOR:** *Number of farmers and others who have applied new technologies or management practices as a result of U.S. Government assistance (in Millions)*



**Source:** FY 2016 Annual Performance Report.

<sup>1</sup> The FY 2013 Result value is from the 2016 Feed the Future Progress Report.

Malawi’s groundnut crop, FTF also continued to promote improved marketing procedures among farmers and traders, and provided training on handling and food safety to reduce post-harvest aflatoxin contamination. As a result, some FTF farmers received premium prices for applying improved aggregating, grading, and sorting to groundnuts. In Rwanda, over 158 thousand bean-farming households applied new technologies and improved management practices, such as the use of improved seeds, irrigation, and soil conservation techniques. Beans are an important crop in Rwanda and are the dominant source of protein for rural households. In Bangladesh, FTF supported over 260 thousand smallholder rice farmers to utilize improved agricultural technologies, such as fertilizer deep placement, high yielding and stress-tolerant seed varieties, efficiency-enhancing mechanization, and irrigation.

## WOMEN EXPAND BUSINESSES IN VIETNAM WITH LOANS AND PHONES

### Learning how to attract and serve customers triples profits

***“I had no idea what to do and how to do things differently to improve my income. I felt trapped.”***

April 2017—Living in southern rural Vietnam, Ho Thi Thanh My dreamed of a way to make money for her family. She bought fruits and vegetables from local households and then sold them in markets. Though she worked hard, her inventory was dependent on the season and output of her suppliers. At times, she had nothing to sell. Most days she only earned \$2-\$3 per day.

“My business was difficult but I had no idea what to do and how to do things differently to improve my income. I felt trapped,” said My.

After joining a savings-led microfinance program for women supported by USAID’s Mekong Vitality Expanded Alliance in September 2015, she went on to receive advanced business training, where she learned about consumer psychology, including how to attract and better serve customers.

Following the training, My switched from selling agricultural products to selling breakfast foods. She used what she learned to select a good place to sell food, ensure food safety and hygiene, and display her products in the best way. She now gets up early in the morning to cook sticky rice for sale in the market.

While her profits were small initially, with the support of her group members, My has built a large customer base, selling a large quantity of sticky rice every day. With a smartphone provided by the project, she also accessed business lessons and took a loan from her savings group to expand her business. She now includes stewed corn and Vietnamese pancakes for sale in the morning and different kinds of sticky rice at night.

With these new products, My’s income has increased threefold and has improved her family’s life. “I have frequent customers who are my group members, my neighbors, and my relatives,”



**USAID’s Mekong Vitality Expanded Alliance expands business opportunities by providing training in consumer psychology and customer service.** PHOTO: ESPEN FAUGSTAD

she says smiling. “They call me any time when they have parties, weddings, etc., asking me to cook sticky rice for them. They have helped me earn more money.”

Since 2014, the Mekong Vitality Expanded Alliance has partnered with the private sector to provide women entrepreneurs over \$1.2 million in microfinance loans and access to smartphones to take business training courses. In 2016, 15 percent of loan beneficiaries started a new business and 54 percent expanded their existing business, 77 percent of whom use the USAID smartphone technology to support business operations.

## STRATEGIC GOAL 2

Strengthen America's foreign policy impact on our strategic challenges

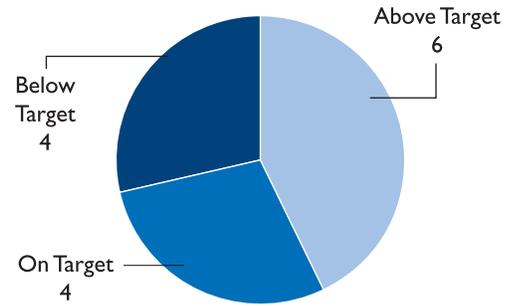
### PUBLIC BENEFIT

International development is a vital part of U.S. foreign policy strategy, and working to invest in developing countries has mutually beneficial outcomes. USAID knows the difference the United States can make around the world, and it continues to deliver security, development, and humanitarian solutions that match the scale of the challenges faced, including in the area of Global Health.

### LINKING ACTIVITIES TO OUTCOMES

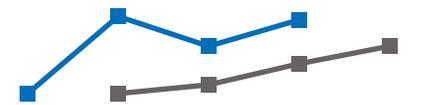
Since the start of the U.S. President's Malaria Initiative (PMI) in 2006, dramatic progress has been made in reducing the burden of malaria in sub-Saharan Africa. According to the World Health Organization, the estimated number of malaria deaths in children under the age of 5 is estimated to have decreased by 60 percent from 2000 to 2015. In FY 2016, USAID's malaria projects supported PMI's continued efforts to support the scale-up of insecticide treated nets (ITNs); indoor residual spraying; appropriate malaria case management, including parasitological diagnosis and treatment with artemisinin-based combination therapies; and intermittent preventive treatment of malaria in pregnancy. PMI includes 19 focus countries in Africa, as well as Burma, Cambodia, and the Mekong regional program. USAID also supports malaria control activities in three other countries in Africa (Burkina Faso, Burundi, and South Sudan). If used properly, ITNs are one of the best ways to prevent mosquitoes from biting individuals and infecting them with malaria. During the past decade, household ownership of at least one ITN increased from an average of 25 to 68 percent in all 19 PMI focus countries. Additionally, use of an ITN among children under 5 tripled from an average of 18 to 55 percent, and similar increases have been documented for use of ITNs by pregnant women (from an average of 17 to 49 percent).

## FY 2016 STRATEGIC GOAL 2 PERFORMANCE RESULTS



Total Results: 14

**PERFORMANCE INDICATOR:** Annual total number of people protected against malaria with insecticide treated nets (in Millions)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<span style="color: blue;">■</span> Result	45M	89M	72M	87M	N/A
<span style="color: grey;">■</span> Target	N/A	45M	50M	62M	72M

Source: FY 2016 Annual Performance Report.

Measuring the number of people protected against malaria with an ITN distributed with PMI funds is a key indicator of whether U.S. assistance is succeeding in extending prevention measures that are necessary to reach the goal of reducing the number of malaria deaths in PMI countries. Targets for this indicator are set by estimating the number of ITNs that will be distributed with PMI funds based on Malaria Operational Plans for the PMI focus countries. Funding levels and the addition of countries are also considered.

PMI coordinates its procurement and distribution of ITNs with other major donors including the Global Fund to fight AIDS, the World Bank, and the United Nations Children's Fund (UNICEF). In FY 2016, PMI protected 87 million people against malaria with ITNs. PMI exceeded the projected target because of tuberculosis and malaria large mass campaigns that were successfully implemented in Democratic Republic of Congo, Madagascar, and Senegal.

## CÔTE D'IVOIRE STRENGTHENS HIV SERVICES FOR WOMEN AND NEWBORNS

Exposed infants receive early testing to improve survival rates

*“More and better quality contacts between women and their health providers throughout pregnancy facilitate the uptake of preventive measures.”*

March 2017—ABIDJAN, Côte d'Ivoire—On March 9, Adèle\*, 39, and her 6-week-old baby come to Abobo General Hospital, located in the north of Abidjan, Côte d'Ivoire's capital city, for a postnatal care checkup. Dried blood spots are collected from the baby's heel for an HIV PCR (polymerase chain reaction) test, a routine test for all babies born to HIV-positive mothers. The test ensures early diagnosis of HIV infection to improve the survival and quality of life of HIV-exposed babies.

During her prenatal examination, Adèle tested HIV-positive. Of course, the news was devastating, and she felt helpless and hopeless for the baby she was carrying. Ever since she received her diagnosis, the aid workers—her sisters as she calls them—have been following up with her through regular phone calls and visits to her home, giving her all the support she needs. Adèle also has a 10-year-old daughter who is HIV-negative.

Just like Adèle, HIV-positive mothers can receive testing, counseling, and treatment with antiretroviral therapy medication every day and get test results a month later at the hospital. Previously, testing was available only once a week and results were available in three months. With 1 million residents, Abobo is one of the most populated communes in the country.

With funding from the President's Emergency Plan for AIDS Relief (PEPFAR), USAID's Applying Science to Strengthen and Improve Systems (ASSIST) project works with the Ivorian Ministry of Health to provide technical expertise to partners. Abobo General Hospital, along with around 105 other PEPFAR-supported facilities and four university hospitals, established a quality improvement system in October 2015 to improve HIV and AIDS care.

Training was provided to a quality improvement team that was formed at the hospital in 2014, and a social worker was dedicated to collecting dried blood spots from HIV-exposed infants. In September 2016, the hospital registered a



**HIV PCR testing ensures early diagnosis of HIV infection to improve the survival and quality of life of HIV-exposed babies.**

PHOTO: PIERRE HOLTZ FOR UNICEF

100 percent retention rate for babies who had been confirmed by the hospital as being HIV-exposed. That is, all infants born to HIV-positive mothers continued to receive care after their early HIV test at six to eight weeks, including preventive treatment with cotrimoxazole to prevent opportunistic infections, and another test at 18 months if breastfeeding has stopped. If a newborn tests positive for HIV, they receive antiretroviral drug treatment.

“More and better quality contacts between women and their health providers throughout pregnancy facilitate the uptake of preventive measures,” says Dr. Solange Amon, head of the quality team and HIV focal point at the hospital.

Monthly meetings are chaired by the hospital director, with a point of contact from each department. The meetings allow the hospital to identify problems, bottlenecks, and solutions. Overall, HIV service delivery and data quality have significantly improved.

USAID's ASSIST project, which runs from 2013 to 2017, supports Côte d'Ivoire's national HIV care and treatment program to improve health service delivery to people living with HIV and to build local leadership and ownership. The program has improved services to more than 15 million people in 30 districts.

\* Last name withheld to protect privacy.

### STRATEGIC GOAL 3

Promote the transition to low-emission, climate-resilient world while expanding access to sustainable energy

#### PUBLIC BENEFIT

In just 60 years, the world’s population has accelerated from 2.5 billion people to 7.5 billion people today. By 2050, another 2.3 billion will join the planet—mostly in developing countries—increasing the rapidly growing demand for the planet’s resources.

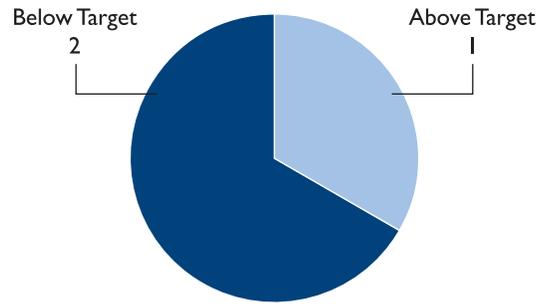
#### LINKING ACTIVITIES TO OUTCOMES

Low Emission Development Strategies (LEDS) is a strategic economic development and environmental planning framework that supports a country’s development and economic growth objectives while reducing the growth rate of long-term greenhouse gas emissions. LEDS should be based on sound analytical foundations, and articulate concrete actions, policies, programs, and implementation plans.

This indicator measures the extent to which partner countries are making significant, measurable progress in developing or improving their LEDS. A “major milestone” might involve conducting a greenhouse gas emissions inventory, establishing an emissions reduction target, or some other event, output, or outcome that fundamentally improves the ability of a partner country to identify, prioritize, and/or act on emissions reduction opportunities.

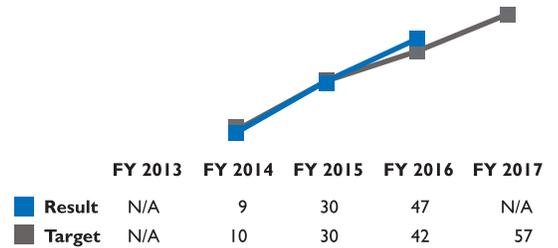
USAID and State worked closely with each partner country team to determine achievable and ambitious targets for their program. These efforts resulted in the achievement of 17 major milestones in LEDS development in FY 2016 for a cumulative total of 47 major milestones, exceeding the target by 5. This was due to significant support to partner countries and the realization of more LEDS development milestones than originally envisioned in the target setting process.

### FY 2016 STRATEGIC GOAL 3 PERFORMANCE RESULTS



**Total Results: 3**

**PERFORMANCE INDICATOR:** Number of major milestones achieved by partner countries, each reflecting significant, measurable improvement in national or regional frameworks that support low emission development, as supported by U.S. assistance



**Source:** FY 2016 Annual Performance Report.

As an example of a LEDS development milestone achieved in FY 2016, the Government of Vietnam approved three sub-national or sector-specific green growth action plans that will reduce over 7 million tons of carbon emissions. U.S. technical support underpinned the development of these plans, which will serve as models for other provinces to replicate, as all Vietnamese provinces strive to meet the national mandate to develop and implement plans to advance green growth.

## BOSNIANS UPGRADE HOMES TO WARM UP AND CONSERVE ENERGY

### Collaboration brings financing, technical solutions to neglected buildings

*“Before, I had to wear a coat in my flat.”*

March 2017—The poor state of several apartment buildings in Tesanj, an otherwise picturesque town in the Tuzla canton of Bosnia and Herzegovina, left residents uncomfortable and cold. They grew accustomed to shabby-looking homes with leaky roofs and inadequate insulation.

Home did not feel as “homey” when apartment owners like Abzia Hasanovic were cold. “Before, I had to wear a coat in my flat,” she said.

With the support of USAID, Habitat for Humanity brought together people from the community and the public and private sectors to provide a better home for Hasanovic. The Residential Energy Efficiency for Low-Income Households project began in August 2012 as a way to promote collaboration between municipalities, financing institutions, construction and maintenance companies, and homeowners while introducing innovative financing solutions to leverage public and private funding. The project works directly with individual homeowners or homeowner associations.

The project facilitated new partnerships and empowered the local community to join forces in a dilemma that might have otherwise been left for Hasanovic to handle on her own. Thanks to training on energy efficiency, residents in Hasanovic’s neighborhood started to brainstorm concrete steps that could improve their homes, save money, and earn money back by selling unused energy to the utility.

After the training, homeowners took action. Together, they met with the entrepreneurial president of the homeowner’s association, joining forces to secure subsidies from the municipality and a loan from the local bank to improve the energy efficiency of apartments. They then used their new skills to contract and manage the construction with private sector companies.

The residents’ hard work paid off and their reward has been a substantial improvement to their quality of life. The professionally insulated walls and dry roofs lend a new sense



***In Bosnia and Herzegovina, support from USAID helped residents secure subsidies and loans to improve the energy efficiency of apartments.*** PHOTO: ROB CAMPBELL

of security and warmth. Locals in Tesanj have already started to enjoy the benefits of energy efficiency intervention. They are saving on electricity bills, paying 20 percent less in 2016 than they paid in 2015, enabling them to open up rooms that were previously closed to conserve heat. The project also increases energy security, allowing residents to learn about the sources of energy powering their homes and ensure all proper parties are in place to continue providing the necessary services.

Residents of Hasanovic’s apartment building agree that this work brings both practical improvements and hope for the future. The project was inspired by an earlier USAID-funded project on residential energy efficiency in Macedonia. In Armenia, the project targets similarly vulnerable housing sectors and reduces the impact of escalating energy prices for families. Apartment residents no longer return to a chilled complex in the evening, and with a newly renovated home, Hasanovic, and others like her across the region, can finally rest easy.

More than 50 families in Bosnia and Herzegovina and 20 buildings in Armenia have benefited from the project as well as 400 households in Macedonia. The project is scheduled to be extended until 2019 and reopened in Macedonia.

## STRATEGIC GOAL 4

Protect core U.S. interests by advancing democracy and human rights and strengthening civil society

### PUBLIC BENEFIT

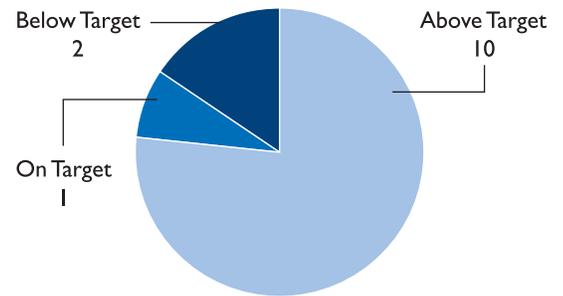
U.S. policy states that the security of U.S. citizens at home and abroad is best guaranteed when countries and societies are secure, free, prosperous, and at peace. USAID and its partners seek to strengthen their diplomatic and development capabilities, as well as those of international partners and allies, to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, and protect civilians.

### LINKING ACTIVITIES TO OUTCOMES

In FY 2016, 27 operating units reported more than 3 million individuals who benefited from a U.S.-funded intervention providing gender-based violence (GBV) services, such as health, legal, shelters, hotlines, and counseling. While the Agency target set for FY 2016 was exceeded, the results indicate a decrease from the number of beneficiaries reported in FY 2015. Several factors account for this decrease, including a change in the beneficiary calculation methodology for this indicator to ensure consistency across programs and the scaling back of GBV programming when some activities ended in 2016.

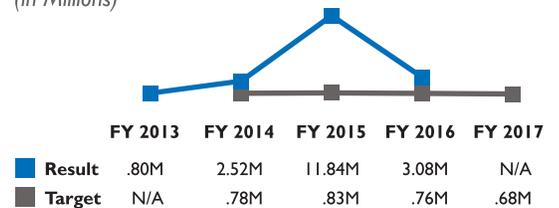
Fifteen of the 27 operating units reporting on this indicator in FY 2016 exceeded FY 2016 targets. South Sudan for example, achieved 156 percent of its FY 2016 target because of increased demand for GBV services triggered by insecurity in the country in the Protection of Civilians sites and host communities. The operating units reporting on

## FY 2016 STRATEGIC GOAL 4 PERFORMANCE RESULTS



**Total Results: 13**

**PERFORMANCE INDICATOR:** Number of people reached by a U.S.-funded intervention providing gender-based violence services (e.g., health, legal, psycho-social counseling, shelters, hotlines, other) (in Millions)



Source: FY 2016 Annual Performance Report.

this indicator demonstrate a range of interventions to prevent and respond to GBV. For example, in Burma, beneficiaries received specialized anti-GBV legal, health, and shelter services, including life skills and vocational training. Nepal's Zero Tolerance Project implements anti-GBV interventions benefiting school populations through the design and application of school-based reporting and referral mechanisms.



Through its Justice System Strengthening Program, USAID is helping Kosovo's courts resolve cases more efficiently. PHOTO: IVAN SAFYAN ABRAMS

## KOSOVO'S COURTS REDUCE CASE BACKLOG AND DELAYS

### Thousands of unresolved cases closed in one year

***“We were able to act on cases that have not been addressed for many years. This work has had its positive impact on court dealings with citizens.”***

February 2017—Kosovo recently began to address a problem in its judicial system—a backlog of unresolved court cases, which was undermining the delivery of justice. Now cases are moving forward that had remained unsettled for years.

USAID is helping Kosovo's courts resolve cases more efficiently and reduce processing delays through its Justice System Strengthening Program. In its first year of operations, the program has already yielded significant results. Since May 2016, working with the basic courts in Ferizaj, Gjakova, Mitrovica and Pristina, USAID has helped the courts close over 6,200—or 16 percent—of the 39,500 civil and criminal cases backlogged in the system for more than two years. Pristina's Basic Court alone disposed of over three thousand cases thanks to the project's backlog reduction and prevention initiative.

“Through the assistance of USAID staff, we were able to act on cases that had not been addressed for many years. This work has had its positive impact on court dealings with citizens,” said Hamdi Ibrahim, president of the Basic Court in Pristina.

“During the last few years, this court has been addressing old cases which have been sitting idle for more than a decade, and this engagement certainly reflects positively in restoring the trust of citizens in justice.”

Equally impressive are the results achieved by the Basic Court of Mitrovica, including the northern municipalities of Zubin Potok and Leposavic, where USAID helped dispose of over 1,200 cases.

“I believe that the majority of citizens do have a good appreciation of this work as they have been facing hardships in materializing their rights because of the remaining old undisposed cases,” stressed Ali Kutillovi, president of the Basic Court in Mitrovica.

To support and expand upon these improvements, USAID provided its partner courts with 39 backlog reduction and prevention strategies for improving case processing. It will continue to reduce case backlogs and redesign court practices to increase efficiency and responsiveness to citizens' needs, and to bring European standards to Kosovo's courts.

The four-year Justice System Strengthening Program, which began in January 2016, builds upon USAID's prior efforts to advance the rule of law in Kosovo and ensure that the justice system operates in a professional, efficient, and accountable manner.

## STRATEGIC GOAL 5

*Modernize the way we do diplomacy and development*

### PUBLIC BENEFIT

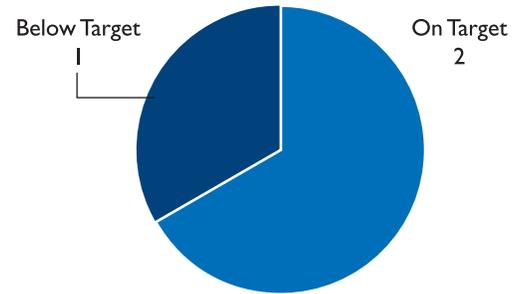
In his FY 2018 Budget request, President Trump outlined how every agency and department will be driven to achieve greater efficiency and to eliminate wasteful spending in carrying out their service to the American people. USAID recognizes the need to pursue greater efficiencies to enable effective development. USAID will enhance its effectiveness by implementing new technology solutions geared at reducing operating costs, boosting collaboration, improving security, and broadening engagement opportunities. By applying existing and new analytical tools and data sources, USAID aims to strengthen its operations through identifying opportunities for more cost-effective and adaptive procurement processes and foreign assistance management.

USAID also collects and uses data and information to assess foreign assistance efforts as well as to inform adjustments in ongoing programs and activities. Ongoing performance monitoring data provide a picture of how programs are doing and are complemented by deeper analysis and program evaluation to understand “why” and “what” about them is working. USAID is: (1) building new evidence and strengthening Agency capacity for rigorous monitoring, evaluation, and data analytics to inform future decision making; and (2) acting on existing evidence to inform foreign assistance programmatic and budget decisions.

### LINKING ACTIVITIES TO OUTCOMES

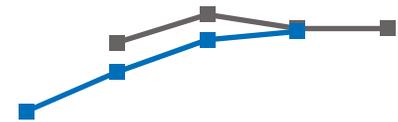
USAID focuses on ensuring it is a strategically managed and effective development partner. To accomplish this, USAID adapted evidence-based strategic planning and results management best practices for its operations, which include using data to drive management improvements and decision making. USAID and its stakeholders from around the globe are using these practices to improve development outcomes. USAID has embraced collaboration and transparency which support efforts to create a more efficient, effective, and accountable Federal Government.

## FY 2016 STRATEGIC GOAL 5 PERFORMANCE RESULTS



**Total Results: 3**

**PERFORMANCE INDICATOR:** Percent of contractor performance assessment reports (CPARS) completed in Past Performance Information Retrieval System (PPIRS)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Result</b>	31% <sup>1</sup>	59%	82%	88%	N/A
<b>Target</b>	N/A	80%	100%	90% <sup>2</sup>	90%

**Source:** FY 2016 Annual Performance Report.

<sup>1</sup> The FY 2013 Result value is from the FY 2015 Annual Performance Report/FY 2017 Annual Performance Plan.

<sup>2</sup> The Procurement Reform Agency Priority Goal (APG) was reported on as a performance goal in FY 2016.

Also, as part of its procurement reform efforts to reduce the Procurement Action Lead Time (PALT), the Agency tracks the Contractor Past Performance Assessment Reports (CPARS). The availability of CPARS improves the efficiency of the procurement process as it allows USAID to make informed, timely business decisions when awarding government contracts and orders. To maximize the usefulness of the past contractor performance assessment reports the Agency collects, it is essential for the content of these reports to be of top quality. The Agency developed “best practices” to provide concrete steps staff can take to achieve the level of quality expected by OMB and desired by future source selection officials. In summary, they entail: (1) clear performance expectations and communication to partners,

(2) consistent recordkeeping throughout the period being assessed that will be accessible to succeeding procurement staff, and (3) incorporating relevant information from other program reviews into the report. Owing to these and other efforts by Agency

staff and management, USAID's CPARS completion rate increased from 7 percent in FY 2011 to 88 percent by the end of FY 2017. In the beginning of FY 2017, the Agency adjusted the CPARS target to be ambitious yet achievable.

## DOLLARS TO RESULTS INCREASES SPENDING TRANSPARENCY



In support of the Administration's efforts to ensure accountability to American taxpayers, USAID provides the public with useful and timely data. Dollars to Results (D2R) (<https://results.usaid.gov/results>), a publicly available resource that links annual USAID spending to program results in over 150 countries, is one example of how USAID is improving transparency for its programs. Through illustrative examples, D2R helps USAID tell its story with concrete results linked to spending. For example, a user can see that USAID spent \$31 thousand on water supply and sanitation programs in Haiti, which resulted in over three thousand people gaining access to a basic sanitation service.

The public has benefited from the D2R website. Organizations like the Atlantic Council and the Center for Strategic International Studies, and publications like *The New York Times*

have used the site in their research and reporting. Not only has the site informed development thinking, but also planning. Recently, DKT Nigeria leveraged information from D2R to assist in its communications and inform programming for women's health services.\*

In 2017, USAID undertook a redesign of D2R to expand the reach and impact of the site, including three times the number of countries represented (from 44 countries to over 150) and adding more user-driven functionality. For example, users can sort and search aggregated results by sector, giving them a comprehensive view of what USAID has accomplished worldwide in each sector. The increased functionality of the redesigned site has improved efficiency, reducing the time it takes staff to prepare the data by over 90 percent.

\* [https://2umya83uy24b2nu5ug2708w5-wpengine.netdna-ssl.com/wp-content/uploads/2011/11/DKTbrief\\_8Nov2016\\_final-1.pdf](https://2umya83uy24b2nu5ug2708w5-wpengine.netdna-ssl.com/wp-content/uploads/2011/11/DKTbrief_8Nov2016_final-1.pdf)

## USAID ILLUSTRATIVE INDICATORS AND PERFORMANCE TRENDS\*

### Strategic Goal 1: Strengthen America's Economic Reach and Positive Economic Impact

Indicator Title	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Target	FY 2016 Results	FY 2017 Target
Number of people trained in disaster preparedness as a result of U.S. Government assistance	28,647	148,714	106,923	75,000 <sup>1</sup>	175,213	75,000
Percent of operating units using at least one gender empowerment and female equality indicator in their performance report	N/A	45%	53%	50%	57%	60%
Number of communities and stakeholders involved in the development of plans, policies, and strategies related to hazard risk reduction	N/A	117	N/A	N/A	N/A <sup>2</sup>	N/A
Number of farmers and others who have applied new technologies or management practices as a result of U.S. Government assistance	6.5 million	6.8 million	9 million <sup>3</sup>	8 million	10.5 million	8.5 million

### Strategic Goal 2: Strengthen America's Foreign Policy Impact on Our Strategic Challenges

Indicator Title	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Target	FY 2016 Results	FY 2017 Target
Number of country programs that aim to decrease youth unemployment rates	7	7	7	7	6	7
Percent of designated USAID focus countries in which foreign assistance resources are aligned with the U.S. National Action Plan on Women, Peace and Security	54%	74%	75%	80%	72%	80%
Number of new groups or initiatives created through U.S. Government funding with a mission related to resolving the conflict or the drivers of the conflict	12,733	10,849	1,619	2,082	868	296
Percent of U.S. Government-declared international disasters responded to within 72 hours	N/A	86%	88%	95%	100%	95%
Number of internally displaced and host population beneficiaries provided with basic inputs for survival, recovery, or restoration of productive capacity as a result of U.S. Government assistance	61,315,940	54,079,863	109,533,298	50,750,582	101,871,313	50,000,000
Prevalence of stunted children under five years of age	N/A	37.70%	35.7%	34.9%	34.3%	33.4%
Prevalence of anemia among women of reproductive age	38.5%	35.1%	33.7%	32.8%	33.3%	32.4%
Number of people gaining access to an improved sanitation facility	1,884,169	1,964,680 <sup>4</sup>	2,386,095	2,712,908	2,325,956	2,875,055
Number of people gaining access to an improved drinking water source	3,131,707	4,014,312 <sup>4</sup>	3,625,637	3,987,554	2,935,266	4,037,653
Teenagers who have begun childbearing	N/A	N/A	18.8%	18.0%	19.2	19 <sup>5</sup>
Number of neglected tropical disease treatments delivered through U.S. Government-funded programs	233.9 million <sup>6</sup>	239.1 million <sup>7</sup>	174.9 million <sup>8</sup>	200 million	270.7 million <sup>9</sup>	200 million
Case Notification rate for all forms of TB per 100,000 population nationally	129 per 100,000	131 per 100,000	138 per 100,000	140 per 100,000 <sup>3</sup>	139 per 100,000	142 per 100,000
Percent of registered tuberculosis cases that were cured and completed treatment (all forms) (treatment success rate)	87% <sup>10</sup>	86% <sup>4</sup>	88% <sup>4</sup>	88%	87%	89%
Annual total number of people protected against malaria with insecticide treated nets	45 million	89 million	72 million	62 million	87 million	72 million

See end of table on page 24 for footnotes.

(continued on next page)

## USAID REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS\* (continued)

### Strategic Goal 3: Promote the Transition to Low-Emission, Climate-Resilient World While Expanding Access to Sustainable Energy

Indicator Title	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Target	FY 2016 Results	FY 2017 Target
Clean energy generation capacity installed or rehabilitated as a result of U.S. Government assistance	29	185 <sup>11</sup>	8.5 <sup>12</sup>	310	130	967
Number of megawatts of U.S. Government supported generation transactions that have achieved financial closure	N/A	4,147	770	3,078	632.5	1,984.8
Number of major milestones achieved by partner countries, each reflecting significant, measurable improvement in national or regional frameworks that support low emission development, as supported by U.S. assistance	N/A	9	30	42	47	57

### Strategic Goal 4: Protect Core U.S. Interests by Advancing Democracy and Human Rights and Strengthening Civil Society

Indicator Title	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Target	FY 2016 Results	FY 2017 Target
Number of executive oversight actions taken by legislature receiving U.S. Government assistance	359	254	81	84	190	143
Number of U.S. Government-supported activities designed to promote or strengthen the civic participation of women	359	106	221	73	997	59
Number of domestic election observers and/or party agents trained with U.S. Government assistance	41,302	28,892	40,398	20,397	43,901	23,924
Number of individuals/groups from low income or marginalized communities who received legal aid or victim's assistance with U.S. Government support	36,759	185,631	257,232	171,181	229,655	71,880
Number of human rights defenders trained and supported	21,078	48,224	47,922	23,303	31,418	16,701
Number of domestic NGOs engaged in monitoring or advocacy work on human rights receiving U.S. Government support	914	1,001	1,253	604	1,556	N/A <sup>13</sup>
Percent of defenders and civil society organizations receiving Rapid Response Fund assistance (% receiving assistance) able to carry out work and/or report positive safety or security impacts	N/A	86%	86%	85%	86%	85%
Percentage of NGO or other International Organization projects that include dedicated activities to prevent and/or respond to gender-based violence	56%	30%	35%	37%	37%	37%
Number of training and capacity-building activities conducted with U.S. Government assistance that are designed to promote the participation of women or the integration of gender perspectives in security sector institutions or activities	149	219	640	288	344	531
Number of participants in the Young African Leaders Initiative	N/A	500	28,380	56,730	66,835	83,500
Number of individuals receiving voter and civic education through U.S. Government-assisted programs	140,950,044	65,046,830	92,404,708	36,784,029	1,659,191	3,337,450
Number of civil society organizations receiving U.S. Government assistance engaged in advocacy interventions	13,570	18,238	18,024	9,102	4,979	7,277
Number of people reached by a U.S.-funded intervention providing gender-based violence services (e.g., health, legal, psycho-social counseling, shelters, hotlines, other)	800,634	2,515,862	11,836,729	756,522	3,084,414	675,616

See end of table on page 24 for footnotes.

(continued on next page)

## USAID REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS\* (continued)

### Strategic Goal 5: Modernize the Way We Do Diplomacy and Development

Indicator Title	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Target	FY 2016 Results	FY 2017 Target
Percent of USAID-funded evaluations published online	67%	79% <sup>14</sup>	95% <sup>15</sup>	80%	79% <sup>16</sup>	99%
Number of data sets added to <a href="https://www.usaid.gov/data">usaid.gov/data</a>	N/A	77	99	20	10	20
Percent of contractor performance assessment reports (CPARS) completed in Past Performance Information Retrieval System (PIRS)	31%	59%	82%	90%	88%	90%

\* Indicators and data are from the FY 2016 Annual Performance Report (APR), available at [https://www.usaid.gov/sites/default/files/documents/1870/FY\\_2016\\_State\\_USAID\\_APR.pdf](https://www.usaid.gov/sites/default/files/documents/1870/FY_2016_State_USAID_APR.pdf). This report also includes explanations for the results as compared to the targets. Some performance indicators were introduced in FY 2014, and thus data was not collected in previous years. Where appropriate, N/A (not applicable) has been indicated.

- <sup>1</sup> The Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA)/Office of U.S. Foreign Disaster Assistance (OFDA) reviewed the targets and given the changes from previous year, decided to change the targets. The out-year targets have been straight-lined to the conservative increase of 75,000, as it is particularly difficult to predict what future humanitarian assistance needs will be.
- <sup>2</sup> OFDA dropped this indicator in the FY 2015 Performance Plan and Report (PPR) and therefore did not report on it in the FY 2016 APR.
- <sup>3</sup> Reported 8.5 million farmers in the FY 2015 APR, based on data available as of January 2015. This has been updated to 9 million farmers and others who have applied improved technologies or management practices, as reported in the 2016 Feed the Future Progress Report, available at <https://feedthefuture.gov/progress2016>.
- <sup>4</sup> Updated information not presented in FY 2015 APR/FY 2017 Annual Performance Plan (APP).
- <sup>5</sup> Targets for FY 2017 and future years have been adjusted based on FY 2016 results.
- <sup>6</sup> Reported 103.2 million treatments delivered in FY 2013 in the FY 2013 APR based on data available as of November 8, 2013. Upon reporting of complete data, an updated result of 233.9 million treatments were delivered.
- <sup>7</sup> Reported 133.4 million treatments delivered in FY 2014 in the FY 2014 APR based on data available as of October 31, 2014. Upon reporting of complete data, an updated result of 239.1 million treatments were delivered.
- <sup>8</sup> Amount reported was 174.9 million treatments delivered in FY 2015 based on data available as of October 31, 2015. Our best estimate for when complete data will be available by mid-2016 is 287.2 million treatments delivered.
- <sup>9</sup> USAID reported 270.7 million treatments delivered in FY 2016 based on data available as of November 14, 2016. USAID's best estimate for when complete FY 2016 data will be available is mid-2017. The number of treatments delivered in FY 2016 is estimated to reach 364.7 million.
- <sup>10</sup> The definition of treatment success rate changed for FY 2014 with the new World Health Organization reporting framework and this new definition remained in place for FY 2015. For example, the denominator of this indicator shifted from 1.2 to 2.7 million from FY 2013 to FY 2014, and the numerator included all laboratory confirmed and clinically diagnosed tuberculosis (TB) cases instead of only smear positive. This significant change in the definition made it impossible to report consistently from FY 2015; therefore, this indicator has been replaced with "Percent of registered TB cases that were cured and completed treatment (all forms) (treatment success rate)."
- <sup>11</sup> Data was reported by an operating unit after the PPR was finalized.
- <sup>12</sup> Construction of a 60 megawatts Kenyan wind farm in Kinangop, Nyandarua was planned for 2015, but has been stalled due to an ongoing land acquisition dispute. Construction of the 310 megawatts Kenyan wind farm in Lake Turkana broke ground in July 2015 and is scheduled for completion in 2016.
- <sup>13</sup> Because this indicator includes training and supports individual human rights defenders, it will be discontinued. This information is better captured in the indicator, "Number of human rights defenders trained and supported."
- <sup>14</sup> Data for the APR/APP is collected before many evaluations are completed in a given fiscal year; therefore, the percentage of evaluations published online appears artificially low. In-progress evaluations are not reflected in this indicator.
- <sup>15</sup> For FY 2015, upon finalization and validation of data in the Evaluation Registry, results show that 95 percent of evaluations were published online as of April 2016, with likely more added to the DEC after that date.
- <sup>16</sup> As of January 30, 2017, before annual validation and finalization of data in the Evaluation Registry.

# 2016 CERTIFICATE OF EXCELLENCE AWARDS



# LOOKING FORWARD



Angelique M. Crumbly

## AGENCY IMPACT

A critical mission unifies USAID: we partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. The challenges we confront are complex, with intertwining roots in food insecurity, illiteracy, ill-health, disempowerment, marginalization, vulnerability, and both man-made and natural disasters. Therefore, USAID seeks multi-dimensional solutions that target both the symptoms of and pathways out of poverty. USAID's work directly enhances American, as well as global, security and prosperity. The United States is safer and stronger when fewer people face destitution, when our trade partners flourish, when nations can withstand crises, and when societies are freer, more democratic, and more inclusive, protecting the rights of all citizens.

USAID strives to maintain the excellence that makes us the world's premiere development agency. We will continue to prioritize sustainability and emphasize balanced partner engagement. We hope to spur innovation and competition, reduce administrative costs, and foster a culture of idea-sharing that facilitates progress toward self-reliance and self-sufficiency.

## IDENTIFYING CHALLENGES

Going forward, USAID will continue to demonstrate American values and goodwill abroad, making investments that advance national security and economic prosperity. By demonstrating our commitment to continuous improvement, we learn, adapt, and grow.

## REFINING FOREIGN ASSISTANCE ARCHITECTURE

USAID is one of more than 20 federal agencies that delivers foreign assistance. In concert with the Department of State (State), we have embarked upon a redesign initiative to examine how we can structure our processes and resources to better achieve our respective missions. USAID has an exceptionally strong foundation on which to build. Our workforce is mission-centered and resolute—a theme that resonated in the joint State-USAID listening survey completed in FY 2017. USAID is a federal leader in ensuring strategic alignment. At our strategic core is our determined pursuit of results. Yet the need to reconcile interagency priorities and leverage comparative advantage while advancing development outcomes requires significant collaboration and leadership. Planning and implementing revisions to the foreign assistance framework will bring significant changes to manage, but we hope these reforms will strengthen our core capabilities to empower people and countries. As we continue our transformational process, we will hone our approaches while maintaining our focus on doing the right things well.

## INCREASINGLY COMPLEX OPERATING ENVIRONMENT

USAID implements programs worldwide in very remote areas and conflict zones. Due to logistical realities, and for the safety of our personnel and partners, we cannot immediately access all parts of the globe. Yet, to meet our commitment to the world's most vulnerable people and the American taxpayer, we must leverage our reach where practical. In the coming year, USAID will

continue to develop our capacity to work more strategically and effectively in the world's most challenging contexts. We are developing assessment approaches, leadership training, and design methodologies targeted to non-permissive environments. We will maintain efforts to optimize our overseas footprint. We will expand technological solutions to extend our reach virtually and we will continue to strengthen local partners, and enhance our toolkit to do so, with the aim of cultivating a new cadre of development leaders.

### **CYBERSECURITY THREATS**

With interconnectedness comes risk exposure. Through its global presence, USAID has a large potential cyberattack surface. USAID continues to prioritize the security of its information technology (IT) investments. We will maintain the efforts that, this year, earned an "A+" grade on the federal IT Acquisition Reform scorecard. Furthermore, USAID is building the Development Information Solution, an integrated portfolio management system to link budget and the program cycle with streamlined data management. We have also deployed trainings for all Agency staff on information security and data privacy. Moving forward, USAID will continue its recognized federal leadership in delivering a modern IT infrastructure.

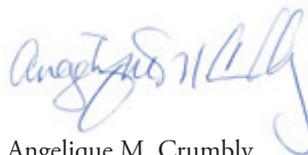
### **ENHANCING ACCOUNTABILITY**

Like many others, USAID is asked consistently to do more with less. Effective stewardship of taxpayer funding is a hallmark of USAID, yet we must redouble our efforts. To meet this mandate, USAID will pursue greater operating efficiencies

and accountability for results—both from ourselves and from our implementing partners. We have identified and proposed for elimination duplicative processes and reports. We are seeking delegations of authority where necessary. We are targeting our reform efforts to buttress government-wide initiatives, such as the pursuit of best-in-class and managed contracts. We will continue to strive to reduce cycle times and streamline processes. Moving forward, USAID will explore how we can improve our program management, design, and monitoring capabilities so that programs have the resources needed to achieve objectives and remediate problems when necessary. In these efforts, robust, data-driven reviews will continue to guide implementation.

### **LOOKING TO THE FUTURE**

Ultimately, USAID's goal is for our assistance to no longer be needed. As we work toward ever-greater partnership with other development partners, our host countries, and beneficiaries, we confront these challenges with realism and maintain our focus on delivering on our mission effectively and efficiently.



Angelique M. Crumbly  
Performance Improvement Officer

# ANALYSIS OF FINANCIAL STATEMENTS

The financial statements of USAID reflect and evaluate the Agency's execution of its mission to advance economic growth, democracy, and human progress in developing countries. This analysis presents a summary of the Agency's financial position and results of operations, and addresses the relevance of major changes in the types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal statements include a Consolidated Balance Sheet, a Consolidated Statement of Net Cost, a Consolidated Statement of Changes in Net

Position, and a Combined Statement of Budgetary Resources. These principal statements are included in the Financial Section of this report. The Agency also prepares a Combining Schedule of Budgetary Resources with the Required Supplementary Information and Other Information sections, respectively.

## OVERVIEW OF FINANCIAL POSITION

Preparing the Agency's financial statements is a vital component of sound financial management and provides accurate, accountable, and reliable information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. The Agency's management is responsible for the integrity and objectivity of the financial information presented in the statements. USAID is committed to financial management excellence, and maintains a rigorous system of internal controls to safeguard its widely dispersed assets against loss from unauthorized acquisition, use, or disposition. As USAID broadens its global relevance and impact, the Agency will continue to promote local partnership through delivering assistance through host government systems and community organizations.

A summary of USAID's major financial activities in FY 2017 and FY 2016 is presented in the table on the left. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating USAID's lines of business, less earned revenue. Budgetary resources are funds available to the Agency to incur obligations and fund operations. This summary section also includes an explanation of significant fluctuations on each of USAID's financial statements.

### CHANGES IN FINANCIAL POSITION IN FY 2017

(In Thousands)

Net Financial Condition	2017	2016	% Change in Financial Position
Fund Balance with Treasury	\$ 34,226,053	\$ 32,637,640	5%
Direct Loans and Loan Guarantees, Net	1,266,621	1,622,046	-22%
Accounts Receivable, Net	40,737	57,565	-29%
Cash and Other Monetary Assets, Advances and Other Assets	934,393	1,025,759	-9%
PP&E, Net and Inventory, Net	113,035	122,104	-7%
<b>Total Assets</b>	<b>\$ 36,580,839</b>	<b>\$ 35,465,114</b>	<b>3%</b>
Debt and Liability for Capital Transfers to the General Fund of the Treasury	1,501,914	2,049,158	-27%
Accounts Payable	1,912,109	1,703,360	12%
Loan Guarantee Liability	3,620,039	3,145,753	15%
Other Liabilities and Federal Employees and Veteran's Benefits	1,215,054	1,624,808	-25%
<b>Total Liabilities</b>	<b>\$ 8,249,116</b>	<b>\$ 8,523,079</b>	<b>-3%</b>
Unexpended Appropriations	28,126,624	26,603,696	6%
Cumulative Results of Operations	205,099	338,339	-39%
<b>Total Net Position</b>	<b>28,331,723</b>	<b>26,942,035</b>	<b>5%</b>
<b>Net Cost of Operations</b>	<b>\$ 13,058,496</b>	<b>\$ 12,490,533</b>	<b>5%</b>
<b>Budgetary Resources</b>	<b>\$ 29,463,075</b>	<b>\$ 27,230,842</b>	<b>8%</b>

## BALANCE SHEET SUMMARY

### ASSETS – WHAT WE OWN AND MANAGE

Total assets were \$36.6 billion as of September 30, 2017. This represents an increase of \$1.1 billion over the FY 2016 total of \$35.5 billion. The most significant assets are the Fund Balance with Treasury and Direct Loans and Loan Guarantees (Net), which represent 94 percent and 3 percent of total USAID's assets, respectively, as of September 30, 2017. The Fund Balance with Treasury consists of cash appropriated to USAID by Congress or transferred from other federal agencies and held in U.S. Department of the Treasury's (Treasury) accounts that are accessible by the Agency to pay the Agency's obligations incurred.

### LIABILITIES – WHAT WE OWE

The Consolidated Balance Sheet reflects total liabilities of \$8.2 billion, of which \$5.1 billion, or 62 percent, is comprised of Debt and Liabilities for Capital Transfers to the General Fund of the Treasury and Loan Guarantee Liability. These liabilities represent funds borrowed from Treasury to carry out the Agency's Federal Credit Reform program activities and net liquidating account equity. Loan Guarantee Liability accounts increased by \$474.3 million between the two fiscal years, which represents an increase of almost 15 percent. This was driven by new loan guarantees with the Middle East Northern Africa (MENA) program.

### ENDING NET POSITION – WHAT WE HAVE DONE OVER TIME

Net Position represents the Agency's equity, which includes the cumulative net earnings and unexpended authority granted by Congress. USAID's Net Position is shown on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position. The reported Net Position balance as of September 30, 2017, was \$28.3 billion, which is an increase of \$1.4 billion, or 5 percent, over the \$26.9 billion reported for FY 2016. The majority of this increase was related to additional appropriations received within the International Development Assistance program.

## RESULTS (NET COST) OF OPERATIONS

### NET COSTS

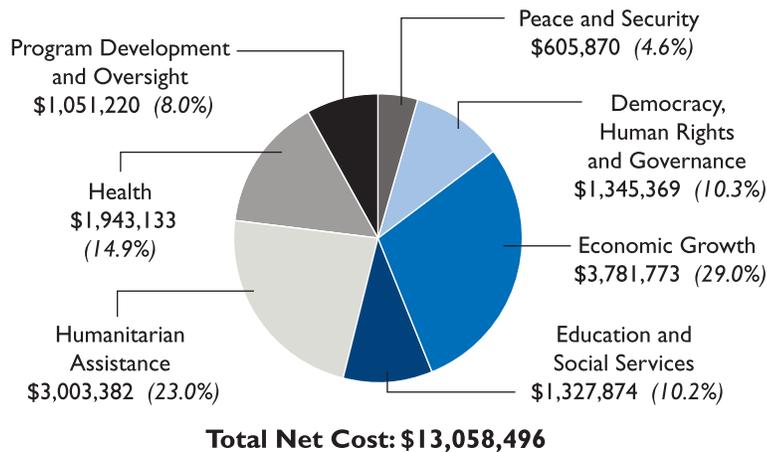
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Consolidated Statement of Net Cost represents the cost (net of earned revenues) of operating the Agency's foreign assistance programs. The Department of State (State) and USAID use the Standardized Program Structure and Definition (SPSD) system to categorize their programs. In FY 2017, the SPSD was updated to contain the following seven categories of foreign assistance programs:

- Democracy, Human Rights and Governance (DR) – support the establishment, consolidation, and protection of democratic institutions, processes, and values in countries to advance freedom.
- Economic Growth (EG) – strive to generate rapid, sustained, and broad-based economic growth.
- Education and Social Services (ES) – aid nations through effective and accountable investments in education and social services to establish sustainable improvements in the well-being and productivity of their populations.
- Humanitarian Assistance (HA) – provide assistance to countries on the basis of need according to principles of universality, impartiality, and human dignity to save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.
- Health (HL) – contribute to improvements in the health of people; especially women, children, and other vulnerable populations in countries globally.
- Program Development and Oversight (PO) – provide program management, accounting, and tracking for costs to assist U.S. foreign assistance objectives.
- Peace and Security (PS) – help countries establish the conditions and capacity for achieving peace, security, stability, and response against arising threats to national or international security and stability.

The chart below shows the total net cost incurred to carry out each of these Agency's program categories.

### FY 2017 NET COST OF OPERATIONS BY CATEGORIES

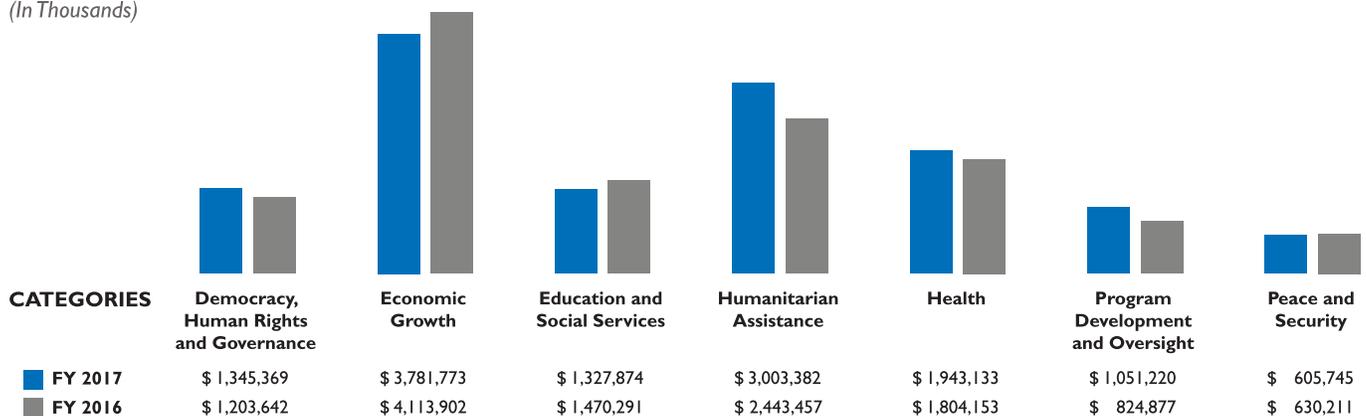
(In Thousands)



The USAID's net cost of operations totaled \$13.1 billion and \$12.5 billion for FY 2017 and FY 2016, respectively. Overall the USAID net cost of operations increased 5 percent over this two-year period. However, the net costs of operations within the programs shifted due to changing global program initiatives as shown in the chart below. For example, the largest shift in net costs was \$560.0 million, or 23 percent increase, within the Humanitarian Assistance category; and a \$226.3 million, or 27 percent increase, within the Program Development and Oversight category. Additionally, there were moderate to minimal decreases in the net costs for the following categories: Education and Social Services of \$142.4 million, or 10 percent, Economic Growth of \$332.1 million, or 8 percent, and Peace and Security of \$24.5 million, or 4 percent. The chart below presents the major categories of net cost broken out by category for FY 2017 and FY 2016.

### MAJOR CATEGORIES OF NET COST COMPARISON OVERTIME

(In Thousands)



### NET COSTS BY PROGRAM AREAS

In addition to reporting net costs by overall categories, USAID further calculates net costs by category and program areas for financial reporting. In FY 2017, USAID incurred costs within 44 of the 48 program areas within the 7 foreign assistance categories, as shown in the table on the following page. Each program area is an important element of the Agency's framework for effectively leveraging scarce resources to impact development

priorities and allows USAID management to efficiently and effectively evaluate the overall major mission or program activity. For a further breakout of net costs by responsibility segments and program areas refer to Note 16, *Suborganization Program Costs/Program Costs by Program Area*. The responsibility segments include the six geographic bureaus and four technical bureaus.

## FY 2017 NET COST BY PROGRAM AREAS

(In Thousands)

Categories	Program Areas*	Total
<b>Democracy, Human Rights and Governance</b>	Rule of Law (ROL)	\$ 207,284
	Good Governance	686,092
	Political Competition and Consensus-Building	145,038
	Civil Society	248,986
	Independent Media and Free Flow of Information	325
	Human Rights	57,644
<b>Democracy, Human Rights and Governance Total</b>		<b>1,345,369</b>
<b>Economic Growth</b>	Macroeconomic Foundation for Growth	1,063,452
	Trade and Investment	169,574
	Agriculture	1,092,528
	Financial Sector	61,835
	Private Sector Productivity	221,527
	Workforce Development	(28,512)
	Modern Energy Services	270,221
	Information and Communications Technology Services	4,993
	Transport Services	140,736
	Environment	785,419
<b>Economic Growth Total</b>		<b>3,781,773</b>
<b>Education and Social Services</b>	Basic Education	1,079,255
	Higher Education	44
	Social Policies, Regulations, and Systems	23,649
	Social Services	78,872
	Social Assistance	146,054
<b>Education and Social Services Total</b>		<b>1,327,874</b>
<b>Humanitarian Assistance</b>	Protection, Assistance and Solutions	2,982,271
	Disaster Readiness	21,111
	Migration Management	–
<b>Humanitarian Assistance Total</b>		<b>3,003,382</b>
<b>Health</b>	HIV/AIDS	1,118,400
	Tuberculosis	6,046
	Malaria	28,978
	Pandemic Influenza and Other Emerging Threats (PIOET)	42,165
	Other Public Health Threats	62,249
	Maternal and Child Health	220,343
	Family Planning and Reproductive Health	98,634
	Water Supply and Sanitation	352,867
	Nutrition	13,451
<b>Health Total</b>		<b>1,943,133</b>
<b>Program Development and Oversight</b>	Program Design and Learning	386,319
	Administration and Oversight	664,235
	Evaluation	666
<b>Program Development and Oversight Total</b>		<b>1,051,220</b>
<b>Peace and Security</b>	Counterterrorism	41,154
	Combating Weapons of Mass Destruction (WMD)	23,035
	Counternarcotics	137,032
	Trafficking in Persons	16,753
	Conflict Mitigation and Stabilization	382,543
	Conventional Weapons Security and Explosive Remnants of War (ERW)	1,368
	Strengthening Military Partnerships and Capabilities	857
	Citizen Security and Law Enforcement	3,003
<b>Peace and Security Total</b>		<b>605,745</b>
<b>Total Net Cost of Operations</b>		<b>\$13,058,496</b>

\* For insight on how the Program Areas relate to development, see the State-USAID Joint Strategic Goal Framework on page 11 for related Strategic Goals and Strategic Objectives.

## BUDGETARY RESOURCES

### OUR FUNDS

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to USAID during the fiscal year and the status of those resources at the end of the fiscal year. The Agency receives most of its funding from general government funds administered by Treasury and appropriated by Congress for use by USAID. In addition, USAID receives budget authority from the following parent agencies: U.S. Departments of State and Agriculture, Forest Service. Activity related to these parent agencies is detailed in the Combining Schedule of Budgetary Resources located in the Required Supplementary Information section of this report.

Budgetary Resources consist of the resources available to USAID at the beginning of the year, plus the appropriations received, spending authority from offsetting collections, and other budgetary resources received during the year. The chart to the right compares the obligations incurred, unobligated balances, and total budgetary resources for USAID from FY 2014 through FY 2017 periods. The Agency received \$29.5 billion in cumulative budgetary resources in FY 2017, of which it has obligated \$15.0 billion.

### OBLIGATIONS AND OUTLAYS

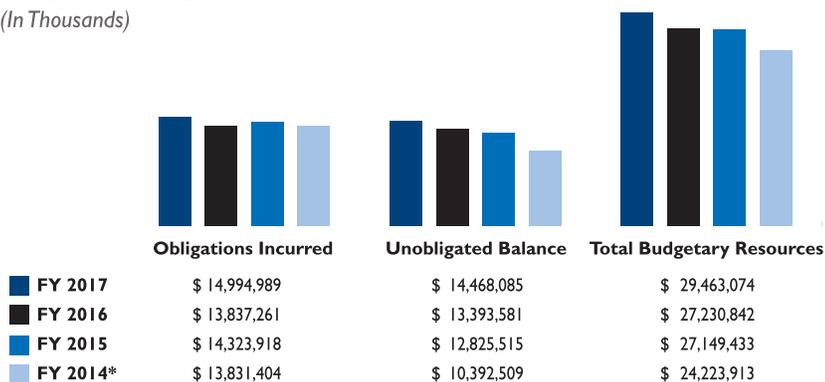
The Status of Budgetary Resources chart shown at bottom shows the overall Total Budgetary Resources received and whether obligations were incurred or the funding remains unobligated balances at year-end for FY 2014 through FY 2017. As shown in the chart, USAID's Total Budgetary Resources for FY 2017 was \$29.5 billion, which is an increase of \$2.3 billion or an 8 percent increase over the FY 2016 Total Budgetary Resources of \$27.2 billion. The majority of this increase in budgetary resources was related to increases in appropriation funding for some of USAID's major program areas, such as increase of \$1.7 billion for the International Disaster Assistance program, \$374 million for the Economic Support Fund, and \$214 million for the Development Assistance Fund. The Net Outlays for USAID for FY 2017 and FY 2016 were \$12.1 billion and \$11.1 billion, respectively. The primary reason for the \$0.5 billion increase in Net Outlays was a result of increased outlays related to the Humanitarian Assistance category, which provides assistance to save lives and alleviate sufferings worldwide.

### LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of USAID, in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

### STATUS OF BUDGETARY RESOURCES FY 2014\* – FY 2017

(In Thousands)



\* FY 2014 amounts reflect the amounts as provided in the restated financial statements.

# ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## MANAGEMENT ASSURANCES

The Agency's internal control policy is comprehensive and requires all USAID managers to establish cost-effective systems of internal control to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over USAID operations.

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish internal control and financial systems that provide reasonable assurance that the following objectives are achieved:

- effectiveness and efficiency of operations;
- compliance with applicable laws and regulations;
- reliability of reporting for internal and external use.

Based on an Agency evaluation, the Agency head is required to provide an annual Statement of Assurance (see below) on whether the Agency has met this requirement. The Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, implements the FMFIA and defines management's responsibility for internal control and risk management. In addition, the Agency has provided a Summary of Financial Statement Audits and Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, in the Other Information section of this report.

## USAID STATEMENT OF ASSURANCE

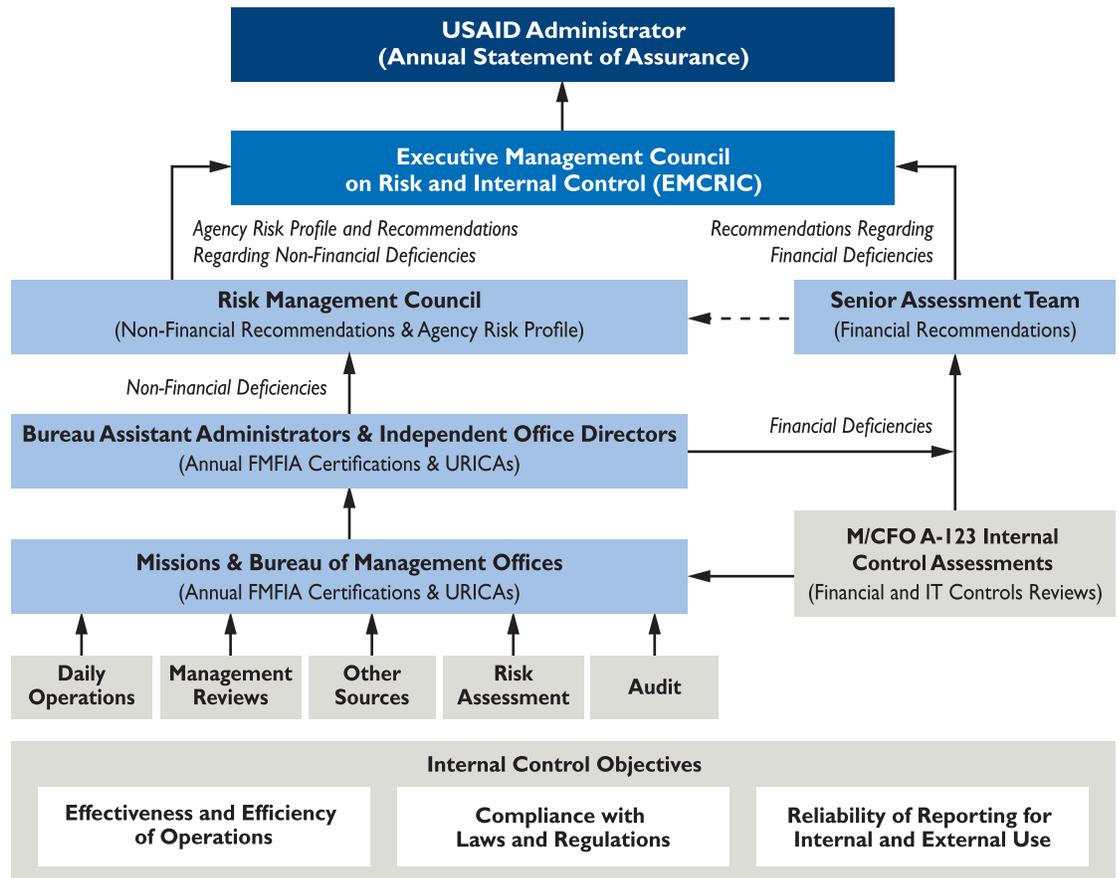
The Agency's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Agency conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017, except for the following

existing material weakness reported: USAID did not reconcile its Fund Balance with Treasury account with the U.S. Department of the Treasury, and resolve reconciling items in a timely manner (Exhibit A).



Mark A. Green  
Administrator  
November 15, 2017

## FMFIA ANNUAL ASSURANCE PROCESS



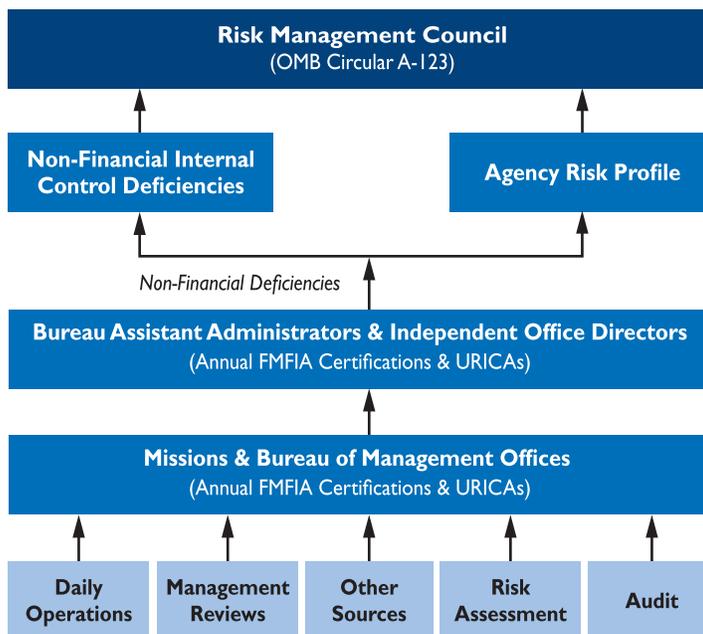
The new Agency-approved governance structure expands the scope and responsibilities of the previous Management Control Review Committee (MCRC) to the Executive Management Council on Risk and Internal Control (EMCRIC). The new Council integrates the Enterprise Risk Management (ERM) requirement with USAID's existing internal control structure and adds a critical new element, the Risk Management Council (RMC). The new ERM system also establishes an ERM Secretariat and a process for reporting enterprise risks. Bureaus, independent offices, and assessable units have appointed Risk Management Liaisons to facilitate efficient and effective identification, reporting, and treatment of risks. The EMCRIC is chaired by the Deputy Administrator and is comprised of senior leadership including: bureau and independent office heads; the Agency Counselor; the Chief of Staff; the Chief Risk Officer; the Executive Secretary;

the Chief Financial Officer; the Chief Information Officer; the Chief Acquisition Officer; the Chief Human Capital Officer; and the Director of the Bureau for Management, Office of Management Policy, Budget, and Performance. The Inspector General is a non-voting observer. The EMCRIC is the body responsible for reviewing and maintaining the Agency Risk Profile. The individual assurance statements from heads of operating units worldwide serve as the basis for the Agency's FMFIA assurance statement issued by the USAID Administrator. The assurance statements are based on information gathered from various sources, including managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, external reviews, audits, inspections, and investigations are considered by management.

The RMC, co-chaired by the Deputy Assistant Administrators from the Bureaus for Management (M), and Policy, Planning, and Learning, are responsible for assessing the roll-up of enterprise risks and non-financial internal control deficiencies, based on input from operating units. The RMC evaluates composite profiles and develops or updates an Agency Risk Profile that presents an Agency-level portfolio of risks, coupled with proposed risk responses, where appropriate, for EMCRIC review and approval.

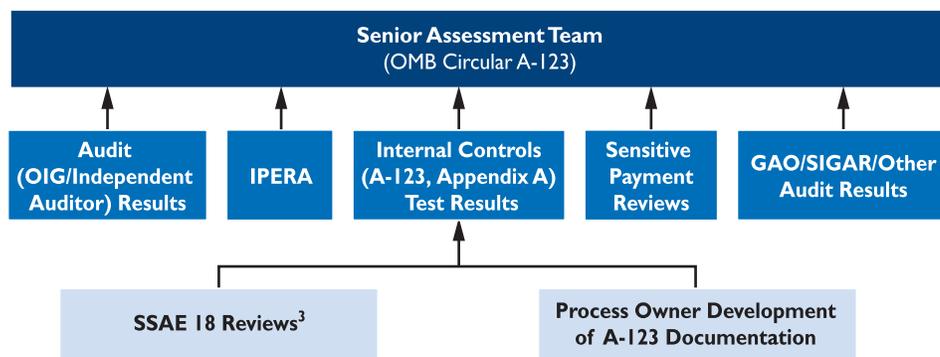
During FY 2017, the Agency continued using the Uniform Risk and Internal Control Assessment (URICA) tool for conducting risk assessments of all Agency assessable units in support of FMFIA certification reporting. In an effort to begin integration of ERM, pilots were conducted in selected operating units to test and identify risks simultaneously with the internal control assessments. In addition, an initial Agency Risk Profile was produced using information gleaned from ERM pilot testing, newly reported and existing FMFIA and Government Management Reform Act deficiencies, Office of Inspector General (OIG) audit reports, and OIG management challenges. Full implementation and integration of ERM will occur during FY 2018, including issuance of a Risk Appetite Statement, introduction of an ERM training program, and full Agency-wide roll-out concurrently with the annual FMFIA exercise.

## RISK MANAGEMENT COUNCIL OVERSIGHT



The Senior Assessment Team (SAT), chaired by the Agency's Chief Financial Officer, is responsible for evaluating deficiencies in financial internal control, as identified through the FMFIA certification process, audits, and any other related functions, as well as assessing, monitoring, and proposing appropriate corrective measures. The SAT reports financial internal control deficiencies deemed to be material weaknesses that will be included in the annual FMFIA assurance statement.

## SENIOR ASSESSMENT TEAM OVERSIGHT



<sup>3</sup> USAID obtained copies of Statement on Standards for Attestation Engagements (SSAE) 18 reviews, i.e., in-depth audits.

During FY 2017, the SAT provided oversight for the internal control over financial reporting program to meet OMB Circular A-123, Appendix A, requirements. The SAT reports to the EMCRIC and is comprised of senior executives that have significant responsibilities over financial processes. A representative from the OIG is also a non-voting member of the SAT. In addition, the Agency's Internal Control Teams employ an integrated process to perform the work necessary to meet the requirements of the various components of OMB Circular A-123, including compliance with the Improper Payments Elimination and Recovery Act, Government Charge Card Management, and the Federal Financial Management Improvement Act (FFMIA); as well as compliance with OMB guidance on conducting the acquisition assessment.

In conclusion, the Agency's integrated internal control and risk management program is designed to promote full compliance with the goals, objectives, and requirements of the FMFIA

and various federal laws and regulations. To that end, the Agency has dedicated considerable resources to administer a successful program. USAID's policy is that any organization with a material weakness<sup>4</sup>, significant deficiency, or control deficiency must prepare and implement a corrective action plan to mitigate the deficiency. The plan, combined with individual assurance statements and Appendix A assessments, provides the framework for monitoring and improving the Agency's internal controls on a continuous basis. Management will continue to direct focused efforts to resolve issues for all internal control deficiencies identified by management and auditors. During the FY 2017 FMFIA reporting process, all USAID operating units self-assessed and reported that the 17 Government Accountability Office (GAO) principles of internal control were effective. Likewise, beginning with FY 2017, risks are identified in the Agency Risk Profile and will be monitored subject to a risk treatment plan.

## EXHIBIT A – FMFIA MATERIAL WEAKNESS

The Agency reported one material weakness for FY 2017.

### INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)

#### **USAID did not reconcile its Fund Balance with Treasury account with the Department of the Treasury, and resolve unreconciled items in a timely manner**

**Plan:** USAID will: (1) resolve the differences between the general ledger and Treasury; (2) continue monthly reconciliations to investigate and resolve unreconciled differences, and monitor and report the results to ensure that the balances in the general ledger and subsidiary ledger are consistently in agreement; and (3) consult with Treasury and OMB to obtain final approval for resolving unreconciled funds.

**Progress to date:** USAID completed a comprehensive general ledger and subsidiary ledger reconciliation and historical cleanup effort. As of January 2017, all cash functions have been incorporated in the Agency electronic Cash Reconciliation Tool (eCART), including the National Finance Center payroll and state payroll data, which enables the Agency to detect and promptly address any future general ledger to Treasury discrepancy at the transaction level. The Bureau of Management, Office of the Chief Financial Officer (M/CFO) developed a plan of action and documented policies and procedures to resolve the unreconciled difference as of September 30, 2016. M/CFO continues to strengthen the cash reconciliation process and monitor outstanding items to resolve differences timely.

**Target completion date: December 31, 2017**

---

<sup>4</sup> See Appendix A, Summary of FMFIA Definitions and Reporting.

## FFMIA COMPLIANCE ASSESSMENT

The FFMIA requires that each agency implement and maintain financial management systems that comply substantially with the federal financial system requirements, applicable federal accounting standards, and the USSGL at the transaction level. The purpose of the FFMIA is to advance federal financial management by verifying that financial management systems provide accurate, reliable, and timely financial management information. USAID assesses its financial management systems annually for compliance with the requirements of Appendix D to OMB Circular A-123, compliance with FFMIA, and other federal financial system requirements. USAID's process for assessing its financial management systems is in compliance with Appendix D to OMB Circular A-123 and includes the use of the FFMIA Compliance Determination Framework, which incorporates a risk model of risk levels against common goals and compliance indicators.

The Agency determined that its financial management systems do not substantially comply with federal accounting standards and the USSGL at the transaction level as a result of how the Agency accounted for reimbursable agreements. A corrective action plan is outlined in Exhibit B.

## GOALS AND SUPPORTING FINANCIAL SYSTEM STRATEGIES

USAID strives to maximize development impact per dollar spent to deliver more sustainable results by focusing on ending extreme poverty and promoting resilient, democratic societies, while advancing U.S. security and prosperity. In order to do so, USAID needs a financial management system that is efficient for staff, useful for management, and compliant with federal requirements. Over the past 17 years, USAID met that requirement by implementing a single, worldwide financial system called Phoenix, which enabled the Agency

## EXHIBIT B – FFMIA NON-COMPLIANCE

The Agency's financial management systems comply with financial systems requirements except for accounting for reimbursable agreements.

### COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FFMIA § 4)

**The Agency is required to make an annual determination as to whether its financial management systems comply with the requirements of section 803(a) of the Federal Financial Management Improvement Act (FFMIA). USAID's process for accounting for reimbursable agreements deviated from (1) Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, and (2) the U.S. Standard General Ledger (USSGL) at the transaction level.**

**Plan:** USAID planned to remediate this condition by configuring and implementing the Project Cost Accounting System (PCAS) module in Phoenix, the Agency's financial system, and working with other USAID business system owners and users that integrate data with Phoenix to update systems and processes so that an agreement number is included at the point of obligation. When fully utilized, PCAS will allow USAID to track reimbursable agreements with greater detail and flexibility based on the terms of the agreements. PCAS will track the status of agreements including amounts available, collected, and expended; and USAID will be able to recognize revenue and receivables based on the collections and expenditures against the agreements.

**Target completion date: December 31, 2017**

to produce auditable financial statements. More recently, USAID has shifted the way it administers assistance—channeling funding to local governments and organizations, and streamlining the procurement process—and so the financial systems strategy must also evolve. Maintaining and building upon a strong financial system framework better enables USAID to be effective, efficient, accountable, and agile in providing international development and humanitarian assistance, and strengthening management processes that deliver employee-centric and cost-effective services. Publishing foreign assistance budget and spending data on the public Foreign Assistance Dashboard helps stakeholders understand how U.S. taxpayer funds are used to achieve international development results. USAID provides transactional detail to the Foreign Assistance Dashboard that represents each financial record in Phoenix that has been processed in a given time period for program work with implementing partners and other administrative expenses. USAID’s financial management operational efficiency will enable the Agency to focus its resources where they achieve the most impact and in direct support of the Administration’s focus; not only on the dollars spent, but on the results achieved. This requires new technologies and enhanced data analysis.

As the Federal Government undertakes new strategies and initiatives to improve financial management, USAID is updating its systems and processes accordingly, as funding permits. The Agency will continue to reflect standard business processes and meet user and federal requirements, as well as follow guidance from OMB and the Department of the Treasury (Treasury), to strengthen both financial and IT management practices. The Agency is conducting an analysis to streamline the accruals process that would support more than two thousand users who are responsible for entering and providing accruals information and to further integrate information from the Global Acquisition and Assistance System (GLAAS), the Agency’s procurement system, in order to improve assignments of awards, increase the transparency of the accruals process, and strengthen the quality of pipeline reports. In addition, the Agency has implemented PCAS and integrated it with Phoenix, which will improve USAID’s ability to track interagency agreements and reimbursable

activities, and allow it to address prior audit findings. The Agency plans to invest in financial data and reporting support by upgrading its reporting database and the supporting infrastructure. This will position the Agency to continue implementing mandates established by the Digital Accountability and Transparency Act of 2014 (DATA Act). Throughout FY 2017, the Agency prepared to implement the DATA Act by testing the submission of data via Treasury’s Broker and successfully submitting USAID data, which were certified by the Chief Financial Officer, in May 2017. In FY 2016, State introduced a revised Standardized Program Structure and Definition (SPSD), a set of codes that categorizes foreign assistance spending. The Agency implemented the revised SPSD in Phoenix at the beginning of FY 2017, as well as updated Phoenix Accounting Templates, released updated SPSD Program Areas and Elements, and restricted the codes and budget levels that can be used for program-funded actions to align with the new codes and hierarchy. This implementation provides stakeholders and the public increased transparency into federal spending. In addition, the financial reporting modernization’s data-centric approach increases transparency and adheres to new data standards such as those set forth by the Federal Information Technology Reform Act (FITARA) and OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable*, which sets the requirement to continue compliance with the reporting requirements in the Federal Funding Accountability and Transparency Act (FFATA) and the DATA Act.

## **FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK**

The Phoenix financial system is the accounting system of record for the Agency and the core of USAID’s financial management systems framework. Phoenix enables Agency staff to analyze, manage, and report on foreign assistance funds. Phoenix interfaces with other Agency systems and tools in order to align financial management with other business processes. Based on available resources and Agency priorities, USAID makes incremental investments to automate and streamline financial management processes.

USAID will continue to make improvements to financial management processes so that they are more efficient and take advantage of shared services, when possible. A recent upgrade to the Phoenix system provided the Agency the technical ability to implement the Invoice Processing Platform (IPP), a Web-based system that efficiently manages government invoicing from purchase order through payment notifications and centralizes all invoice transaction data and documents. Implementation of the IPP capability will automate vendor invoicing and payments and should reduce transactional costs, improve accuracy of payment and accounting data, and help USAID comply with new federal accounting and IT standards, many driven by Treasury with a vision of all-electronic invoicing by the end of FY 2018.

The Phoenix and GLAAS Financial Integration demonstrates the Agency's commitment to help streamline and standardize business processes. While GLAAS supports the Agency's acquisition and assistance management activities, Phoenix validates funds and processes GLAAS requests and awards as Phoenix commitments and obligations in real-time. Throughout FY 2017, the Agency has been preparing for the GLAAS 4.3 upgrade, which will enhance assistance functionality and is scheduled for release in FY 2018. GLAAS also piloted new FedConnect functionality, which will serve as a portal between USAID and potential partners, aiding the communication and proposal/application process and allowing for the electronic submission of proposals/applications.

Financial management processes were made more efficient with enhancements of the Mission Project Pipeline Reporting (MAPPR) tool that allows users to add mission-defined metadata to financial information; i.e., office, bilateral agreement, or activity, at the level missions need to better manage their portfolios more quickly and conduct pipeline reporting. In FY 2017, upgraded versions of MAPPR were released to include new reference tables where field missions can manage their own lists of applicable values, a renamed activity field that auto-populates from GLAAS and overwrites any manually selected value if the activity is linked to a GLAAS award, and a new accounting lines report that shows all obligation accounting lines frozen as of the end of the prior month. Another enhancement included new functionality that simplifies the tool for missions that might be overwhelmed by the amount of choices available or that want to tailor their deployment to what meets their needs.

USAID successfully implemented the Auto-Deobligation application in 2015, which leverages functionality in the current Phoenix Viewer reporting tool to streamline the deobligation process. The application has been successful across bureaus in Washington, D.C. and in the missions in ensuring Agency funds are available for reuse, and it now includes the functionality to deobligate micro-purchases.

# OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

Management excellence in development is the foundation on which USAID’s ability to deliver results is built. Upon this “One M” platform, the pillars of the new Administration’s commitment to reform are anchored. USAID organized this section around the themes of: effectiveness of Agency systems and programs, efficiency demanded by taxpayers, economic growth powered by accessible government data and transparency, and an overall strengthening of the federal workforce.

## EFFECTIVENESS

As the world’s foremost development entity, USAID relies heavily on its information technology (IT) systems to effectively administer its programs and safeguard sensitive information. USAID also improves its effectiveness by focusing on the areas of customer service, rulemaking, and the reduction of burdensome reporting requirements.

## CYBERSECURITY

USAID has a vast attack surface—operating in more than 100 countries, over 12 thousand users accessing its network, including hundreds of foreign nationals, and about 35 thousand devices connected to the USAID global network, etc.—representing potential entry points for internal and external adversaries. Overall, the Agency’s Bureau for Management, Office of the Chief Information Officer detects and mitigates more than 200 thousand malware and intrusion events each month.

USAID faces a wide array of cyber threats and cybersecurity is a critical priority. Through its cyber work over the last few years, USAID has laid an important foundation for working closely with the Office of Management and Budget (OMB), the Department of Homeland Security (DHS), the federal Chief Information Officers Council, and

other federal organizations to protect its networks, systems, and information from unauthorized access or disruption while continually providing essential services and protecting privacy.

USAID is also strengthening its overall cybersecurity capabilities, such as implementing the DHS’s Continuous Diagnostics and Mitigation program to provide the capabilities and tools that identify cybersecurity risks on an ongoing basis, prioritize these risks based upon potential impacts, and enable its cybersecurity personnel to mitigate the most significant problems first.

USAID was one of 10 Chief Financial Officer (CFO) Act agencies to recently receive the highest possible overall cybersecurity risk management rating of “Managing Risk” from OMB and DHS. This designation signifies that the Agency has instituted required information security policies, procedures, and tools, and is able to actively manage its cybersecurity risk. This assessment of the Agency’s cybersecurity program using the National Institute of Standards and Technology Cybersecurity Framework was a requirement of presidential Executive Order 13800, *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*, issued in May 2017.

## FEDERAL INFORMATION TECHNOLOGY ACQUISITION REFORM ACT

Enacted in 2014, the Federal Information Technology Acquisition Reform Act (FITARA) promotes effectiveness and cost-efficiency of IT in support of the Federal Government’s mission. As a result of the continued efforts in implementing FITARA, USAID became the first CFO Act agency to receive an “A+” rating for its FITARA scorecard, which the House Committee on Oversight and Government Reform issued in June 2017. The

rating reflects USAID's accomplishments in a number of critical areas, including data center optimization, incremental development, and transparency and risk management.

USAID recognizes there are still challenges to overcome in achieving the objectives established in FITARA. For example, USAID must continue to improve visibility of IT investments across the Agency, further strengthen oversight of all IT investments by the Chief Information Officer, and make additional efforts to optimize the Agency IT portfolio.

## DEVELOPMENT INFORMATION SOLUTION

USAID's work requires an integrated portfolio management system, used in every mission and bureau, which captures the Agency's data and facilitates evidence-based decisions in real time. The proliferation of systems and lack of data integration place a high management burden on USAID staff, which impacts the Agency's mission and effectiveness in managing development resources. The Development Information Solution (DIS) will be an Agency-wide portfolio management system integrating data across systems and program cycle functions (i.e., budget, performance management, strategic planning).

The main goals for the DIS are: (1) enable Agency reforms and policy implementation, including FITARA and Federal Information Security Modernization Act compliance, (2) facilitate better data analysis and management of resources, and (3) streamline standard reporting and portfolio management tasks. When completed, the DIS will be the only system users need to execute portfolio management tasks.

In October 2016, USAID awarded a contract to build the first work stream on Performance Management. Agency subject matter experts have supplied critical support, helping refine the high-level business requirements into detailed user stories, and ensuring the system is appropriate for all missions and bureaus. In August 2017, the new Administration designated the DIS a high-priority project for the Agency. Therefore, USAID is accelerating the

timeline for the remaining work streams (Budget, Project Management, and Portfolio Viewer and Reporting).

## CUSTOMER SERVICE

USAID collects data to continuously improve customer service and enhance its capacity to efficiently and effectively deliver on its mission. USAID administers an annual survey to all staff to solicit feedback about its support services. The 2017 Management Support Services Customer Survey gathered input on 13 operating units providing management services to Agency staff. Responses indicate 76 percent of those utilizing services have their overall needs met, a 14 percentage point increase from the 2016 survey. In 2017, USAID also identified process improvements with actionable suggestions for each operating unit. In addition, for the first time, the Agency created a dashboard to visualize transparently the survey data, making it available for Agency-wide use.

Based on the results from previous years' surveys, the operating units have been taking concrete steps to improve customer satisfaction and increase the efficiency and effectiveness of management operations. A prime illustration of this is the Bureau for Legislative and Public Affairs conducting a series of informational presentations to keep the Agency better informed on legislative and public affairs issues in FY 2017. In addition to the launch of last year's Service Central for Human Resources (HR) and IT assistance, the Office of the General Counsel launched a knowledge management system that allows attorneys to efficiently share information and seek feedback with one another on legal issues.

Additionally, USAID remains actively engaged with its external partners. USAID organizes regular outreach events for organizations that work with or are interested in partnering with the Agency. One of the regular outreach events is an "Ask the Procurement Executive" conference call (<https://www.usaid.gov/partnerships/ask-the-executive>). The purpose of this call is to answer partners' questions about specific funding opportunities and working with USAID beyond the Business Forecast. These events are well attended, with nearly 250 partners participated in the July 2017 call.

## REDUCING THE REPORTING BURDEN

USAID staff maintain robust workloads given the need to satisfy growing mission requirements. As such and consistent with the President's Management Agenda, USAID examines every opportunity to minimize the Agency's administrative burden in order to maximize effectiveness while achieving development objectives. USAID is legislatively required to submit recommendations to OMB on how it can reduce its reporting burden for congressional reports, per the Government Performance and Results Act and Modernization Act of 2010. In addition to this legislative requirement, the Agency remains committed to streamlining its overall reporting burden to improve its overall efficiency and effectiveness, including those that are legislatively required or mandated by oversight entities (e.g., OMB or the Government Accountability Office). In 2017, the Agency had an external reporting burden of 219 reports, and has identified 88 opportunities to eliminate, consolidate, or further streamline existing reporting requirements. If these recommendations are implemented, the end result will be a more than 30 percent reduction in USAID's existing reporting burden.

## AGENCY RULEMAKING

USAID is dedicated to promoting public engagement, and the rulemaking process is an integral part of that effort. Agency rulemaking is designed to foster public and customer engagement. As required, USAID gives notice to the public that it is considering a specific regulatory change that will alter the rights and interests of outside parties before the rule takes effect. Once USAID publishes the rule in the Federal Register, the public can comment on the proposed rule and provide feedback to the Agency.

In 2017, USAID continues its commitment to transparency with partners/stakeholders via the Rulemaking and eRulemaking processes and engagement. USAID currently has nine regulatory actions identified in the fall 2017 Unified Semi-Annual Agenda of Regulations—four proposed rules, four final rules, and one completed action. One proposed rule is significant and the others are defined as non-substantive. Three of the four final

rules and the completed action are all deregulatory. (<https://www.reginfo.gov/public/doleAgendaMain>)

USAID's rulemaking program is in compliance with the principles and requirements of presidential Executive Order on regulatory reform, Executive Order 13771, "Reducing Regulations and Controlling Regulatory Costs," issued in January 2017.

## EFFICIENCY

USAID works in more than 100 countries and partners with a variety of different types of organizations to achieve its mission. USAID awards the majority of its funds competitively through acquisition and assistance (A&A) instruments. USAID continues to relentlessly pursue efficiencies including in the areas of Procurement, Category Management (CM), and Benchmarking.

## ENHANCED ACCOUNTABILITY IN ACQUISITIONS AND ASSISTANCE

USAID's A&A portfolio represents the greatest share of the Agency's annual spending. USAID designs, competes, and awards a complex array of A&A instruments annually in support of the Agency's mission. (See Automated Directive Service (ADS) 300, <https://www.usaid.gov/sites/default/files/documents/1868/300.pdf>). For the past four years, the Agency's most senior leadership has reviewed major A&A awards to ensure that they fulfill specific requirements. Through these reviews the Agency aligns resources with priorities, sharpens the focus on results, emphasizes the use of small business and in-country organizations, as well as leverages innovations and builds on past experiences. The review process continues to be a valuable tool for focusing attention on the scope of awards, their impact, and the value for money invested.

## PROCUREMENT REFORM

To better fulfill its mission, USAID made a critical shift in the way it administers foreign assistance by placing a greater emphasis on leveraging private capital; channeling funding to local governments and organizations that have the in-country

knowledge and expertise to create sustainable, positive change; and expanding its partner base. USAID also focused on streamlining the procurement process and institutionalizing reforms.

USAID utilizes a Web-based A&A Plan system to capture planned actions. The tool provides USAID with a holistic view, capturing actions from 147 operating units. The Agency combines this with financial data to create a clearer picture of the Agency's business mechanisms. USAID can then engage operating units and direct resources where needed. The system also provides a variety of dashboards and reports, customized to its users, helping USAID to effectively manage its awards. USAID added functionality to the A&A planning system to track mission concurrence in accordance with the revised ADS 201 policy (<https://www.usaid.gov/ads/policy/200/201man>) to ensure mission directors have overall visibility of activities operating under their purview. Since its launch in FY 2015, users have shown positive increased usage by entering over 13,700 planned actions into the system. In January 2017, the Agency launched a "live feed" of its Business Forecast, improving upon the previous practice of producing a quarterly forecast. USAID pulls the forecast directly from the Agency's A&A Plan every 24 hours, providing more accurate and timely information to partners. This feature enables potential partners to plan and organize before the Agency posts a solicitation on Grants.gov or FBO.gov. This timely forecast information can help improve Procurement Action Lead Time (PALT) when the Agency receives better proposals or applications from partners.

USAID created the A&A Lab as a result of a mandate by OMB to address Agency-specific mandates to bolster innovation while also developing and enhancing the A&A workforce. USAID has utilized the A&A Lab to connect A&A staff worldwide to advance the Agency's mission through workforce development, and for the testing and scaling of innovations that spur competition and establish new partnerships. In FY 2017, the Agency piloted an A&A Mentoring Program which is set for a formal rollout in fall 2018. The A&A Lab has hosted a series of community of practice conference calls, webinars, and a topical speaker

series. During FY 2017, the topics included: Construction Contracting, Oral Interviews, Digital Money, PALT Best Practices, the Importance of Data Quality, and A&A reporting. In addition, the A&A Lab conducts workshops on innovative approaches to A&A including: Broad Agency Announcements, Co-creation, and Adaptive Management techniques. Such approaches help spur procurement competition to reach unique and small community partners. They also ensure the Agency is able to react quickly with agile mechanisms in response to an ever-changing operating environment and humanitarian emergencies. In addition, the A&A Lab has established an A&A Expert Help Desk staffed by USAID volunteers around the world and a Business Manager's Toolkit.

Given USAID relies on procurement tools to implement programs around the world, it is critical the Agency's A&A processes operate efficiently to achieve its development objectives. In FY 2017, USAID continued to take steps to reduce PALT on awards over \$10 million. The Agency focused its efforts on developing a tracking process with each bureau and mission to ensure internal transparency on procurement processes, and to identify delays. USAID is creating a user-friendly and cost effective method to increase the use of milestone plans in its existing A&A planning system. USAID established a cross-functional team to ensure that the new method: (1) continues to streamline milestone planning, (2) increases tracking and reporting capability, (3) integrates milestone requirements into other Agency enterprise systems, (4) allows contracting and assistance officers to customize milestone plans for particular procurements, and (5) serves as an Agency-level management tool. Along with the May 2017 community of practice conference call on PALT, the Agency released a PALT Best Practices Guide and one-pager.

In FY 2017, USAID has continued its goal of "end-to-end paperless contracting" with a four-fold approach: (1) pilot FedConnect, (2) enhance expedited electronic document filing with the Agency Secure Image and Storage Tracking System (ASIST), (3) pilot use of digital signatures, and (4) use online collaboration tools.

First, FedConnect is a government-wide A&A portal that allows for the automation of electronic submission of proposals and applications from the Agency's implementing partners. Second, ASIST has successfully passed tests with FedConnect to automatically link proposals with the Agency's electronic files. This is another step to automate the A&A process. Following the completion of the pilot, it is USAID's intention to deploy FedConnect Agency-wide. The Agency will establish timelines for the launch of FedConnect upon completion of the pilot program. Third, USAID has been testing digital signatures with proper security protocols to expedite award approvals. The Agency successfully completed digital signature testing in Washington, D.C. for internal documents as of June 2017, and testing in the field is currently underway. Last, using online collaboration tools has allowed faster and easier development and review for technical evaluations and other documents. All of the approaches detailed above are designed to automate the A&A process and have also assisted in the streamlining of PALT.

### **CATEGORY MANAGEMENT**

Category Management (CM) is an approach the Federal Government is applying to buy smarter and more like a single enterprise. CM enables the government to eliminate redundancies, increase efficiency, and deliver more value and savings from the acquisition programs. During FY 2017, USAID began its involvement in the CM initiative that both the General Services Administration (GSA) and OMB lead.

USAID has been engaged in identifying, assessing, and reporting on its portfolio of acquisition contracts. USAID assessed how its contracts were applicable to the federal-wide CM "tiered" system and determined which contracts met the requirements for Best-in-Class (BIC) solutions. Contracts designated BIC can be used by multiple agencies and meet the following five OMB criteria:

1. Rigorous requirements, definitions, and planning processes;
2. Appropriate pricing strategies;

3. Data-driven demand management strategies;
4. Category and performance management practices;
5. Independently validated reviews.

USAID reported that in FY 2016, 58 percent of its acquisition dollars were categorized as Spend Under Management, meaning that percentage met defined criteria for management maturity and data sharing.

USAID is engaged and committed to the Federal Government's CM efforts. The Agency has been an active participant in the Office of Federal Procurement Policy's initial set of federal-wide coordination meetings that supported the USAID roll-out of CM. USAID hosted a GSA/OMB sponsored CM-specific training for its Bureau for Management, Office of Acquisition and Assistance (M/OAA) staff in FY 2017. The CM training was designed to increase the familiarity of CM and the supporting tools (Acquisition Gateway) available for staff in support of CM implementation. USAID will continue to train its M/OAA and program staff during FY 2018 in the benefits and proper application of CM and will assess the Next Generation of Package Delivery BIC solution for its Agency-wide adoption and implementation. USAID anticipates there will be additional "roll-outs" of other CM and BIC solutions for consideration and adoption in FY 2018 and beyond.

### **BENCHMARK AND IMPROVE MISSION SUPPORT OPERATIONS**

Cost and quality benchmarks of mission support operations give Agency decision makers better data to compare options and allocate resources as efficiently as possible. Mission support operations cover the areas of contracting, financial management, human capital, real property, and IT. USAID continues to make progress on the cost, quality, and customer satisfaction metrics, including moving toward low-cost, high-quality IT and contracting.

USAID remained one of the top five performing CFO Act agencies for the rate at which it generates multiple proposals for competitive acquisitions. Less than 6 percent of competitive acquisitions received one bid or were sole sourced in FY 2016,

significantly lower than the government-wide average of 14.33 percent. In addition, USAID's contracting function ranked first out of the 24 CFO Act agencies in customers' perception of it as a strategic partner.

In FY 2016, USAID halved the percentage it spends on financial management per full-time employee as it relates to the total organizational full-time employee spend, from 10 percent to 4.4 percent. USAID continued the downward trend in terms of cost per vendor invoice, lowering this metric from \$120.40 in FY 2014 to \$38.49 in FY 2016. The Agency's systems costs per user ranked first among CFO Act agencies with adjusted Agency obligations under \$2 billion. Additionally, USAID's financial management function placed first among the 24 CFO Act agencies in terms of both overall customer satisfaction and being viewed as an integral strategic partner.

USAID lowered its Human Resources Information Technology (HRIT) cost per employee serviced by an impressive 36 percent, earning a third place ranking in that category among CFO Act agencies. USAID also dramatically reduced its recruiting and hiring cost per external position filled, from \$17,940 in FY 2015 to under \$3 thousand in FY 2016, an 84 percent cost savings. Even though USAID's HR function continues to lag behind in being viewed as a strategic partner by its customers, the Agency increased this score and its Human Capital satisfaction score each by 39 percent over FY 2015.

The Agency's strongest customer satisfaction benchmarking results come in the IT realm. USAID ranked first overall, as well as in IT equipment and IT help desk when compared to other CFO Act agencies. In terms of cost savings, USAID decreased the cost per desktop end user, e-mail inbox, and help desk ticket by over 10 percent each from FY 2015, placing it in the top 10 in each category. A help desk abandonment rate of less than 2 percent was also good enough for a fourth place ranking among all CFO Act agencies.

USAID maintained its first place space efficiency ranking with 180.33 square feet per person, lowering that figure 5 percent from FY 2015. The government-wide average for space efficiency is nearly 266 square feet per person.

## CONFERENCE MANAGEMENT

OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, (<https://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-12.pdf>), requires that federal agencies ensure that conference expenses are appropriate, necessary, and managed in a way that minimizes expenses to taxpayers. In response, USAID has implemented comprehensive policies and other controls to mitigate the risk of inappropriate spending on conferences (See ADS 580, <https://www.usaid.gov/sites/default/files/documents/1868/580.pdf>). Senior-level review of conference expenditures resulted in reduced overall costs for five out of 29 conferences totaling \$238,327, saving the Agency and taxpayers an average of \$47,665 per event.

## COST SAVINGS

Reducing administrative costs is a key priority for USAID. The Agency is committed to achieving cost savings by constantly improving the efficiency and effectiveness of its operations. As a result of these ongoing efforts, USAID achieved approximately \$6.4 million in FY 2017 cost savings. USAID accomplished these cost savings primarily through the effective management of its real estate overseas including the renegotiation of its lease of the mission office in Kazakhstan and disposal of excess property. In addition, the Agency improved the efficiency of printing and the management of travel authorizations. USAID will continue to pursue reductions to administrative costs with a focus on improving Agency operations.

## ENTERPRISE RISK MANAGEMENT

USAID implements its responsibility for Enterprise Risk Management (ERM) by building on a strong foundation and practice of risk management. Agency staff regularly assess and mitigate a wide variety of risks in order to ensure good stewardship of taxpayer funds and achievement of development and humanitarian assistance program goals. USAID staff also apply internal controls as continuous, operations-level safeguards. These ensure the Agency uses funds properly and supports the achievement of USAID program objectives.

In FY 2017, USAID advanced ERM in significant ways, improving governance, policy, and procedure to strengthen the management of risks across operating units and enhance integration of risk considerations in ongoing planning and management activities. These improvements resulted from USAID's internal culture of continuous process improvement and in response to external directives from the OMB in the revised Circular A-123 (<https://www.whitehouse.gov/sites/default/files/omb/memoranda/2016/m-16-17.pdf>).

In FY 2017, USAID approved an initial Agency Risk Profile, ERM governance structure, and initial Implementation Plan. The Agency revised the charter of its Management Control Review Committee (MCRC), formerly charged solely with reviewing internal controls, and reconstituted it as the Executive Management Council on Risk and Internal Control (EMCRIC). The new governance structure expands the scope and responsibilities of the former MCRC to integrate ERM with USAID's current internal control structure, and adds a critical new component by establishing the Risk Management Council (RMC) under the EMCRIC. The RMC assesses the roll-up of enterprise risks and non-financial internal controls in order to make recommendations to the EMCRIC. The Agency has also established an ERM Secretariat to support the RMC and a process for ERM risk reporting that utilizes bureau and independent office Risk Management Liaisons to facilitate top-down and bottom-up information flows. Establishing a Chief Risk Officer will be a component of the Agency's Redesign in FY 2018.

## ECONOMIC GROWTH

USAID's commitment to making its programmatic and operational data more publicly accessible promotes transparency to foster innovation and support economic growth.

### OPEN DATA

USAID continues to refine its approach to making Federal Government data discoverable, accessible, and usable to the American taxpayer and the broader international development community. Readily available data supports the Agency's effort to design and implement programs based on solid

evidence. Sharing data in the highly decentralized, international environment in which USAID operates reduces duplicative data collection efforts while increasing the ability of the Agency to learn from previous work.

During FY 2017, USAID staff and implementing partners submitted more than 250 new datasets to the Development Data Library (DDL), the Agency's central digital data repository, in accordance with the Agency's Development Data Policy (<https://www.usaid.gov/ads/policy/500/579>). Data submissions averaged approximately six to seven datasets per week over the course of the year. USAID has worked to curate these datasets in its repository to ensure that these data are preserved, accessible, and made usable over the long-term.

USAID remains committed to enhancing the accessibility and value of data submissions while protecting the privacy and security of all individuals, including participants in USAID programs. This commitment prompted the Agency to temporarily pause the release of datasets submitted to the DDL in early FY 2017, while Agency data privacy and security experts worked together to enhance various protection measures. This included issuing a Request for Information to explore some industry solutions to data privacy risk assessment and disclosure mitigation. By mid-FY 2017, the Agency again began publishing data at an increasing pace.

USAID is anticipating the launch of a new DDL platform in FY 2018 that will greatly enhance the accessibility and usability of Agency data. While the Agency initially planned this launch for FY 2017, USAID is devoting more time to developing additional requirements requested by Agency staff and partners. This operational delay has also allowed the Agency to direct more resources to meeting federal security requirements such as FedRAMP certification, integrating with other Agency systems, and adopting criteria observed by trusted digital repositories. As the launch of the DDL approaches, USAID will embark on change management efforts to familiarize implementing partners and staff with the new platform. Partners will have increased control over the submission and presentation of their data through the new DDL, including the ability to create visualizations of their data to share

key lessons with potential users. USAID operating unit staff will also have increased capabilities to guide partners in data collection, submission, and curation and publication procedures.

## OPEN GOVERNMENT

In the realm of foreign assistance, transparency is essential for promoting accountability to both recipients abroad and American taxpayers at home. USAID, in partnership with the Department of State (State), Office of U.S. Foreign Assistance Resources (F), leads the effort to ensure greater transparency of U.S. Government foreign assistance funding through ForeignAssistance.gov (<https://foreignassistance.gov>). This website allows stakeholders, both internal and external, the ability to search and visualize expanded, timely information about what, where, how, and with whom USAID spends development dollars. USAID fulfills the obligation from the Open Government Plan v4.0 ([https://www.usaid.gov/sites/default/files/documents/1868/USAID\\_OpenGovPlan2016.pdf](https://www.usaid.gov/sites/default/files/documents/1868/USAID_OpenGovPlan2016.pdf)) and disseminates up-to-date information in a common, open format. Publishing data on ForeignAssistance.gov is also a significant component in USAID's International Aid Transparency Initiative (IATI) Cost Management Plan ([https://www.usaid.gov/sites/default/files/documents/1870/IATI%20Cost%20Management%20Plan\\_u\\_14July2015.pdf](https://www.usaid.gov/sites/default/files/documents/1870/IATI%20Cost%20Management%20Plan_u_14July2015.pdf)). Published in July 2015, the plan provides a detailed roadmap on how USAID will share more data about its work. Since the publication of the plan, USAID has added or improved upon 22 IATI fields in its quarterly reporting, as well as institutionalized the data review process prior to publication. State and USAID are working together to explore the possibility of IATI files being used to satisfy in-country reporting requirements to Aid Information Management Systems. USAID successfully completed a pilot program effort in Bangladesh in spring 2017, and is exploring expanding the process to other countries.

USAID's Program Cycle policy requires that unstructured, qualitative data remain available through the Development Experience Clearinghouse (DEC) (<https://dec.usaid.gov>) within

three months of completion. The DEC contains more than 238 thousand documents, 11 thousand of which are evaluations. Of the approximately 159 internal and external project evaluations completed in FY 2016, 79 percent were available online in the DEC as of January 2017. Evidence from these evaluations is used to make mid-course corrections and inform future project design.

Powered by an underlying database of all U.S. foreign assistance funding from over 70 U.S. Government departments, agencies, and offices, Foreign Aid Explorer (<https://explorer.usaid.gov/>) presents the multi-dimensional picture of U.S. foreign assistance through a highly visual and interactive website. Additionally, in FY 2017, USAID redesigned an updated, more comprehensive Dollars to Results (D2R) website (<https://results.usaid.gov/>) to display data about USAID's impact around the world by linking foreign assistance spending and illustrative results by fiscal year. Currently, D2R displays FY 2014 through FY 2016 disbursement and results data for over 150 countries, more than three times the countries included in previous years. To make USAID information more accessible to the public, D2R displays results with reader friendly explanations and allows users to download data in a machine readable format.

USAID is committed to integrating the principles of open government into sustainable development. For example, as part of the U.S. Government commitment to the Global Partnership for Sustainable Data, USAID will provide financial support to the Global Open Data for Agriculture and Nutrition (GODAN) (<http://www.godan.info/>) secretariat to expand its work in promoting the opening of agriculture and nutrition datasets. The Agency will support implementation of surveys on agricultural production, productivity, and socio-economic variables that support the Global Food Security Act Core Agricultural and Rural Data Surveys (CARDS) project. The project supports methodological research aimed at improving the core set of country household data, and training and dissemination activities to improve usability of these data in policy-making.

Additionally, USAID's mission in Colombia led two data analysis events promoting USAID open government efforts. Data Jam Desarrollo Rural 2017 was a crowd-sourcing activity held in late April 2017 to promote using open data for innovative ideas to address common social issues. The mission coordinated with the Government of Colombia Information Technologies and Communications Ministry to support this 48-hour marathon event. Over 120 people in 30 teams analyzed 80 open datasets to address the rural development-focused problems presented to them with hopes of generating ideas for more effective public policy development to tackle challenges common to the region. The mission also hosted a Data Journalism workshop, teaching the 23 attending journalists how to use effective analysis of available data to develop stories as well as how to visualize and share data through infographics and interactive presentations. Both events galvanized more authenticated datasets, making them available for public use and furthering the mission's efforts to bring the projects and ideas born of the exercises to fruition.

## STRENGTHENING THE FEDERAL WORKFORCE

USAID is committed to making its workforce accountable and more effective. A focus on performance management and employee engagement drives a thoughtful effort to reshape the Agency's workforce to more optimally meet mission objectives.

### PERFORMANCE MANAGEMENT

In FY 2016, USAID released its five-year HR Transformation Strategy and Action Plan (2016–2021) ([http://pdf.usaid.gov/pdf\\_docs/PBAAE486.pdf](http://pdf.usaid.gov/pdf_docs/PBAAE486.pdf)) which seeks to establish strong core HR capabilities that exceed the expectations of customers. Fundamentally, improving the way USAID supports HR and talent management is central to advancing the Agency's mission, particularly given its increasingly complex operating environments. The three major pillars of the transformation are HR operations, workforce preparedness, and organizational culture and wellness. During the first year of

implementation, the strategy prioritizes efficient, effective, and customer-focused HR operations to improve customer service, clarify roles and responsibilities, and clean up HR data. The HR Transformation will ensure workforce preparedness by providing the knowledge, skills, abilities, and attributes necessary to meet the Agency's mission for today and the future. Finally, the foundational pillar of HR Transformation, organizational culture and wellness, will build a stronger culture of accountability where people demonstrate high levels of ownership to think and act in the manner necessary to achieve organizational results. During FY 2017, USAID continued to make progress with HR Transformation. Among the many initiatives: (1) reinstating the Student Loan Repayment Program, (2) establishing a Community of Stakeholders working on a redesign of the Foreign Service Assignments process, and (3) establishing a working group for workforce planning and analytics.

Of particular significance is the work that has been done by the Community of Stakeholders on the redesign of the Foreign Service Performance and Promotion process. The redesign streamlines the process and is estimated to result in a savings of 53 thousand man-hours per year. The Foreign Service Performance process is distinct from, yet aligned with, the promotion process. The overarching results of this reform include: (1) strengthened performance management culture, (2) streamlined processes, and (3) greater accountability. Most components of the new employee performance and development process have been negotiated with the American Foreign Service Association. The last remaining element to be negotiated is the streamlined process that holds Foreign Service Officers accountable for improving performance deficiencies and removing those who cannot meet USAID's high standards of performance. Proposed changes to the promotion process will greatly increase the quality of the information provided to promotion boards and the fairness and transparency of the review process. The final elements will be negotiated once the pilot test of the proposed new promotion process is completed. The Administrator intends the new process will go into effect on April 1, 2018.

Efforts are also underway on the redesign of the Civil Service performance management process where interviews, focus groups, and a survey to guide the Civil Service redesign efforts have already been conducted. A current assessment with recommended actions will be released in the first quarter of FY 2018. In addition, an automated performance management system will be implemented to provide additional time savings and enhance accountability for Foreign Service, Civil Service, Senior Executive Service, Senior Level, and Scientific Technical employees. These efforts are fully aligned with USAID's comprehensive plan to maximize employee performance, a plan drafted in response to the March 2017 presidential Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch.

## EMPLOYEE ENGAGEMENT

USAID's focus on employee engagement leverages data from the Federal Employee Viewpoint Survey (<https://www.fedview.opm.gov/>). USAID values an inclusive work environment, one where the Agency learns from every member of its team and fosters his or her active engagement. USAID recognizes the relationship between employee engagement and mission performance, and made action planning mandatory for all bureaus and missions in FY 2017. The Agency continues to improve its Employee Engagement Index score through these and other efforts, increasing it by 8 percentage points in a three-year period, from 64 percent in 2014 to 72 percent in 2017.

## FEDERAL REAL PROPERTY INITIATIVE

USAID holds leasehold and freehold interest in real property assets overseas and domestically. For overseas assets, the Agency works with State's Bureau of Overseas Building Operations (OBO) to transact and manage real property. Domestically, USAID's primary partner is the GSA. The Agency manages 1,552 overseas assets<sup>5</sup> as of December 31, 2016,

the latest reporting period for the Federal Real Property Profile, including 173 owned assets of which 55 have reversionary interests as trust-funded properties. The plant replacement value for owned assets is \$210 million.<sup>6</sup> There are 1,379 leases with annual rent payments totaling \$60 million for 2016. These leases include facilities such as office buildings, warehouses, housing units, guard booths, and secure parking areas. The overseas portfolio is managed by the Bureau for Management's Office of Management Services' Overseas Management Division, with oversight from USAID's Senior Real Property Officer and in collaboration with OBO.

In the United States, USAID maintains six occupancy agreements with the GSA and one direct lease with a private landlord. Domestic office and warehouse space is included in the baseline measurements for the Reduce the Footprint initiative. Under the baseline requirements, USAID reports on usable square feet for office and warehouse space in the Washington, D.C. area. The administration of occupancy agreements and leases, as well as the facilities and building operations management is the responsibility of the Bureau for Management's Office of Management Services' Headquarters Management Division under the oversight of the Senior Real Property Officer and in coordination with the GSA.

USAID manages the real property portfolio in accordance with a series of mandated references including legislative authority, regulatory guidance, policies, and Executive Orders. These include but are not limited to the Foreign Assistance Act; Title 41 of the Code of Federal Regulation; the Foreign Affairs Manual; the Agency Directive System; and Executive Order 13327, *Federal Real Property Asset Management*. Accordingly, USAID seeks to maintain an efficient and effective real property portfolio. Per the requirements of Executive Order 13327, the Agency reports through the FRPP database all owned, leased, and otherwise managed federal real property assets within and outside the United States, including improvements on federal land, in coordination with the GSA and OMB.

<sup>5</sup> This figure includes land parcels.

<sup>6</sup> This figure does not include real property leases and is not used for financial reporting purposes.

USAID actively supports federal energy and sustainability goals, such as those outlined in Executive Order 13693, *Planning for Federal Sustainability in the Next Decade*; the Energy Independence and Security Act of 2007; the Energy Policy Act of 2005, and the Telework Enhancement Act of 2010. These goals are highlighted in the implementation of the Reduce the Footprint goals and integrated into project planning for the Ronald Reagan Building workplace renovations by utilizing LEED® requirements to design spaces that promote healthy, safe, and quality works areas. In addition to LEED®, USAID supports other industry-endorsed standards around the world. For example, the USAID office in Pretoria, South Africa, achieved a four-star Greenstar rating from the Green Building Council of South Africa. USAID supports the implementation of sustainability goals across the real property portfolio with a core team of real property professionals holding credentials from both the U.S. Green Building Council and Green Globes.

USAID consistently demonstrates a strong commitment to the Federal Real Property Initiative. Its real property leadership actively participates in the Federal Real Property Council, and works closely with counterparts at State, the GSA and OMB to effectively plan and administer the real property portfolio. Global real property management faces rapidly evolving challenges to keep personnel safe and secure, while supporting expanded development and diplomatic missions and mandates. USAID continues to meet these challenges in an uncertain budget environment and manages the real property portfolio in a cost effective and operationally efficient manner.

## SOVEREIGN BOND GUARANTEE

Since 1993 the U.S. Government has provided 20 guarantees of sovereign bonds issued by governments in the international capital markets (Israel, Egypt, Tunisia, Jordan, Ukraine, and Iraq) totaling \$23.8 billion. The guarantees are one form of macro-level financial assistance that the United States provides to strengthen the economic and policy environments of countries facing economic difficulties.

## SOVEREIGN BOND GUARANTEE PORTFOLIO

(Dollars in Millions)

Country	Year	Amount
Israel	1993	\$ 9,199
Israel	2003	\$ 4,100
Egypt	2005	\$ 1,250
Tunisia	2012	\$ 485
Tunisia	2014	\$ 500
Jordan	2014	\$ 1,250
Jordan	2014	\$ 1,000
Ukraine	2014	\$ 1,000
Ukraine	2015	\$ 1,000
Jordan	2015	\$ 1,500
Tunisia	2016	\$ 500
Ukraine	2016	\$ 1,000
Iraq	2017	\$ 1,000
<b>Total</b>		<b>\$ 23,784</b>

From 1993 to 2011, sovereign bond guarantees (SBGs) were used sparingly to support Israel and Egypt. However, the use of SBGs has recently expanded in response to political shocks in the Middle East and Eastern Europe, with 10 issuances over the past five years. The guarantees are reported on USAID's financial statements. The total current exposure of the SBG portfolio is \$22 billion, of which \$17.9 billion represents outstanding principal following Egypt's full repayment of its bond in 2015 and the continuing amortization of one of Israel's sovereign bonds.

See Note 6, Direct Loans and Loan Guarantees, Net in the Financial Section for additional information on loan guarantees for Israel, Ukraine, Tunisia, Jordan, and Iraq (Middle East Northern Africa—MENA).

## AUDIT FOLLOW UP

USAID's Bureau for Management, Office of the Chief Financial Officer (M/CFO) and the Office of Inspector General (OIG) staff work in partnership to ensure timely and appropriate responses to OIG audit recommendations. The OIG uses the audit process to help Agency managers improve the

effectiveness, efficiency, and integrity of programs and operations. The OIG staff conduct audits of worldwide foreign assistance programs and USAID operations, including performance audits and reviews of programs and management systems, the Agency's financial statement audit required under the CFO Act of 1990, and audits related to the financial accountability of grantees and contractors.

USAID is required by the Federal Acquisition Regulation, the Single Audit Act, and OMB guidance to obtain appropriate and timely audits of its contractors, grantees, and enterprise funds. U.S.-based, for-profit entities carry out many USAID-funded activities. Traditionally, the Defense Contract Audit Agency (DCAA) has conducted audits, reviews, and surveys for these organizations. However, in FY 2013, USAID began to use independent public accounting firms for this purpose. U.S.-based nonprofit organizations also receive significant USAID funds to implement development programs overseas. As required by OMB guidance, non-federal auditors perform annual financial audits of USAID grantees that spend more than \$750 thousand in federal funds annually. Overseas, local auditing firms or the Supreme Audit Institutions of host countries audit foreign-based organizations. The OIG reviews all audit reports, and if they comply with government auditing standards, transmits the reports to the appropriate USAID mission for corrective actions.

USAID managers are mindful of the statutory requirements included in the Inspector General Act, as amended, and OMB Circular A-50, *Audit Follow-up*, and OMB Circular A-123, *Management's Responsibility for Enterprise Risk*

*Management and Internal Control*. Management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the OIG has been reached. Management must make a decision regarding audit recommendations within a six-month period after issuance of the audit report and implement management's decision<sup>7</sup> within one year to the extent practicable.

On October 1, 2016, the Agency had a beginning balance of 926 audit recommendations. During FY 2017, the OIG issued a total of 1,012 audit recommendations. Significant efforts were made to complete corrective action on audit recommendations within one year of a management decision. The Agency closed 1,090 recommendations, leaving 848 recommendations open at the end of the fiscal year. Of the number closed, 746 were procedural or non-monetary; 343 were questioned costs, representing \$13.5 million in disallowed costs that were recovered; and one was a recommendation with management efficiencies<sup>8</sup>, representing \$11.5 million in funds that were put to better use. As of September 30, 2017, one audit recommendation was over six months old with no management decision and 46 recommendations were more than a year old.

The following tables show that USAID made management decisions to act on 217 audit recommendations with management efficiencies and planned recoveries<sup>9</sup> totaling more than \$24.3 million. In addition, final action was completed for 220 monetary audit recommendations representing \$25 million in cost savings.

<sup>7</sup> A "management decision" is the evaluation of a recommendation by management and a decision upon an appropriate course of action.

<sup>8</sup> "Management efficiencies" relate to monetary recommendations that could result in funds being used more efficiently. The recommendation may include (a) savings from such items as reprogramming or recapture of unliquidated obligations; (b) more efficient contract negotiations; (c) reduction or elimination of payments, costs, or expenses that would be incurred by the Agency. This term has the same meaning as "funds are put to better use."

<sup>9</sup> "Planned recoveries" relate to collections of disallowed costs.

## MANAGEMENT ACTION ON RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	Recommendations	Dollar Value (\$000)
<b>Management decisions:</b>		
Beginning balance 10/1/2016	1	\$ 16
Management decisions during the fiscal year	1	11,532
Total management decisions made	2	11,548
<b>Final actions:</b>		
Recommendations implemented	1	11,532
Recommendations not implemented	–	–
Total final actions	1	11,532
Ending Balance 9/30/2017 <sup>10</sup>	1	\$ 16

## MANAGEMENT ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED COSTS

	Recommendations	Dollar Value (\$000)
<b>Management decisions:</b>		
Beginning balance 10/1/2016	215	\$ 36,822
Management decisions during the fiscal year	216	12,771
Total management decisions made	431	49,593
<b>Final actions:</b>		
Collections/Offsets	–	13,049
Other Recovery	–	39
Write-offs	–	442
Total final actions <sup>11</sup>	219	13,530
Ending Balance 9/30/2017 <sup>10</sup>	212	\$ 36,063

Note: The data in these tables do not include procedural (non-monetary) audit recommendations.

<sup>10</sup> "Ending Balance 9/30/2017" equals "Total management decisions made" minus "Total final actions."

<sup>11</sup> A single audit recommendation may involve multiple recovery types (collections/offset, other recovery, write-offs).



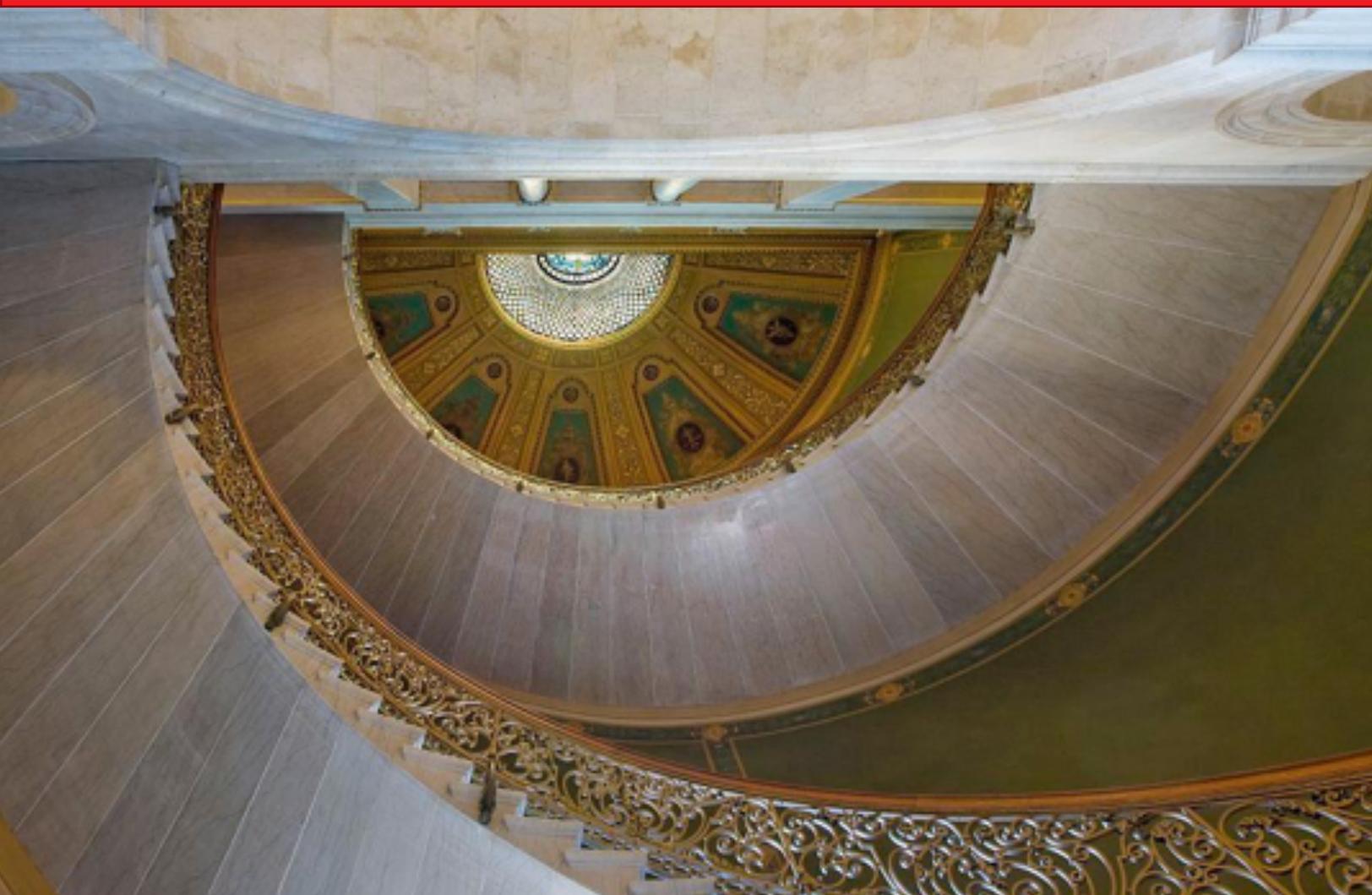
U.S. General Services Administration

**SAVINGS**  
**EFFICIENCY**  
**SERVICE**

# 2017 Agency Financial Report



# Management's Discussion and Analysis *(Unaudited)*



# About this Report

The purpose of the GSA FY 2017 AFR is to inform the President, Congress, and the American people about how GSA has used Federal resources entrusted to the Agency in 2017 to reliably deliver cost-effective real estate, acquisition and technology services to the Federal Departments and Agencies it serves. Providing these services at a good value to our federal customers allows them to focus more of their resources on meeting their core missions to the American people. GSA has chosen to produce both an AFR and an Annual Performance Plan (APR) for FY 2017. GSA will include its FY 2017 APR with its Congressional Budget Justification and will post this AFR on the Agency's Web page.

This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and GSA stewardship information. The AFR enables the President, Congress, and the public to assess GSA accomplishments and understand its financial position. The report satisfies the reporting requirements contained in the following laws, regulations, and Executive Orders:

- Chief Financial Officers Act of 1990;
- Government Management Reform Act of 1994;
- Reports Consolidation Act of 2000;
- Government Performance and Results Act Modernization Act of 2010;
- Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- Federal Financial Management Improvement Act (FFMIA) of 1996;
- Improper Payments Information Act (IPIA) of 2002;
- Improper Payments Elimination and Recovery Act (IPERA) of 2010;
- Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012;
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control;
- OMB Circular No. A-136, Financial Reporting Requirements;
- OMB Memorandum M-12-12 Section 3 - Freeze the Footprint (FTF); and
- OMB Memorandum M-17-08 Section 3, Amending OMB Memorandum M-12-12 Section 3 - Reduce the Footprint.

The APR is a detailed report on GSA's progress toward achieving the goals and objectives described in the Agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and Agency Priority Goals. The report will be delivered to Congress with the annual budget submission.

# Organization

GSA delivers goods and services to its federal customers through 11 regional offices and the headquarters office in Washington, D.C. GSA's primary sub-organizations are comprised of the Federal Acquisition Service (FAS), the Public Buildings

Service (PBS), 12 staff offices that support the agency, and two independent offices: the Office of Inspector General (OIG) and the Civilian Board of Contract Appeals (CBCA).

## Office of the Administrator

 <b>Administrator</b> *Timothy O. Horne timothy.horne@gsa.gov (202) 501-0800	 <b>Deputy Administrator</b> *Anthony Costa anthony.costa@gsa.gov (202) 501-0800	 <b>Chief of Staff</b> Jack St. John jack.stjohn@gsa.gov (202) 501-0800
---	---	--

## National Services

 <b>Federal Acquisition Service</b> Alan Thomas alan.thomas@gsa.gov (703) 605-5400	 <b>Public Buildings Service</b> Dan Mathews dan.mathews@gsa.gov (202) 501-1100
---	--

## Regional Services

 <b>New England Region 1 Boston, MA</b> *Glenn Rotondo glenn.rotondo@gsa.gov (617) 565-5860	 <b>The Heartland Region 6 Kansas City, MO</b> *Kevin Rothmier kevin.rothmier@gsa.gov (816) 926-7201
 <b>Northeast &amp; Caribbean Region 2 New York, NY</b> *Jeff Lau jeff.lau@gsa.gov (212) 264-2600	 <b>Greater Southwest Region 7 Ft. Worth, TX</b> *Jim Weller jim.weller@gsa.gov (817) 978-2321
 <b>Mid-Atlantic Region 3 Philadelphia, PA</b> *Dena McLaughlin dena.mclaughlin@gsa.gov (215) 446-4900	 <b>Rocky Mountain Region 8 Denver, CO</b> *Penny Grout penny.grout@gsa.gov (303) 236-7329
 <b>Southeast Sunbelt Region 4 Atlanta, GA</b> *Liana D. Henry liana.henry@gsa.gov (404) 331-3200	 <b>Pacific Rim Region 9 San Francisco, CA</b> *Dan Brown dan.brown@gsa.gov (415) 522-3001
 <b>Great Lakes Region 5 Chicago, IL</b> *John Cooke john.cooke@gsa.gov (312) 353-5395	 <b>Northwest/Arctic Region 10 Auburn, WA</b> *Chauben Benjamin chaun.benjamin@gsa.gov (253) 931-7000
 <b>National Capital Region 11 Washington, DC</b> *Houston Taylor houston.taylor@gsa.gov (202) 708-9100	

## Staff Offices

 <b>Office of the Chief Financial Officer</b> Gerard Badorek gerard.badorek@gsa.gov (202) 501-1721	 <b>Office of the Chief Information Officer</b> David A. Shive david.shive@gsa.gov (202) 501-1000
 <b>Office of Government-wide Policy</b> Allison F. Brigati allison.brigati@gsa.gov (202) 501-8880	 <b>Office of General Counsel</b> Jack St. John * jack.stjohn@gsa.gov (202) 501-2200
 <b>Office of Civil Rights</b> Madeline Caliendo madeline.caliendo@gsa.gov (202) 501-0767	 <b>Office of Strategic Communication</b> Ben Kerry ben.kerry@gsa.gov (202) 208-0128
 <b>Office of Mission Assurance</b> Robert J. Carter robert.carter@gsa.gov (202) 501-0012	 <b>Office of the Chief Administrative Services Officer</b> Cynthia A. Metzler cynthia.metzler@gsa.gov (202) 357-9697
 <b>Office of Human Resources Management</b> Antonia T. Harris antonia.harris@gsa.gov (202) 501-0398	 <b>Office of Congressional and Intergovernmental Affairs</b> P. Brennan Hart, III brennan.hart@gsa.gov (202) 501-0563
 <b>Office of Small Business Utilization</b> Charles Manger charles.manger@gsa.gov (202) 969-7089	

## Independent Offices

 <b>Office of the Inspector General</b> Carol F. Ochoa oig_publicaffairs@gsaig.gov (202) 501-0450	 <b>Civilian Board of Contract Appeals</b> Jeri Somers jeri.somers@gsa.gov (202) 606-8800
--	--

## White House Liaison

 <b>White House Liaison</b> Michael R. Downing michael.downing@gsa.gov (202) 501-0800
--

\* Denotes Acting

## Federal Acquisition Service

The Federal Acquisition Service (FAS) provides federal agencies over 28 million different products and services, and annually provides acquisition support for over \$50 billion in information technology solutions and telecommunications services, assisted acquisition services, travel and transportation management solutions, motor vehicles and fleet services, and charge cards. FAS manages over 200 thousand vehicles, more than 3.3 million charge cards, and disposes or donates approximately \$1 billion in excess or surplus property annually. FAS leverages the buying power of the federal government by negotiating fair and reasonable prices on many products and services required by federal agencies for daily operations. By arranging a network of service providers, FAS is able to meet the operating and mission requirements of a vast array of federal agencies and state, local, and tribal governments.

## Public Buildings Service

Public Building Service (PBS) activities fall into two broad areas: workspace acquisition and property management. PBS acquires space on behalf of the federal government through new construction and leasing, and acts as a caretaker for federal properties across the country. As the largest public real estate organization in the United States, PBS owns or leases 8,600 assets and maintains an inventory of more than 370 million square feet of rentable workspace. These services are also coordinated to obtain the best available pricing.

## Staff Offices

The GSA staff offices support the enterprise. They ensure GSA is prepared to meet the needs of customers, on a day-to-day basis and in crisis situations.

- **Office of Administrative Services (OAS):** OAS delivers innovative, solutions for GSA's administrative, workplace and information management needs to facilitate efficient use of government resources and effective risk management.
- **Office of the Chief Financial Officer (OCFO):** OCFO provides enterprise-wide budget, financial management, financial analysis, performance management, and strategic planning services to GSA business lines and staff offices.
- **Office of Civil Rights (OCR):** OCR administers five programs related to federal civil rights laws and regulations: Equal Employment Opportunity, Affirmative Employment, Non-discrimination in Federally Conducted Programs and Activities, Environmental Justice and Nondiscrimination in Federally Assisted Programs and Activities. OCR also administers the appeals process for administrative grievances filed by GSA Employees.
- **Office of Strategic Communication (OSC):** OSC works with internal clients to build effective communication strategies to meet their business goals. OSC services include internal communication, graphic design and production, media relations, web and social media, audiovisual production, writing and editing, speechwriting and executive communication, and risk communication/crisis management.
- **Office of Congressional and Intergovernmental Affairs (OCIA):** OCIA maintains Agency liaison with Congress; prepares and coordinates the GSA annual

legislative program; communicates the GSA legislative program to OMB, Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.

- **Office of Information Technology (GSA IT):** GSA IT provides staff with ever-evolving technology to improve capabilities, productivity, mobility, agility, and cost savings. GSA IT solutions include laptops, mobile devices, collaborative cloud-based software, training and technical support.
- **Office of Human Resources Management (OHRM):** OHRM delivers comprehensive human resources services and solutions to GSA and its employees. OHRM's primary focus is to work with GSA services and staff offices to attract, motivate, develop, retain, and reward employees to maintain and enhance a mission-ready workforce.
- **Office of Mission Assurance (OMA):** OMA ensures resilience and continuity of the agency's critical business processes by integrating and coordinating emergency planning activities across all domains of security: physical, personnel, and industrial.
- **Office of Government-wide Policy (OGP):** OGP uses policies, information, and ideas to drive efficiency and management excellence across the Federal Government for key administrative areas to include: travel and transportation, acquisition, fleet management, information technology, and real estate management. OGP helps drive

agency behavior in these administrative areas through policy development, performance standards, data analysis and benchmarking, and regular reporting to Federal agencies and key stakeholders.

- **Office of Customer Experience (OCE):** OCE works with internal clients to enhance relationships with customers, suppliers and stakeholders.
- **Office of General Counsel (OGC):** OGC provides legal advice and representation to GSA, serves as GSA's Designated Agency Ethics Official and is responsible for managing the Agency's ethics program. OGC also manages GSA-wide claims under the Federal Tort Claims Act.
- **Office of Small Business Utilization (OSBU):** OSBU promotes increased access to GSA's nationwide procurement opportunities for small and disadvantaged businesses.

## Independent Offices

- **Civilian Board of Contract Appeals (CBCA):** The CBCA is an independent tribunal housed within GSA. Its primary responsibility is to adjudicate contract disputes between civilian Federal agencies and contractors under the Contract Disputes Act.
- **Office of the Inspector General (OIG):** OIG is responsible for promoting economy, efficiency, and effectiveness and detecting and preventing fraud, waste, and mismanagement in GSA programs and operations.

### FTE Breakdown by Organization

In FY 2017, GSA's employee workforce totaled 11,537 full-time equivalents (FTE). This total represents slight increases from FY 2016 and FY 2015, respectively. In FY 2017, GSA reorganized its operations to transfer intact the activities of the Technology Transformation Service, a new service

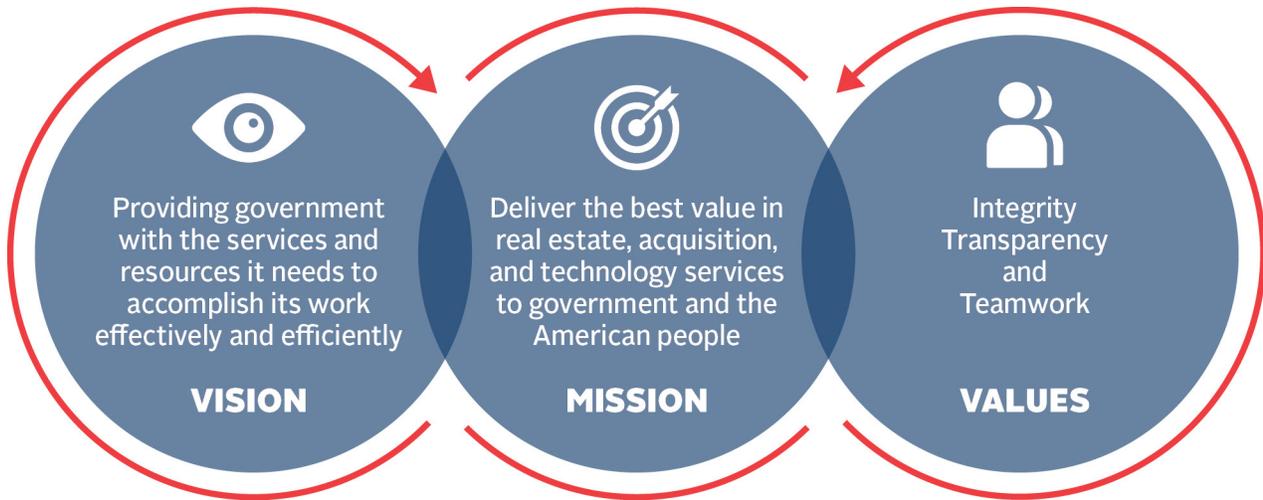
established in FY 2016, into the Federal Acquisition Service portfolio.

FTE are defined as the total number of hours worked, divided by the number of compensable hours applicable to each fiscal year. Compensable hours include leave, but not holiday and overtime hours.

	FY 2015	FY 2016	FY 2017	FTE Change (FY 15-17)	FTE Change (FY 16-17)	2017 % change from 2015	2017 % change from 2016
Staff Offices	2,874	2,676	2,662	(212)	(14)	(7.3)%	(0.5)%
FAS <sup>1</sup>	2,991	3,171	3,261	270	90	9.0%	2.8%
PBS	5,266	5,331	5,614	348	283	6.6%	5.3%
Total	11,131	11,178	11,537	406	359	3.6%	3.2%

<sup>1</sup> In FY 2015, FTE associated with the Federal Citizen Services Fund are included in the Staff Offices line. In FY 2016 and FY 2017, these FTE are included in the Federal Acquisition Service line to align to GSA's current organizational structure.

# Performance Summary



## Mission and Goals

The GSA Mission is to deliver the best value in real estate, acquisition and technology services to government and the American people.

The scope of the work we do at GSA is vast and varied, but the mission is simple and to the point. We serve the government and the American people. Through implementing our mission, we aspire to achieve three strategic goals:

1. **Savings – Provide savings to federal departments and agencies.** We will use our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies.
2. **Efficiency – Improve the efficiency of operations and service delivery.** We will streamline our operations to offer high quality real estate, acquisition, and technology services that are valuable to federal departments and agencies.
3. **Service – Deliver excellent customer service.** We will deliver excellent customer service to federal agencies and departments by making it easier to reliably meet their real estate, acquisition, and technology needs.

## GSA Priorities



Using the purchasing power of the federal government, we will reduce costs to our customer agencies, enabling them to focus a greater portion of their financial resources on their core missions. We are going to improve upon this by finding more ways to solve our customer's problems in the coming year. We will look for new ways to help these agencies make their purchases smarter and more efficient. At the same time, we will look for new and innovative ways to maximize the value of our real estate assets.



Every day the work that we do helps our customer agencies focus on their missions. Partnership on all levels is critical to the success of GSA. Strong partnerships with agencies and vendors alike lead to good business decisions that create value and savings for our customers and the American taxpayer. It is our commitment to ensure that doing business with GSA is an easy and reliable experience. We are continuously improving our processes and systems to make them as simple and streamlined as possible.



Small businesses are the engines that power the American economy. Contracting with these entrepreneurs is a win-win for both the federal government and the small business community. The government receives great service at great value, while small businesses have a chance to grow their businesses and create jobs. GSA offers opportunities to small businesses across the country through our contract vehicles and through the contracts we award for other agencies.



GSA is a leader of innovation in public service. Among many firsts, we were the first government agency to move to cloud computing, setting an example for others to follow. In the coming years, we will continue to develop innovative, cost saving solutions that will be shared across the government.



Going green saves green. Environmentally friendly practices are good for the environment and for business. GSA is committed to both. As we work toward implementing sustainable practices and making our buildings and our fleet more environmentally friendly, we will continue to work with vendors to make sustainable products and services readily available and affordable.



We must make sure our own employees at GSA are getting the same high quality support that we give our partner agencies. Offering the very best training and resources to our employees will be the cornerstone of this effort. By doing so, the agency will better serve its employees, while continuing to ensure that our customers are receiving great service. We will guarantee that when we do something, we will do it once and do it well.

## Agency Performance Goals

This section provides an overview of GSA's performance against strategic goals. A complete analysis of GSA's successes and challenges related to FY 2017 performance targets will be included in the Annual Performance Report.

### 1. Savings – Provide savings to federal departments and agencies.

GSA uses our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies. In FY 2017, GSA is on track to meet its key performance indicator targets except for the proportion of vehicles purchased that are classified as Alternative Fuel Vehicles.

In FY 2017, GSA successfully lowered its vacant space in the Public Buildings Service (PBS) real property inventory to 2.9 percent. GSA achieved this result by working closely with customer agencies to optimize space utilization

and reduce real estate costs. Through the end of the third quarter, the Federal Acquisition Service (FAS) remains on track to achieve over five billion dollars in savings for customers through its acquisition programs. FAS also expects to meet its sustainable supply chain goal as measured by percent green business volume.

GSA did not meet its performance goal for proportion of passenger and light duty vehicles purchased that are classified as Alternative Fuel Vehicles (AFV). Contributing factors included an increase in vehicles purchased for law enforcement operations (these vehicles are exempted from AFV mandates) and a lower supply of available vehicles that run on compressed natural gas (CNG) or high-level ethanol-gasoline blends (E85). Even with these mitigating trends, GSA achieved 77 percent for AFVs purchased.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Acquisition program savings (\$B)	\$5.17	\$6.02	\$5.24	\$3.39*	Expect to meet target
Percent green business volume	8.8%	9.5%	10.0%	11.2%*	Expect to meet target
Percent of vacant space in inventory	3.4%	3.0%	3.2%	2.9%	Met target
Alternative fuel vehicles purchased	82.8%	82.6%	80.0%	77%	Missed target

\* Through the third quarter of FY 2017

**2. Efficiency – Improve the efficiency of operations and service delivery.** In FY 2017, GSA experienced mixed success in meeting its efficiency performance goals for real estate operations and mission support functions.

The Public Buildings Service (PBS) continued delivering capital projects (construction/repairs & alterations) on schedule. Nineteen projects worth a total of \$231 million reached substantial completion in FY 2017. Of those, 18 did so on schedule and on budget. More than fifty-nine projects (\$2.3 billion) remain ongoing nationally, with the National Capital Region (12 projects, \$588 million) and Pacific Rim (10 projects, \$474 million) regions representing the largest share of that group. Ninety-nine percent of all capital projects in FY 2017 are on schedule.

PBS does not expect to meet its goal for keeping 80 percent of cleaning and maintenance costs within market range. The results to date for FY 2017 (through third quarter) have been influenced primarily by a 10 percent reduction in the industry benchmark costs as reported by the Building Owners and Managers Association International (BOMA).

Internal measures of efficiency show mixed success. GSA is on track to meet its long-

standing goal for reducing time-to-hire to less than 80 days. Through the third quarter of FY 2017, GSA was taking an average of 75 days to onboard new employees, an important factor in recruiting and hiring the best candidates for the GSA workforce. Better performance tracking, based on service level agreements (SLAs), has led to greater efficiency on the part of our HR operations and hiring managers.

GSA continues to meet its indirect cost metrics at a level that is over \$400 million less than the baseline year of FY 2010. Lower indirect costs were primarily achieved through realignment of key mission-support functions (financial, information technology, and human resource management) in prior years.

GSA Information Technology costs remain 4% lower than the FY 2014 baseline; however, GSA did not meet its FY 2017 performance target for a 16.2% reduction in IT costs. Over the past three years, cost reductions were realized as duplicative technologies and contracts were brought together. However, new investments into information technology were needed to support the long-term IT needs of the agency, partially offsetting the benefits of IT consolidation.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Capital projects on schedule	98%	98%	90%	99%	Met target
Cleaning and maintenance costs within market range	81%	80%	80%	73%*	Expect to miss target
Reduction in total GSA indirect costs from the FY 2010 baseline (\$M)	407	404	342	\$404	Met target
GSA information technology cost reduction from FY 2014 baseline	8.6%	4.3%	16.2%	4.0%	Missed target
Time to hire (days)	87	83	80	75*	Expect to meet target

\* Through the third quarter of FY 2017,

**3. Service – Deliver excellent customer service.**

GSA strives to deliver excellent customer service to federal agencies and departments by making it easier for them to meet their real estate, acquisition, and technology needs. GSA is employing innovative analyses and practices such as customer experience mapping and usability testing for GSA systems to identify opportunities for improvement.

In FY 2017, GSA achieved mixed results for key performance indicators. Successful performance was achieved for customer loyalty with acquisition services, small business volume through the Multiple Award Schedule (MAS), and the number of new digital governmentwide shared services delivered by GSA. However, GSA experienced a decline in tenant satisfaction with government-owned and leased space.

GSA customer loyalty remains stable in FY 2017, showing results that are consistent with results from the past two years with only minor fluctuations. The Federal Acquisition Service (FAS) will continue to work with federal clients to analyze their procurement needs and target areas for better acquisition solutions that are easier to use. FAS continues to achieve high business volume for small business through its Multiple Award Schedule.

GSA continues to improve information and service delivery across government through the delivery of new digital governmentwide shared services. In FY 2017, new services built by GSA included:

- **Code.gov:** which makes source codes (collections of computer instructions, written using a human-readable programming language) available for sharing and reuse to help avoid duplicative purchases and promote innovation inside and outside government.
- **Login.gov:** A secure single login to government websites that will soon be deployed on a limited basis and then be available to agencies throughout government.
- **Bug Bounty:** A security initiative to pay people for identifying bugs and security holes in civilian agencies' software that follows the footsteps of Hack the Pentagon and Hack the Army bug bounty programs run by the U.S. Department of Defense.
- **Search.gov:** This improves the public's search experience on government websites.

Performance Indicator	2015	2016	2017 (Plan)	2017	Status
Tenant satisfaction with government-owned and leased space	63%	65%	67%	61%	Missed target
Customer loyalty for acquisition services (ten point scale)	7.1	7.5	7.3	7.4	Met target
Percent of Multiple Award Schedule (MAS) business volume coming from small businesses	38.3%	37.4%	33.0%	39.7%	Expect to meet target
New digital governmentwide shared services (number delivered)	8	7	5	8	Met target

# Financial Statements Summary and Analysis

Agency management is accountable for the integrity of the financial information presented in the financial statements. The financial statements and financial data presented in this report have been prepared from GSA accounting records in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The Consolidated Statements of Net Cost presents, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers.

## Consolidated Financial Results

### GSA Assets

GSA assets primarily include: Property and Equipment such as federal buildings, motor vehicles, and office equipment; Fund Balance with Treasury (FBwT); and debts owed to GSA from federal agencies and non-federal customers, mostly from sales transactions or uncollected rent (Accounts Receivable). In FY 2017, GSA reported Total Assets of \$41.4 billion compared to FY 2016 Total Assets of \$40.3 billion, representing a net increase of approximately \$1.1 billion. Significant changes in assets include an increase in the overall FBwT of \$789 million, mainly due to the Federal Buildings Fund (FBF), which saw an increase of \$803 million as funding generated for capital programs to cover building repairs and alterations, and new constructions costs exceed amounts spent on these programs. The FBF FBwT has grown over a number of years, when spending authority approved in annual appropriation acts for the capital programs is less than resources generated by net revenues.

### GSA Liabilities

GSA liabilities are primarily amounts owed to commercial vendors for goods and services received but not yet paid (Accounts Payable), amounts GSA owes to other federal entities, and long-term estimates of future environmental remediation costs. In FY 2017, Total Liabilities were \$7.4 billion; a net increase of \$533 million compared to FY 2016 Total Liabilities of \$6.9 billion. The increase is primarily attributable to a large increase in deferred revenues in the FBF related to payments GSA received from the U.S. Department of State (DOS) to fund acquisitions of real property, for which it has been determined the DOS will receive reduced rent.

### GSA Revenue

The Consolidated Statements of Net Cost present, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers. GSA reported \$21.8 billion in revenue during FY 2017 compared to \$20.5 billion reported in FY 2016. Higher revenues are most noticeable in the Acquisition Services Fund (ASF) due to higher business volume with the U.S. Department of Defense in the Assisted Acquisition Services (AAS) business line. FBF revenues have increased primarily as a result of a higher level of work performed on reimbursable work authorization projects and a modest increase in rent revenues. GSA's net operating results have increased slightly from the prior year. Changes in FBF and ASF net operating results are discussed further below.

## Financial Results by Major Fund – Federal Buildings Fund

The FBF is the primary fund of PBS. PBS provides workplaces for federal agencies and their employees. FBF is primarily supported by rent paid to GSA from other federal agencies. Operating results are displayed on the Consolidating Statements of Net Costs, segregated into the two primary components of Building Operations – Government Owned, and Building Operations – Leased.

FY 2017 FBF gross revenue is over \$11.7 billion, with over half of the revenue generated from five federal customer agencies as shown in the “FBF Top Five Federal Customers” table.

FBF Top 5 Federal Customers	Revenues (\$ in Millions)	% of Total Revenues
U.S. Department of Justice	\$1,960	16.7%
U.S. Department of Homeland Security	\$1,880	16.0%
Federal Judiciary	\$1,186	10.1%
U.S. Social Security Administration	\$881	7.5%
U.S. Department of the Treasury	\$730	6.2%

## FBF Net Revenue from Operations

FBF Net Revenue from Operations represents the amounts remaining after the costs of operating GSA owned and leased buildings are subtracted from revenue. Net Revenue from Operations is used to invest in major repairs and alterations (R&A) to federal buildings and to partially offset costs of constructing new federal buildings.

The primary source of revenue into the FBF is rent from our customer agencies and the primary sources of expense are the cost of leasing building space and the cost of operating the GSA's portfolio of owned and leased buildings. PBS also operates a Reimbursable Work Authorization (RWA) program, which provides customer agencies with alterations and improvements in GSA space, above what is specified in the base rental agreement.

The FBF reported net revenues in excess of expenses of \$666 million in FY 2017 compared to net revenues in excess of expenses of \$605 million in FY 2016, representing an increase of \$61 million. One of the more significant items impacting this increase was a \$30 million one-time gain on the sale of the Cotton Annex building in Washington, D.C. Historically, revenues and expenses associated with the building portfolio have steadily increased over time as a result of increases in rentable square feet, cost escalations, and higher taxes. However, efforts to 'reduce the footprint' (RTF) of federal real property has resulted in a significant reduction in the amount of square footage required by agencies, slowing the growth of rent revenues in the FBF.

### FBF Obligations, Outlays and Collections

In the FBF, obligations are primarily the value of contracts awarded to commercial vendors for the construction of new federal buildings; for repairs and alteration, cleaning, utilities and other maintenance of GSA-owned federal buildings; and lease and related payments to commercial landlords for space leased by GSA for federal agencies.

FBF Obligations Incurred has increased primarily as a result of projects funded by RWA's, for acquisition and development of federal real property and modernization and alteration projects. There were also increased obligations for higher construction costs on large projects funded directly by GSA, like the San Ysidro port of entry in San Diego, CA and the U.S. border station in Alexandria Bay, NY. The real estate acquisitions through reimbursable work authorizations and higher construction costs also generated increases in Gross Outlays for FY 2017. In addition, the increased RWA activity for the year was the primary contributor to the increases in Offsetting Collections compared to FY 2016 results.

FBF Obligations and Outlays (\$ in Millions)	FY 2017	FY 2016	Change (\$)	Change (%)
Obligations Incurred	\$11,538	\$10,700	\$838	7.8%
Gross Outlays	\$11,231	\$10,282	\$949	9.2%
Offsetting Collections	\$12,034	\$11,370	\$664	5.8%

### Financial Results By Major Fund — Acquisition Services Fund

The ASF is a revolving fund that operates from the reimbursable revenue generated by its business portfolios rather than from an appropriation received from Congress. The operations of the ASF are organized into seven business portfolios: General Supplies and Services (GS&S); Travel, Transportation and Logistics (TTL); Information Technology Category (ITC); Assisted Acquisition Services (AAS); Professional Services and Human Capital (PS&HC); Office of Systems Management (OSM), and Technology Transformation Service (TTS). By leveraging the buying power of the federal government, FAS consolidates requirements across multiple agencies and uses its acquisition expertise to acquire goods and services at fair and reasonable prices.

In FY 2017, the ASF realized over \$10.3 billion in revenues with over 77 percent of the revenue generated from five federal customer agencies as shown in the "ASF Top Five Federal Customers" table.

ASF Top Five Federal Customers	Revenues (\$ in Millions)	% of Total Revenues
U.S. Department of Defense	\$6,249	61.0%
U.S. Department of Homeland Security	\$756	7.4%
U.S. Department of Agriculture	\$339	3.3%
U.S. Department of Justice	\$321	3.1%
U.S. Department of Health and Human Service	\$287	2.8%

**ASF Net Revenues from Operations**

ASF Net Revenue from Operations represents the amounts remaining after the costs of goods and services sold and cost of operations. Net Revenues from Operations are invested in the GSA Fleet, IT systems, other programs to improve FAS service levels, and to comply with regulatory and statutory requirements. In FY 2017 the ASF reported a net loss of \$8 million compared to positive net income of \$8 million in FY 2016. In the TTL business line, revenues and expenses have declined due to a lower volume of motor vehicle sales in the Fleet Purchasing program. Net operating results have declined due to higher petroleum costs, an increase in depreciation expense on GSA owned vehicles, and a decline in the net gains realized on the sale of surplus motor vehicles. The FY 2016 net operating results also include a one-time expense reduction of \$20 million in the GS&S business line associated with the reduction in a lease termination liability. In addition, expenses have increased in the ITC business line due to costs incurred in support of the transition to the EIS telecommunications contracts. EIS will replace Networkx, Washington Interagency Telecommunications System (WITS) 3, and local telecommunications contracts. Transition costs are funded through reserves and will be recovered over the life of the EIS contracts. Net income for ITC has improved from last year due to lower operating

expenses in the Public Key Infrastructure (PKI) program. AAS programs have experienced higher business volume with U.S. Department of Defense customers and this is reflected in the increases for both revenues and expenses. In the category of Other Programs, expenses have decreased significantly from FY 2016 and this is due to activities of the Common Acquisition Platform program. Last year the program incurred large expenses associated with software license acquisitions, application design and implementation, and the transition to a cloud-based infrastructure.

**ASF Obligations, Outlays, and Collections**

ASF obligations and outlays are primarily driven by contracts awarded to commercial vendors providing goods and services in support of the ASF portfolios. Obligations Incurred increased by \$2,018 million between FY 2016 and FY 2017 while Gross Outlays increased by \$575 million, due primarily to higher business volume with Defense customers in the AAS programs as well as the recognition of \$750 million in obligations (undelivered orders) associated with the minimum revenue guarantees on the EIS contract awards. Net Outlays have decreased from the prior year due to a lower amount of capitalized purchases of replacement motor vehicles.

ASF Obligations and Outlays (\$ in millions)	FY 2017	FY 2016	Change (\$)	Change (%)
Obligations Incurred	\$13,651	\$11,633	\$2,018	17.3%
Gross Outlays	\$11,193	\$10,618	\$575	5.4%
Offsetting Collections	\$11,279	\$10,408	\$871	8.4%

**Limitations of Financial Statements**

The principal financial statements are prepared to report the financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from the books and records of GSA in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

# GSA Management Assurances

## Statement of Assurance

The U.S. General Services Administration (GSA) management is responsible for managing risks and establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and related statutory and federal policy guidance.

In accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, GSA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment, GSA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.

Although FY 2017 was a strong year with marked improvement in GSA's management controls environment, we have identified and are mitigating several concerns.

During GSA's annual internal controls self-assessment process, our management team identified succession planning as an area of concern. GSA faces the same challenge as other federal agencies; many employees are retirement eligible and can leave the federal workforce. Workforce planning, which includes staffing and succession plans will mitigate the impact of high retirement eligibility in mission-critical occupations. This will be accomplished

through hiring, training, and development. In addition, maximizing employee engagement and employee performance will ensure the GSA workforce is prepared and able to meet the Agency's mission and agency performance goals.

Another area GSA is closely monitoring is the internal controls and financial management practices and procedures of legacy 18F and the Technology Transformation Service (TTS) (now a FAS Portfolio). As a result of an internal review and the recommendations in the Office of Inspector General Evaluation of 18F, JE17-001 (Oct. 24, 2016), GSA implemented stronger management controls over 18F. The internal review and OIG report identified opportunities for improvements in internal controls; including instances where work was started before signed agreements were in hand, resulting in Economy Act violations. GSA will continue to monitor compliance with these controls during FY 2018.

A further challenge related to the Federal Citizens Services Fund (FCSF) was identified and mitigated in FY 2017. GSA notified the Office of Management and Budget (OMB) of a potential Antideficiency Act (ADA) violation, which resulted from utilizing the FCSF to support search capability for state and local government websites. GSA corrected the situation by ending these services in February 2017. Another potential ADA violation is being reviewed related to the Acquisition Services Fund (ASF) apportionment for flow-through activity. GSA is implementing processes that more accurately forecast orders from our Federal partners and monitor order activity against apportioned budget authority.

Finally, GSA has monitored and assessed its financial systems to ensure compliance with Federal financial management standards, as required by the FFMIA of 1996 and OMB Circular A-123 Appendix D. GSA assessed its degree of substantial compliance by utilizing the FFMIA Risk Model, and all financial management systems substantially comply with FFMIA as of September 2017. GSA is confident that all systems substantially comply with the Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and with the U.S. Standard General Ledger (USSGL) at the transaction level.



Timothy Horne  
Acting Administrator  
U.S. General Services Administration

## 1. Management's Responsibility for Enterprise Risk Management and Internal Controls

Internal control is at the core of GSA fulfilling its mission and achieving its goals while safeguarding governmental resources. GSA management is responsible for implementing internal control activities across the agency.

GSA uses a top down collaborative approach to implement effective and efficient internal controls. The agency's senior assessment team, the Management Control Oversight Council (MCOC), chaired by the Acting Deputy Administrator, is responsible for establishing governance for GSA's senior managers to provide leadership and oversight necessary for effective implementation of the Agency's Internal Control Program. GSA evaluates internal control across the Agency at various levels of the organization to ensure significant risks are identified, and related internal controls are tested and evaluated.

In FY 2017, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, business and financial management systems. GSA completed an initial risk profile, reviewed it with GSA leadership, considered it as part of the FY 2018 to 2022 strategic plan, and included it with the guidance for developing the FY 2019 budget.

The OCFO A-123 Internal Control Review team and the Office of Government-wide Policy (OGP) conducted parallel financial and acquisition reviews across the agency. The organization within OGP performing the work was the Procurement Management Review (PMR) Division, which is a component of the Procurement Management Division that reports directly to the GSA Senior Procurement Executive in the Office of Acquisition Policy. PMR reviews assessed the effectiveness of internal controls over procurement management. By analyzing activities from both an acquisition and

financial perspective, GSA addressed control issues that involved financial and acquisition functions. Any identified control deficiencies are tracked through a database application and monitored for timely and accurate implementation of corrective actions.

The OCFO deploys an extensive annual testing and assessment methodology that evaluates the effectiveness of internal controls over financial reporting and financial systems. In FY 2017, OCFO redesigned the assessment process to support the statement of assurance conducting an agency wide assessment of the 5 Components and 17 Principles of Internal Control as required by GAO's Standards for Internal Control in the Federal Government (Green Book). The OCFO also worked on improving the quality of the reporting and monitoring of improper payments by recruiting a new Compliance Branch Chief in the Internal Controls Division, and providing improper payment training to all members of the branch.

## 2. Federal Managers' Financial Integrity Act

The FMFIA of 1982 requires that agencies establish internal controls and financial systems to provide reasonable assurance that the integrity of federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Agency holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. Senior managers at the Agency each year evaluate the adequacy of the internal controls surrounding their activities and determine whether the controls conform to the internal control standards established by OMB and the U.S. Government Accountability Office (GAO). The results of these evaluations and other information provided to senior management

are used to determine whether there are any internal control matters to be reported as material weaknesses. The Agency's senior assessment team, the MCOG, provides oversight of the internal control program and advises the Administrator on the Statement of Assurance.

Additionally, GSA monitors internal controls over purchase and travel cards. See the Fraud Reduction Report Section for comments on this activity.

### 3. OMB Circular No. A-123, Appendix A

Appendix A of OMB Circular No. A-123 provides requirements to agencies for conducting the management assessment of internal control over financial reporting. The Agency's evaluation for FY 2017 did not identify any material weaknesses in financial controls as of, or subsequent to June 30, 2017.

### 4. Federal Financial Management Improvement Act

The FFMA of 1996 was designed to improve federal financial management and reporting by requiring that financial management systems comply substantially with three requirements:

- (1) Federal financial management system requirements;
- (2) Applicable federal accounting standards; and
- (3) The United States Government Standard General Ledger at the transaction level.

Furthermore, the Act requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports. The Agency evaluated its financial management systems and has determined that they substantially comply with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level.

### 5. Information and Financial Management Systems Framework

The Chief Financial Officers Act assigns responsibilities for planning, developing, maintaining, and integrating financial management systems within federal agencies.

GSA currently maintains E-Payroll applications; portions of its legacy core accounting system, and general support systems, which operate on a variety of hosting platforms to support various feeder applications.

In FY 2017, GSA continued its progress in financial systems modernization and improvement in support of this financial management systems framework. To achieve its strategic goals GSA will continue efforts to streamline, consolidate, and modernize financially oriented general support systems.

These strategies support GSA financial management system goals of reducing financial system operating and maintenance costs, and enhancing compliance and IT security controls.

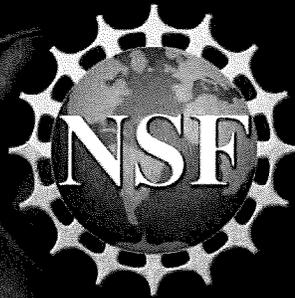
### 6. Federal Information Security Modernization Act

The Federal Information Security Management Act (FISMA) requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information. The processes and systems controls in each federal agency must follow established Federal Information Processing Standards, National Institute of Standards and Technology (NIST) standards, and other legislative requirements pertaining to federal information systems, such as the Privacy Act of 1974.

To facilitate FISMA compliance, GSA maintains a formal program for information security management focused on FISMA requirements, protecting GSA IT resources, and supporting the GSA mission. This program consists of policies,

procedures, and processes to mitigate new threats and anticipate risks posed by new technologies. Designated GSA information system security managers and information system security officers implement information security requirements in accordance with FISMA requirements and GSA policies.

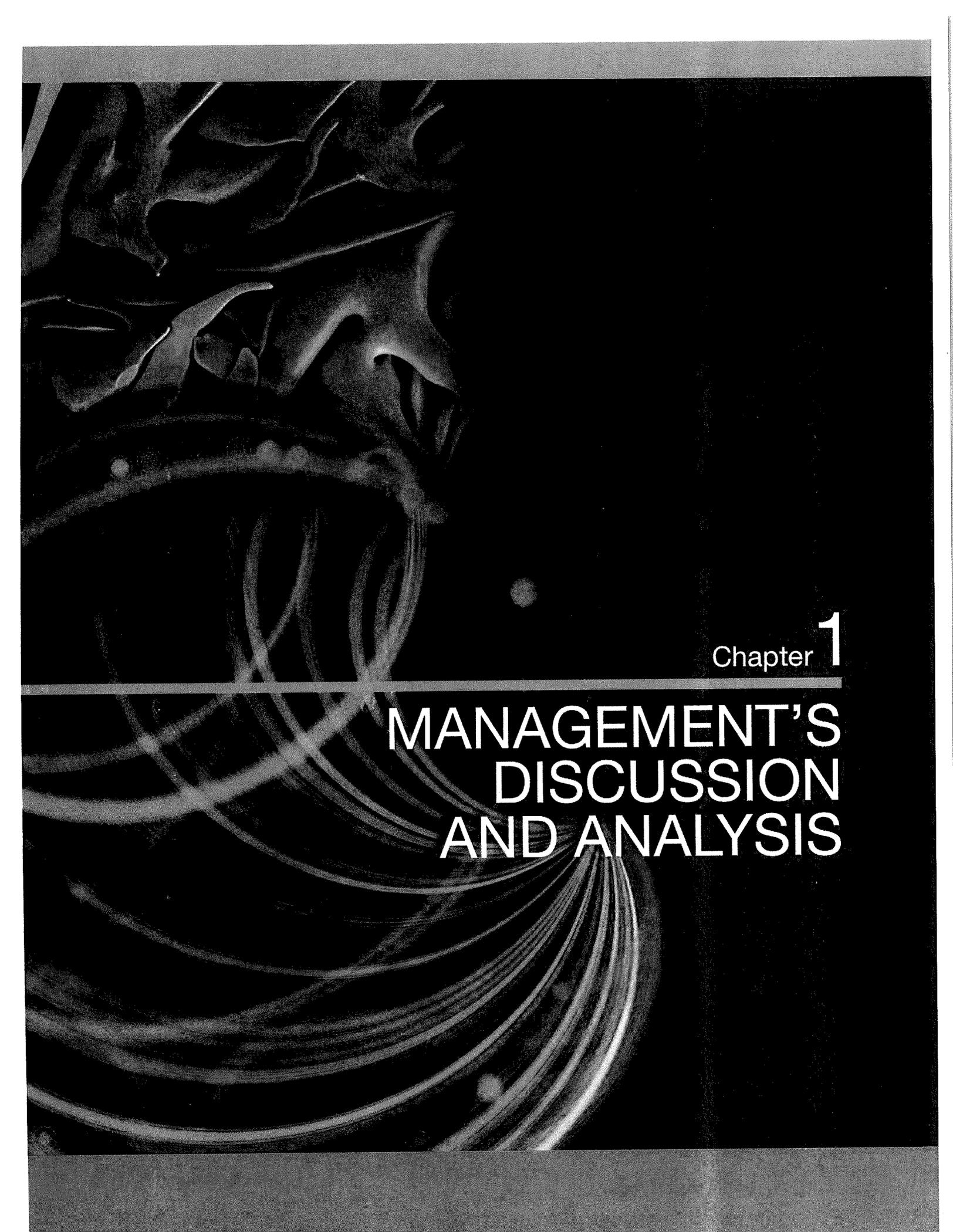
GSA continues to address weaknesses identified in its Plan of Action and Milestones. GSA annually provides security and privacy awareness training for over 15,000 employees and contractors. GSA continues to implement and develop a continuous diagnostics and mitigation (CDM) program in accordance with NIST, U.S. Department of Homeland Security (DHS), and OMB direction.



UNITED STATES  
NATIONAL  
SCIENCE  
FOUNDATION

FY **2017**  
AGENCY  
FINANCIAL  
REPORT





Chapter 1

---

# MANAGEMENT'S DISCUSSION AND ANALYSIS



## Agency Overview

### Mission and Vision

The National Science Foundation (NSF) was established in 1950 “to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense...”<sup>1</sup> As the only federal agency responsible for the support of research and education across the full spectrum of science, technology, engineering, and mathematics (STEM) disciplines, this mission continues to guide the agency today. NSF’s programs and initiatives play an important role in establishing U.S. leadership in science and engineering fields, foster innovations that drive the economy, strengthen national security, and enhance the well-being of millions of Americans; thereby shaping the nation as a world leader in science and technology.

For over 67 years, NSF has funded discoveries that have been critical to developing new ways of thinking about scientific, economic, and sociotechnical challenges facing the nation and the world. These discoveries have led to innovations such as the Internet, bar codes found on nearly all products, smartphones, magnetic resonance imaging technology, Global Positioning Systems, and improvements in laser microsurgery, such as LASIK eye surgery. NSF supports the basic research that sets the stage for transformative breakthroughs. NSF participation in the multi-agency Brain Research through Advancing Innovative Neurotechnologies (BRAIN) Initiative supports scientists as they investigate new tools that further our understanding of the brain’s structure, activity, and function that lay the groundwork for advancing treatments for nervous system disorders or traumatic brain injury. With NSF funding, researchers have developed a bionic eye that allows patients to perceive light, navigate surroundings, and sense movement; their discoveries have led to semiautonomous cars through advances in sensing, real-time data analytics, computer vision, controllers and actuators, and system verification technologies; and at NSF’s National Radio Astronomy Observatory, astronomers measured the magnetic field of a galaxy nearly 5 billion light-years away to better understand the formation of galaxies. Other NSF-funded researchers have helped develop more profitable agricultural practices and technologies that have led to higher yield, drought-resistant, and disease-resistant crops that need less water and fertilizer.

**LIGO has done it again!** For a fourth time, the NSF Laser Interferometer Gravitational-Wave Observatory (LIGO) in Livingston, Louisiana, and Hanford, Washington, has detected gravitational waves—ripples in space-time—from the collision of two neutron stars. The most recent detection, by both LIGO and Virgo (the European detector near Pisa, Italy), was the first observation of gravitational waves by three different detectors and marks a new era of greater insights and improved localization of cosmic events now available through globally networked gravitational-wave observatories.

The three scientists who were seminal in the development of LIGO won the 2017 Nobel Prize in Physics for their work detecting gravitational waves—ripples in space-time created by the motion of massive objects in the universe.

NSF initiated funding for what eventually became the LIGO project 40 years ago; and its continued commitment to LIGO’s high-risk, high-reward research has launched a new field of gravitational astronomy that is transforming our understanding of the universe.



Artist's illustration of two merging neutron stars. The narrow beams represent the gamma-ray burst while the rippling space-time grid indicates the isotropic gravitational waves that characterize the merger. Swirling clouds of material ejected from the merging stars are a possible source of the light that was seen at lower energies. Credit: NSF/LIGO/Sonoma State University/A. Simonnet.

<sup>1</sup> National Science Foundation Act of 1950 (Public Law [P.L.] 81–507).

In fiscal year (FY) 2017, NSF continued investments in research facilities and centers that foster collaboration and provide sophisticated platforms for conducting cutting-edge research. This past year marked the 60-year anniversary of the establishment of NSF's Amundsen-Scott South Pole Station. Among the research projects done at this unique setting, scientists search for clues as to how the universe formed and observe space weather events, which can damage electrical grids, disrupt radio signals, and affect the electronic devices we depend on in our daily lives. Scientists at the NSF-funded Engineering Research Center for Innovative and Strategic Transformation of Alkane Resources (CISTAR) are developing technologies for responsible conversion of light hydrocarbons from shale gas into fuels and chemicals using a network of portable, modular processing plants. Not all investments in scientific endeavors lead to an immediate, clear outcome; but, as we have seen recently, long-term commitment to basic research can lead

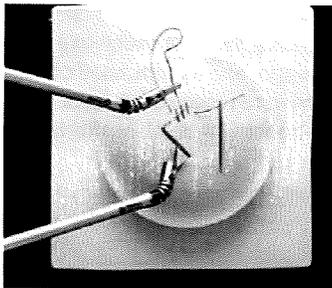
to remarkable discoveries. During 2017, the Laser Interferometer Gravitational-Wave Observatory (LIGO) continued to detect ripples in space-time, or gravitational waves. LIGO was possible only with decades of NSF support that strategically committed to a high-risk, potentially transformational project. The discovery is opening up new ways to observe and understand our universe. The 2017 Nobel Prize in Physics was awarded to the three scientists who were the architects and leaders of LIGO.

**Low-cost mechanical device for minimally invasive surgery.**

Thanks to researchers and small business entrepreneurs funded by NSF, surgeons can now use a new type of mechanical instrument to perform complex, minimally invasive procedures, also known as laparoscopic surgery.

This handheld instrument provides the same sorts of benefits as robot-assisted surgery, such as greater precision and functionality, but at a lower cost compared to existing robotic surgical systems. The technology even offers a higher degree of dexterity and intuitive control than traditional laparoscopic instruments, which require significant training and can be difficult and tiresome to use—leading to longer surgeries and higher costs.

This innovation could result in less trauma and shorter recovery times after surgery. The simplicity and affordability of this device has great potential in underfunded medical centers in the U.S. and around the world.



This innovation could provide surgeons with access to a robot-like laparoscopic instrument resulting in less painful recovery. Credit: FlexDex Surgical.

NSF's sustained investment in basic research results in a steady pipeline of new ideas and techniques that, together with a highly trained STEM workforce, fosters a world-class research enterprise. For nearly seven decades, NSF has funded the development of STEM talent—from pre-kindergarten through postdoctoral study—preparing and inspiring a culturally diverse and globally competitive workforce of scientists, engineers, and other citizens. Another aspect of this is support for graduate fellowships. For example, NSF has funded over 55,700 Graduate Research Fellows since 1952. Over the years, NSF fellows have made groundbreaking and important discoveries in science and engineering research. Many of them have

become leaders in their chosen careers—over 450 have become members of the National Academies of Sciences or Engineering, and 39 fellows have been honored as Nobel laureates. Additionally, NSF has funded the research of 231 people who have gone on to win the Nobel Prize. These investments are an important means by which NSF identifies, nurtures, and invests in scientific potential.

NSF's vision is of a nation that creates and exploits new concepts in science and engineering and provides global leadership in advancing research and education. NSF's core values articulate the essential qualities that staff are encouraged to embody in support of the agency's mission. Among these core values are a dedication to scientific excellence, organizational excellence, learning, inclusiveness, and accountability. NSF strives to excel as a federal agency by investing in priorities that address important national challenges

while promoting economic growth, innovation, and new scientific advancements. NSF's Strategic Plan for 2014–2018, *Investing in Science, Engineering, and Education for the Nation's Future*,<sup>2</sup> identifies three interrelated strategic goals to achieving the agency's mission: (1) transform the frontiers of science and engineering, (2) stimulate innovation and address societal needs through research and education, and (3) excel as a federal science agency. These strategic goals are a roadmap for NSF's success.

Public investment in high-risk, foundational research is key to staying on the cutting-edge of science and technology. Government plays a key role in providing sustained, long-term investments that private industry alone is unable to sustain. NSF supports 27 percent of all federally sponsored basic scientific research conducted by America's colleges and universities; this share increases to 60 percent when medical research supported by the National Institutes of Health is excluded.<sup>3</sup> NSF support of interdisciplinary, high-risk, and potentially transformative research promotes scientific progress and advances scientific frontiers. NSF awards reflect national priorities, keep U.S. researchers and research institutions at the forefront of innovation, and distinguish the United States as a leader in the rapidly changing global landscape of scientific research and discovery. Its research pushes the boundaries of innovation and productivity, sometimes leading to new fields of scientific inquiry and new theoretical paradigms. Increasingly, NSF awards are made where scientific disciplines converge, which reflects the blending of scientific disciplines and engagement of creative partnerships to address complex problems.

Rutgers University-New Brunswick and Georgia Tech engineers have devised three ways to combat cyberattacks on 3-D printers: monitoring printer motion and sounds and using tiny gold nanoparticles. Credit: Christian Bayens, Georgia Institute of Technology.

**Defeating cyberattacks on 3-D printers.** The innovative use of 3-D printers to manufacture objects and parts is increasing in critical fields such as health care, robotics, transportation, aviation, and space. But there is growing concern that cyberattacks on 3-D printers may threaten our health and safety. Instead of spending up to \$100,000 or more to buy a 3-D printer, many companies and organizations send software-designed products to outside facilities for printing, where it is possible to hack into a computer's firmware and print defective objects. While the defects are undetectable on the outside, the objects may have holes or fractures inside them.

NSF-funded researchers are developing novel methods to combat future cybersecurity threats to this exciting new technology, staying a step ahead of abuse and sabotage before it can occur.

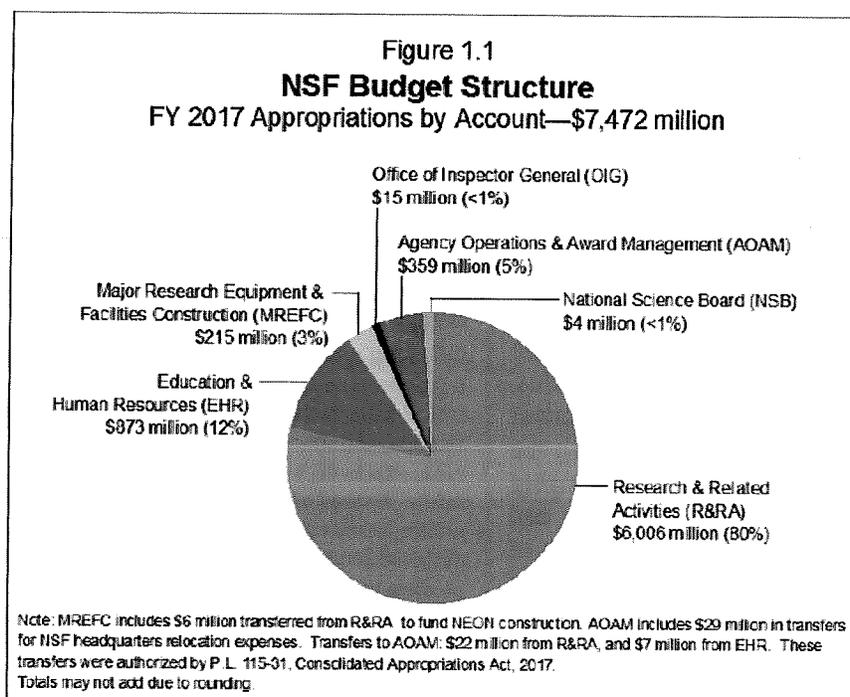
Today, the economy is stronger, and our knowledge is greater because of NSF-funded basic research. NSF investment in research that enables discovery represents the fulfillment of the Foundation's mission and its commitment to advance the frontiers of science and engineering. This commitment ensures sustained vigor of fundamental research and leverages the nation's innovation ecosystem to maintain global leadership in the 21st century.

<sup>2</sup> NSF's 2014–2018 Strategic Plan: [https://www.nsf.gov/publications/pub\\_summ.jsp?ods\\_key=nsf14043](https://www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf14043).

<sup>3</sup> National Center for Science and Engineering Statistics Survey of Federal Funds for Research and Development Fiscal Years 2015–2017. <https://ncesdata.nsf.gov/fedfunds/2015/>.

## NSF by the Numbers

NSF is funded primarily through congressional appropriations to six accounts: Research and Related Activities (R&RA), Education and Human Resources (EHR), Major Research Equipment and Facilities Construction (MREFC), Agency Operations and Award Management (AOAM), National Science Board (NSB), and Office of Inspector General (OIG). Appropriations in these six accounts in FY 2017 totaled \$7,472 million,<sup>4</sup> an increase of \$9 million over the FY 2016 appropriations level of \$7,463 million. R&RA, EHR, and MREFC appropriations fund the agency's programmatic activities and accounted for 95 percent of NSF's total appropriations in FY 2017. Figure 1.1 provides details on NSF's FY 2017 appropriations.

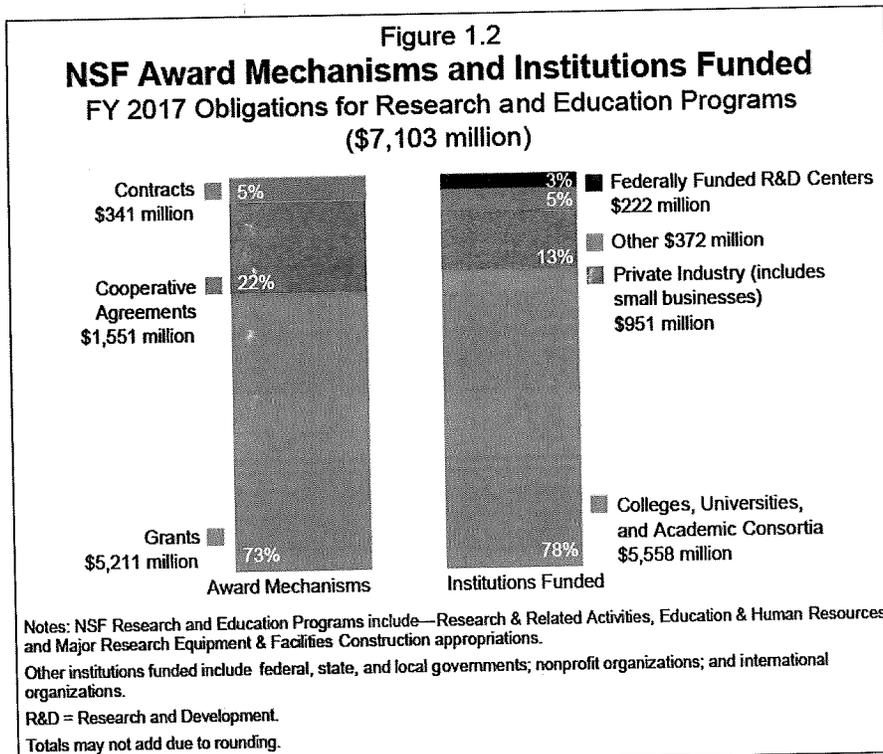


- R&RA, which supports basic research and education activities in science and engineering, including high-risk and transformative research, accounted for 80 percent of FY 2017 funding. The FY 2017 R&RA funding level of \$6,006 million was \$16 million higher than the FY 2016 appropriation of \$5,990 million.
- EHR, which supports activities that ensure a diverse, competitive, and globally engaged U.S. STEM workforce and a scientifically literate citizenry is NSF's second largest appropriation, accounting for about 12 percent of the agency's budget. EHR's FY 2017 funding level of \$873 million was \$6 million, or less than 1 percent, below the FY 2016 EHR appropriation of \$879 million.
- The MREFC appropriation supports the construction of unique national research platforms and major research equipment that enable cutting-edge research. This account was 3 percent of the agency's total appropriations in FY 2017. The FY 2017 MREFC funding level of \$215 million decreased \$3 million, or 1 percent, from the prior-year appropriation of \$218 million. The MREFC funding level reflects the transfer of \$6 million in R&RA funds to provide additional support for the National Ecological Observatory Network (NEON) construction project.

<sup>4</sup> Amount shown is NSF's FY 2017 discretionary appropriations. This amount does not include Donations and H-1B Nonimmigrant Petitioner Receipts. These amounts are included in NSF's appropriations shown in the Statement of Budgetary Resources (SBR). The SBR is on page Financials-17 of this AFR.

- FY 2017 AOAM funding of \$359 million supported NSF's administrative and management activities. AOAM was approximately 5 percent of NSF's total FY 2017 appropriations. AOAM increased \$2 million, or less than 1 percent, from the FY 2016 level of \$357 million. The FY 2017 funding includes \$29 million transferred from the R&RA and EHR accounts to support the relocation of NSF's headquarters to Alexandria, Virginia.
- Separate appropriations support the activities of the OIG and the NSB; each accounted for less than 1 percent of NSF's total FY 2017 appropriations. The FY 2017 OIG appropriation of \$15.20 million increased \$40,000 over the prior-year appropriation of \$15.16 million. The NSB received an appropriation of \$4.37 million in FY 2017, equal to the previous year's funding level.
- Nearly 34,000 members of the science and engineering community participated in the merit review process as panelists and proposal reviewers.<sup>5</sup> Awards were made to 1,798 institutions in all 50 states, the District of Columbia, and 3 U.S. territories. These institutions employ America's leading scientists, engineers, and educators; and they train the leading innovators of tomorrow. In FY 2017, about 353,000 people were directly involved in NSF programs and activities, receiving salaries, stipends, participant support, and other types of direct involvement. Beyond these figures, NSF programs indirectly impact millions of people, reaching K-12 students and teachers, the general public, and researchers through activities including workshops; informal science activities such as museums, television, videos, and journals; outreach efforts; and dissemination of innovative instructional resources and teaching methods.

During FY 2017, NSF evaluated over 49,400 proposals through a competitive merit review process and made over 11,450 new competitive awards, mostly to academic institutions. In addition to these proposals, GRFP reviews approximately 12,500 applications for fellowships annually. As shown in Figure 1.2, 78 percent of support for research and education programs (\$5,558 million) was to colleges, universities, and academic consortia. Private industry, including small businesses, accounted for 13 percent (\$951 million), and support to Federally Funded Research and Development Centers accounted for 3 percent (\$222 million). Other recipients (\$372 million) included federal, state, and local governments; nonprofit organizations; and international organizations.



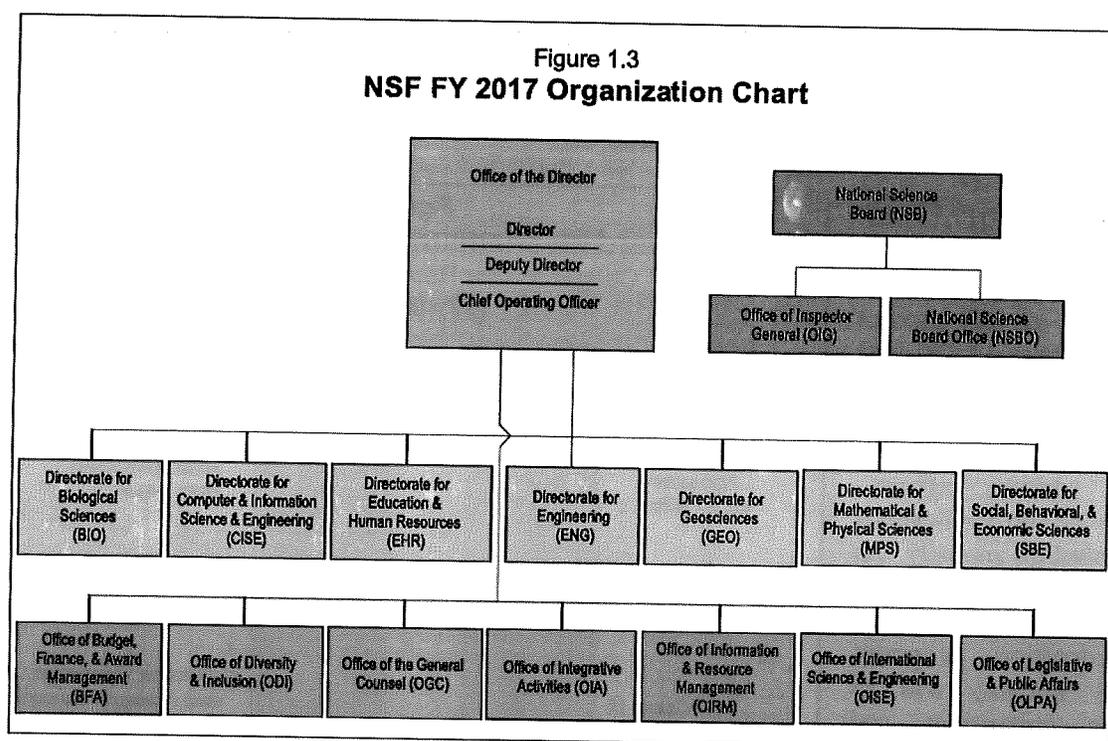
<sup>5</sup> For more information about NSF's merit review process, see [https://www.nsf.gov/bfa/dias/policy/merit\\_review/](https://www.nsf.gov/bfa/dias/policy/merit_review/) and *Report to the National Science Board on the National Science Foundation's Merit Review Process, FY 2016* (NSB-2017-26) at <https://www.nsf.gov/nsb/publications/2017/nsb201726.pdf>.

science and engineering research, education, and partnerships, which add value to the U.S. scientific enterprise and maintain U.S. leadership in the global scientific enterprise.

As shown in Figure 1.2, NSF's award funding was primarily for financial assistance through the use of grants and cooperative agreements. Grants can be funded either as standard awards, in which funding for the full duration of the project is provided in a single fiscal year, or as continuing awards, in which funding for a multiyear project is provided in increments. Cooperative agreements are used when the project requires substantial agency involvement during the project performance period (e.g., research centers, multi-use facilities). Contracts (procurement instruments) are used to acquire products, services, and studies (e.g., program evaluations) required for NSF or other government use.

### Organizational Structure

Figure 1.3 shows the organization chart for NSF. NSF is an independent federal agency headed by a Director who is appointed by the President and confirmed by the U.S. Senate.<sup>6</sup>



The NSF Director and the 24-member NSB jointly pursue the goals and function of NSF, including the duty to “recommend and encourage the pursuit of national policies for the promotion of research and education in science and engineering.”<sup>7</sup> The NSB identifies issues critical to NSF’s future and helps chart the strategic direction of NSF’s budget and programs. The Board also serves as an independent body of advisors to both the President and the Congress on policy matters related to STEM research and education. NSB members are appointed by the President and are prominent contributors to the STEM research and

<sup>6</sup> The Director’s biography is available at [https://www.nsf.gov/news/speeches/cordova/cordova\\_bio.jsp/](https://www.nsf.gov/news/speeches/cordova/cordova_bio.jsp/)

<sup>7</sup> 42 U.S. Code 1862(d): <https://www.law.cornell.edu/uscode/text/42/1862>.

education community.<sup>8</sup> NSF's Director is a member *ex officio* of the Board. The Director and the other NSB members serve 6-year terms.

The NSF workforce includes 1,430 federal employees.<sup>9</sup> NSF also regularly recruits scientists, engineers, and educators through the Intergovernmental Personnel Act (IPA) who work at NSF for up to 4 years.<sup>10</sup> These "rotators" bring fresh perspectives from across the country and across all fields of science supported by the Foundation, helping explore new directions for research in science, engineering, and education, including emerging interdisciplinary fields. On returning to their home institutions and across academia, rotators bring knowledge of NSF programming and leading research from a national perspective. As shown in Figure 1.3, NSF's organizational structure aligns with the major fields of science and engineering.<sup>11</sup>

Near the end of FY 2017, the agency's headquarters relocated to Alexandria, Virginia. NSF maintains offices in Brussels, Belgium; Tokyo, Japan; and Beijing, China, to facilitate its international activities and an office in Christchurch, New Zealand, to support the U.S. Antarctic Program (USAP).

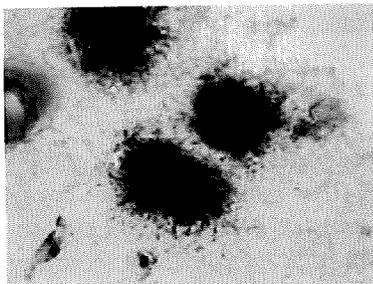
## Management Challenges

In October 2016, the OIG identified seven major management and performance challenges for the agency for FY 2017: (1) establishing accountability over large cooperative agreements, (2) management of NSF's business operations, (3) management of the IPA program, (4) moving NSF headquarters to a new building, (5) management of USAP, (6) improving grant administration, and (7) encouraging the ethical conduct of research.<sup>12</sup>

Management's report on the significant activities undertaken in FY 2017 to address the challenges is located in *Appendix 4B: Management Challenges—NSF's Response* of this AFR. The report also discusses activities planned for FY 2017 and beyond. Some of the agency's significant actions and planned next steps to address the challenges are highlighted below.

**New research detects Alzheimer's disease markers in nonhuman primates.** Proteins associated with Alzheimer's disease—believed to be unique to humans—have been discovered in a sample of brains of aged chimpanzees. It has been suggested that humans are uniquely susceptible to Alzheimer's, potentially because of genetic differences from other primates, changes to the human brain during evolution, and longer lifespans.

Understanding these differences can provide key insights into identifying the causes of Alzheimer's and working toward a cure. The identification in the aged chimpanzees of amyloid beta and tau lesions, hallmarks of Alzheimer's diagnosis, is a significant advance in understanding the brain and Alzheimer's.



Amyloid beta plaques in the brain of a 58-year-old female chimpanzee.  
Credit: Mary Ann Raghanti, Kent State University.

<sup>8</sup> A list of NSB members is available at <https://www.nsf.gov/nsb/members/>.

<sup>9</sup> Full-time equivalents (FTE) include the federal employee workforce for NSF, NSB, OIG, and U.S. Arctic Research Commission.

<sup>10</sup> As of September 30, 2017, temporary appointments included 174 under the IPA Mobility Program.

<sup>11</sup> NSF's organization chart is available at: [https://www.nsf.gov/staff/organizational\\_chart.pdf](https://www.nsf.gov/staff/organizational_chart.pdf).

<sup>12</sup> The Inspector General's memorandum on Management Challenges for NSF in FY 2017 is in NSF's *FY 2016 Agency Financial Report Appendix 5A* at: [https://www.nsf.gov/publications/pub\\_summ.jsp?ods\\_key=nsf17002](https://www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf17002).

### **Establishing Accountability over Large Cooperative Agreements**

NSF has been continuously enhancing its pre- and post-award oversight of major facilities in construction and operations since June 2014. These enhancements are documented in the latest revision of the Large Facilities Manual (LFM)<sup>13</sup> and internal agency guidance. Building on these improvements, NSF focused, in FY 2017, on implementation of the recommendations set forth in the December 2015 report by the National Academy of Public Administration (NAPA).<sup>14</sup> The NAPA report supported NSF's use of cooperative agreements, while also noting that NSF should “*apply equal emphasis to increased internal management of the business practices critical to the enhanced oversight and project success*” in order to bring them into balance with the science and technical aspects of oversight. Examples of actions taken by NSF in FY 2017 include revising the LFM (NSF 17-066) to align with the American Innovation and Competitiveness Act<sup>15</sup> requirements and other newly strengthened agency oversight requirements, naming the NSF Chief Operating Officer (COO) as the agency Senior Accountable Official for major facilities oversight, and implementing a process for conducting incurred cost audits and accounting system audits. To ensure that the agency has access to reliable Earned Value Management (EVM) data, NSF implemented formal procedures for EVM System (EVMS) verification, acceptance, and surveillance. NSF completed EVMS acceptance on the Daniel K. Inouye Solar Telescope and Large Synoptic Survey Telescope projects and completed verification review of the Regional Class Research Vessel project. Overall, NSF focused on ensuring that effective implementation of its new policies led to enhanced oversight of its major facilities while balancing administrative burden for NSF and its recipients. In FY 2017, NSF leveraged the expertise of its Advisory Committee on Business and Operations (BOAC) by (1) receiving and implementing a subcommittee's recommendations relating to the NAPA report, and (2) initiating a second subcommittee on cost surveillance to independently assess NSF's strengthened policies and procedures. To date, the agency has taken action to close nearly 62 of 65 (95 percent) of the OIG recommendations related to oversight of major facilities dating back to 2012.

Going forward, NSF plans to continue strengthening its oversight by (1) finalizing guidance around an annual major facilities portfolio risk assessment, (2) strengthening the role and composition of the MREFC Panel to include life-cycle oversight of facilities, (3) adopting and implementing new guidance in areas such as management reserve and Internal Management Plans, and (4) formalizing a lessons-learned program and NSF Communities of Practice.

### **Management of NSF's Business Operations**

- **Improper payments**—In May 2017, the NSF OIG issued a report on NSF's compliance with the improper payment requirements for FY 2016. The OIG concluded NSF complied with the requirements and had addressed all recommendations from the previous OIG report. This was the second consecutive report finding NSF in compliance with improper payment reporting requirements. The May 2017 OIG report had no recommendations and no resolution tracking requirements. The consecutive reports validate that NSF has taken the steps necessary to demonstrate compliance and effectiveness in the agency's implementation of improper payment requirements; thus NSF management does not consider improper payments to be a significant risk to NSF's mission, programs, or operations. NSF will conduct an improper payment risk assessment in FY 2018.
- **Information & IT resources**—NSF continued to operate a strong program employing effective tools and technology to continuously monitor its network availability and security posture, incorporating information gained and lessons learned from the agency's Federal Information Security Management

<sup>13</sup> Large Facilities Manual: <https://www.nsf.gov/pubs/2017/nsf17066/nsf17066.pdf>.

<sup>14</sup> National Science Foundation: *Use of Cooperative Agreements to Support Large Scale Investment in Research* <https://www.napawash.org/academy-studies/search/eyJyZXN1bHRfcGFnZSI6ImFjYWRIbXktc3R1ZGllc1wvc2VhcmNoIiwieWVhcnI6IjIwMTUifQ>

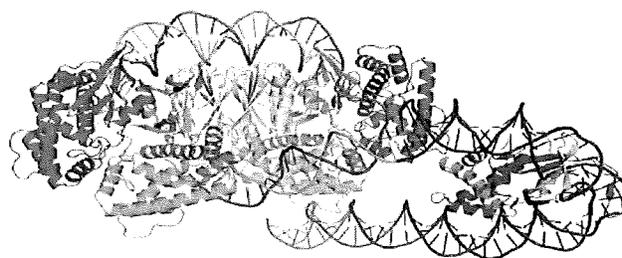
<sup>15</sup> American Innovation and Competitiveness Act (P.L. 114–329): <https://www.congress.gov/bill/114th-congress/senate-bill/3084/text>.

Act of 2002 (FISMA) report. NSF ensured effective operations during the physical relocation of agency headquarters to a new building. The Foundation also completed a thorough review of USAP information technology (IT) security program controls, allocating appropriate resources to address FISMA findings.

- *DATA Act implementation*—NSF successfully certified and submitted the Digital Accountability and Transparency Act (DATA Act) files on April 28, 2017, and agency data were included in the U.S. Department of Treasury's May 2017 rollout of the beta version of USASpending.gov. NSF received the Secretary's Certificate of Appreciation from Treasury for outstanding commitment to collaboration. NSF will continue to collaborate agency-wide, government-wide, and with the OIG and audit community toward continued success in achieving the goals of the DATA Act.
- *Government records*—In November 2015, NSF submitted a corrective action plan to address a Government Accountability Office (GAO) report finding that agencies needed to take action to meet the requirements of the National Archives and Records Administration (NARA) directive related to reforming the policies and practices for the management of physical records and providing a framework for the management of electronic records. In FY 2017, NSF designed and executed a plan to manage its permanent records, including scanning over 7,000 permanent and temporary records to reduce the footprint of hardcopy files ahead of NSF's move to its new headquarters. Going forward, NSF will update its records management policy to comply with current NARA guidance and federal regulations while also preserving critical agency documentation for use by the Office of the General Counsel, OIG, and the scientific community.

### Management of the IPA Program

Through the IPA program, scientists, engineers, and educators rotate into the Foundation as temporary Program Directors, advisors, and leaders. They bring fresh perspectives that help explore new directions for research in science, engineering, and education, including emerging interdisciplinary fields. NSF's IPA Steering Committee was established in April 2016 to oversee the ongoing implementation of the program and champion the effective use of IPAs. In FY 2017, NSF took several actions to improve the effectiveness of the program, protect against conflict of interest, and reduce cost. For example, in March 2017, the agency issued a memorandum reminding IPAs and all staff of their ethical responsibilities. Also in FY 2017, NSF initiated a pilot requiring cost sharing by the IPA's home institution, published guidance limiting NSF payment of IPA independent research and development travel, and implemented a process for the NSF COO's review of IPA salary cases that exceed the Senior Executive Service cap. In June 2017, the NSF OIG issued an audit report concluding that NSF had "implemented internal controls to identify and mitigate IPA conflicts of interest." NSF will continue to strengthen the program through the implementation of additional controls and continued assessment of the pilot efforts.



A protein called IHF (blue) creates a sharp turn in the DNA (red helix) upstream of the CRISPR repeat (brown helix), allowing Cas1-Cas2 (green and yellow) to recognize and bind the insertion site. Credit: Addison Wright image.

**New technique enables safer gene-editing therapy using CRISPR.** NSF-funded researchers studying how a bacterium's immune system fights off viruses uncovered a powerful new gene-editing technique called CRISPR-Cas9. CRISPR-Cas9 acts like a pair of molecular-sized scissors that researchers can wield to snip a segment of DNA; for example, to edit a segment that codes for a particular trait in an organism.

Biomedical researchers are exploring CRISPR-Cas9's potential use for everything from treating genetic disorders and developing targeted cancer therapies to preventing vector-borne infectious diseases. The agricultural industry is also exploring whether CRISPR-Cas9 can help enhance crop production and livestock survival.

New findings were published on July 20, 2017, in *Science* that explain how proteins, responsible for the CRISPR immune system's ability to adapt to new viral infections, identify the site in the genome where they insert viral DNA so they can recognize it later and mount an attack.

### **Moving NSF Headquarters to a New Building**

NSF began occupying its new location in Alexandria, Virginia, in August 2017. In FY 2017, the relocation was routinely monitored by NSF leadership, and the NSF Relocation Office (NRO) led a multi-faceted outreach effort to prepare staff for the relocation. The move was successful—the construction and physical relocation were completed on time, and NSF procurements were under budget. By December 31, 2017, NSF will decommission its Arlington locations and will complete its relocation to Alexandria.

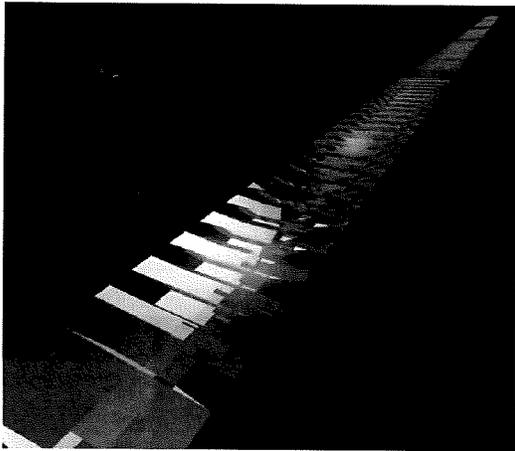
### **Management of the U.S. Antarctic Program**

NSF focused on ensuring a successful transition, from Lockheed Martin to Leidos as the Antarctic Support Contractor (ASC), by strengthening the agency's understanding of the strategic rationale for the transition and by monitoring Leidos' operations on legacy Lockheed Martin systems, including the Accounting

**First on-chip nanoscale optical quantum memory developed.** With NSF funding, researchers have built the first nanoscale optical quantum memory device that could one day be used to create more reliable and secure internet communications.

Quantum memory stores information in a similar fashion to the way traditional computer memory does, but on individual quantum particles—in this case, photons of light. This allows it to take advantage of the peculiar features of quantum mechanics to store data more efficiently and securely.

The use of individual photons to store and transmit data has long been a goal of engineers and physicists because of photons' potential to carry information reliably and securely. Because photons lack charge and mass, they can be transmitted across a fiber optic network with minimal interactions with other particles.



Artist's representation of Faraon's quantum memory device. Credit: Ella Maru Studio.

System, Estimating System, Material Management and Accounting System, Purchasing System, and Property System. Also in FY 2017, NSF continued progress on implementing the 2012 Blue Ribbon Panel recommendations, including investing in lifecycle acquisitions and infrastructure upgrades for McMurdo Station through continued design efforts.<sup>16</sup> Other significant agency actions included (1) improving USAP participant guidance for Physical Qualification (PQ) exams, clarifying expectations relating to required tests and nonreimbursable costs; (2) continuing to apply invoice processing; and (3) requesting periodic, full listings of materials/items of less than \$5,000 for review. NSF will continue to monitor the ongoing transfer of business systems from Lockheed Martin to Leidos, initiate and complete necessary solicitation efforts for individual Antarctic Infrastructure Modernization for Science (AIMS) project components, and continue to review and modify PQ requirements, including during the annual medical review panel meetings.

### **Improving Grant Administration**

In FY 2017, major accomplishments in strengthening grant administration included (1) implementation of the restructuring of NSF's Cost Analysis and Audit Resolution Branch into two separate units focused on pre-

and post-award functions to better address continuing growth in complexity and breadth of oversight functions; (2) continuation of a multi-year effort to modernize NSF's Award System, which included implementation of functionality that enables program staff to seamlessly manage \$860 million in funding increments to over 4,600 awards; and (3) successfully piloting a new tool, the Targeted Review Assessment (TRA), that allows NSF to quickly assess areas of grants management and compliance and to provide targeted, necessary business assistance to the awardee community. In the coming year, NSF will continue

<sup>16</sup> U.S. Antarctic Program Blue Ribbon Panel Report: [https://www.nsf.gov/geo/plr/usap\\_special\\_review/usap\\_brp/rpt/index.jsp](https://www.nsf.gov/geo/plr/usap_special_review/usap_brp/rpt/index.jsp).

to strengthen grant administration through such efforts as initiating a fraud risk assessment within the grants program, refining its enterprise risk management (ERM) risk profile, continuing to implement legislative requirements under the DATA Act and the Grants Oversight and New Efficiency (GONE) Act, and working to strengthen prime awardees' compliance with the Office of Management and Budget (OMB) *Uniform Guidance* through enhanced implementation of internal controls over their subawardees.

### ***Encouraging the Ethical Conduct of Research***

NSF recognizes that the responsible and ethical conduct of research is critical to ensure excellence, as well as public trust, in science and engineering. NSF requires each institution that submits a proposal to certify it has a plan to provide appropriate training and oversight in the ethical conduct of research to all undergraduates, graduate students, and postdoctoral researchers involved in NSF-supported research. In August 2017, NSF published Important Notice No. 140<sup>17</sup> to Presidents of Universities and Colleges and Heads of Other National Science Foundation Grantee Organizations addressing Training in Responsible Conduct of Research. Also in August 2017, the NSB discussed both the OIG report, "Review of Institutions' Implementation of NSF's Responsible Conduct of Research Requirements," and the National Academies of Sciences, Engineering, and Medicine (NASEM) report, "Fostering Integrity in Research." The OIG report made several important observations about the ethical conduct of research that NSF is incorporating into its approach. As in previous years, in FY 2017, NSF's Cultivating Cultures for Ethical STEM (CCE STEM) program invested in innovative approaches to foster ethical STEM research in all of the fields of science and engineering that NSF supports. Federal funding of research on the ethical conditions in the research environment was a key recommendation in the NASEM report. The Foundation also continued funding of the Online Ethics Center website and funded two key ethics workshops in March 2017: "Qualitative Research Ethics in the Big-Data Era" and "Positive Research Integrity." NSF will continue to fund CCE STEM research projects that use basic research to identify what nurtures, hinders, or challenges responsible or irresponsible conduct of science, how just or unjust scientific practices become embedded in sociotechnical systems, and how to best instill this knowledge in students. In addition, NSF continues interactions with the scientific community to monitor and adapt practice in this area, most recently by participating in review and discussion of the "Fostering Integrity in Research" report.

---

<sup>17</sup> Important Notice No. 140: Training in Responsible Conduct of Research: <https://www.nsf.gov/pubs/issuances/in140.jsp>.

### Proposal Workload and Management Trends

NSF continuously monitors key portfolio, proposal workload, and financial measures to understand short- and long-term trends and to help inform management decisions. For an analysis of the long-term trends in competitive proposals, awards, funding rate, and other portfolio metrics, see the *Report to the National Science Board on the National Science Foundation's Merit Review Process, Fiscal Year 2016*.<sup>18</sup>

Overall, the FY 2017 portfolio indicators of competitive proposals acted upon, new awards, and funding rates are relatively stable between FY 2016 and FY 2017, as shown in Figure 1.4.

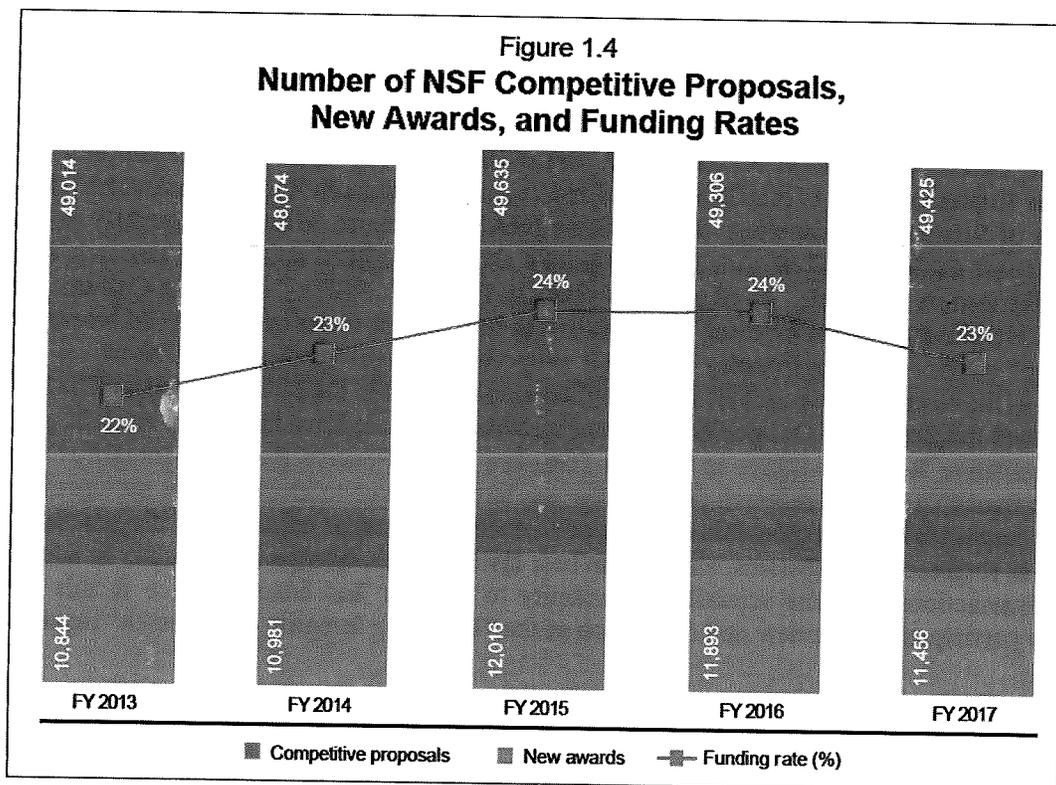


Table 1.1 provides 5 years of data on NSF's portfolio, proposal workload, and financial indicators. In summary:

- Between FY 2016 and FY 2017, the number of competitive proposal actions was stable and in excess of 49,000.
- The number of new awards in FY 2017 was close to 11,500, a small decrease from FY 2016, and almost exactly the average amount of new awards for the 5 years FY 2013–2017.
- The overall funding rate in FY 2017 was 23 percent, a decrease of 1 percentage point. Funding rates differ by directorate and are presented in the agency's annual budget request to Congress.
- The average annual award size of competitive awards was \$174,533, slightly lower than in FY 2016. As shown in Table 1.1, award size varies by year. The FY 2017 average annual award size is higher than the 5-year average, \$172,983.
- There was a 2-percent increase in the number of employees (full-time equivalents, or FTE) between FY 2016 and FY 2017, from 1,398 FTE to 1,430 FTE.

<sup>18</sup> *Report to the National Science Board on the National Science Foundation's Merit Review Process, Fiscal Year 2016* (NSB-2016-41) at <https://www.nsf.gov/publications/ods/results.jsp?TextQuery=nsb201726>.

- The number of active awards increased slightly in FY 2017, from 54,439 in FY 2016 to 54,806 in FY 2017. The 5-year average of active awards is 54,460.

All NSF awardee institutions are required to submit payment requests at the award level to the NSF Award Cash Management Service (ACM\$). Award expenses are posted to the NSF financial system at the time of the payment request. To further expand payment activity in ACM\$, starting in January 2017, all postdoctoral research fellowship awardees began to utilize ACM\$ for their monthly stipend payments. At year-end close, nearly 500 postdoctoral research fellows have accessed ACM\$. Reliance on ACM\$ reduces the burden of manual invoicing and potential for errors or missed payments.

**Table 1.1 – Proposal Workload and Management Trends**

	Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Percent Change (FY 2017 FY 2016)	Average (FY 2013 FY 2017)
Portfolio	Competitive proposal actions	49,014	48,074	49,635	49,306	49,425	0.2%	49,091
	Competitive award actions	10,844	10,981	12,016	11,893	11,456	-3.7%	11,438
	Average annual award size (competitive awards)	\$169,107	\$180,507	\$164,526	\$176,243	\$174,533	-1.0%	\$172,983
	Funding rate	22%	23%	24%	24%	23%	-1 percentage point	23%
Proposal Workload	Number of employees FTE, usage <sup>1</sup>	1,417	1,391	1,374	1,398	1,430	2.3%	1,402
	Number of active awards <sup>2</sup>	55,542	53,546	53,967	54,439	54,806	0.7%	54,460
	Proposal reviews conducted <sup>3</sup>	233,116	225,847	231,450	225,017	203,438	-9.6%	223,774
Financial	Number of grant payments	27,649	27,978	22,860	22,926	22,615	-1.4%	24,806
	Award expenses incurred but not reported at 9/30 (\$ in millions) <sup>4</sup>	\$344	\$250	\$369	\$366	\$381	4.1%	\$342

Notes:  
<sup>1</sup> Full-time equivalents (FTE) include the federal employee workforce for NSF, NSB, OIG, and U.S. Arctic Research Commission.  
<sup>2</sup> Active awards include all active awards regardless of whether funds were received during the fiscal year.  
<sup>3</sup> Includes written reviews, panel summaries, and site visit reports.  
<sup>4</sup> FY 2017 number reflects an accrual, and all other years reflect actuals.

Since its introduction in FY 2013, ACM\$ has significantly improved the timeliness of grant financial data. In prior years, NSF awardee institutions using quarterly expense reporting processes had approximately \$1.7 billion in award expenses that they had incurred but not-yet-reported to NSF on September 30. With the use of ACM\$ and its expansion each year to include additional award groups, the amount of incurred but not-yet-reported award expenses has decreased to under \$400 million for each of the last 5 years.

## Progress toward Achievement of Performance Goals

Each year, NSF produces an *Agency Financial Report* and an *Annual Performance Report (APR)*. NSF's *FY 2017 APR* will provide a complete discussion of the Foundation's performance measures, including descriptions of the metrics, methodologies, results, and trends, along with a list of relevant external reviews. The *FY 2017 APR* also will provide information about NSF's verification and validation review of performance data, as required by the Government Performance and Results Modernization Act of 2010. NSF's *FY 2017 APR* (included in the *FY 2019 Budget Request to Congress*) and *FY 2017 Performance and Financial Highlights* summary report will be posted on the NSF website on February 5, 2018.<sup>19</sup>

**Native students graduating with advanced science degrees.** Northwest Indian College in Washington State offers one of the few Bachelor of Science in Native environmental science programs in the world.

Supported by NSF's Tribal Colleges and Universities Program (TCUP), the first student enrolled in the program graduated in 2009. Since then, 51 students have graduated from the program, with 10 more on track to graduate in 2017 and another 81 currently enrolled.

Of the 2016 graduates, 6 are pursuing advanced degrees, and the first Ph.D. graduate will return to the college as a faculty member.



TCUP makes awards to Tribal, Alaska Native-, and Native Hawaiian-serving institutions. Credit: Marco Hatch, Western Washington University.

<sup>19</sup> *FY 2017 Agency Performance Report* (included in the Performance chapter of the *FY 2019 Budget Request to Congress*) and *FY 2017 Performance and Financial Highlights*: <https://www.nsf.gov/about/performance/>.

## Financial Discussion and Analysis

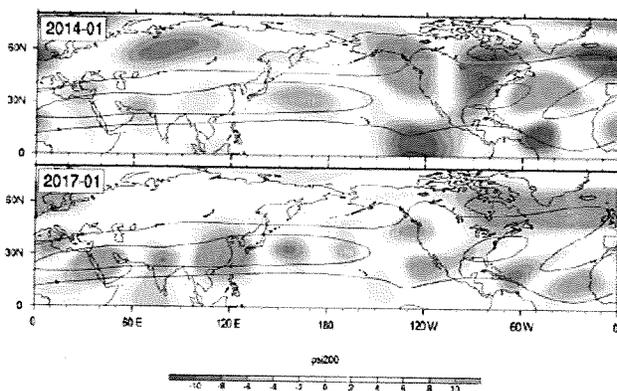
NSF's directorates and offices work together to uphold the agency's strong commitment to excellence in financial responsibilities, improved business processes, increased data transparency, responsible stewardship of federal funds, and accountability. In FY 2017, business operations highlights included:

- *Digital Accountability and Transparency Act of 2014 (DATA Act)*—NSF successfully implemented the requirements of the DATA Act, ushering in a new era of access to government-wide award and financial data. Staff expertly leveraged the capabilities of NSF's new financial system with the longstanding integration of its grant and financial systems to meet DATA Act requirements. Agency staff engaged in a 2-year coordinated collaboration and implementation effort, led by the U.S. Department of Treasury and OMB, that resulted in NSF receiving the only award given by the Secretary of the Treasury to a federal agency in recognition of this type of excellence.
- *Grants Oversight and New Efficiency (GONE) Act Reporting*—In FY 2017, NSF conducted a full analysis of expired awards meeting the reporting requirements of the Act and made significant progress in administratively closing awards and compiling data for the report. Having already financially closed these awards and repurposed the funds, none of these administrative closures carried financial balances. The results of NSF's review can be found in *Appendix 4, Grants Oversight and New Efficiency (GONE) Act Requirements*, of this AFR.
- *Enterprise Risk Management*—To better manage risks toward achieving strategic objectives, while leveraging NSF's existing resources and capabilities, the Foundation made significant progress in implementing its ERM framework. In FY 2017, NSF prepared an initial risk profile for the agency in accordance with Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. NSF fully supports the concept that when risks are understood and managed properly, the agency operates more efficiently and effectively, is able to prioritize and allocate resources more strategically, and becomes more resilient and better able to manage change. Going forward, NSF will continue to expand its discussions about risk across the agency with the goal of fully integrating ERM into its strategic planning, budget formulation, performance assessment, and quality control improvements.
- *Targeted Review Assessment*—For over a decade, NSF's annual risk assessment has been used to identify awardees for advanced monitoring. In FY 2017, NSF leveraged that program by piloting a new tool, the TRA, intended to quickly assess grants management and compliance and to identify the awardee community's need for business assistance. The first TRA, focused on subrecipient oversight, found that the majority of sampled pass-through institutions had appropriate policies and procedures or needed only minor updates. Relatively few needed to develop internal controls for addressing closeout, subrecipient risk assessments, and/or the review of subrecipients' single audit reports. NSF shared results of its analysis with the NSF OIG that is auditing NSF's oversight of pass-through entities' subrecipient monitoring, pursuant to the *American Innovation and Competitiveness Act*.
- *Indirect Cost Rates*—In September 2017, GAO issued *National Science Foundation: Actions Needed to Improve Oversight of Indirect Costs for Research (GAO-17-721)*, which is a review of the amount of NSF funding for indirect costs and NSF's negotiation of indirect cost rates (ICRs). Indirect costs afforded to research institutions represent a share of true costs attributable to the conduct of doing research. Between 2000 and 2016, indirect costs varied from 16 to 24 percent of total annual award amounts, based on types of activities supported and types of awardee organizations. GAO recommended that NSF improve its internal guidance for setting ICRs, including adding certain details and procedures. NSF is addressing GAO recommendations.
- *Invoice Processing Platform (IPP)*—NSF continued to demonstrate its focus on efficient financial operations that support the agency's mission by going live with the Department of Treasury's web-

based e-Invoicing system, or IPP, on July 31, 2017—a year ahead of OMB's deadline. IPP promotes NSF's digital documentation efforts, supports efficient invoice processing, and results in cost savings to NSF and the vendors by moving to a paperless invoicing and payment system. Approximately 485 NSF vendors (excludes grantees, IPAs, panelists, employees, or other federal entities) are registered to submit invoices electronically through IPP. NSF expects to receive approximately 3,500 electronic invoice submissions per year.

**Scientists link recent California droughts and floods to distinctive atmospheric waves.** California is one of the many places to have suffered from unforeseen weather emergencies in recent years—extreme drought in the 2013–2015 winter seasons and drenching storms causing floods and mudslides this past winter. Scientists at the National Center for Atmospheric Research (NCAR) have discovered a wave pattern, wavenumber-5, that emerges in the upper atmosphere and circles the globe. This pattern may sometimes make droughts or floods in local areas, such as California, more likely to occur.

Increasing our understanding of the wave pattern, its formation, seasonal nature, and strength holds the promise of better understanding and predicting weather patterns in California and around the world.



The black curves illustrate the jet streams that trap and focus wavenumber-5. The high- and low-pressure regions of wavenumber-5 set up in different locations during January 2014, when California was enduring a drought, and January 2017, when it was facing floods. The location of the high- and low-pressure regions (characterized by anticyclonic vs. cyclonic upper-level air flow) can act to either suppress or enhance precipitation and storms. Credit: Haiyan Teng and Grant Branstator, ©UCAR

In accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, NSF prepares financial statements in conformity with U.S. generally accepted accounting principles for federal entities. The financial statements present NSF's detailed financial information relative to its mission and the stewardship of those resources entrusted to the agency. It also provides readers with an understanding of the resources that NSF has available, the cost of its programs, and the status of resources at the end of the fiscal year. NSF's financial statements have undergone an independent audit to ensure that they are free from material misstatement and can be used to assess NSF's financial status and related financial activity for the year ending September 30, 2017.

NSF received an unmodified audit opinion on its financial statements, and no material weaknesses or significant deficiencies were identified in the internal control program for financial reporting. The Independent Auditor's Report begins on page Financials-3. Management's response follows the audit report.

## Understanding the Financial Statements

The following discussion of NSF's financial condition and results of operations should be read together with the FY 2017 financial statements and accompanying notes, found in chapter 2, *Financials*, of this AFR.

NSF's FY 2017 financial statements and notes are presented in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*. NSF's current year financial statements and notes are presented in a comparative format. The Stewardship Investment schedule presents information over the last 5 years. Table 1.2 summarizes the changes in NSF's financial position in FY 2017.

**Table 1.2 – Changes in NSF's Financial Position in FY 2017**  
(Dollars in Thousands)

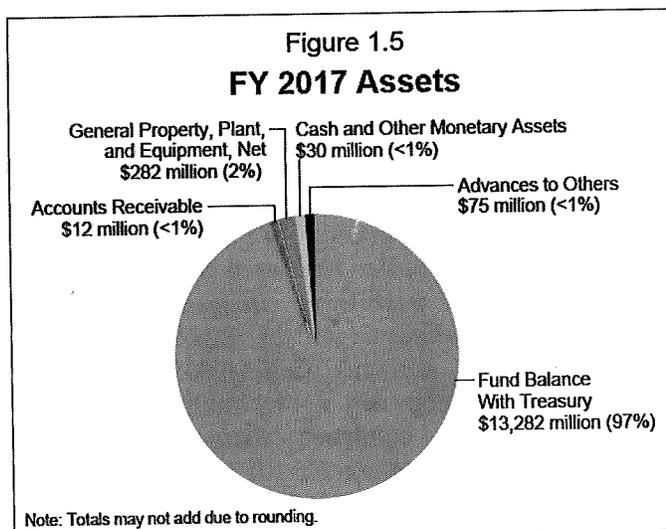
Net Financial Condition	FY 2017	FY 2016	Increase/(Decrease)	% Change
Assets	\$13,681,518	\$13,330,617	\$350,901	2.6%
Liabilities	\$494,445	\$608,725	-\$114,280	- 18.8%
Net Position	\$13,187,073	\$12,721,892	\$465,181	3.7%
Net Cost	\$7,116,204	\$7,046,347	\$69,857	1.0%

### Balance Sheet

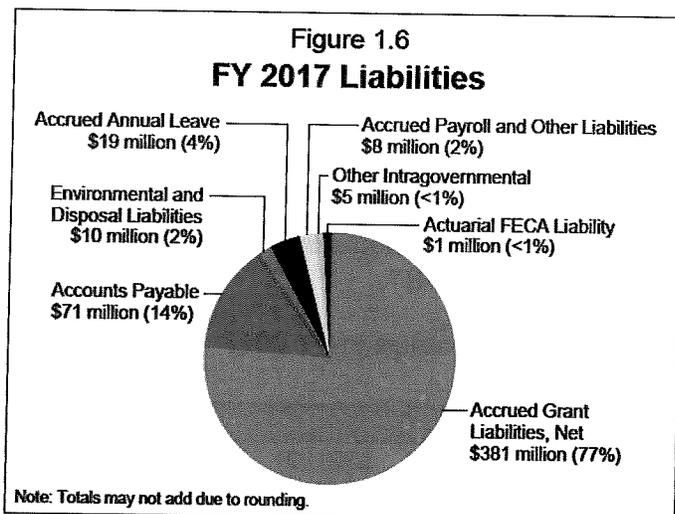
The Balance Sheet presents the total amounts available for use by NSF (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). NSF's total assets are largely composed of *Fund Balance with Treasury*. A significant balance also exists in the *General Property, Plant, and Equipment, Net* account.

In FY 2017, Total Assets (Figure 1.5) increased 2.6 percent from FY 2016. Most of this change occurred in the *Fund Balance with Treasury* account, which increased by \$310.6 million in FY 2017. NSF is authorized to use *Fund Balance with Treasury* to make expenditures and pay amounts due through the disbursement authority of the Department of Treasury. The *Fund Balance with Treasury* is increased through appropriations and collections and decreased by expenditures and rescissions.

In FY 2017, Total Liabilities (Figure 1.6) decreased 18.8 percent from FY 2016. This change was primarily related to a \$74.7 million decrease in *Accounts Payable* in FY 2017. *Accounts Payable* is estimated annually by utilizing historical data based on the actual expenses incurred but not reported, as a percentage of current fiscal year expenses. The majority of the FY 2017 change was due to a change in the methodology used to estimate *Accounts Payable*, resulting in a lower *Accounts Payable* as compared to FY 2016.



**Statement of Net Cost**



The Statement of Net Cost presents the annual cost of operating NSF programs. The net cost of operations of each NSF program equals the program's gross cost less any offsetting revenue. Intragovernmental earned revenues are recognized when related program or administrative expenses are incurred. Earned revenue is deducted from the full cost of the programs to arrive at the Net Cost of Operation.

Approximately 95 percent of all current year NSF Net Costs of Operations incurred were directly related to the support of R&RA, EHR, MREFC, and Donations and Dedicated Collections. Additional costs were incurred for

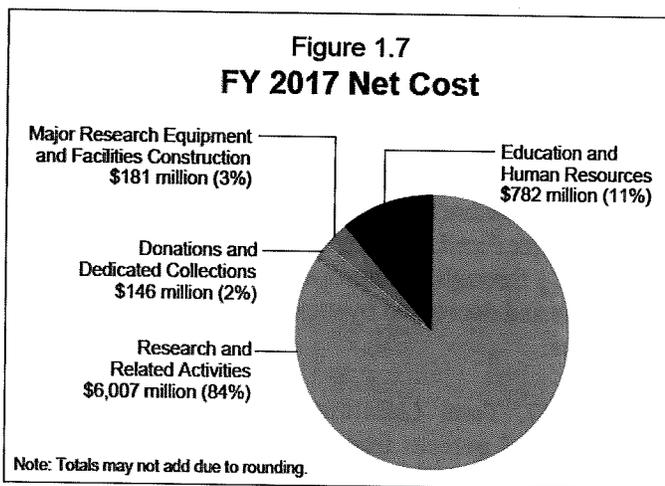
indirect general operation activities (e.g., salaries, training, and activities related to the advancement of NSF information systems technology) and activities of the NSB and the OIG. These costs were allocated to R&RA, EHR, MREFC, and Donations and Dedicated Collections and account for 5 percent of the total current year Net Cost of Operations (Figure 1.7). These administrative and management activities are focused on supporting the agency's program goals.

**Statement of Changes in Net Position**

The Statement of Changes in Net Position presents the agency's cumulative net results of operation and unexpended appropriations for the fiscal year. NSF's Net Position increased by 3.7 percent, or \$465.2 million, in FY 2017.

**Statement of Budgetary Resources**

This statement provides information on how budgetary resources were made available to NSF for the year and the status of those budgetary resources at year end. For FY 2017, *Total Budgetary Resources* decreased \$36.3 million from the FY 2016 level. *Budgetary Resources—Appropriations* for the R&RA, EHR, and MREFC accounts were \$6,005.6 million, \$873.1 million, and \$214.9 million, respectively. The combined *Budgetary Resources—Appropriations* in FY 2017 for the NSB, OIG, and AOAM accounts totaled \$378.7 million. NSF also received funding via



warrant from the H-1B Nonimmigrant Petitioner Account (H-1B) in the amount of \$138.1 million and via donations from foreign governments, private companies, academic institutions, nonprofit foundations, and individuals in the amount of \$40.9 million. In FY 2017, the *Budgetary Resources—Appropriations* line was also affected by H-1B sequestration in the amount of \$9.7 million.

**Stewardship Investments**

NSF-funded investments yield long-term benefits to the general public. NSF investments in research and education produce quantifiable outputs, including the number of awards made and the number of researchers, students, and teachers supported or involved in the pursuit of science and engineering research

and education. NSF incurs stewardship costs as part of its longstanding commitment to invest in learning and discovery. In FYs 2017 and 2016, these costs amounted to \$364.0 million and \$371.2 million, respectively.

### Limitations of the Financial Statements

In accordance with the guidance provided in OMB Circular No. A-136, NSF discloses the following limitations of the agency's FY 2017 financial statements. The principal financial statements are prepared to report the financial position and results of operations of NSF, pursuant to the requirements of 31 U.S.C. 3515(b). The statements are prepared from the books and records of NSF in accordance with federal *Generally Accepted Accounting Principles (GAAP)* and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

### Other Financial Reporting Information

#### **Debt Collection Improvement Act of 1996**

Net Accounts Receivable totaled \$12.1 million at September 30, 2017. Of that amount, \$9.8 million was due from other federal agencies. The remaining \$2.3 million was due from the public. NSF fully participates in the Department of the Treasury Cross-Servicing Program. In accordance with the Debt Collection Improvement Act, as amended by the DATA Act, this program allows NSF to refer debts that are delinquent more than 120 days to the Department of the Treasury for appropriate action to collect those accounts. In accordance with M-04-10, *Memorandum on Debt Collection Improvement Act Requirements*, NSF writes off delinquent debt more than 2 years old. Additionally, NSF seeks Department of Justice concurrence for action items over \$100,000.

#### **Cash Management Improvement Act of 1990**

In FY 2017, NSF had no awards covered under Cash Management Improvement Act Treasury-State Agreements. The timeliness of NSF's payments to grantees through its payment systems makes the timeliness of payment issue under the Act essentially not applicable to the agency. No interest payments were made in FY 2017.

#### **Federal Civil Penalties Inflation Adjustment Act of 1990**

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (the 2015 Act; Sec. 701 of Public Law [P.L.] 114-74) further amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (P.L. 104-410) to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect. The 2015 Act requires

**By age 6, gender stereotypes can affect girls' choices.** Women account for more than half the U.S. population but only 30 percent of those employed as scientists and engineers in the country. Researchers are investigating several possible factors that contribute to this disparity—including the societal stereotype that associates intellectual talent more closely with men than women.

Stereotypes are powerful. They often influence the types of careers people see themselves in and ultimately choose. Previous research shows that society associates not only ability in math and science with men and boys but also the notion of being "brilliant"—of having raw brainpower. This research evaluated the beliefs of 5-, 6-, and 7-year-old boys and girls about gender and brilliance. Findings highlight the importance of reducing gender disparities by showing how we are influenced by society, especially when we are extremely young.



Stereotypes can influence educational and career paths. Credit: ©Alesia. Kan/Shutterstock.com.

agencies to (1) adjust the level of civil monetary penalties with an initial “catch-up” adjustment through an interim final rulemaking and (2) make subsequent annual adjustments for inflation. Inflation adjustments are to be based on the percent change in the Consumer Price Index for all Urban Consumers (CPI-U) for the month of October preceding the date of the adjustment, relative to the October CPI-U in the year of the previous adjustment.

The only civil monetary penalties within NSF’s jurisdiction are those authorized by the Antarctic Conservation Act of 1978, 16 U.S.C. 2401, et seq., and the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. 3801, et seq.

**Table 1.3 – FY 2017 Civil Monetary Penalty Adjustment for Inflation**

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level (\$ Amount or Range)	Location for Penalty Update Details
Antarctic Conservation Act of 1978, as amended	Knowing violations	1978	2017	\$27,950	82 FR 3363-01  Wednesday, January 11, 2017
Antarctic Conservation Act of 1978, as amended	Not knowing violations	1978	2017	\$16,516	82 FR 3363-01  Wednesday, January 11, 2017
Program Fraud Civil Remedies Act of 1986	Violations	1986	2017	\$10,957	82 FR 3363-01  Wednesday, January 11, 2017

## Systems, Controls, and Legal Compliance

### Management Assurances

The Federal Managers' Financial Integrity Act (FMFIA)<sup>20</sup> 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.

The FMFIA assurance statement provides management's assessment of the efficacy of the organization's internal control to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA§2) and of whether financial management systems conform to financial systems requirements (FMFIA§4).

The FY 2017 unmodified Statement of Assurance is the culmination of the efforts of NSF management's assessment of the design, implementation, and operating effectiveness of its system of internal control. For FY 2017, NSF's internal control assessment provides reasonable assurance that the objectives of the FMFIA and the Federal Financial Management Improvement Act of 1996 (FFMIA) were achieved and also concludes that the internal control processes over financial reporting are effective.

### Highlights from NSF's FY 2017 Internal Control Quality Assurance Program

The Internal Control Quality Assurance Program is responsible for the NSF internal control review process. The internal control review process supports NSF's strategic goal to *excel as a federal science agency*. Excelling as a federal science agency is essential to achieve and carry out NSF's mission and accomplish the other two strategic goals: (1) *transform the frontiers of science and engineering* and (2) *stimulate innovation and address societal needs through research and education*.

<sup>20</sup> FMFIA: [https://obamawhitehouse.archives.gov/omb/financial\\_fmfi1982](https://obamawhitehouse.archives.gov/omb/financial_fmfi1982).



### National Science Foundation

### FY 2017 Statement of Assurance

The National Science Foundation (NSF) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). The NSF conducted its assessment of risk and internal control processes in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, NSF can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2017.

/s/

France A. Córdoba  
Director

November 14, 2017

In FY 2017, NSF continued its efforts to enhance its internal control review program and further implement the guidance in OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,<sup>21</sup> the GAO *Standards for Internal Control in the Federal Government* (known as the Green Book),<sup>22</sup> and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework (2013)*.<sup>23</sup> To ensure compliance with the Green Book and the COSO framework, NSF performed an entity-level assessment comprised of interviews and data gathering through questionnaires administered to key members of NSF management. The assessment validated NSF's compliance with the Green Book and COSO frameworks.

NSF sought to gain efficiencies in testing processes by approaching the program as a value-added management function for the agency. For FY 2017 the business process review approach consisted of two general tracks: corrective actions and management assurance.

The corrective actions track focused on the remediation activities related to the significant deficiency and control deficiencies identified during the FY 2016 financial statement audit. NSF developed and validated corrective actions to address issues highlighted in the FY 2016 financial statement audit. This activity included:

- efforts to eliminate the IT significant deficiency (iTRAK, Awards, and WebTA);
- strengthening user controls over third party service providers;
- documenting and strengthening internal controls over undelivered orders; and
- process improvements to the grant accruals methodology, including adjustments in the use of historical data.

For the management assurance track, NSF focused on testing and evaluating its business processes. In conducting its assessment of internal control over agency operations, reporting, and compliance with applicable laws and regulations, NSF applied an agile and multi-year approach.

In addition to the existing internal control review process, FY 2017 activities were expanded into two new areas: (1) DATA Act compliance and (2) Fraud Reduction and Data Analytics Act of 2015 (FRDAA) requirements. NSF conducted an audit readiness assessment for the control design related to the DATA Act reporting implementation and for compliance with the DATA Act requirements. NSF evaluated whether the internal controls over spending data were properly designed, implemented, and operating effectively to manage and report financial and award data in accordance with the DATA Act. NSF used iterative reviews to determine if there were opportunities for improving the control environment to support the organization's implementation and compliance with the DATA Act. These observations addressed the design elements, which focused both on complying with DATA Act requirements and ensuring that NSF is continually improving its readiness for future audits from the agency's OIG. The assessment yielded opportunities in several areas including validating data, improving controls, and better documenting and communicating decisions and policy.

Implementation activities related to FRDAA are discussed in *Appendix 3: Fraud Reduction Report* of this AFR.

### ***Internal Control over Financial Reporting—OMB Circular A-123, Appendix A***

NSF's FY 2017 review for Internal Control over Financial Reporting consisted of tests of operational effectiveness and tests of control design. NSF evaluated the key controls to ensure they were functioning properly to mitigate risks of material misstatements in the financial reports and to support NSF

<sup>21</sup> OMB Circular A-123: <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf>

<sup>22</sup> GAO *Standards for Internal Control in the Federal Government*: <http://www.gao.gov/products/GAO-14-704G>.

<sup>23</sup> COSO Internal Control Integrated Framework: <https://www.coso.org/Pages/ic.aspx>

management's financial reporting assertions. The process areas tested for operational effectiveness were Grants Management, Large Facilities Oversight, Travel Systems, Procure to Pay, and Financial Reporting alignment with DATA Act submission processes. As part of the test of design, NSF assessed whether key controls performed properly and whether the controls addressed the control object and business risk. The process areas tested for control design were undelivered orders, DATA Act implementation, and user controls over third party service providers.

Based on the results of the assessment, NSF provides reasonable assurance that its internal control over financial reporting is operating effectively and no material weaknesses were identified.

***Improving the Management of Government Charge Card Programs—OMB Circular A-123, Appendix B***

In FY 2017, NSF conducted a fraud risk assessment of travel and purchase cards, developed a fraud risk profile and response plan, and created a proof-of-concept for developing a data analytics capability to better identify potential risk exposures in the travel and purchase card programs.

To conduct the risk assessment, NSF reviewed internal controls and policy documentation for the travel and purchase card programs. NSF administered surveys, conducted interviews, and facilitated focus groups with staff from various divisions within NSF, while evaluating charge card program risks. In addition to performing the risk assessment, NSF developed and employed various data analytics to examine travel and purchase card data. The analytics enabled NSF to identify trends in the data and build prototype dashboards that could aid in NSF's monitoring of travel and purchase cards.

The fraud risk assessment reviewed purchase cards and identified a finding consistent with the repeat finding from the internal control reviews; specifically, a need for periodic reviews to determine whether each purchase cardholder has a need for the purchase card. The recommendation is to increase monitoring of the issuance of purchase cards to ensure that resources are allocated in the most efficient and effective manner.

In addition to conducting the fraud risk assessment and ensuring OMB Circular A-123, Appendix B compliance, NSF assessed the status of the corrective action plans from the FY 2016 review and completed an Appendix B crosswalk to ensure NSF has maintained the appropriate internal controls to reduce the risk of fraud, waste, and error within the charge card program. The review of the Appendix B crosswalk ensured that NSF is in compliance with the following sources:

- P.L. 112–194, Government Charge Card Abuse Prevention Act of 2012;
- OMB Memorandum *M-12-12, Promoting Efficient Spending to Support Agency Operations*; and
- OMB Circular A-123, *Appendix B, Improving the Management of Government Charge Card Programs*.

Based on the results of the assessment, NSF provides reasonable assurance that internal control processes related to the Government Charge Card Programs are operating effectively, and no material weaknesses were identified.

***Requirements for Effective Estimation and Remediation of Improper Payments—OMB Circular A-123, Appendix C***

During early FY 2017, NSF completed a qualitative risk assessment of FY 2016 improper payments. The risk assessment determined NSF did not have significant risk of improper payments for grants, contracts, charge cards, and payroll payments. In May 2017, the NSF OIG issued a report on NSF's compliance with the improper payment requirements for FY 2016. The OIG concluded NSF complied with the requirements and had addressed all recommendations from the previous OIG report. This was the second consecutive

report finding NSF in compliance with improper payment reporting requirements. The May 2017 OIG report had no recommendations and no resolution tracking requirements. The two reports validate that NSF has taken the steps necessary to demonstrate compliance and effectiveness in the agency's implementation of improper payment requirements. NSF will conduct an improper payment risk assessment in FY 2018.

Based on the results of the OIG's assessment, and NSF management's efforts to eliminate improper payments, NSF provides reasonable assurance related to the OMB Circular A-123, Appendix C requirements.

***Compliance with the Federal Financial Management Improvement Act of 1996—OMB Circular A-123, Appendix D***

NSF is required by Appendix D of OMB Circular A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*, to implement and maintain financial management systems that substantially comply with Federal Financial Management System Requirements, federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.

NSF reviewed business processes and completed the FFMIA Compliance Determination Framework, to validate compliance with the following requirements, as outlined in Circular A-123, Appendix D:

- NSF developed and maintains financial management systems, in accordance with Circular A-130 and Circular A-123.
- NSF's financial management systems comply with the policies prescribed in Appendix D, as well as associated financial management system guidance.
- NSF established a remediation plan identifying resources, remedies, and target dates to bring NSF's financial management system into compliance.
- Report, if needed, compliance with the Federal Financial Management System Requirements, federal accounting standards, and USSGL at the transaction level through the reporting structure established by Section VI of Circular A-123.

NSF performed remediation efforts to resolve the financial statement audit IT significant deficiency related to the iTRAK, Awards and WebTA systems. NSF actively monitored and addressed the issues identified in the audit. In addition, NSF verified and validated corrective action plan efforts based on testing results. NSF also strengthened user controls over third party service providers. NSF regularly assesses the design and operating effectiveness of the service organization's internal controls, including IT general controls and all five GAO Green Book components of internal control. NSF management established user controls to monitor the process for effectiveness. In FY 2017, NSF performed remediation efforts to document procedures for ensuring the adequacy of controls over third party service providers.

NSF has established a comprehensive IT security program that is consistent with the Federal Information Security Modernization Act of 2014 and industry best practices. NSF's IT controls are effective in maintaining a secure IT environment and align with the National Institute of Standards and Technology Framework for Improving Critical Infrastructure. The agency's IT environment is supported by a suite of comprehensive policies and procedures that incorporate federal mandates and guidance. NSF has a strong Information Security Continuous Monitoring program that includes the Department of Homeland Security Continuous Diagnostic and Mitigation technologies. The OMB Cybersecurity Risk Management Assessment evaluated NSF's overall cybersecurity risk management and confirmed that NSF has effective IT security controls in place.

Based on the results of the assessment, NSF provides reasonable assurance that internal control processes related to FFMIA—OMB Circular A-123, Appendix D, are operating effectively, and no material weaknesses were identified.

### **Other Federal Reporting and Disclosures**

*Anti-Deficiency Act (ADA)*: NSF is not aware of any ADA violations that are required to be reported for the year ended September 30, 2017.

*Pay and Allowance System for Civilian Employees, provided primarily in Chapters 31–50 of Title 5, U.S.C.*: The Department of the Interior, Interior Business Center (IBC) Federal Personnel/Payroll System (FPPS) is a Shared Service Provider and performs many of NSF's payroll functions. IBC FPPS's internal control is annually reviewed by auditors under the Statement on Standards for Attestation Engagements (SSAE-18). IBC FPPS's controls are found to be suitably designed and operating effectively. This conclusion is based partly on transactional testing.

*Prompt Payment Act*: The Prompt Payment Act mandates interest penalties on payments over 30 days. Under OMB Memorandum 17-27, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda*, NSF is encouraging accelerating payments to all contractors within 15 days of a proper invoice being received. This acceleration allows small business contractors to be paid as quickly as possible. NSF's Prompt Payment Rate was consistently above 95 percent during this fiscal year.

*Government Charge Card Abuse Prevention Act of 2012, P.L. 112–194*: The act requires that agencies ensure that appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. NSF provides reasonable assurance that internal controls related to the Government Charge Card Programs are operating effectively, and no material weaknesses were identified. Additional information is provided above in *Improving the Management of Government Charge Card Programs—OMB Circular A-123, Appendix B*, page MD&A-23.

*Provisions Governing Claims of the U.S. Government (31 U.S.C. 3711–3720E) (Including the Debt Collection Improvement Act of 1996)*: The Debt Collection Improvement Act is addressed on page MD&A-19

*Federal Information Security Modernization Act Management Act of 2014*: This topic is addressed in subsection *Compliance with the Federal Financial Management Improvement Act of 1996—OMB Circular A-123, Appendix D*, page MD&A-24.

*Single Audit Act of 1984, P.L. 98–502, and the Single Audit Act Amendments of 1996, P.L. 104–156. (A-136, section II.2.8)*: The Single Audit Act requires financial statement audits of non-federal entities receiving or administering grant awards with federal expenditures exceeding \$750,000 during its fiscal year. Federal agency internal control standards determine whether award expenditures comply with laws and regulations. NSF, similar to other federal agencies, is required to review the findings and recommendations of audit reports for funding recipients to determine whether corrective actions (if required) are adequate and implemented. NSF utilizes guidance from the *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*<sup>24</sup> and *Audit Follow-up*<sup>25</sup> as a basis for its audit resolution and follow-up activities. During FY 2017, NSF resolved 192 single audit reports.

---

<sup>24</sup> Uniform Guidance (2 CFR 200): [https://www.ecfr.gov/cgi-](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=fd67dcb2fb543c275053150a6352be38&mc=true&n=pt2.1.200&r=PART&ty=HTML)

[bin/retrieveECFR?gp=&SID=fd67dcb2fb543c275053150a6352be38&mc=true&n=pt2.1.200&r=PART&ty=HTML](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=fd67dcb2fb543c275053150a6352be38&mc=true&n=pt2.1.200&r=PART&ty=HTML)

<sup>25</sup> Audit Follow-up (OMB Circular A-50): [https://www.whitehouse.gov/omb/circulars\\_a050](https://www.whitehouse.gov/omb/circulars_a050).

NSF continues to ensure that its policies and procedures fully align with federal requirements. The agency continually assesses the effects changes in policies and practices (e.g., increase in single-audit thresholds, risk management, streamlining of federal requirements, timeliness) may have on NSF's stewardship over its investments. NSF continues to strengthen audit resolution and other oversight functions by deepening subject matter expertise of its staff and the effective utilization of available resources. In addition, NSF maintains formal, ongoing dialogue with the OIG to address issues affecting audit resolution (e.g., new methodologies), as well as the interpretation and application of NSF policies and procedures.

## **Financial System Strategy and Framework**

### ***Financial System Strategy***

The goals for NSF's 3-year-old core financial system align with NSF's strategic goal in that iTRAK's goals are to increase capabilities for more informed decision making to further science and innovation and to excel as a federal science agency by improving financial effectiveness and accountability for the public benefit. iTRAK ensures that transactions are posted in accordance with the USSGL at the transaction level; maintains accounting data to permit reporting in accordance with *GAAP* as prescribed by the Federal Accounting Standards Advisory Board; enforces strict funds control across the budgeting and spending functions to prevent ADA violations; and enables strong access control and definition of "responsibilities" to support segregation of duties control. iTRAK complies with OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*; OMB Memorandum M-13-08, *Improving Financial Systems through Shared Services*; and OMB Circular A-123, Appendix D.

Also key to NSF's financial system strategy is leveraging iTRAK to support agency compliance with federal mandates. For example, NSF continues to evaluate, test, and plan for the implementation of the Oracle DATA Act patches so that the DATA Act required files can be created directly from iTRAK. Additionally, the new financial system enabled NSF to successfully implement Treasury's web-based e-Invoicing system, IPP, in compliance with OMB M-15-19, *Improving Government Efficiency and Saving Taxpayer Dollars through Electronic Invoicing*.

NSF continues to strengthen iTRAK with a focus on (1) maturing iTRAK system and business processes to improve operational efficiencies, (2) training users to improve skills in targeted functionalities, (3) providing financial data to the agency's data warehouse to enable users to combine financial and programmatic data for more informed decision making, and (4) strengthening controls over system processes including security controls.

As iTRAK matures, NSF will continue to expand its analytical capabilities toward a more performance-driven system to better support NSF's mission. Competing priorities coupled with limited resources continue to be key challenges facing the Foundation. Senior leadership will continue to work with internal and external stakeholders to agree on the order of priorities while managing risk.

### ***Financial Management System Framework***

NSF's financial management system framework (Figure 1.8) focuses on the Foundation's financial management systems, standard business processes, data, and information architecture to ensure reliable, timely, and consistent financial information that enables effective management of NSF resources and delivery of mission critical products and services.

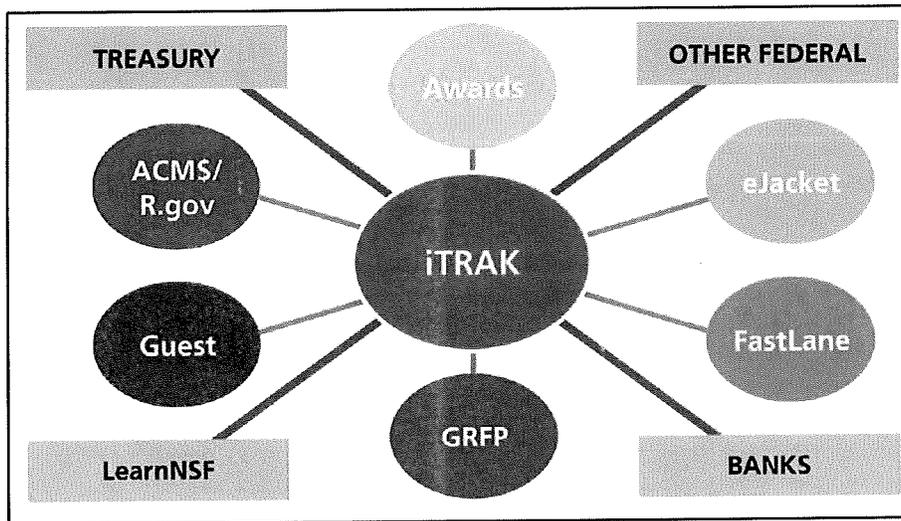
NSF's core financial system, iTRAK, interfaces with NSF's awards, grants management, and business process systems including:

- Award Cash Management Service (ACMS).
- Award Management and Award Letter System ("Awards").

- eJacket, NSF's internal awards processing system.
- Research.gov and FastLane, NSF's websites through which researchers, research administrators and their organizations, and reviewers interact with NSF.
- Graduate Research Fellowship Program System (GRFP).
- Guest Travel and Reimbursement System.

iTRAK also interfaces with external systems operated by the U.S. Department of the Treasury; JPMorgan Chase Bank; and LearnNSF, the Foundation's training system, and with other federal systems such as the FPPS, eTravel/Concur, and GSA's System for Award Management.

**Figure 1.8—NSF Financial Management System Framework**







United States Nuclear Regulatory Commission

*Protecting People and the Environment*

**Fiscal Year 2017**

# Agency Financial Report



The U.S. Nuclear Regulatory Commission Headquarters

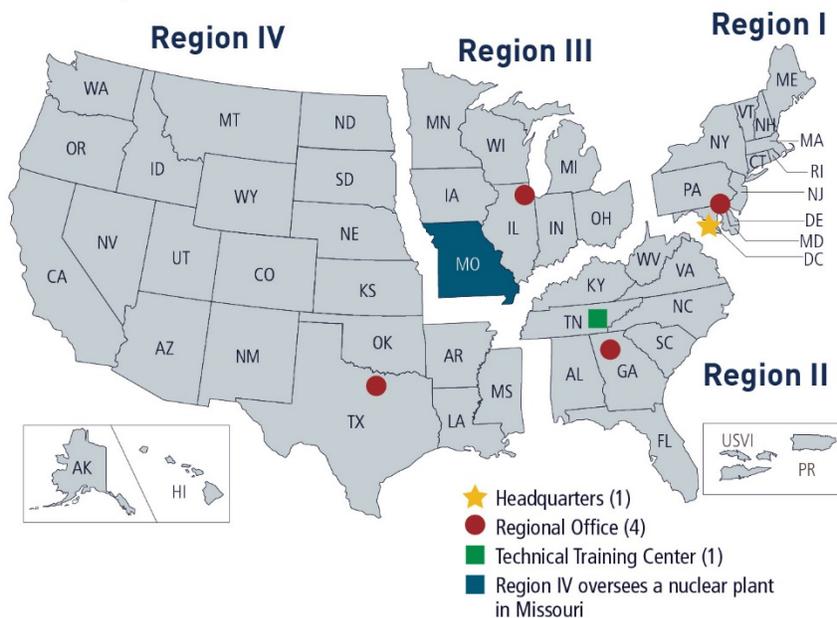
**UNITED STATES NUCLEAR REGULATORY COMMISSION**

## **Chapter 1: Management's Discussion and Analysis**

## About the NRC

The U.S. Congress established the NRC on January 19, 1975, as an independent Federal agency regulating the commercial and institutional uses of nuclear materials. The *Atomic Energy Act of 1954*, as amended, and the *Energy Reorganization Act of 1974*, as amended, define the NRC’s purpose. These acts provide the foundation for the NRC’s mission to regulate the Nation’s civilian use of byproduct, source, and special nuclear materials to provide adequate protection of public health and safety, to promote the common defense and security, and to protect the environment. The agency regulates civilian nuclear power plants and other nuclear facilities, as well as other uses of nuclear materials. These other uses include nuclear medicine programs at hospitals; academic activities at educational institutions; research work; industrial applications, such as gauges and testing equipment; and the transport, storage, and disposal of nuclear materials and wastes. Additional information about the NRC is available in the Information Digest at <https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1350/>.

### NRC Regions



#### Nuclear Power Plants

- Each regional office oversees the plants in its region—except for the Callaway plant in Missouri, which Region IV oversees.

#### Materials Licensees

- Region I oversees licensees and Federal facilities located in Region I and Region II.
- Region III oversees licensees and Federal facilities located in Region III.
- Region IV oversees licensees and Federal facilities located in Region IV.

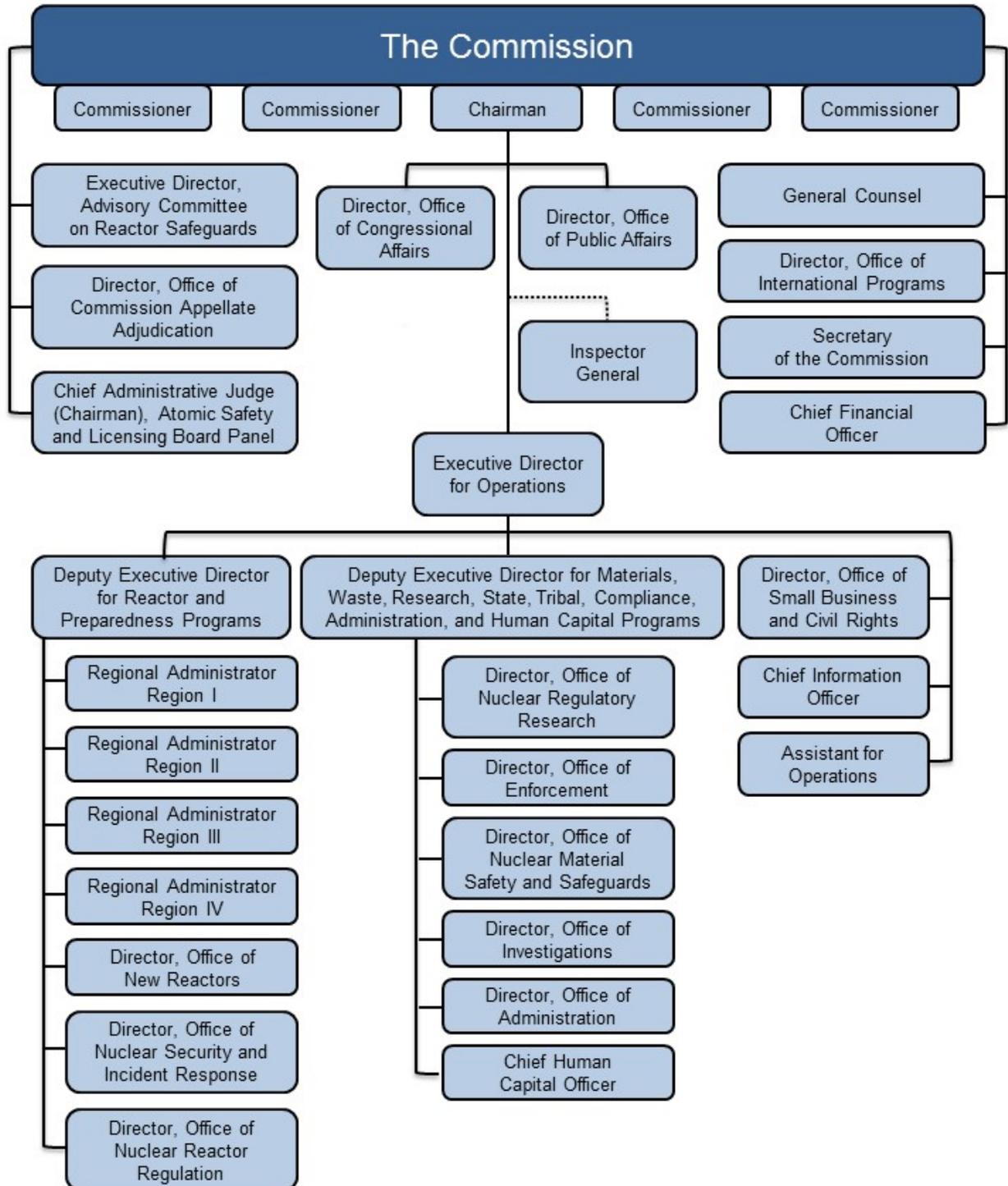
#### Nuclear Fuel Processing Facilities

- Region II oversees all the fuel processing facilities in all regions.
- Region II also handles all construction inspection activities for new nuclear power plants and fuel cycle facilities in all regions.

As of June 2017

NRC Headquarters is located in Rockville, MD. The agency Operations Center in the headquarters building coordinates communications with NRC licensees, State agencies, and other Federal agencies. This center is the focal point for assessing and responding to operating events in the industry. The Operations Center is staffed by NRC operations officers 24 hours a day, 7 days a week. The agency also has four regional offices located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The regional offices allow the agency to work closely with the agency’s licensees to ensure safety. The NRC also employs at least two resident inspectors at each of the Nation’s nuclear power reactor, new reactor, and fuel fabrication sites.

## The NRC’s Organizational Structure



Note: For the most recent information, go to the NRC organizational chart at <https://www.nrc.gov/about-nrc/organization.html>.

## Mission

**License and regulate the Nation’s civilian use of radioactive materials to protect public health and safety, promote the common defense and security, and protect the environment.**

## The NRC’s Regulatory Activities

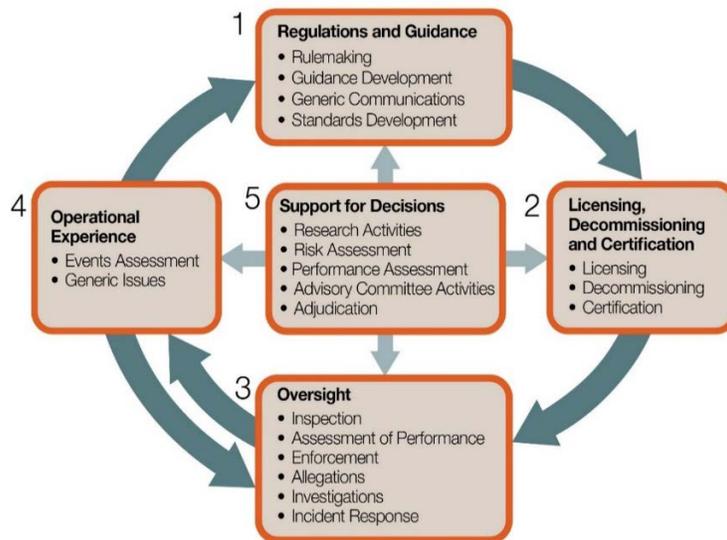
The NRC performs five principal regulatory functions: developing regulations and guidance for applicants and licensees; licensing or certifying applicants to use nuclear materials, operate nuclear facilities, construct new nuclear facilities, and decommission facilities; inspecting and assessing licensee operations and facilities to verify that licensees are complying with NRC requirements and taking appropriate follow-up or enforcement actions when necessary; evaluating operational experience of license facilities and activities; and conducting research, holding hearings, and obtaining independent reviews to support regulatory decisions (see Figure 1).

The standards and regulations established by the agency set the rules that users of radioactive materials must follow. Drawing upon the knowledge and experience of the agency’s scientists and engineers, these rules are the basis for protecting workers and the general public from the potential hazards associated with the use of radioactive materials.

With a few exceptions, any organization or individual intending to have or use radioactive materials must obtain a license. A license identifies the type and amount of radioactive material that may be held and used. NRC scientists and engineers evaluate the license application to ensure that the potential licensee’s use of nuclear materials meets the agency’s safety and security requirements.

The agency inspects all facilities that it licenses on a regulator basis to verify that they meet NRC regulations and are being operated safely and securely. NRC specialists conduct 10 to 25 routine inspections each year at each of the 99 operating nuclear power plants. In addition, the agency oversees approximately 2,600 licenses for medical, academic, industrial, and general

**Figure 1 How We Regulate**



1. Developing regulations and guidance for applicants and licensees.
2. Licensing or certifying applicants to use nuclear materials, operate nuclear facilities, and decommission facilities.
3. Inspecting and assessing licensee operations and facilities to ensure licensees comply with NRC requirements, responding to incidents, investigating allegations of wrongdoing and taking appropriate follow-up or enforcement actions when necessary.
4. Evaluating operational experience of licensed facilities and activities.
5. Conducting research, holding hearings, and obtaining independent reviews to support regulatory decisions.

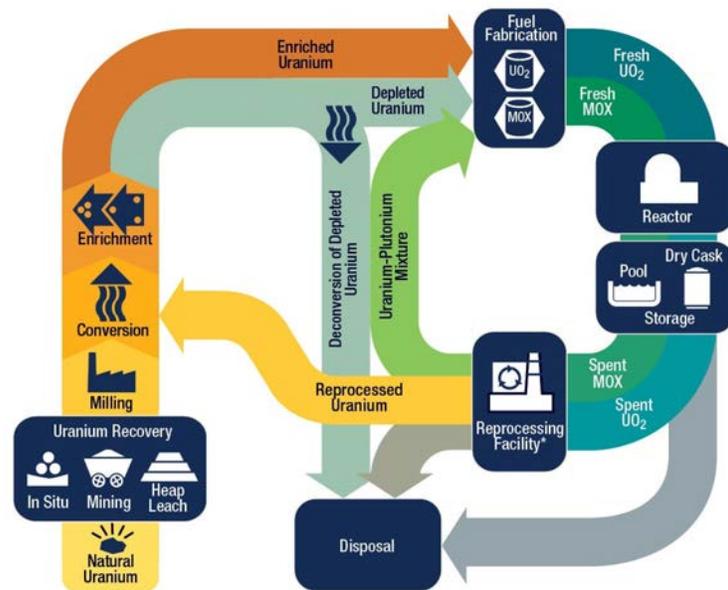
uses of nuclear materials. The agency conducts approximately 1,000 health and safety inspections of its nuclear materials licensees annually. Under the NRC’s Agreement State program, 37 States have assumed primary regulatory responsibility over the industrial, medical, and other users of nuclear materials within their States, accounting for approximately 17,000 licensees. The NRC works closely with these States to assist them in maintaining public safety through acceptable licensing and inspection procedures.

## The Nuclear Industry

The NRC is responsible for regulating all aspects of the civilian nuclear industry. The industry can best be described by examining the nuclear fuel cycle (see Figure 2). The nuclear material cycle begins with the mining and production of nuclear fuel or the use of nuclear materials for

medical, industrial, and other applications, continues with the use of nuclear fuel to power the Nation’s nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC’s regulatory programs provide reasonable assurance that radioactive materials are used safely and securely at every stage in the nuclear material cycle. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear fuel cycle.

**Figure 2 The Nuclear Fuel Cycle**

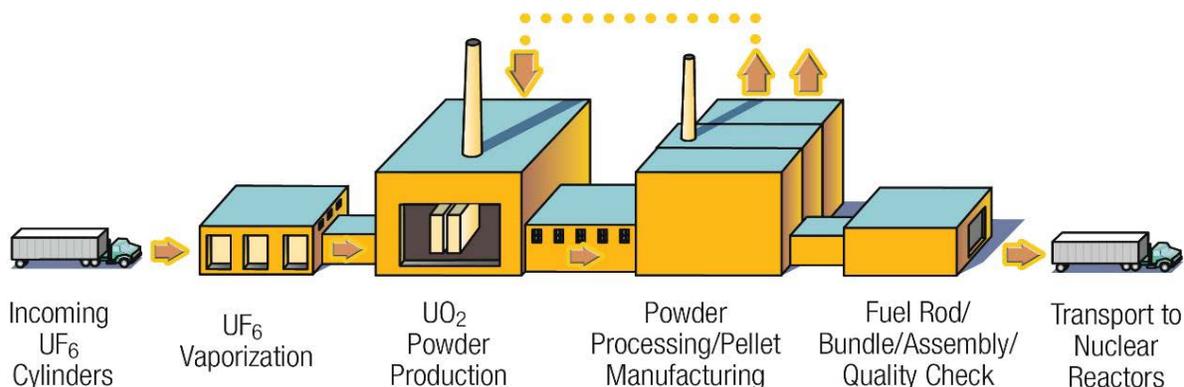


\* Reprocessing of spent nuclear fuel, including mixed-oxide (MOX) fuel, is not practiced in the United States.  
Note: The NRC has no regulatory role in mining uranium.

## Fuel Facilities

The production of nuclear fuel begins at uranium mines where milled uranium ore is used to produce a uranium concentrate called “yellowcake.” At a special facility, the yellowcake is converted into uranium hexafluoride gas and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into fuel pellets (each about the size of a fingertip), loaded into metal fuel rods about 3.5 meters long, and bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, nonpower research reactor facilities, and naval propulsion reactors for use as fuel (see Figure 3 on page 6). The NRC licenses eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle extremely hazardous material, these facilities take special precautions to prevent theft, diversion, and dangerous exposures to workers and the public from this nuclear material.

**Figure 3 Simplified Fuel Fabrication Process**



*Fabrication of commercial light-water reactor fuel consists of the following three basic steps:*

- (1) the chemical conversion of UF<sub>6</sub> to UO<sub>2</sub> powder*
- (2) a ceramic process that converts UO<sub>2</sub> powder to small ceramic pellets*
- (3) a mechanical process that loads the fuel pellets into rods and constructs finished fuel assemblies*

## Reactors

To generate electricity, power plants change one form of energy into another. Electrical generating plants convert heat energy, the kinetic energy of wind or falling water, or solar energy into electricity. Other types of heat-conversion plants burn coal, oil, or gas to produce heat energy that is then used to produce electricity. Nuclear energy cannot be seen. Heat energy is not produced by the burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat, which generates electricity. The radiation energy can be hazardous, and facilities take special precautions at nuclear power plants to protect people and the environment from these hazards (see Figures 4 and 5 on page 7).

Because the fission reaction produces potentially hazardous radioactive materials, nuclear power plants are equipped with safety systems to protect workers, the public, and the environment. Radioactive materials require careful use because they produce radiation, a form of energy that can damage human cells. Depending on the amount and duration of the exposure, radiation can potentially cause cancer. In a nuclear reactor, most hazardous radioactive substances, called fission byproducts, are trapped in the fuel pellets, or in the sealed metal tubes holding the fuel. However, small amounts of these radioactive fission byproducts, principally gases, become mixed with the water passing through the reactor. Other impurities in the water also become radioactive as they pass through the reactor. The facility processes and filters the water to remove these radioactive impurities and then returns the water to the reactor cooling system.

Figure 4 The Boiling-Water Reactor

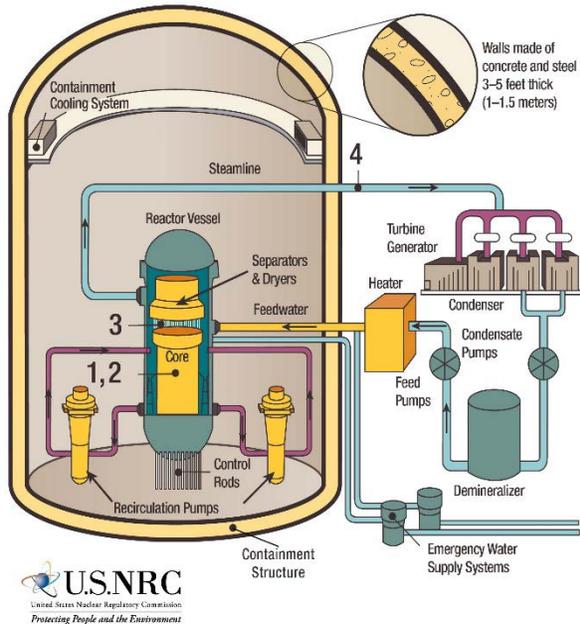
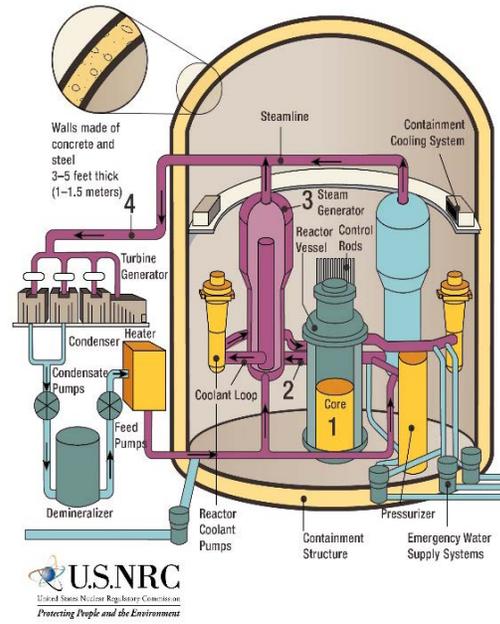


Figure 5 The Pressurized-Water Reactor



### Materials Users

The medical, academic, and industrial fields all use nuclear materials. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to nuclear medicine. Of the nuclear medicine or radiation therapy procedures performed annually, the vast majority are used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, in a manner similar to the way x-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in treating certain diseases like cancer. When living tissue is exposed to high levels of radiation, cells can be destroyed or damaged. Doctors can selectively expose cancerous cells (cells that are dividing uncontrollably) to radiation to either destroy or damage these cells.

Many of today’s industrial processes also use nuclear materials. Technologically advanced methods that ensure the quality of manufactured products often rely on radiation generated by radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well, to detect the presence of different materials. Radioisotopes are also used to sterilize instruments, find flaws in critical steel parts and welds that go into automobiles and modern buildings, authenticate valuable works of art, and solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and reduce static electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma

radiation resist abrasion and require low maintenance. As a result, they are used for some flooring in high traffic areas of department stores, airports, hotels, and churches.

### Waste Disposal

During normal operations, a nuclear power plant generates both high-level radioactive waste, which consists of used fuel (usually called spent fuel), and low-level radioactive waste, which includes contaminated equipment, filters, maintenance materials, and resins used in purifying water for the reactor cooling system. Other users of radioactive materials also generate low-level waste.

Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the handling of the spent fuel because it contains the highly radioactive fission byproducts created while the reactor was operating. The spent fuel from nuclear power plants can be stored in water-filled pools at each reactor site. The water in the spent fuel storage pool provides cooling and adequately shields and protects workers from the radiation. Several nuclear power plants have also begun using dry casks to store spent fuel. These large metal or concrete casks rest on concrete pads adjacent to the reactor facility. The thick layers of concrete and steel in these casks shield workers and the public from radiation.

Currently, most spent fuel in the United States remains stored at individual plants. Permanent disposal of spent fuel from nuclear power plants will require a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years.

Licensees often store low-level waste onsite until its radioactivity has decayed and the waste can be disposed of as ordinary trash, or until amounts are large enough for shipment to a low-level waste disposal site in containers approved by the U.S. Department of Transportation. The NRC has developed a waste classification system for low-level radioactive waste based on its potential hazards and has specified disposal and waste form requirements for Class A, Class B, and Class C waste. Generally, Class A waste contains lower concentrations of radioactive material than Class B and Class C wastes. The two disposal facilities that accept a broad range of low-level wastes are located in Barnwell, SC, and Richland, WA.

## Program Performance Overview

The NRC's mission is to license and regulate the Nation's civilian use of radioactive materials to protect public health and safety, promote the common defense and security, and protect the environment. The NRC's vision is to carry out the mission as a trusted, independent, transparent, and effective nuclear regulator. The NRC's two strategic goals, Safety and Security, are to ensure the safe and secure use of radioactive materials.

The NRC carries out its safety and security activities through two major programs: Nuclear Reactor Safety, consisting of the Operating Reactors and New Reactors business lines; and Nuclear Materials and Waste Safety, consisting of the Fuel Facilities, Nuclear Materials Users, Decommissioning and Low-Level Waste, Spent Fuel Storage and Transportation, and High-Level Waste business lines. The agency accomplishes its mission to provide reasonable assurance of adequate protection for public health and safety through regulatory activities that include licensing, oversight, and rulemaking. The NRC oversees licensees through inspection, assessment, investigation, and enforcement actions. Investigations and enforcement actions are a subset of oversight in cases of suspected or proven instances of noncompliance with safety or security regulations. The NRC's event response activities prepare for and respond to

emergencies involving radioactive materials. The following narrative highlights the agency's progress during FY 2017 in achieving its safety and security goals.

### Fiscal Year 2017 Performance Results

The NRC's FY 2014–2018 Strategic Plan (<http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1614/v6/>) describes the agency's mission, goals, and strategies. As noted above, the agency's two strategic goals are focused on Safety and Security. The Safety goal is to *Ensure the safe use of radioactive materials*. The Security goal is to *Ensure the secure use of radioactive materials*.

With the implementation of the Strategic Plan, the agency developed new performance indicators that are more in line with the plan. Because the nature of the agency's Safety and Security strategic goals is to prevent or minimize undesirable outcomes, the desired trends for all of its performance indicators are to either maintain these outcomes at zero or at very low levels.

### Strategic Goal 1: Ensure the Safe Use of Radioactive Materials

#### Strategic Objective

Strategic objectives express more specifically the results that are needed to achieve a strategic goal. The strategic objective for Goal 1 is:

*Prevent and mitigate accidents and ensure radiation safety*

Minimizing the likelihood of accidents and reducing the consequences of an accident (should one occur) are the key elements for achieving the NRC's Safety goal. Such accidents, particularly for large complex facilities like nuclear power plants, have the potential to release significant amounts of radioactive material to the environment and expose facility workers and the public to high levels of radiation.

In FY 2017, the NRC achieved its Safety goal strategic objective. The NRC uses five performance indicators to determine whether it has met its Safety goal. The agency met all five performance indicator targets in FY 2017. Table 1 on page 10 shows the outcomes for the last 3 years (FY 2015-FY 2017). The cost of achieving the agency's Safety goal in FY 2017 was \$896.7 million.

#### Safety Performance Indicators: Fiscal Years 2015–2017

The purpose behind the NRC's performance indicators is to prevent or minimize undesirable outcomes. Therefore, the trends indicating the agency's success in accomplishing its mission would be at or near zero.

The following performance indicators were created in conjunction with the development of the NRC's FY 2014–2018 Strategic Plan.

**Table 1 FY 2015–2017 Safety Performance Indicators**

**Goal–Safety: Ensure the Safe Use of Radioactive Materials**

**1. Prevent radiation exposures that significantly exceed regulatory limits.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0
New Reactors	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0
Nuclear Materials Users	≤ 3	1*	≤ 3	2	≤ 3	0

\*Reported in the FY 2015 Performance and Accountability Report and the FY 2017 Congressional Budget Justification as 2 due to one event previously labeled as an abnormal occurrence (AO) that upon further investigation was reclassified as not meeting the AO threshold.

**2. Prevent releases of radioactive materials that significantly exceed regulatory limits.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0
New Reactors	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0
Nuclear Materials Users	0	0	0	0	0	0

**3. Prevent the occurrence of any inadvertent criticality events.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	0	0	0	0	0	0
Fuel Facilities	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0

**4. Prevent accident precursors and reductions of safety margins at commercial nuclear power plants (operating or under construction) that are of high safety significance.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
Operating Reactors	≤ 3	0	≤ 3	0	≤ 3	0
New Reactors	≤ 3	0	≤ 3	0	≤ 3	0

**5. Prevent accident precursors and reductions of safety margins at nonreactor facilities or during transportation of nuclear materials that are of high safety significance.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
Fuel Facilities	0	0	0	0	0	0
Decommissioning and Low-Level Waste	0	0	0	0	0	0
Spent Fuel Storage and Transportation	0	0	0	0	0	0

### **Safety Objective 1: Prevent and mitigate accidents and ensure radiation safety.**

**Performance Goal 1:** Prevent radiation exposures that significantly exceed regulatory limits.

**Performance Indicator:** Number of radiation exposures that meet or exceed abnormal occurrence (AO) criteria I.A.1 (unintended radiation exposure to an adult), I.A.2 (unintended radiation exposure to a minor), or I.A.3 (radiation exposure that has resulted in unintended permanent functional damage to an organ or physiological system).

**Discussion:** This indicator tracks the effectiveness of the NRC's nuclear safety regulatory programs, in part through the number of significant radiation exposures to the public and occupational workers that exceed AO criteria. This indicator tracks exposures from both nuclear reactors and other use of nuclear materials, such as hospitals and industrial uses. In FY 2017, there were no radiation exposures that exceeded AO criteria 1.A.1

**Performance Goal 2:** Prevent releases of radioactive materials that significantly exceed regulatory limits.

**Performance Indicator:** Number of releases of radioactive materials that meet or exceed AO criterion I.B (discharge or dispersal of radioactive material from its intended place of confinement, which results in releases of radioactive material).

**Discussion:** This indicator tracks the effectiveness of the NRC's nuclear material regulatory programs. Exceeding the applicable regulatory limits is defined as a release of radioactive material that causes a total effective radiation dose equivalent to individual members of the public greater than 0.1 rem in a year, exclusive of dose contributions from background radiation. In FY 2017, there were no releases of this nature.

**Performance Goal 3:** Prevent the occurrence of any inadvertent criticality events.

**Performance Indicator:** Number of instances of unintended nuclear chain reactions involving NRC-licensed radioactive materials.

**Discussion:** This indicator tracks the effectiveness of the NRC's criticality safety regulatory programs through the number of unintended self-sustaining nuclear reactions occurring within a fiscal year. Intended criticality events include the startup of a nuclear power reactor. There were no inadvertent criticality events during FY 2017.

**Performance Goal 4:** Prevent accident precursors and reductions of safety margins at commercial nuclear power plants (operating or under construction) that are of high safety significance.

**Performance Indicator:** Number of malfunctions, deficiencies, events, or conditions at commercial nuclear power plants (operating or under construction) that meet or exceed AO criteria II.A-II.D (events at commercial nuclear power plant licensees).

**Discussion:** The NRC's Reactor Oversight Process monitors nuclear power plant performance in three areas: (1) reactor safety, (2) radiation safety, and (3) security. Analysis of individual plant performance is based on both licensee-submitted performance indicators and NRC inspection findings, which are independent assessments of licensee performance that the NRC conducts as the regulatory authority. Each issue is evaluated and assigned one of four

categories in order of increasing significance: green, white, yellow, or red. When the rating is higher (more severe), the NRC applies a greater level of oversight. A red finding or performance indicator is the most severe rating and signals a significant reduction in the safety margin in the measured area. No red findings were issued in FY 2017.

**Performance Goal 5:** Prevent accident precursors and reductions of safety margins at nonreactor facilities or during transportation of nuclear materials that are of high safety significance.

**Performance Indicator:** Number of malfunctions, deficiencies, events, or conditions at nonreactor facilities or during transportation of nuclear materials that meet or exceed AO criteria III.A or III.B (events at facilities other than nuclear power plants and all transportation events).

**Discussion:** This indicator tracks the effectiveness of NRC's regulatory safety programs for nonreactor facilities or during transportation of nuclear materials through the number of instances in which safety margins at nonreactor facilities are at unacceptable levels. No occurrences of this nature took place during FY 2017.

### Safety Goal Strategies

The NRC's FY 2014–2018 Strategic Plan describes the seven Safety goal strategies.

## Strategic Goal 2: Ensure the Secure Use of Radioactive Materials

### Strategic Objectives

Strategic objectives more specifically express the results that are needed to achieve a strategic goal. The strategic objectives for Goal 2 are the following two statements in bold text.

#### **1. Ensure protection of nuclear facilities and radioactive materials.**

Protecting nuclear facilities and radioactive materials are key elements for achieving the NRC's Security goal. Nuclear facilities and materials are protected against hostile intent by two primary means: (1) control of access to facilities and materials; and (2) accountability controls for radioactive materials. These controls are intended to prevent those with hostile intent from either damaging a nuclear facility in such a way that a significant release of radioactive materials to the environment occurs, or obtaining enough radioactive material for malevolent use.

#### **2. Ensure protection of classified and Safeguards Information**

Protecting classified and Safeguards Information is another key contributor to achieving the agency's Security goal. This is accomplished primarily by controlling access to this information to ensure that potential adversaries cannot use it for malevolent purposes, such as sabotage, theft, or diversion of radioactive materials.

The strategic objectives specify the conditions that must be met for the agency to ensure the secure use of radioactive materials.

## Fiscal Year 2017 Results

In FY 2017, the NRC achieved its Security goal strategic objectives. The NRC also uses three Security goal performance indicators to determine whether the agency has met its Security goal. The agency met all three performance indicator targets in FY 2017. Table 2 shows the outcomes from FY 2015–FY 2017. The cost of achieving the agency’s Security goal was \$43.9 million in FY 2017.

## Security Performance Indicators: FY 2015–2017

**Table 2 FY 2015–2017 Security Performance Indicators**

### Goal – Security: Ensure Secure Use of Radioactive Materials

**1. Prevent sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
All Business Lines	0	0	0	0	0	0

**2. Prevent substantial breakdowns of physical security, cyber security, or material control and accountability.**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
All Business Lines	0	0	0	0	0	0

**3. Prevent significant unauthorized disclosures of classified or Safeguards Information (SGI).**

Business Line	FY 2015		FY 2016		FY 2017	
	Target	Actual	Target	Actual	Target	Actual
All Business Lines	0	0	0	0	0	0

### Security Objective 1: Ensure protection of nuclear facilities and radioactive materials.

**Performance Goal 1:** Prevent sabotage, theft, diversion, or loss of risk significant quantities of radioactive material.

**Performance Indicator:** Number of instances of sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material that meet or exceed AO criteria I.C.1 (unrecovered lost, stolen, or abandoned sources), I.C.2 (substantiated case of actual theft or diversion), and the portion of criterion I.C.3 (substantiated loss of a formula quantity) concerning theft or diversion of special nuclear material.

**Discussion:** This indicator measures the agency’s effectiveness at preventing sabotage, theft, diversion, or loss of risk-significant quantities of radioactive material through tracking any loss or theft of radioactive nuclear sources that the NRC has determined to be of significant risk. The indicator also measures the agency’s performance in ensuring the proper accounting for radioactive sources of significant risk that could be used for malicious purposes. It also measures whether NRC-licensed facilities maintain adequate protective capabilities to prevent theft or diversion of nuclear material or sabotage that could result in substantial harm to the public health and safety. No such incidents took place during FY 2017.

**Performance Goal 2:** Prevent substantial breakdowns of physical security, cyber security, or material control and accountability.

**Performance Indicator:** Number of substantial breakdowns of physical security, cyber security, or material control and accountability that meet or exceed AO criterion I.C.4 (substantial breakdown of physical security or materials control that will include breakdowns of cyber security) and the portion of AO criterion I.C.3 (substantiated loss of a formula quantity) concerning breakdowns of the accountability system for special nuclear material.

**Discussion:** This indicator measures the agency’s effectiveness in maintaining security by tracking any substantial breakdowns in access control, containment, or accountability systems that significantly weakened the protection against theft, diversion, or sabotage for nuclear materials that the agency has determined to be of significant risk. In FY 2017, there were no incidents of this nature.

### **Security Objective 2: Ensure protection of classified and Safeguards Information (SGI).**

**Performance Goal 3:** Prevent significant unauthorized disclosures of classified or SGI.

**Performance Indicator:** Number of significant unauthorized disclosures of classified or SGI by licensees as defined by AO criterion I.C.5 and by NRC employees or contractors as defined by analogous NRC internal criteria.

**Discussion:** This indicator includes significant unauthorized disclosures of classified or Safeguards Information that cause damage to national security or public safety. This indicator reflects whether information that can harm national security (classified information) or cause damage to the public health and safety (SGI) has been protected sufficiently to prevent its disclosure to terrorist organizations, other nations, or personnel without a need to know. No significant unauthorized disclosures occurred in FY 2017.

### **Security Goal Strategies**

The NRC’s FY 2014– 2018 Strategic Plan describes the seven safety goal strategies.

## **Future Challenges**

The NRC’s FY 2014– 2018 Strategic Plan describes agency’s future challenges. The nuclear industry has maintained an excellent safety record at nuclear power plants over the past two decades as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Maintaining this excellent safety record requires that the agency take proactive measures to ensure the accomplishment of its mission. The key challenges the agency faces are highlighted below.

### **Market Pressures on Operating Plants and License Applications**

Market forces result in pressures to reduce operating costs. As a result, the NRC needs to be prepared to address potential shutdowns of facilities before license expiration and to continue to ensure that oversight programs identify degrading facility safety and security performance. Conversely, the lower capital costs of small modular reactors (under 300 megawatts) may offer industry a more attractive option to add new capacity. Several entities are seeking to submit license applications for small modular reactors in the next several years. The U.S. Department of Energy (DOE) is funding a program “to design, certify and help commercialize innovative small modular reactors in the United States.” The NRC is developing a licensing framework for these as well as other advanced reactors.

### Significant Operating Incident at a Non-U.S. Nuclear Facility

A significant incident at a nuclear facility outside the United States could cause the agency to reassess its safety and security requirements, which could change the agency's focus on some initiatives related to its objectives until the situation stabilizes.

### Significant Operating Incident at a Domestic Nuclear Facility

A significant incident at a U.S. nuclear facility could cause the agency to reassess its safety and security requirements, which could change the agency's focus on some initiatives related to its objectives until the situation stabilizes. Because the NRC's stakeholders are highly sensitive to many issues regarding the use of radioactive materials, even events of relatively minor safety significance could potentially require a response that consumes considerable agency resources.

### International Nuclear Standards Developments

International organizations, such as the International Atomic Energy Agency (IAEA), will continue to develop and issue standards and guidance affecting global commitments to nuclear safety and security. To ensure that the best results are achieved both domestically and internationally, the NRC needs to proactively engage in these international initiatives and to provide leadership in a cooperative and collegial manner.

### International Treaties and Conventions

As part of the international response to lessons learned from the Fukushima Dai-ichi nuclear accident in Japan, the international nuclear regulatory community is reviewing the Convention on Nuclear Safety. As one of the contracting parties to the Convention, the NRC is a member of the working group that is reviewing the Convention. Likewise, the NRC participates in the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

The ratification by the United States of international instruments related to the security of nuclear facilities or radioactive materials could potentially impose binding provisions on the Nation and the corresponding governmental agencies, such as the NRC and the DOE.

### Globalization of Nuclear Technology and the Nuclear Supply Chain

Components for nuclear facilities are increasingly manufactured overseas, resulting in the challenges of providing effective oversight to ensure that these components are in compliance with NRC requirements. In addition, the continuing globalization of nuclear technology is driving the need for increasing international engagement on the safe and secure use of radioactive material.

### Significant Terrorist Incident

A sector-specific credible threat or actual significant terrorist incident anywhere in the United States would result in the U.S. Department of Homeland Security raising the threat level under the National Terrorism Advisory System. In turn, the NRC would similarly elevate the oversight and response stance for NRC-regulated facilities and licensees. Potentially, new or revised security requirements or other policy decisions might affect the NRC, its partners, and the

regulated community. In a similar fashion, a significant terrorist incident at a nuclear facility or activity anywhere in the world would need to be assessed domestically and potentially lead to a modification of existing security requirements for NRC-regulated facilities and licensees.

### Legislative and Executive Branch Initiatives

Congressional and Executive Branch initiatives concerning cybersecurity may potentially impact the NRC’s regulatory framework for nuclear security. If the NRC were to become concerned about an aspect of a bill or policy initiative that had been introduced, the staff would consult the Commission to develop a strategy for making such concerns known.

### Lost, Misplaced, Intercepted, or Delayed Information

With the increased use of mobile devices and alternative storage options, the introduction of new communication technologies, and the increased use of telecommunication, there is a heightened risk that sensitive information held by the NRC or its licensees can be lost, misplaced, or intercepted and fall into the hands of unauthorized persons.

### Data Completeness and Reliability

The NRC considers the data contained in this report to be complete, reliable, and relevant. The data are complete because the agency reports actual performance data for every performance goal and indicator in the report. In addition, all of the data are reported for each measure. The agency also considers the data in this report reliable and relevant, because they have been validated and verified. The NRC’s “Report to Congress on Abnormal Occurrences” (NUREG-0090, Volume 38, at <http://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr0090/v38/>) contains more information on the AO criteria. On page 97 of the NRC’s FY 2018 Congressional Budget Justification (NUREG-1100, Volume 33, at <https://www.nrc.gov/reading-rm/doc-collections/nuregs/staff/sr1100/v33/>), the section entitled “Data Collection Procedures for Verification and Validation of Performance Measures,” describes the processes the agency uses to collect, validate, and verify performance data in this report.

### Financial Performance Overview

The NRC prepared its principal financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and the OMB Circular A-136.

As of September 30, 2017, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control over these funds in place to ensure that obligations did not exceed budget authority.

### Sources of Funds

#### Appropriations

The NRC receives two appropriations: (1) Salaries and Expenses and (2) the OIG. For FY 2017 the NRC received total appropriations were \$917.1 million, which included \$905.0 million for the Salaries and Expenses appropriation and \$12.1 million for the OIG.

## Chapter 1 • Management’s Discussion and Analysis

The NRC’s Salaries and Expenses appropriation decreased \$85.0 million compared to the prior-year. The appropriation for the OIG stayed at the same level.

The Salaries and Expenses appropriation is available until expended. This includes a provision that not more than \$7.5 million be made available for the Office of the Commission; these funds are available for obligation by the NRC through September 30, 2018. After that date, the remaining funds which have not been obligated for the Office of the Commission are available until expended as part of the Salaries and Expenses appropriation. The OIG appropriation is available to obligate for 2 years (FY 2017 and FY 2018) through September 30, 2018. This 2-year funding includes \$1.0 million for Inspector General (IG) services to be provided to the Defense Nuclear Facilities Safety Board (DNFSB).

### Total Budget Authority

The total budget authority available for the NRC to obligate in FY 2017 was \$979.2 million and included \$917.1 million for appropriations, \$33.3 million of prior-year appropriations, \$6.9 million from prior-year funding for reimbursable work, \$1.4 million of prior-year funding for resources received from the DOE to fund the NRC activities associated with the Nuclear Waste Policy Act of 1982, \$5.6 million from FY 2016 spending authority from offsetting collections (reimbursable work performed for other Federal agencies and commercial customers), \$14.5 million from recoveries of prior-year unpaid obligations, and \$0.4 million from recoveries of prior-year paid obligations. Funds available to obligate in FY 2017 decreased from the FY 2016 amount of \$1,044.0 million by \$64.8 million primarily as a result of a decrease of \$85.0 million in appropriations, offset by an increase of \$16.0 million in prior-years appropriations.

### Total Budget Authority (IN MILLIONS)

For the fiscal years ended September 30,	2017	2016
Appropriations		
Salaries and Expenses	\$ 905.0	\$ 990.0
Office of the Inspector General	12.1	12.1
<b>Total Appropriations</b>	<b>917.1</b>	<b>1,002.1</b>
Other Budget Authority		
Prior-years Appropriations	33.3	17.3
Prior-years Funding for Reimbursable Work	6.9	7.9
Prior-years Funding from DOE	1.4	2.8
Spending Authority from Offsetting Collections	5.6	4.8
Recoveries of Prior-year Unpaid Obligations	14.5	8.9
Recoveries of Prior-year Paid Obligations	0.4	0.2
<b>Total Other Budget Authority</b>	<b>62.1</b>	<b>41.9</b>
<b>Total NRC Budget Authority</b>	<b>\$ 979.2</b>	<b>\$ 1,044.0</b>

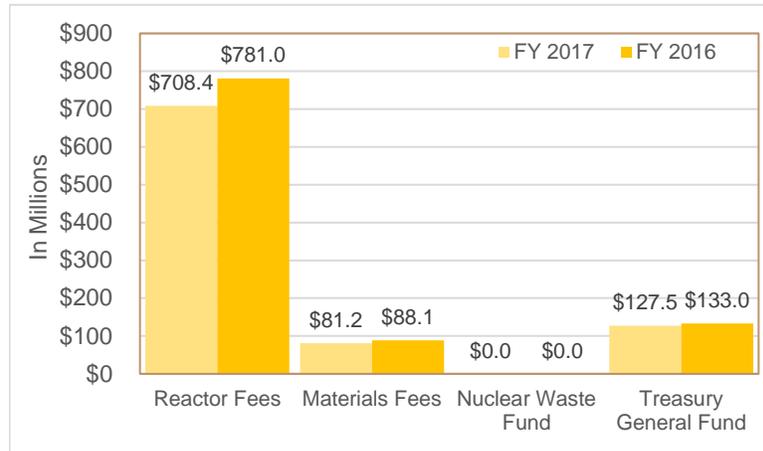
### Fee Collection Offset of Appropriations

The *Omnibus Budget Reconciliation Act of 1990* (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its appropriation. By law, this excludes amounts appropriated for Waste Incidental to Reprocessing, generic homeland security, IG services for the DNFSB, and \$5.0 million for advanced reactor regulatory infrastructure. Funds

equal to fees collected are transferred to the NRC’s two appropriations, and the Treasury issues a negative warrant for the amount of the fee transfer to reduce the NRC’s appropriations.

In FY 2017, the NRC collected and transferred \$789.6 million to the Treasury (see Figure 6), which represents 98.1 percent of the approximately \$804.6 million projected to be recovered in FY 2017. The fees collected during FY 2016 and transferred to the Treasury totaled \$869.1 million, which represents 98.4 percent of the approximately \$882.9 million projected to be recovered in FY 2016.

**Figure 6 Sources of Funds for Appropriations**



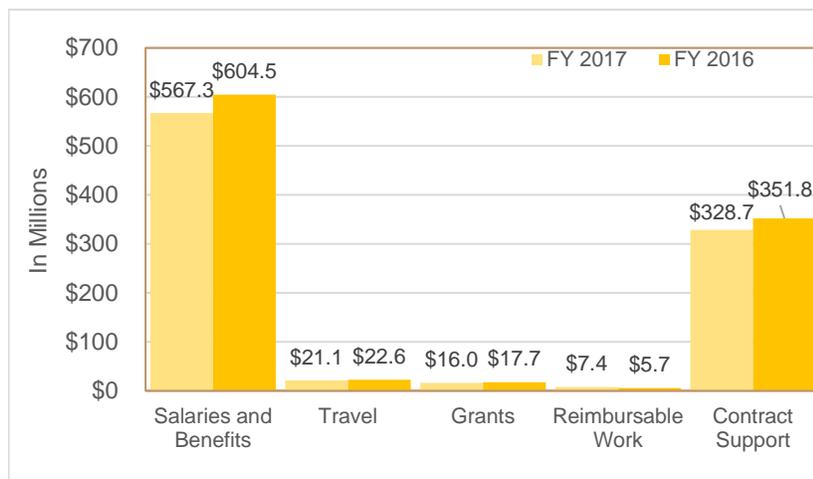
## Uses of Funds by Function

Funds are used when the NRC incurs obligations against budget authority. Obligations are legally binding agreements that will result in an outlay of funds.

The NRC incurred obligations of \$940.5 million in FY 2017, which represented a decrease of \$61.8 million from FY 2016 (see Figure 7). Approximately 60 percent of obligations in FY 2017 were for salaries and benefits. The remaining 40 percent were used to obtain technical assistance for the NRC’s principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), and to pay for staff travel.

The unobligated budget authority at the end of FY 2017 was \$38.7 million which was a \$2.9 million decrease from the FY 2016 amount of \$41.6 million. Of the \$38.7 million unobligated balance at the end of FY 2017, \$26.1 million was available to fund the NRC critical needs in FY 2018, \$7.4 million was for reimbursable work, \$4.7 million was for special purpose funds, and \$0.5 million was for the Nuclear Waste Fund (NWF). The \$41.6 million unobligated balance at the end of FY 2016

**Figure 7 Use of Funds (Obligations)**



included \$28.9 million to fund the NRC critical needs in FY 2017, \$7.0 million for reimbursable work, \$4.3 million for special purpose funds, and \$1.4 million for the NWF.

## Audit Results

The NRC received an unmodified audit opinion on its FY 2017 financial statements and internal controls. The auditors found no reportable instances of noncompliance with laws and regulations during the FY 2017 audit.

Chapter 2, “Financial Statements and Auditor’s Report” of this report includes a summary of the financial statement audit results.

## Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the entity in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by the OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

## Financial Statement Highlights

The NRC’s financial statements summarize the agency’s financial position and financial condition. Chapter 2 of this report includes the financial statements, footnotes, and required supplementary information. The following is an analysis of the financial statements.

### Analysis of the Balance Sheet

**Assets.** The NRC’s total assets were \$545.6 million as of September 30, 2017, representing a decrease of \$3.8 million from the same period of FY 2016. Changes in major categories include decreases of \$2.4 million in the Fund Balance with the Treasury, \$1.4 million in Other Assets, and \$0.9 million in Property and Equipment, Net; these are offset by an increase of \$0.9 million in Accounts Receivable, Net.

### Asset Summary (IN MILLIONS)

As of September 30,	2017	2016
Fund Balance with Treasury	\$ 365.8	\$ 368.2
Accounts Receivable, Net	87.1	86.2
Property and Equipment, Net	79.9	80.8
Other Assets	12.8	14.2
Total Assets	\$ 545.6	\$ 549.4

The Fund Balance with Treasury was \$365.8 million as of September 30, 2017, which accounts for 67 percent of total assets. This account represents appropriated funds, license fee collections, and other funds maintained at the Treasury to pay current liabilities and to finance authorized purchase commitments. The \$2.4 million decrease in the fund balance is primarily the result of an increase of \$14.4 million in the beginning balance and a decrease of \$85.0 million in appropriations; offset by a decrease in net disbursements (outlays) of \$68.2 million, which primarily consists of decreases of \$37.3 million in salaries and benefits, \$22.8 million for contract services and equipment, and \$1.5 million for travel and transportation.

Accounts receivable consists of amounts that other Federal agencies and the public owe to the NRC for license fees. As of September 30, 2017, Accounts Receivable, Net was \$87.1 million,

## Chapter 1 • Management’s Discussion and Analysis

which includes an offsetting allowance for doubtful accounts of \$3.9 million. For FY 2016, the year-end Accounts Receivable, Net, balance was \$86.2 million, including an offsetting allowance for doubtful accounts of \$3.9 million. The net increase in accounts receivable from the prior year of \$0.9 million primarily results from an increase of \$1.5 million for license fees due from the public, offset by a decrease of \$0.6 million for license fees due from other Federal agencies.

Property and Equipment consists primarily of typical office furnishings, leasehold improvements, nuclear reactor simulators, and computer hardware and software. (The NRC has no real property. The land and buildings in which the NRC operates are leased from the U.S. General Services Administration (GSA).). At the end of FY 2017, Property and Equipment, Net was \$79.9 million, a \$0.9 million decrease from the FY 2016 amount of \$80.8 million. The change is primarily results from a decrease of \$3.4 million for completed leasehold improvements and leasehold improvements-in-process, offset by increases of \$2.0 million in capitalized software under development, \$0.3 million for net realizable value (original cost less accumulated amortization and depreciation) of completed software in operation, and \$0.2 million for equipment.

**Liabilities.** Total liabilities were \$114.0 million as of September 30, 2017, representing a decrease of \$14.0 million from the FY 2016 balance of \$128.0 million. Other Liabilities decreased by \$13.3 million while Accounts Payable and Federal Employee Benefits remained

approximately the same as the prior year. For FY 2017, Other Liabilities represented 69 percent of the Total Liabilities and included \$42.0 million in accrued annual leave, \$20.2 million in accrued funded salaries and benefits, \$9.6 million in grants payable, \$4.0 million in advances received by the NRC for services that will be provided, \$1.2 million in accrued workers’ compensation, and \$1.2 million in contract holdbacks, capital lease liability, and miscellaneous liabilities.

Total liabilities include liabilities not covered by budgetary resources, which represent expenses recognized in the financial statements that will be paid from future appropriations. The liabilities not covered by budgetary resources were \$48.6 million for FY 2017, compared to \$50.7 million for FY 2016, a \$2.1 million decrease. For FY 2017 the liabilities not covered by budgetary resources represented 43 percent of Total Liabilities and included \$42.0 million in unfunded accrued annual leave that has been earned but not yet taken, \$5.4 million as an actuarial estimate of accrued future workers’ compensation expenses included in Federal Employee Benefits, and \$1.2 million in accrued workers’ compensation included in Other Liabilities.

**Net Position.** The difference between Total Assets and Total Liabilities, Net Position, was \$431.6 million as of September 30, 2017, an increase of \$10.3 million from the FY 2016 year-end balance. Net Position is comprised of two components: Unexpended

Appropriations and Cumulative Results of Operations which is the cumulative excess of

### Liabilities Summary (IN MILLIONS)

As of September 30,	2017	2016
Accounts Payable	\$ 30.4	\$ 30.9
Federal Employee Benefits	5.4	5.6
Other Liabilities	78.2	91.5
Total Liabilities	\$ 114.0	\$ 128.0

### Net Position Summary (IN MILLIONS)

As of September 30,	2017	2016
Unexpended Appropriations	\$ 306.8	\$ 297.5
Cumulative Results of Operations	124.8	123.9
Total Net Position	\$ 431.6	\$ 421.4

financing sources over expenses. Additional information is presented in the Analysis of the Statement of Changes in Net Position on page 22.

## Analysis of the Statement of Net Cost

The Statement of Net Cost presents the gross cost of the NRC’s two major programs (Nuclear Reactor Safety and Nuclear Materials and Waste Safety) as identified in the NRC Annual Performance Plan, offset by earned revenue. The purpose of this statement is to link program performance to the cost of programs. The NRC’s net cost of operations for the year ended September 30, 2017, was \$144.3 million, representing a decrease of \$7.0 million compared to the FY 2016 net cost of \$151.3 million. This includes a decrease in gross costs of \$74.8 million and a decrease in earned revenue of \$67.8 million, which offset the decreased costs.

### Net Costs of Operations (IN MILLIONS)

For the fiscal years ended September 30,	2017	2016
Nuclear Reactor Safety	\$ 26.7	\$ 25.3
Nuclear Materials and Waste	117.6	126.0
Net Cost of Operations	\$ 144.3	\$ 151.3

**Gross Costs.** The NRC’s total gross costs were \$940.6 million for FY 2017, a decrease of \$74.8 million from the prior-year amount of \$1,015.4 million. The gross costs in FY 2017 for the Nuclear Reactor Safety program were \$736.8 million compared to FY 2016 gross costs of \$795.2 million, a decrease of \$58.4 million. The decrease is primarily resulted from a decrease of \$48.2 million in salaries and benefits. The gross costs in FY 2017 for the Nuclear Materials and Waste Safety program were \$203.8 million compared to FY 2016 gross costs of \$220.2 million, a decrease of \$16.4 million. The decrease is primarily resulted from a decrease of \$11.0 million in salaries and benefits.

**Figure 8 Gross Costs by Strategic Goals for the Fiscal Year Ended September 30, 2017**



The cost of achieving the agency’s Safety and Security goals for the agency’s programs for FY 2017 is the gross cost presented in the Statement of Net Cost. The total cost for achieving the agency’s Safety goal was \$896.7 million and the cost of achieving the agency’s Security goal was \$43.9 million (see Figure 8).

**Earned Revenue.** Total earned revenue for FY 2017 was \$796.3 million, a decrease of \$67.8 million from the FY 2016 earned revenue of \$864.1 million. Revenue for the Nuclear Reactor Safety program in FY 2017 was \$710.1 million compared to \$769.9 million in FY 2016, a decrease of \$59.8 million. The \$59.8 million decrease is primarily resulted from decreases of \$69.6 million for Operating Reactors licensing fees; offset by an increase of \$8.6 million for New Reactor licensing fees. Revenue from the Nuclear Materials and Waste Safety program in FY 2017 was \$86.2 million compared to \$94.2 million in FY 2016, a decrease of \$8.0 million.

Fees collected (earned primarily in FY 2017) and offset against the NRC appropriations were \$789.6 million compared to \$869.1 million in FY 2016. The decrease of \$79.5 million in license fee collections resulted from a decrease of \$87.0 million in budget authority in FY 2017, which decreased the amount of fees from licensees that the NRC is required to collect. The NRC is required to collect approximately 90 percent of its appropriation through license fee billing. The agency collects fees for reactor and materials licensing and inspections in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, “Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services under the Atomic Energy Act of 1954, as amended,” at <https://www.nrc.gov/reading-rm/doc-collections/cfr/part170/>, and 10 CFR Part 171, “Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC,” at <https://www.nrc.gov/reading-rm/doc-collections/cfr/part171/>.

### Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) reports the change in net position for the reporting period. Net position is affected by the changes in two components: (1) Cumulative Results of Operations and (2) Unexpended Appropriations. In FY 2017, the NRC had an increase in Net Position of \$10.2 million resulting from increases of \$9.4 million in the Unexpended Appropriations and \$0.8 million in Cumulative Results of Operations.

The SCNP and the following analysis reflects offsetting adjustments made to the beginning balances for FY 2017 Cumulative Results of Operations. The FY 2017 beginning balance for Cumulative Results of Operations was adjusted upward by \$6.4 million as result of a prior-period adjustment related to Leasehold Improvement projects that were previously expensed. The increase in Cumulative Results of Operations of \$0.8 million, primarily comprised of decreases of \$2.0 million in the adjusted beginning balance and \$4.2 million in financing sources offset by a decrease of \$7.0 million in the net cost of operations. The decrease in financing sources resulted from increases of \$2.5 million in appropriations used to finance current operations and a decrease of \$6.7 million in imputed financing for the future cost of employee retirement, health insurance, and life insurance benefits. The decrease in the net cost of operations resulted from a decrease of \$74.8 million in gross costs, offset by a decrease of \$67.8 million in earned revenue.

The change in Unexpended Appropriations results from appropriations received, net of license fee collections, being more or less than the appropriations used to finance the NRC operations. The increase in FY 2017 Unexpended Appropriations of \$9.4 million resulted from an increase in the adjusted beginning balance of \$17.4 million offset by a decrease of \$5.5 million in appropriations received, net of license fees collected, and an increase of \$2.5 million in appropriations used to finance the NRC operations. The increase in appropriations received, net of license fees collected, resulted from appropriations received for FY 2017 of \$917.1 million, reduced by current year license fee collections of \$789.6 million, as compared to appropriations received in FY 2016 of \$1,002.1 million, reduced by FY 2016 license fee collections of \$869.1 million.

### Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) provides information on budgetary resources available to the NRC and their status at the end of the period. In FY 2017, the Total Budgetary Resources of \$979.2 million were available. This was \$64.8 million less than the

\$1,044.0 million available for FY 2016. The two major components of Total Budgetary Resources that contributed to the decrease are appropriations and the beginning unobligated balance brought forward, October 1. The NRC’s appropriations were \$917.1 million in FY 2017 compared to \$1,002.1 million in FY 2016, accounting for a \$85.0 million decrease in funding. This was offset by the beginning unobligated balance for FY 2017 of \$41.6 million compared to the beginning unobligated balance in FY 2016 of \$28.0 million, an increase of \$13.6 million. Other increases included recoveries of prior-year unpaid obligations of \$5.6 million and spending authority from offsetting collections for reimbursable work of \$0.8 million.

The Status of Budgetary Resources accounts for operational activities funded with the NRC’s budgetary resources during the fiscal year. The NRC’s obligations for FY 2017 totaled \$940.5 million, a decrease of \$61.8 million from the prior-year amount of \$1,002.3 million. The decrease is primarily resulted from decreases of \$37.3 million in salaries and benefits; \$17.0 million in contract obligations for the Nuclear Reactor Safety program and \$4.7 million for the Nuclear Materials and Waste Safety program; \$1.6 million for grants; and \$0.3 million in travel expenses.

The Status of Budgetary Resources also accounts for the funds that were not used in operations during the fiscal year. Total budgetary resources not obligated at the end of the fiscal year were \$38.7 million, a decrease of \$2.9 million from the prior-year balance of \$41.6 million. The variance resulted from decreases of \$4.8 million in unexpired unobligated resources that were apportioned and \$0.9 million in resources for the NWF that are exempt from apportionment; offset by \$2.6 million that was not apportioned in FY 2017 and \$0.2 million in expired unobligated balances.

## Management Assurances, Systems, Controls, and Legal Compliance

### Federal Managers’ Financial Integrity Act (Integrity Act or FMFIA)

FMFIA mandates that agencies establish internal control to provide reasonable assurance that the agency complies with applicable laws and regulations; safeguards assets against waste, loss, unauthorized use, or misappropriation; and properly accounts for and records revenues and expenditures. FMFIA encompasses program, operational, and administrative areas, as well as accounting and financial management. It also requires the NRC Chairman to provide an assurance statement on the adequacy of internal controls and on the conformance of financial systems with Government-wide standards.

### Enterprise Risk Management and Programmatic Internal Control

Enterprise Risk Management (ERM) provides an enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides better insight about how to most effectively prioritize resource allocations to ensure successful mission delivery. A principal component of ERM is Internal Control, which the U.S. Government Accountability Office in GAO-14-704G, “Standards for Internal Control in the Federal Government,” defines as “a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.”

On July 15, 2016, the OMB issued a revised Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” complete with specific ERM requirements

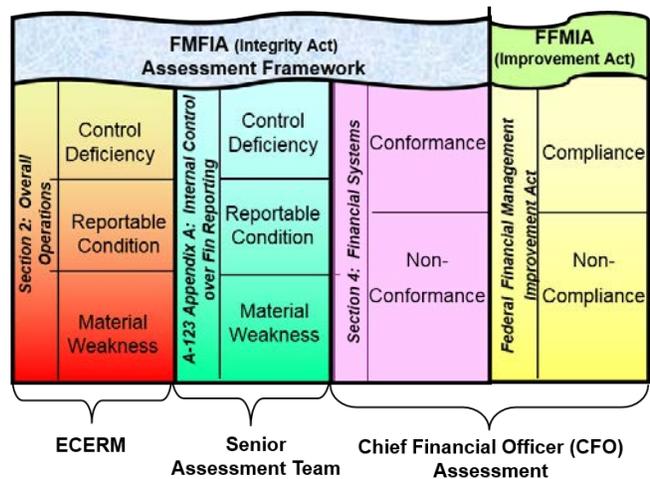
# Chapter 1 • Management’s Discussion and Analysis

for Federal agencies. Soon after, the NRC developed an ERM framework. The framework highlighted the agency’s strategy to fully comply with the OMB’s ERM requirements. The strategies include the following:

- **updating** the agency’s Internal Control management directive to incorporate ERM
- **leveraging** appropriate agency governance organizations and processes currently in place such as the NRC Internal Control Governance Framework, and the Quarterly Performance Review meetings
- **standing up** the agency’s Programmatic Senior Assessment Team (PSAT) as the agency evaluation structure for enterprise risks
- **developing and disseminating** ERM and Internal Control awareness training to all NRC management and staff
- **incorporating** ERM into executive decision-making, and management’s evaluation of the NRC’s internal control and reasonable assurance processes

Under the NRC’s FMFIA Governance Framework (see Figure 9), reading from left to right: the Chief Financial Officer (CFO) is responsible for ensuring that the agency complies with the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Section 4 of FMFIA, “Financial Systems.” The Senior Assessment Team, chaired by the CFO, is responsible for ensuring that the agency complies with OMB Circular A-123, Appendix A, “Internal Control over Financial Reporting.” The Executive Committee on Enterprise Risk Management (ECERM), co-chaired by the CFO and the EDO, is responsible for ensuring that the agency’s internal control over programmatic operations complies with FMFIA.

**Figure 9 The NRC’s FMFIA Governance Framework**

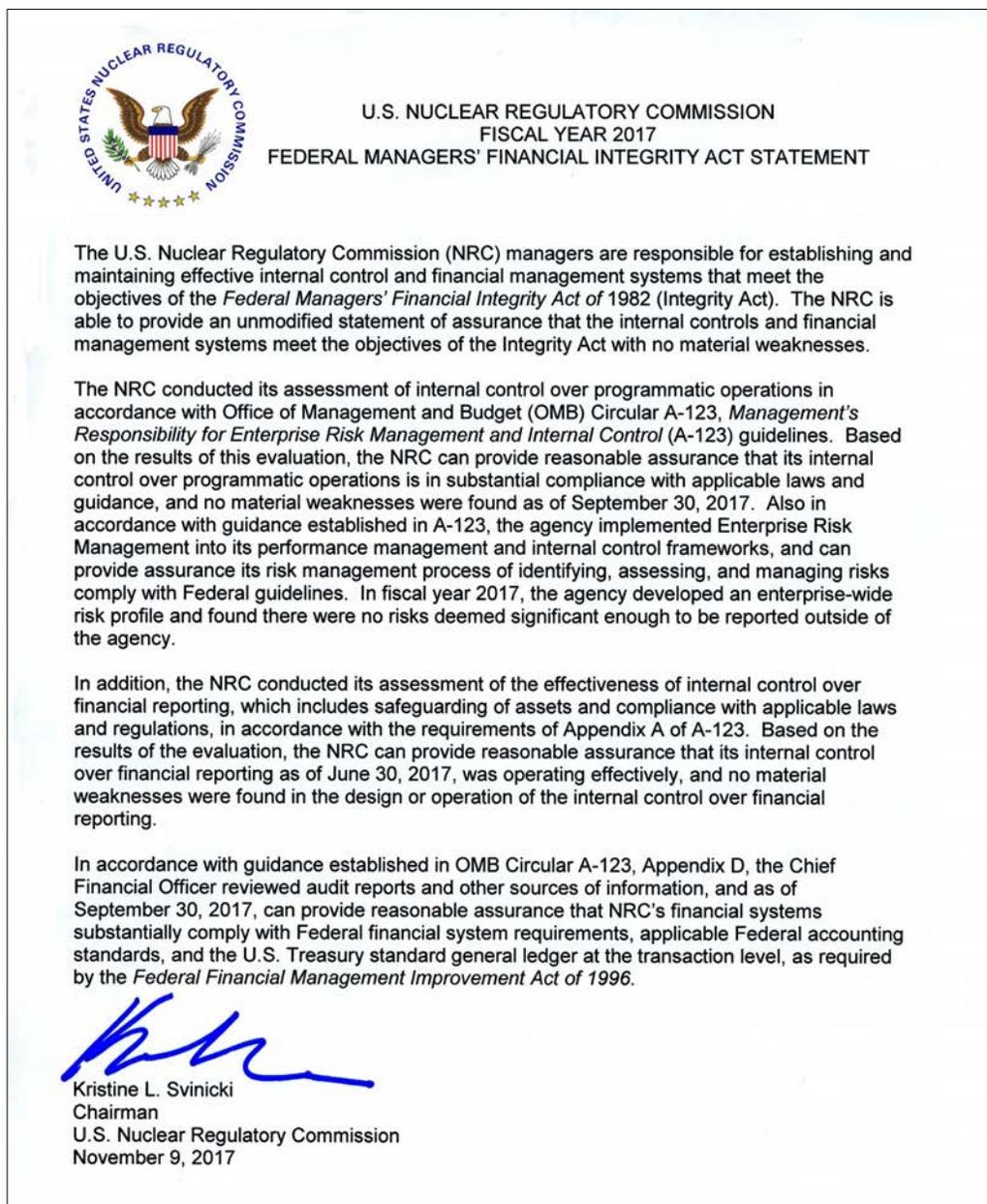


The NRC’s EDO and the CFO co-chaired by the ECERM. The other members that comprise the ECERM are senior executives from the Office of the Executive Director for Operations, and the Chief Information Officer. The agency’s General Counsel and IG serve as advisory members. The Senior Assessment Team is chaired by the CFO and Includes senior executives from the Office of the Chief Financial Officer (OCFO) as well as the lead senior officials from the agency’s corporate support business lines, (i.e., the Chief Human Capital Officer, the Chief Information Officer, and the Office of Administration, which includes the agency’s Division of Acquisitions).

The ECERM assessed the agency’s programmatic operations, financial systems, and internal control over financial reporting; reported to the NRC Chairman that there were no internal control deficiencies or enterprise risks serious enough to require reporting as a material

weakness or area of noncompliance; and voted to recommend that the Chairman sign the agency's Integrity Act Statement (see Figure 10).

**Figure 10 Federal Financial Management Improvement Act Statement**



### Fiscal Year 2017 FMFIA Results

In accordance with Section 2 of FMFIA and under the guidance established in OMB Circular A-123, all NRC business line leads certified that, as of September 30, 2017, there was reasonable assurance that internal control was in place to achieve the following objectives:

- Programs achieved their intended results, and are protected from waste, fraud, abuse, and mismanagement.

- Resources were used consistently with the agency’s mission.
- Information systems were authorized and appropriately secured.
- Laws and regulations were followed.
- Risks were appropriately identified, communicated, and mitigated.
- Reliable and timely information was obtained, maintained, reported, and used for sound decision-making.

Based on management’s certification of reasonable assurance, the NRC is able to provide a statement of assurance that its internal control met the objectives of FMFIA. The NRC has reasonable assurance that its internal control is effective and conforms to Government-wide standards.

### Office of Management and Budget Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control”

#### Internal Control over Financial Reporting (Appendix A)

In FY 2006, the NRC implemented the requirements of the revised OMB Circular A-123, which defined and strengthened management’s responsibility for internal control in Federal agencies. The revised circular included updated internal control standards. Appendix A to the circular requires Federal agencies to assess the effectiveness of internal control over financial reporting and to prepare a separate annual statement of assurance as of June 30, 2017.

The NRC adopted a rotational testing plan to assess the effectiveness of its internal controls over financial reporting. Two of the eight key processes (financial reporting and information technology) were significant enough to include in the testing each year of the test plan cycle. The remaining six key processes (budget execution, disbursements, payroll, procurement, property, and revenue) were to be tested once in a 3-year cycle, two each year. Based on the results of the FY 2017 evaluation, the NRC can provide reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2017, and that the evaluation found no material weaknesses in the design or operation of the internal controls over financial reporting.

#### Requirements for Effective Measurement and Remediation of Improper Payments (Appendix C)

In FY 2011, the NRC completed an initial risk assessment to determine whether any programs were susceptible to making significant improper payments in accordance with the *Improper Payments Information Act of 2002* (IPIA) as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). The results of that assessment allowed the agency to conduct future risk assessments on a triennial basis. The NRC conducted the latest risk assessment in FY 2017.

The results of the FY 2017 risk assessment did not identify any programs that were susceptible to making significant improper payments. Although the results of the FY 2017 risk assessment identified programs as low risk, the NRC continues to monitor its payment processes, in addition

to conducting periodic reviews of key controls for IPIA programs identified by management. The NRC will continue to conduct a risk assessment every 3 years in accordance with IPIA, as amended by IPERA and IPERIA, and OMB guidance. The next NRC IPIA risk assessment will take place in FY 2020. In addition, the NRC will conduct additional risk assessments, as needed, if there are material changes in the way programs operate or if the NRC establishes new programs.

Chapter 3, “Other Information,” of this report presents additional information in the “Improper Payments Information Act of 2002 Reporting Details” section.

### Federal Financial Management Improvement Act

FFMIA requires each agency to implement and maintain systems that comply substantially with (1) Federal financial system requirements, (2) applicable Federal accounting standards, and (3) the standard general ledger at the transaction level. FFMIA requires the Chairman to determine whether the agency’s financial management system complies with FFMIA and to develop remediation plans for systems that do not comply.

### Fiscal Year 2017 FFMIA Results

The OCFO successfully completed a system upgrade for its core general ledger system, known as the Financial Accounting and Integrated Management Information System (FAIMIS). The upgrade provides the platform for the required functionality to incorporate the Treasury’s IPP mandate for FY 2019. The agency has successfully implemented the Treasury’s IPP 1 year in advance of the mandated implementation of October 2018. The E-Gov Travel Service and Budget Formulation System (BFS) have also implemented successful system and reporting enhancements. The Human Resource Management System, formerly known as Time and Labor Modernization, has successfully completed the upgrade to the most recent release to address legislative requirements and strengthen controls.

The CFO reviewed audit reports and other sources of information and, as of September 30, 2017, can provide reasonable assurance that NRC’s financial systems substantially comply with applicable Federal accounting standards as required by the FFMIA.

### Digital Accountability and Transparency Act of 2014

The DATA Act aims to establish Government-wide financial data standards and increase the availability, accuracy, and usefulness of Federal spending information. The purposes of the DATA Act are to:

- **Establish Government-wide data standards** for financial data and provide consistent, reliable, and searchable Government-wide spending data that are accurately displayed.
- **Expand accountability** of the *Federal Funding Accountability and Transparency Act of 2006* (FFATA) to disclose direct Federal agency expenditures and link Federal contract, loan, and grant spending information to programs.
- **Simplify reporting** for entities receiving Federal funds by streamlining requirements and reducing compliance costs while improving transparency.

## Chapter 1 • Management's Discussion and Analysis

- **Improve data quality** submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the information submitted.
- **Apply approaches** developed by the Recovery Accountability and Transparency Board for spending across the Federal Government to increase spending transparency and reduce reporting burden.

During FY 2017, the NRC successfully implemented the DATA Act, ahead of the OMB and the Treasury deadlines.

### Financial Management Systems Strategies

The NRC completed significant financial system modernization projects in FY 2017. The agency's core general ledger system, FAIMIS, became the first agency system to migrate to a FedRAMP cloud environment. In FY 2017, the NRC upgraded FAIMIS to obtain required functionality for the FY 2019 Treasury's mandated IPP. Furthermore, the FAIMIS upgrade allows the agency to comply with the DATA Act mandate set by the OMB. The agency completed its integration of travel credit card activity between FAIMIS and the agency's eGov Travel System, eliminating a longstanding manual NRC business process. The agency's BFS implemented its integrated reporting dashboard. Finally, the agency's Human Resources Management System completed its migration to the most recent vendor version in FY 2017.

### Invoice Processing Platform (IPP)

In July 2017, the NRC implemented an automated systems interface with the Treasury's IPP, well in advance of the mandated October 2018 due date for implementation by Federal agencies. The interface with the IPP is for the processing of the agency's commercial acquisitions payments.

### Prompt Payment

The *Prompt Payment Act of 1982*, as amended, requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2017, the NRC paid 99 percent of the 6,618 invoices subject to the Prompt Payment Act on time.

### Debt Collection

The *Debt Collection Improvement Act of 1996* enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the level of delinquent debt owed to the NRC at year end to less than 1 percent of its annual billings. The NRC met this goal. At the end of FY 2017, delinquent debt was \$7.2 million or less than 1 percent of annual billings. The NRC was able to refer 98.3 percent of all eligible debt over 180 days delinquent to the Treasury for collection and 68.6 percent over 120 days old in accordance with the DATA Act. In addition, the NRC met the collections requirements of OBRA-90 which requires the agency to recover through fees approximately 90 percent of its budget authority in the current fiscal year.

### Biennial Review of User Fees

The *Chief Financial Officers Act of 1990* requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies and to make revisions to cover program and administrative costs incurred. The NRC conducted the following reviews in FY 2017:

- Criminal History Program Fees – Completed December 2016
- Review of Administrative Public Use of Auditorium Fees – Completed January 2017
- Review *Freedom of Information Act* (FOIA) Request Fees – Completed May 2017
- Indemnity Fees – Completed May 2017
- Licensing, Inspection, Special Project, and Annual Fees Charged NRC Applicants and Licensees – Completed June 2017

On June 30, 2017, the NRC issued a final rule in the Federal Register (FR) amending the licensing, inspection, and annual fees charged to its applicants and licensees. This rule can be found at <https://www.federalregister.gov/documents/2017/06/30/2017-13520/revision-of-fee-schedules-fee-recovery-for-fiscal-year-2017>.

The amendments are necessary to implement the OBRA-90, as amended, requires the NRC to collect fees to offset approximately 90 percent of its appropriation. By law, this excludes amounts appropriated for Waste Incidental to Reprocessing, generic homeland security, IG services for the DNFSB, and \$5.0 million for advanced reactor regulatory infrastructure. Based on the *Consolidated Appropriations Act, 2017*, the NRC's required fee recovery amount for the FY 2017 budget is \$804.6 million. After accounting for billing adjustments, the total amount to be billed as fees to licensees is \$805.9 million. The NRC revised its Fee Recovery Schedules for FY 2017 in a FR notice dated July 19, 2017, available at <https://www.federalregister.gov/documents/2017/07/19/2017-14717/revision-of-fee-schedules-fee-recovery-for-fiscal-year-2017-corrections>.

- U.S. Navy Review Fees – Completed July 2017
- Orders, Second Notices, Installment of Licenses & Revocation of Outstanding Debt (Debt Collection) – Completed August 2017

### Inspector General Act of 1978

The NRC has established and continues to maintain an excellent record in resolving and implementing OIG open audit recommendations. The status of these recommendations can be found at: <http://www.nrc.gov/reading-rm/doc-collections/insp-gen>.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

# Agency Financial Report

Fiscal Year 2017



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 Pennsylvania, Maryland, and Georgia. OPM's FY 2017 gross budget, including appropriated, mandatory administrative authorities and revolving fund activities, totaled \$2,099,873,211. In FY 2017, the agency had approximately 5,539 full-time equivalent employees. OPM's discretionary budget authority, excluding the Office of the Inspector General, was \$259,000,000. For more information about OPM, please refer to the agency's website, [www.opm.gov](http://www.opm.gov).

## ABOUT THIS REPORT

The FY 2017 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 2018, OPM will publish its FY 2017 Annual Performance Report. The Annual Performance Report will provide an overview of OPM's progress in implementing the strategies and achieving the goals in its FY 2014-FY 2018 Strategic Plan.

The AFR provides an accurate and thorough accounting of OPM's financial performance in fulfilling its mission during FY 2017, 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 Strategic Plan is the starting point for performance and accountability. The FY 2014-2018 plan details ten 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 is developing a new strategic plan for FY 2018-FY 2022 that will be released in February 2018, concurrent with OPM’s 2019 budget request.

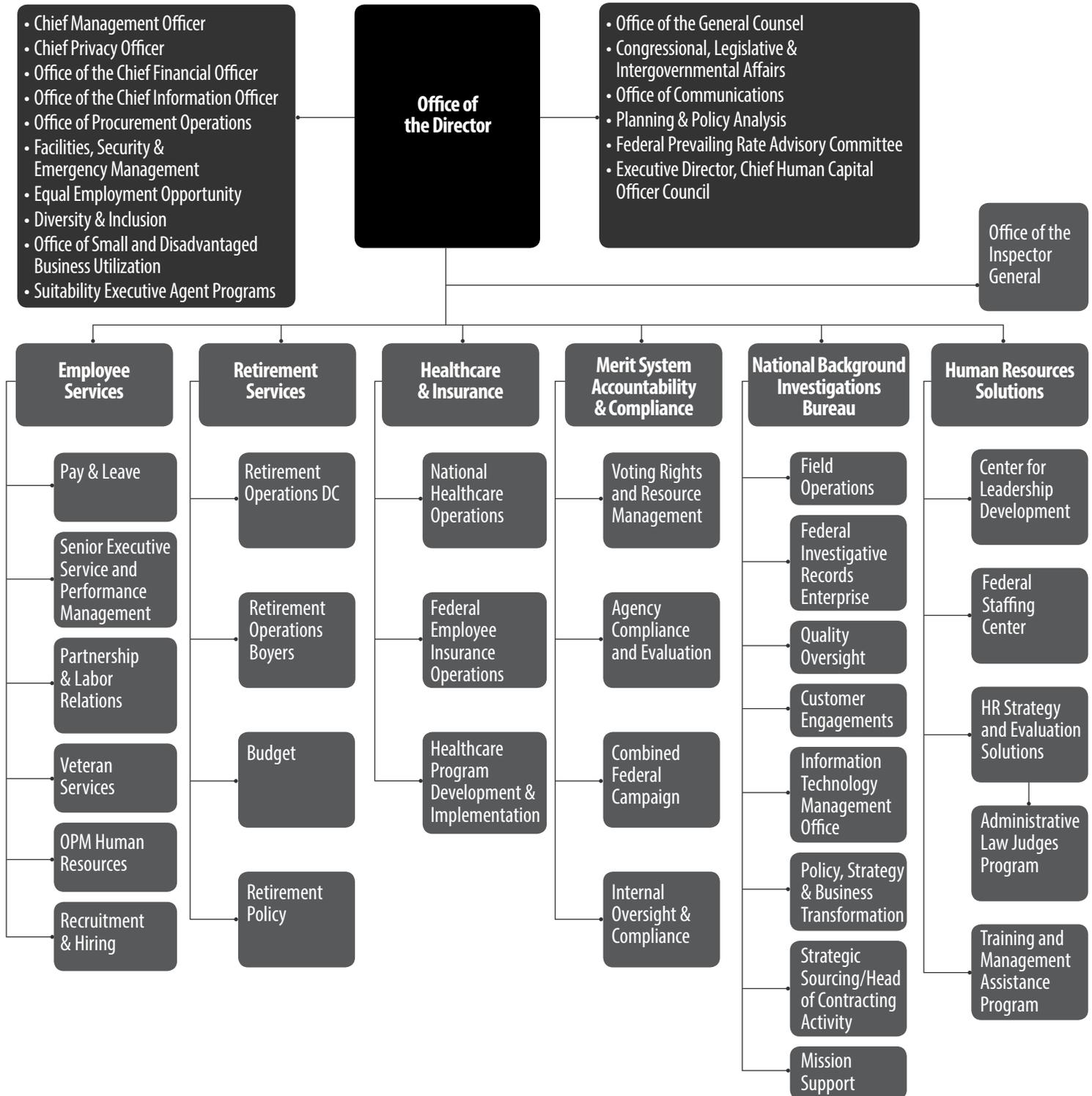
**TABLE 1 - OPM’s Mission Statement:  
Recruit, Retain and Honor a World-Class Workforce to Serve the American People**

Strategic Goal	Goal Statement
<b>GOAL 1</b> Diverse and Effective OPM Workforce	Attract and engage a diverse and effective workforce
<b>GOAL 2</b> Timely, Accurate, and Responsive Customer Service	Provide timely, accurate, and responsive service that addresses the diverse needs of our customers
<b>GOAL 3</b> Evidence-Based Policy and Practices	Serve as the thought leader in research and data-driven human resource management and policy decision-making
<b>GOAL 4</b> Efficient and Effective Information Technology Systems	Manage information technology systems efficiently and effectively in support of OPM’s mission
<b>GOAL 5</b> Transparent and Responsive Budgets	Establish responsive, transparent budgeting and costing processes
<b>GOAL 6</b> 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
<b>GOAL 7</b> Improved Retirement Services	Ensure that Federal retirees receive timely, appropriate, transparent, seamless, and accurate retirement benefits
<b>GOAL 8</b> Enhanced Federal Workforce Integrity	Enhance the integrity of the Federal workforce
<b>GOAL 9</b> 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
<b>GOAL 10</b> Increase the Efficiency and Effectiveness of Human Capital Management Across the Federal Government Total	Increase the efficiency and effectiveness of human capital management across the Federal Government by providing procedures and services that increase accountability, and provide greater organizational and management flexibility

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 implement the programs and deliver the services that enable the agency to meet its strategic goals. The agency’s organizational framework consists of program divisions and offices that both directly and indirectly support the agency’s mission.



OPM's organizations are categorized into five different types of offices: Executive, Program, Mission Support, Others, and the Office of the Inspector General, which are detailed below:

## EXECUTIVE OFFICES

- **The Office of the Director (OD)** provides guidance, leadership and direction necessary to lead and serve the Federal Government by delivering policies and services to achieve a trusted effective civilian workforce. The Suitability and Security Clearance Reform Performance and Accountability Council's Program Management Office (PAC PMO) is also housed within the OD. Also included within OD is the Executive Secretariat (ExecSec) function which is responsible for coordination and review of agency correspondence, policy and program proposals, regulations and legislation. ExecSec serves as the agency's regulatory interface with the Office of Management and Budget and the Federal Register. The office is also responsible for the administrative and resource management support for the OD and other executive offices. And finally, ExecSec coordinates OPM's international affairs activities and contacts.
- **Office of the General Counsel (OGC)** provides legal advice and representation to the Director and OPM managers and leaders so they can work to provide the Federal Government an effective and trusted civilian workforce. OGC does this by rendering opinions, reviewing proposed policies and other work products, and commenting on their legal efficacy, serving as agency representatives in 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 office that fosters and maintains relationships with Members of Congress and their staff. CLIA accomplishes its mission by keeping informed of issues related to programs and policies administered by OPM. CLIA staff attends meetings, briefings, mark ups and hearings in order to advise OPM leadership and liaise with other Federal agencies, Congress, and State and Local 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 and other OPM officials for various activities and events. The OC also plans events that amplify the Administration's and OPM's key initiatives within the agency and Government-wide.
- **Office of 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.
- **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.

## 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, strategic workforce planning, pay and 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-R, 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 Federal Employees Health Benefits (FEHB) Program, Federal Employees' Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employees Dental and Vision Insurance Program (FEDVIP), Flexible Spending Accounts for Federal Employees (FSAFEDS), and OPM's responsibilities to administer the Multi-State Plan Program.
- **Merit System Accountability & Compliance (MSAC)** ensures through rigorous oversight that Federal agency human resources programs are effective and efficient, and comply with merit system principles and related civil service requirements. MSAC evaluates agencies' programs through a combination of OPM-led evaluations and participating in agency-led reviews. The evaluations may focus on all or some of the four systems of the Human Capital Framework: strategic planning and alignment of human resources to mission, performance culture, talent management, and evaluation systems. MSAC reports may identify required corrective actions, which agencies must show evidence of implementing, as well as recommendations for agencies to improve their systems and procedures. MSAC also conducts special cross-cutting studies to assess the use of HR authorities and flexibilities across the Government. Moreover, MSAC reviews and renders decisions on agencies' requests to appoint political appointees to competitive or non-political excepted service positions to ensure such appointments are free of political influence. MSAC also adjudicates classification appeals, job grading appeals, Fair Labor Standards Act claims, compensation and leave claims, and declination of reasonable appeals, all of which provides Federal employees with administrative due process rights to challenge compensation and related agency decisions

without having to resort to seeking redress in Federal courts.

MSAC has Government-wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights programs. The mission of the CFC is to promote and support philanthropy through a program that is employee focused, cost-efficient, and effective in providing all Federal employees the opportunity to improve the quality of life for all. The Voting Rights Program deploys Federal observers to monitor polling sites (as determined by the Attorney General) and provides written reports to the Department of Justice. Finally, MSAC manages OPM's Office of Internal Oversight and Compliance (IOC). IOC drives the resolution of audit recommendations and conducts program evaluations to strengthen OPM's risk management and operational performance.

- **Human Resources Solutions (HRS)** is a reimbursable organization offering a complete range of tailored and standardized human resources products and services designed to meet the unique and dynamic needs of the Federal Government. As such, HRS provides customer agencies with innovative, high quality Government-to-Government solutions to help them develop leaders, attract and build a high quality public sector workforce, and achieve long-lasting results. This includes 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.
- **National Background Investigations Bureau (NBIB)** is responsible for providing investigative products and services for over 100 Federal agencies to use as the basis for a variety of adjudicative decisions, including but not limited to security clearance and suitability decisions as required by Executive Orders and other rules and regulations. It focuses on continual process improvements through innovation, stakeholder engagement, agile acquisition strategy, and a focus on national security. NBIB absorbed the roles, responsibilities, and staff of Federal Investigative Services (FIS) starting in FY 2017.
- **Suitability Executive Agent (SuitEA)** was established as a distinct program office within OPM in December 2016 to strengthen the effectiveness of suitability vetting across the Government. SuitEA prescribes suitability standards and conducts oversight of functions delegated to the heads of agencies while retaining jurisdiction for certain suitability determinations and taking Government-wide suitability actions when appropriate. SuitEA also issues guidelines and instructions to the heads of agencies to promote appropriate uniformity, centralization, efficiency, effectiveness, reciprocity, timeliness, and security in suitability/fitness/credentialing processes.

## MISSION SUPPORT SERVICES

- **Chief Financial Officer (CFO)** provides leadership and coordination of OPM financial management services, accounting, financial systems, budget, performance, enterprise risk management and internal controls programs which enable the agency to achieve strategic objectives and mission. Additionally, the OCFO ensures the completion of timely and accurate financial reports that support decision making to comply with Federal requirements and demonstrate effective management of taxpayer dollars.
- **Chief Information Officer (CIO)** develops the Information Resource Management Plan and defines the information technology vision and strategy to include information technology policy and security for OPM. The CIO manages the IT infrastructure that supports OPM business applications and operations. The CIO shapes the application of technology in support of the agency's strategic plan including information technology that outlines

the long term strategic architecture and systems plans for agency information technology capital planning. The CIO supports and manages pre- and post-implementation reviews of major information technology programs and projects, as well as project tracking at critical review points. The CIO provides review and oversight of major information technology acquisitions for consistency with the agency's architecture and the information technology budget, and is responsible for the development of the agency's information technology security policies. The CIO leads the agency's information technology architecture engineering to further architecture integration, design consistency, and compliance with Federal standards. The CIO also works with other agencies on Government-wide projects such as E-Government, and developing long-term plans for human resource information technology strategies.

- **Facilities, Security & Emergency Management (FSEM)** manages the agency's personal and real property, building operations, space design and layout, mail management, safety, physical security and occupational health programs. FSEM provides personnel security, suitability, and national security adjudicative determinations for OPM personnel. FSEM directs the operations and oversees OPM's preparedness and emergency response programs. In addition, it oversees publishing and printing management for internal and external design and reproduction.
- **Office of Procurement Operations (OPO)** awards and administers several thousand contract actions and interagency agreements annually, with an estimated value of \$1 billion. OPO provides acquisition support to OPM programs and also provides assisted acquisition services in support of other Federal agencies that require support under OPM contracts. OPO manages the agency suspension and debarment program, as well as supports the Small Business efforts for OPM in conjunction with public law, Federal regulations, and OPM contracting policies. The Acquisition Policy and Innovation

function within OPO provides acquisition policy development and guidance agency-wide, as well as provides compliance and oversight over OPM's procurement program. OPO provides acquisition support and oversight for all Contracting Officers and Contracting Officer Representatives, and also manages and provides oversight of the Procurement Card Program. OPO serves as OPM's liaison to the Office of Federal Procurement Policy, Chief Acquisition Officers Council, and other key external agency partnerships.

- **Office of Small and Disadvantaged Business Utilization (OSDBU)** manages the development and implementation of appropriate outreach programs aimed at heightening the awareness of the small business community to the contracting opportunities available within OPM. The office's responsibilities, programs, and activities are managed under three lines of business: advocacy, outreach, and unification of the business process.
- **Equal Employment Opportunity (EEO)** provides a fair, legally-correct and expeditious EEO complaints process (for example, EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping).

## 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 to promote security, 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 sanctionable offenses with respect to the FEHBP or other OPM programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of agency programs and operations, and the need for and progress of corrective action.

## FY 2017 PERFORMANCE HIGHLIGHTS

This section contains a summary of OPM's key performance results for FY 2017. OPM's complete performance results will be published in the agency's FY 2017 Annual Performance Report, which is scheduled for publication on the agency's website at [www.opm.gov](http://www.opm.gov) in February 2018, concurrent with OPM's FY 2019 Congressional Budget Justification.

### BACKGROUND INVESTIGATIONS CASE PROCESSING TIMELINESS AND QUALITY<sup>1</sup>

**Goal Statement:** Increase investigative capacity and implement additional process improvements with the aim of meeting the timeliness standards set by the Intelligence Reform and Terrorism Prevention Act of 2004 for background investigations while maintaining investigative quality. Throughout FY 2017, OPM will improve production output in response to the increasing workload demands of its customers, while reducing the larger than normal inventory of cases created during the transition from one of its investigative contractors. OPM will accomplish this while maintaining its target of 99 percent or more of all OPM investigations adjudicated as "quality complete" for investigations closed.

#### Progress Update:

OPM did not meet this goal. Timeliness has continued to be impacted by OPM's decision in September 2014 to not exercise the agency's options to renew contracts with the contractor that performed the majority of background investigations, resulting in a growing inventory of cases. Recognizing the need for additional investigative resources to reduce inventory, in FY 2017, NBIB increased the investigator workforce by awarding two additional investigative fieldwork contracts, increasing the total number of investigative fieldwork contractors from 2 to 4, and providing the four fieldwork investigative

contractors with incentives to build capacity, increase production, and reduce the inventory of aged investigations. NBIB also hired more than 200 additional Federal investigators while backfilling existing and new vacancies (due to investigator attrition), and concentrated the investigative workforce in the highest workload locations. NBIB has realized a steady reduction in case inventory over the past 15 weeks, closing out more cases than it receives each of those weeks.

NBIB began work with a cross-agency Backlog Reduction & Mitigation Initiative working group to identify potential initiatives and recommendations that will lead to the reduction of the investigative backlog and/or mitigate the impact to mission readiness. NBIB improved business processes through the development of enterprise measures in collaboration with the Performance Accountability Council Project Management Office.

NBIB further secured and modernized information technology through the development of an Adjudication prototype, and continued to partner with the DoD Defense Information Systems Agency to build a new, secure, and flexible case management system - the National Background Investigation System - to allow more efficient and effective case processes across the Government as a shared service.

OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

<sup>1</sup> Under the previous administration this was an Agency Priority Goal.

**Performance Measures:****Percent of investigations determined to be quality complete**

<b>FY 2013 Results</b>	<b>FY 2014 Results</b>	<b>FY 2015 Results</b>	<b>FY 2016 Results</b>	<b>FY 2017 Results</b>	<b>FY 2017 Target</b>	<b>Met/ Not Met</b>
99.8%	99.9%	99.9%	99.8%	99.9%	≥99%	Met

**Explanation of Actual:** In FY 2017, OPM determined that 2,427,989 of 2,431,008 investigations were quality complete. While the agency works to improve timeliness and reduce the inventory, OPM continued to focus on the quality of investigations. During FY 2017, NBIB worked with the Office of the Director of National Intelligence and Department of Defense to develop and launch a Quality Assessment Rating Tool. The feedback collected is used to evaluate policies and procedures, and enhance employee training and resources.

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

<b>FY 2013 Results</b>	<b>FY 2014 Results</b>	<b>FY 2015 Results</b>	<b>FY 2016 Results</b>	<b>FY 2017 Results</b>	<b>FY 2017 Target</b>	<b>Met/ Not Met</b>
35	35	67	123	161	≤40	Not Met

**Explanation of Actual:** OPM completed 365,891 initial national security investigations in FY 2017. Timeliness was impacted by OPM's decision in September 2014 to not exercise the agency's options to renew contracts with the contractor that performed the majority of background investigations. During FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

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

<b>FY 2013 Results</b>	<b>FY 2014 Results</b>	<b>FY 2015 Results</b>	<b>FY 2016 Results</b>	<b>FY 2017 Results</b>	<b>FY 2017 Target</b>	<b>Met/ Not Met</b>
28	30	58	108	134	≤40	Not Met

**Explanation of Actual:** OPM completed 305,189 initial Secret investigations in FY 2017. Timeliness was impacted by OPM's decision in September 2014 to not exercise its options to renew its contracts with the contractor that performed the majority of its background investigations. During FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM's Federal agency customers.

### Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
80	75	147	220	331	≤80	Not Met

**Explanation of Actual:** OPM completed 60,702 initial Top Secret investigations in FY 2017. On October 1, 2016, OPM implemented the Tier 5 investigation for Top Secret security clearance determinations, replacing the Single Scope Background Investigation. Timeliness has continued to be impacted by OPM’s decision in September 2014 to not exercise the agency’s options to renew contracts with the contractor that performed the majority of background investigations, resulting in a growing inventory of cases. Recognizing the need for investigative resources, during FY 2017 OPM awarded a new fieldwork contractor to four vendors, doubling contractor support from the previous contract. OPM remains committed to increasing investigative workforce capacity by hiring more Federal investigators and motivating OPM contractors to employ additional contract investigators, to more quickly decrease pending case inventory and improve the timely delivery of high-quality cases to OPM’s Federal agency customers. NBIB has realized a steady reduction in case inventory over the past 15 weeks, closing out more cases than it receives each of those weeks.

## RETIREMENT SERVICES CASE PROCESSING<sup>2</sup>

**Goal Statement:** Reduce Federal retirement case processing time by making comprehensive improvements and moving toward electronic processing of all retirement applications.

In FY 2016, process 90 percent of cases in 60 days or less (as of March 2015, 70.1 percent of cases were processed in 60 days or less). Support the 90/60 goal by:

- increasing the percentage of complete cases received from agencies to 90 percent or greater;
- continuing to develop capabilities to receive electronic retirement applications; and
- building a court-ordered benefit case reporting mechanism to capture inventory and timeliness of court-ordered cases by the first quarter of FY 2016. Establish baseline data for timeliness by the end of FY 2016.

### Progress Update:

OPM processed 52,811 of 92,125 claims (57.3 percent) within 60 days during FY 2017. The 57.3 percent of claims OPM processed in less than 60 days were processed in an average of 47 days, while the remainder were processed in an average of 93 days. The average number of days to process all claims was 67 days.

When agencies make Voluntary Early Retirement Authority and Voluntary Separation Incentive Program offers, OPM may experience a significant increase in retirement applications. OPM worked closely with agencies to understand upcoming retirement offers; however, surges in retirement applications can occur outside of OPM’s control and predictions.

OPM did not meet the case processing timeliness target due, in part, to delayed staffing actions stemming from the hiring freeze. Additionally, the case preparation time increased, causing the cases to age. Consequently, OPM processed more cases that were over 60 days old. To mitigate this issue, OPM will develop additional customer service specialists and legal administrative specialists, improve training, and promote continuous development.

<sup>2</sup> Under the previous administration this was an Agency Priority Goal.

In FY 2017, 91.1 percent of retirement submissions received from agencies were complete, exceeding the target of 90 percent. This was an improvement over the 89.2 percent receive by OPM in FY 2016. OPM continued to collaborate with agency Chief Human Capital Officers to improve the accuracy and completeness of incoming claims. The agency provided educational opportunities and monthly feedback to agencies on errors, which the OPM expects to minimize errors on retirement claim submissions.

By the end of FY 2017, OPM finalized and tested a reporting mechanism to track court-ordered benefits. OPM was able to finalize the calculation method for the measure of the average number of days to process court-ordered benefit cases. It is currently in beta testing and will be in production for FY 2018.

### Performance Measures:

#### Relative ratio of complete retirement submissions versus incomplete cases

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
92%	84%	87.7%	89.2%	91.9%	≥90%	Met

**Explanation of Actual:** In FY 2017, 35,912 of 39,070 retirement submissions were complete. OPM continued to collaborate with agency Chief Human Capital Officers to improve the accuracy and completeness of incoming claims. The agency provided educational opportunities and monthly feedback to agencies on errors, which the agency expects to minimize errors on retirement claim submissions. The results for this measure continued their upward trend since October 1, 2013, when the error definitions were expanded to include 19 additional error conditions that had not previously been included.

#### Percent of retirement claims processed within 60 days

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	79%	70.1%	77.1%	57.3%	≥90%	Not Met

**Explanation of Actual:** OPM processed 52,811 of 92,125 claims within 60 days. OPM did not meet the case processing timeliness target due to staffing issues stemming from the hiring freeze. The case preparation time increased, causing the cases to age. Consequently, OPM processed more cases that were more than 60 days old.

—\* No historical data available for this period.

### FEHB PLAN PERFORMANCE<sup>3</sup>

**Goal Statement:** Improve health outcomes for the approximately 8.2 million Federal employees, retirees, and their dependents enrolled in health plans participating in the Federal Employees Health Benefits (FEHB) program. In 2016, FEHB plan performance will be assessed based on a common set of measures of clinical quality, customer service and appropriate resource use; this performance assessment will be used in the determination of plan profit margins. While each plan will be assessed based on its performance, overall progress for the FEHB program will be measured by an increase in the number of FEHB plans at or above the 50<sup>th</sup> percentile of the relevant national, commercial benchmark year-on-year as measured by FEHB plan scored values on the designated high-priority indicators used continuously during the evaluation period. These high-priority measures include: risk adjusted all cause readmissions, timeliness of prenatal care and blood pressure control.

#### Progress Update:

OPM accomplished its goal of improving health outcomes for the 8.2 million Federal employees, retirees, and their dependents enrolled in health plans participating in the FEHB program. OPM met or exceeded all three of its performance targets for FY 2017. OPM exceeded the industry trend for plans providing timely prenatal care above the 50th percentile by nearly 19 percent. The agency exceeded the industry trend for percent of plans with all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50th percentile by more than 20 percent. Further, the agency met its performance target percent of plans controlling blood pressure above the national commercial 50th percentile.

During FY 2017, OPM successfully completed the first year of the FEHB Health Plan Performance Assessment cycle to measure and reward FEHB plan performance through the use of common, objective, and quantifiable performance measures. The performance assessment framework uses 19 measures to assess key aspects of clinical quality,

customer service, and resource use performance, as well as a separate evaluation of contract oversight. The performance assessment is linked to health plan profit, with the overall performance score impacting the service charge or performance adjustment. All FEHB Carriers were able to report required measures and OPM published an overview of the first year. OPM continued to conduct the FEHB Performance Assessment Best Practices Workgroup to help carriers identify and share best practices. OPM presented de-identified aggregate data to FEHB carriers on how health plans performed overall on targeted measures. OPM held best practices working groups to improve performance on the quality measure tracking hospital readmissions and to calculate and utilize cost of care measures. OPM added an additional measure for tracking diabetes control. Additionally, OPM focused on communication to FEHB Carriers by redesigning the website listing performance assessment resources and released **FEHB Plan Performance Assessment educational videos** on the OPM YouTube Channel.

OPM is keenly aware of the health challenges associated with the opioid epidemic and is working with industry leading measure stewards to select and adopt a relevant performance measure as soon as preliminary testing on such a measure is completed.

<sup>3</sup> Under the previous administration this was an Agency Priority Goal.

**Performance Measures:****Percent of plans with timely prenatal care above the national commercial 50<sup>th</sup> percentile**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
43.4%	39.8%	41%	46.0%	54.6%	2016 Result	Met

**Explanation of Actual:** In FY 2017, 65 of 119 FEHB plans performed above the national commercial 50<sup>th</sup> percentile. OPM exceeded the target by nearly 19 percent. In FY 2017, OPM assigned this measure the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit.

**Percent of plans with all-cause readmission to hospital within 30 days of inpatient hospital stay above the national commercial 50<sup>th</sup> percentile**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	49%	51%	44.5%	53.6%	2016 Result	Met

**Explanation of Actual:** In FY 2017, 67 of 125 FEHB plans performed above the national commercial 50<sup>th</sup> percentile. OPM exceeded the target by more than 20 percent. The agency targeted this area for improvement, holding a best practices working group session on improving performance. There was a change in methodology in FY 2016, limiting comparability of trends before and after that change.

—\* No historical data available for this period.

**Percent of plans controlling blood pressure above the national commercial 50<sup>th</sup> percentile**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
43.5%	49%~	43%	49.2%	50.8	2016 Result	Met

**Explanation of Actual:** In FY 2017, 63 of 124 FEHB plans performed above the national commercial 50<sup>th</sup> percentile. In FY 2017, OPM assigned this measure the highest priority in the FEHB Plan Performance Assessment, which impacts plan profit.

~ Previously reported results revised in October 2016 following a National Committee for Quality Assurance revision to the methodology in 2015.

**Percent of adults receiving flu shots based on Consumer Assessment of Healthcare Providers and Systems Effectiveness of Care measures**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
53%	50%	49%	50.9%	52.2%	Contextual	Contextual

**Explanation of Actual:** Of 69,758 adults surveyed, 36,393 received flu shots in FY 2017. The percentage increased 2.6 percent over FY 2016. The CDC target for the Healthy People 2020 initiative was originally set at 80 percent of adults receiving flu shots, but was revised to 70 percent in 2013. Overall uptake of the flu vaccination remains below the CDC target. The CDC reported 43.3 percent of adults received seasonal flu vaccinations for the 2016-2017 season. OPM continues to emphasize the importance of flu shots, including through a joint memo with the Department of Health and Human Services.

## HUMAN RESOURCE WORKFORCE CAPABILITY<sup>4</sup>

**Goal Statement:** Improve the ability of the Federal human resource workforce to attract, develop, train, and support talent in the Federal Government by developing and launching a Federal HR curriculum. By the end of FY 2016, build and launch curricula for staffing and classification. Baseline HR professionals' proficiency levels for the Staffing specialty area competencies, and set targets for improvement. By the end of FY 2017, build and launch curricula for employee relations and labor relations; and design a certification of mastery for existing HR University curricula.

### Progress Update:

The Federal Human Resources Institute (formerly HR University) is a key part of the Government-wide initiative to grow the Federal HR workforce's capability. Human resources is a designated Government-wide mission critical occupation. The Institute curriculum will lead the development of a standardized framework that will be a comprehensive Federal development program for Federal HR practitioners.

OPM envisions that, as the incumbent workforce attends the classes developed specifically for them, development of necessary competencies and increased individual performance will follow to contribute to and support mission accomplishment within the agencies. The curriculum is in early design and development, with the 22 course staffing specialist curricula due to be fully launched in FY 2018. This is the first of eight specialty functions that will be addressed in the curricula. Completed design, development, and launch is planned for 2019.

The successful outcomes of both OPM's competency model development and the design of the curriculum that is being informed by the models are highly dependent on the ongoing, active involvement of the networks of subject matter experts in the agencies. While schedule adherence is more challenging where all assets are not under direct control by OPM, the quality of the final products is superior and thus worth the extra time. Further, the "networked" approach creates a higher probability of early adoption by the participants and their agencies. OPM developed, launched, and proved this concept of operation with the staffing specialist function, and will carry it through in all remaining functions.

Delays to the design, development and implementation of the HR curricula were due to an unexpected and prolonged period of time to acquire the contractor to support OPM's efforts. Additionally, based on the priority needs of the HR community in the staffing domain and the curriculum design appropriate to fill those needs, OPM made a strategic decision to expand initial investment in that domain, significantly increasing the number of courses developed.

<sup>4</sup> Under the previous administration this was an Agency Priority Goal.

**Performance Measures:****Percent of HR specialists who complete at least one course on HRU**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	66.6%	—*	≥70%	—*

**Explanation of Actual:** OPM transitioned HR University to a new platform, the Federal HR Institute, in June 2017. Because the new platform does not require users to register, OPM is no longer able to track the percent of HR specialists who completed at least one course. As of June 2017, 42 percent of HR specialists (4,478) had completed at least one course on HRU.

The Institute will deliver a comprehensive curriculum to promote continued improvement of the Federal HR workforce continues so it is agile, strategic, and competent. The curriculum is based on new career mapping in each function for HR practitioners and analyses of requisite competencies developed by a multi-agency cross-section of Federal HR experts. The curriculum is in early development, with the 22 course staffing specialist curricula fully launching by end of CY 2017.

—\* No historical data available for this period.

**Percent of course participants demonstrating successful achievement/mastery of learning objectives**

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	—*	64.2%	≥80%	Not Met

**Explanation of Actual:** The Federal HR Institute data here represents the FY 2017 course pilot outcomes, with 201 participants, 129 of whom achieved full grasp of learning objectives. Ninety-one of the 129 participants began below the fully successful threshold prior to the course. Ninety-two percent of the 210 participants demonstrated improvements in subject knowledge as shown in pre- and post- course testing.

—\* No historical data available for this period.

**CYBERSECURITY MONITORING<sup>5</sup>**

**Goal Statement:** Continue enhancing the security of OPM's information systems by strengthening authentication and expanding the implementation of continuous monitoring.

OPM has undertaken effort to enhance the use of two-factor authentication in multiple ways. By August of FY 2015, 99 percent of OPM users were required to use Personal Identity Verification (PIV) authentication for network access and the remaining one percent was enforced by the end of October 2015. By the end of FY 2016, 80 percent of non-OPM users who have a PIV card were required to authenticate to OPM applications using their PIV cards. By the end of FY 2017, OPM planned to enforce two-factor authentication for 100 percent of all PIV-enabled users and 80 percent of non-PIV-enabled users. OPM will continue to enhance its security posture by expanding on the Continuous Diagnostic and Mitigation (CDM) capabilities implemented throughout FY 2015. The CDM program enables OPM to expand continuous diagnostic capabilities by increasing the network sensor capacity, automating sensor collections, and prioritizing risk alerts. By the end of the second quarter of FY 2016,

<sup>5</sup> Under the previous administration this was an Agency Priority Goal.

OPM acquired and implemented four CDM controls including vulnerability assessment, continuous monitoring, hardware asset management, and software asset management. These tools are designed to increase OPM's ability to identify and respond to security issues. By the end of FY 2016, OPM implemented dashboard capabilities allowing OPM to benchmark its CDM program with other Federal agencies. In FY 2017, OPM used the benchmarking results to identify and prioritize the implementation of other CDM controls. OPM will continue to pursue a number of additional actions as outlined in its Cybersecurity Monitoring goal.

OPM will enhance its security posture by expanding on the Continuous Diagnostic and Mitigation (CDM) capabilities implemented throughout FY 2015. The CDM program enables OPM to expand continuous diagnostic capabilities by increasing the network sensor capacity, automating sensor collections, and prioritizing risk alerts. By the end of the second quarter of FY 2016, OPM will have acquired and implemented four CDM controls including vulnerability assessment, continuous monitoring, hardware asset management, and software asset management. These tools should increase OPM's ability to identify and respond to security issues. By the end of FY 2016, OPM will have fully implemented dashboard capabilities allowing OPM to benchmark its CDM program with other Federal agencies. In FY 2017, OPM will use the benchmarking results to identify and prioritize the implementation of other CDM controls. OPM will continue to pursue a number of additional actions as outlined in its Cybersecurity Monitoring goal.

#### **Progress Update:**

OPM made significant progress in enhancing the security of OPM's information systems by strengthening authentication and expanding the implementation of continuous monitoring. While OPM did not meet its FY 2017 targets with respect to CDM phase two implementation, the agency did make significant strides in other areas.

In FY 2017, OPM added information system security officers to support all of OPM's major information systems. OPM also completed Authorization to Operate Sprint and Authorization to Operate Relay initiatives, resulting in a current Authority to Operate for all OPM major information systems. This resolved the outstanding material weakness in the program that had been identified by OPM's OIG. As of FY 2017, all Authorities to Operate remained current.

In addition, in FY 2017 the Security Operations Center implemented capabilities to strengthen the security of the overall environment in support of the OPM defense-in-depth architecture. In the FY 2017 OIG Federal Information Security Management Act (FISMA) Audit Report, the Incident Response domain was reported as operating at Level 4, Managed and Measurable. As a result, the OIG did not issue any recommendations in this domain. Further reflecting these improvements, the Department of Homeland Security's Trusted Internet Connection audit score improved from 77 percent to 92 percent. The security capabilities implemented in FY 2017 include:

- a zero trust model for network resource access;
- tightened encryption standards to include network encryption (data in transit, data at rest, data in use);
- upgraded email security gateways to provide additional security functionality;
- full deployment of encrypted communications for all agency public websites;
- improved anti-malware solutions to detect malicious processes in real time; and
- phishing training to improve user click rate, user response time and remediation time.

The agency made significant improvements to security training in FY 2017. The agency is now operating at Information Security Continuous Monitoring Maturity Model Level 3. The agency-wide IT security training program is now tailored for employees with significant security responsibilities. These improvements close out two FY 2016 OIG FISMA recommendation.

By the end of FY 2017, OPM enabled multi-factor authentication for 51 percent of FISMA systems. OPM was unable to track multi-factor authentication at the user level, as originally planned.

One hundred percent of OPM’s network was covered by phase one Continuous Diagnostics and Mitigation capabilities by the end of FY 2016, and OPM’s implementation of phase two capabilities in FY 2017 followed the Department of Homeland Security’s timeline. At the conclusion of FY 2017, OPM was testing the following capabilities: TRUST – Access Control Management (Trust in People Granted Access), BEHV – Security-Related Behavior Management, CRED – Credentials and Authentication Management, and PRIV – Privileges.

**Performance Measures:**

Percent of network covered by phase two Continuous Diagnostics and Mitigation (CDM) capabilities						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	—*	0%	≥95%	Not Met

**Explanation of Actual:** The implementation of four CDM phase two capabilities followed the Department of Homeland Security’s timeline. OPM dedicated the first half of FY 2017 to the finalization of requirements. As of the end of FY 2017, OPM was testing the following capabilities: TRUST—Access Control Management (Trust in People Granted Access), BEHV—Security-Related Behavior Management, CRED—Credentials and Authentication Management, and PRIV—Privileges.

—\* No historical data available for this period.

Percent of OPM systems with multi-factor authentication enabled						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	—*	51.1%	New Measure	New Measure

**Explanation of Actual:** Of 47 systems, 24 have multi-factor authentication enabled.

—\* No historical data available for this period.

Percent of High Value Asset (HVA) databases encrypted						
FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	63.6%	89.5%	≥90%	Met

**Explanation of Actual:** Seventeen of 19 OPM-developed High Value Asset systems have databases where data are encrypted at rest.

—\* No historical data available for this period.

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely represent the absolute figures.

### Percent of OPM Business Systems migrated to new network infrastructure environment

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	0%	100%	≥80%	Met

**Explanation of Actual:** Twenty-five of 25 OPM hosted business systems reside on network and security infrastructures that have greatly improved as compared to the legacy infrastructure in place when this measure was initially developed. OPM has reinforced computing capability at its Boyers, PA and Macon, GA data centers, migrated from unsupported software, and deployed new or improved network security capabilities, including Personal Identity Verification requirements, data encryption, network monitoring, and intrusion detection.

—\* No historical data available for this period.

### Percent of OPM IT Systems compliant with FISMA required documentation

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	67.4%	100%	≥80%	Met

**Explanation of Actual:** Forty-seven of 47 systems have FISMA required documentation. In FY 2017, OPM utilized the best practices and lessons learned from a 2016 Cyber Sprint to achieve Authorizations to Operate for all of its systems by January 2017.

—\* No historical data available for this period.

### Percent of FISMA audit findings mitigated

FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Results	FY 2017 Results	FY 2017 Target	Met/ Not Met
—*	—*	—*	75.7%	70.9%	≥90%	Not Met

**Explanation of Actual:** OPM worked with oversight entities to address 173 of 244 FISMA audit findings. OPM will review and update its policies and procedures, as needed, to align with current Federal laws, regulations, policies, and guidance. The agency will continue leveraging the Plan of Actions and Milestones Management Review Board to help manage and improve its processes and work with the OIG to improve collaboration and to ensure the effective remediation of audit findings in a timely manner.

—\* No historical data available for this period.

## QUALITY OF PERFORMANCE DATA

In accordance with the requirements of the Government Performance and Results Acts, OPM ensures the performance information in its AFR and APR is based on reasonably complete, accurate and reliable data. To promote data quality, OPM's Office of the Chief Financial Officer works with other OPM offices to document and improve data collection, reporting, validation, and verification procedures for performance measures. Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2017 APR in February 2018.

## 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, Grant Thornton LLP. For the Eighteenth consecutive year, OPM has earned an unmodified audit opinion on its consolidated financial statements and the consolidating financial statements including the Retirement, Health Benefits, and Life Insurance Programs. These consolidated and consolidating financial statements are:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

### BALANCE SHEET

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

#### Assets

At the end of FY 2017, OPM held \$1,082.3 billion in assets, an increase of 2.5 percent from \$1,056.1 billion at the end of FY 2016. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

The largest category of assets is investments at \$1,032.6 billion, which represents 95.3 percent of all assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections

not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and its total assets, in normal years, usually both grow.

There was a Debt Issuance Suspension Period (DISP) instated by the Treasury Department that began on March 16, 2017 and ended on September 8, 2017 for the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree and Health Benefit Fund (PSRHBF). As such, Treasury is required to pay the CSRDF and PSRHBF the amount of "foregone principal" and "foregone interest", the Funds would have otherwise earned had such extraordinary measures not been taken.

In FY 2017, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by \$20.3 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 underfunding of the Civil Service Retirement System (CSRS). The CSRS under funding was a total of more than \$33.9 billion for FY 2017.

#### Liabilities

At the end of FY 2017, OPM's total liabilities were \$2,339 billion, a increase of 5.8 percent from \$2,211 billion at the end of FY 2016. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.4 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future.

To compute these liabilities, the actuaries make assumptions about the future economy and about the demographics of the future Federal employee workforce and annuitants, retirees and their survivors, populations.

The *Pension Liability*, which represents an estimate of the future cost to provide CSRS and FERS benefits to current employees and annuitants, is

\$1,908 billion at the end of FY 2017, a increase of \$103 billion, or 5.7 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 \$363 billion at the end of FY 2017. This reflects a increase of approximately \$22.3 billion from the amount at the end of FY 2016, or 6.6 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 \$2.2 billion in FY 2017 to \$52.2 billion, or 4.5 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

### Actuarial Gains and Losses

Due to actuarial gains and losses, OPM's Net Cost to Provide Retirement, Health Benefits, and Life Insurance Benefits can vary widely from year to year. Actuarial gains decrease OPM's Net Cost, while actuarial losses increase it. What are actuarial gains and losses?

In computing the Pension, Post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, OPM's actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits, and Life Insurance Programs differs from these assumptions, as it

generally will, actuarial gains and/or losses will occur. For example, should the Cost of Living Adjustment factor (COLA) increase be less than the actuary assumed, there will be an actuarial experience gain. A decrease in the assumed future rate of inflation would produce a gain due to a revised actuarial assumption.

### Net Position

OPM reports its Federal employees' benefit programs funds in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 43, Funds from Dedicated Collections: Amending SFFAS No. 27, “Identifying and Reporting Earmarked Funds.” This Statement among other provisions, adds “an explicit exclusion for any fund established to account for pensions, other retirement benefits (ORB), other postemployment (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 2017 by \$1,257 billion, primarily due to the large actuarial liabilities. However, it is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 3 - Net Assets Available for Benefits - shows that OPM's net assets available to pay benefits have increased by \$25.6 billion in FY 2017 to \$1,067.2 billion.

**TABLE 3 - Net Assets Available for Benefits**

(\$ in Billions)	FY 2017	FY 2016	Change
Total Assets	\$1,082.3	\$1,056.1	\$26.2
Less "Non-Actuarial" Liabilities	15.1	14.5	0.6
Net Assets Available to Pay Benefits	\$1,067.2	\$1,041.6	\$25.6

**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 2017 Net Cost of Operations was a Loss of \$155.1 billion, as compared with a Gain of \$22.5 billion in FY 2016. The primary reasons for the increase in net cost are due to changes in the actuarial assumptions.

**Net Cost to Provide CSRS Benefits**

As indicated in Table 4, OPM incurred a loss for the CSRS Benefits of \$90 billion in FY 2017, an increase of 90.7 billion from FY 2016. As reported on the SNC, there was a current year loss of \$61.2 billion for CSRS due to changes in actuarial assumptions, such as decreases in assumed future long term rates of the annuitant Cost of Living Adjustment (COLA) factor.

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

Contributions by and for CSRS participants increase in FY 2017 by \$1,467 million from FY 2016 and OPM's earnings on CSRS investments declined by approximately \$3,938 million from the prior fiscal year.

**TABLE 4 - Net Cost to Provide CSRS Benefits**

(\$ in Billions)	FY 2017	FY 2016	Change
Gross Cost	\$28.8	\$24.4	\$4.4
(Net of Assumptions of Gain/Loss)	61.2	(25.1)	86.3
Associated Revenues	10.9	12.9	(2.0)
Net Cost of Operations	\$79.1	\$(13.6)	\$92.7

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, Statement of Federal Financial Accounting Standards 33: Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates (SFFAS 33), requires gains and losses from changes in long term assumptions to be displayed on the statement of net cost separately from other costs. OPM's CSRS benefits expense was \$41.1 billion in FY 2017, as compared to the \$46.6 billion in FY 2016. 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 2017 increased by \$46.2 billion from FY 2016 resulting in a Net Cost of Operations of \$43.9 billion for the FY 2017. 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 2017, OPM incurred a Pension Expense for FERS of \$96.2 billion, as compared with \$45.7 billion in FY 2016. The primary reasons for the increase in FERS pension expense were due to changes in actuarial economic assumptions, and actual salary expense was higher than expected. Due to changes in actuarial assumptions such as the higher long term COLA assumption there was a gain of \$8.9 billion in FY 2016, which was followed by a loss of \$33.4 billion in FY 2017. This contributed to the increase in pension expense of \$50.5 billion from FY 2016 to FY 2017. The FY 2017 Pension Expense also reflected an experience gain primarily due to the actual salary expense being lower 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 \$2,342 million, or 7.4 percent from the prior FY, also due to the increasing number of participants in the FERS.

**TABLE 5 - Net Cost to Provide FERS Benefits**

(\$ in Billions)	FY 2017	FY 2016	Change
Gross Cost	\$62.8	\$54.6	\$8.2
(Net of Assumptions of Gain/Loss)	33.4	(8.9)	42.3
Associated Revenues	52.4	48.0	4.4
Net Cost of Operations	\$43.9	\$(2.3)	\$46.2

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 2017, OPM paid FERS benefits of \$14.3 billion, compared with \$12.7 billion in FY 2016. 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 2017 increased by \$38 billion from that in FY 2016, see Table 6. There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories: the actuarially computed Post-Retirement Health Benefits Expense, and Current Benefits and Premiums, and one earned revenue category: contributions by and for participants.

**TABLE 6 - Net Cost to Provide Health Benefits**

(\$ in Billions)	FY 2017	FY 2016	Change
Gross Cost	\$66.3	\$52.0	\$14.3
(Net of Assumptions of Gain/Loss)	6.9	(13.4)	20.3
Associated Revenues	42.5	45.9	(3.4)
Net Cost of Operations	\$30.7	\$(7.3)	\$38.0

The Postal Service Retiree Health Benefits Fund (PSRHBF) is included in the Health Benefits Program. The United States Postal Service (USPS) was required by Public Law (P.L.) 109-435 to make a series of fixed payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) maintained by the Office of Personnel Management (OPM) up to and including FY 2016. The total amount due to the PSRHBF from the USPS is \$38.2 billion: \$33.9 billion due from FY 2011 – FY 2016 and \$4.3 billion for FY 2017. As of September 30, 2017, the Postal Service has indicated payment of the total \$38.2 billion due will remain open. Furthermore, at this point in time, Congress has not taken further action on these payments due from USPS to the PSRHBF Fund.

The Post-Retirement Health Benefits (PRHB) Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2017, OPM incurred a PRHB expense of \$37.9 billion, as compared with \$3.3 billion in FY 2016, due to an actuarial loss from assumptions

in FY 2016 resulting from changes in trend and interest; the actuarial loss from experience also was higher due to higher medical costs in FY 2017 as compared to FY 2016.

For the Actuarial gain/loss portion of the PRHB expense, the results were due primarily to population change, the lower 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 3.8 percent.

Current Benefits and Premiums stayed level with FY 2016. However, the contributions (for and by participants) decreased by \$3.3 billion from FY 2016 to FY 2017. As discussed above, in FY 2017, a total of \$38.2 billion in payments was due to the PSRHBF Fund from the USPS.

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

**TABLE 7 - Disclosed and Applied Costs to Provide Health Benefits**

(\$ in Billions)	Disclosed	Applied to PRHB	Total FY 2017	Total FY 2016
Claims	\$29.0	\$12.1	\$41.1	\$40.3
Premium Expense	4.6	2.2	6.8	6.3
Administrative Expense and Other	\$1.7	\$1.2	\$2.9	\$3.5

### Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from \$0.7 billion in FY 2016 to \$1.5 billion in FY 2017. Gross cost increased \$0.4 billion due to the smaller actuarial gain in FY 2017 as compared to FY 2016. 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 2017 and 2016. 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 2017 as compared to FY 2016. Associated revenues remained at the same level.

**TABLE 8 - Net Cost to Provide Life Insurance Benefits**

(\$ in Billions)	FY 2017	FY 2016	Change
Gross Cost	\$4.3	\$3.9	\$0.4
(Net of Assumptions of Gain/Loss)	0.9	0.3	0.6
Associated Revenues	3.8	3.6	0.2
Net Cost of Operations	\$1.5	\$0.7	\$0.8

### 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 \$265.9 billion in budgetary resources was available to OPM for FY 2017, OPM's budgetary resources in FY 2017 included \$66.5 billion (25.1 percent) carried over from FY 2016, plus three major additional sources:

- Appropriations Received = \$53.5 billion (20.0 percent)
- Trust Fund receipts of \$103.2 billion, less \$15.8 billion\* not available = \$87.4 billion (32.8 percent)
- Spending authority from offsetting collections (SAOC) = \$58.6 billion (22.1 percent)

\* Total budgetary resources do not include \$15.8 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 \$49.5 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 2017	FY 2016
Trust Fund Receipts	32.8%	32.7%
Balance Brought Forward from Prior Year	25.1%	25.4%
Spending Authority from Offsetting Collections	22.1%	22.5%
Appropriations	20.0%	19.4%

*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 2017	FY 2016
Retirement Benefits	63.3%	63.9%
Health Benefits	34.1%	33.4%
Life Insurance Benefits	1.6%	1.6%
Other	1.0%	1.1%

From the \$265.9 billion in budgetary resources OPM had available during FY 2017, it incurred obligations of \$196.6 billion less the \$40.6 billion transferred from the Treasury’s General Fund (see Note 1G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The \$49.5 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 2017 over the obligations it incurred against those resources is classified as being “unavailable” for obligation at year-end.

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

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

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

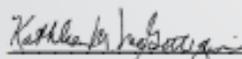
### Management Assurances

#### FMFIA and FFMIA Assurance Statement

The Office of Personnel Management (OPM) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, OPM can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2017.

In addition, OPM is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. OPM conducted its assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this assessment, OPM can provide reasonable assurance that its internal control over financial reporting as of June 30, 2017 was operating effectively, with the exception of the material weakness in the agency's information system control environment noted in Exhibit A. No other material weaknesses were found in the design or operation of 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 management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Other than the non-conformance with financial management system requirements noted in Exhibit B, OPM can provide reasonable assurance that it complies with FFMIA.

  
 Kathleen M. McGettigan  
 Acting Director

11-8-2017  
 Date

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

FMFIA requires agencies to establish internal control and financial systems that provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations,
- Reliable financial reporting, and
- Compliance with applicable laws and regulations.

It also requires that agencies conduct an evaluation of their systems of internal control and that the head of the agency provide an annual Statement of Assurance to the President and the Congress on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides the implementing guidance for FMFIA and defines management's responsibility for managing risk and establishing and assessing internal control. OPM's Risk Management Council oversees the Agency's internal control program. The Risk Management Council is chaired by the Chief Management Officer and includes senior representatives from all major OPM organizations. The Risk Management and Internal Control group (RMIC) within the Office of the Chief Financial Officer (OCFO) has primary responsibility for coordinating the annual assessment of internal control.

OMB Circular A-123, Appendix A also requires that the agency head provide a separate assurance statement on the effectiveness of internal control over financial reporting (ICOFR). The assurance on ICOFR is a component of the overall FMFIA assurance statement. RMIC performs the ICOFR assessment under the guidance of the OCFO Senior Assessment Team, which is comprised of the Chief Financial Officer (CFO), Deputy CFO, Associate CFOs, Deputy Chief Information Officer, and other key OCFO personnel.

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. As part of the assessment and under the oversight of the Risk Management Council, RMIC requested that office heads conduct self-assessments of the internal controls under their purview and provide an assurance statement detailing whether their internal control systems met the requirements of FMFIA. Office heads also submitted documentation supporting their internal control objectives, risk assessments, and control activities in individual units under their purview and describing the results of their self-assessments. RMIC reviewed the majority of those submissions along with applicable reports of audits performed by the Office of the Inspector General throughout the reporting period to determine if there were other material weaknesses that should be reported in the assurance statement.

## **COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)**

### **Financial Management Systems**

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

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

OPM completed an assessment of the systems of internal control against the FFMIA guidelines. OPM has determined that for FY 2017, except for the financial management systems requirements, OPM substantially complies with all FFMIA

requirements regarding Federal Financial Accounting Standards, and application of the USSGL. The objectives of our assessment were to ensure that our financial systems achieve their intended results.

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 OCFO 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 Model and processes that began in FY 2015. In addition, the OPM Enterprise Managerial Cost Accounting (EMCA) initiative commenced at the end of quarter four of FY 2016. In FY 2017, the modeling of four (4) OPM program offices was successfully piloted. Full system implementation for the agency EMCA project is targeted for completion by the end of FY 2018.

In May 2017, OMB released their FY 2019-FY 2022 Capitalized Planning & Investment Control (CPIC) guidance, which requires agencies to report their Information Technology (IT) Investment Portfolio Summaries using the Taxonomy and Technology Business Management (TBM). TBM is a value management framework that provides best practices for agencies to maximize IT cost transparency, drive demand and customer management, determine Total Cost of Ownership (TCO), and calculate/price out a bill of IT. The Office of Management and Budget

(OMB) has adopted TBM as a best practice for IT management in Federal organizations. OPM's Enterprise Cost Accounting System (ECAS) uses the TBM value framework and taxonomy for modeling all of OPM's IT costs. The Taxonomy is incorporated as a key part of the ECAS model, which is used to capture and drive all IT expenditures. This enables OPM to report on the key components of the Taxonomy, including Cost Pools, IT Towers, and IT Applications & Services.

To give OPM the ability to achieve its business objectives and requirements relative to managing and administering agency's budgetary resources, OCFO has defined and approved a Budget management system solution that will ultimately integrate with CBIS. OCFO has implemented the Budget Management System (BMS) and used it to develop the agency's FY 2019 budget request.

In FY 2017, OPM completed quarterly submissions of the Digital Accountability and Transparency Act [DATA Act] to the official DATA Broker site for publication on [USASpending.gov](https://www.usaspending.gov), in accordance with the Department of Treasury's established submission dates. DATA for the Consolidated Business Information System and Federal Financial System were represented. OPM will continue to apply changes to its file submissions as updates are made to the DATA Act requirements by Treasury.

In FY 2017, OPM began the planning phase for implementing a modernized and stable financial platform to replace Trust Funds (TF) systems. The planning phase was focused on establishing the Trust Funds Modernization Program Office and program and project frameworks. OPM also dialoged with industry on new and innovative technological approaches and data management solutions and options available to address existing gaps related to trust funds accounting, management and technology. These efforts will continue throughout FY 2018, as other activities commence: validating the As-Is and developing the To-Be business processes, validating the current FFS infrastructure (including critical interfaces/interfaces systems) and conducting requirements fit-gap assessments.

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 realizing the benefiting from its “blended approach” to shared services through the use of a Shared Services Provider for transaction processing, IT hosting, and application management services. In May 2017, OPM lifted and shifted its Consolidated Business Information System (CBIS) application and platform to a FSSP to assist in upgrade its platform and to reduce overall technology risk and to consolidate cost. In FY 2018, OPM will begin exploring options to further implement OMB's Memorandum 13-08 requiring agencies to transition its business processes and operations to an FSSP's financial management solution beginning sometime in FY 2019.

In FY 2017, OPM will continue to optimize functions, processes, and service delivery across the financial management components and workflows to further its compliance with FFMIA. These include: integration, reporting and analysis, transaction processing, and continuous training.

## **EXHIBIT A – NON-CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS**

### **Information System Control Environment**

Since FY 2012, OPM has been working to combat and improve any remaining deficiencies that may exist in its information system control environment and continues efforts to remediate. Areas of focus include testing of information security controls, modernization of enterprise architecture, establishing a baseline configuration for all of its information systems, and developing timely Plans of Action and Milestones (POAMs). To the extent that these challenges remain present they continue to be reported, collectively, as a material weakness in OPM's information system control environment by the Agency's independent auditor. OPM is committed to assessing each condition contributing to this material weakness and will develop an appropriately risk-based, cost effective plan to address each condition.

**TABLE 9 - Inspector General Audit Findings**

FY 2017	Number of Reports	Questioned Costs (\$ in Millions)
Reports with no management decision on October 1, 2016	4	\$4.9
New reports requiring management decisions	15 <sup>1</sup>	52.1
Management decisions made during the year	15	34.4
Costs disallowed	-	16.7
Costs not disallowed	-	17.7 <sup>2</sup>
Reports with no management decision on September 30, 2017	4	22.6

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2016 through March 31, 2017 and April 1, 2017 through September 30, 2017.

Purpose: To provide data to the OCFO to be included in the fiscal year 2017 Management Discussion and Analysis for OPM's Performance and Accountability Report.

<sup>1</sup> The number of new reports requiring a management decision represents reports with monetary recommendations. This year, 43 reports were issued and 15 of them had monetary findings, and 28 reports, which are not reflected in the table, had no monetary findings.

<sup>2</sup> Represents the net of allowed cost, which includes overpayments and underpayments to insurance carriers.

## **FEDERAL INFORMATION SECURITY MODERNIZATION ACT (FISMA)**

The FISMA requires the Chief Information Officer (CIO) to conduct an annual Agency security program review in coordination with Agency program officials. OPM is pleased to provide the results of this review conducted for the FY 2017.

In FY 2017, the Chief Information Security Officer (CISO) added several new employees, including additional Information System Security Officer (ISSO) positions to support all OPM major information systems. With the support provided by the FY 2016 organizational consolidation of staff under the CISO, the Authorization to Operate (ATO) Sprint and ATO Relay initiatives were completed, resulting in a current ATO for all OPM major information systems. This resolved the outstanding material weakness in the program. By the end of FY 2017, all ATOs remained current.

In addition, in FY 2017 the Security Operations Center (SOC) implemented security capabilities to strengthen the security of the overall environment in support of the OPM defense-in-depth architecture. In the FY 2017 OIG FISMA Audit Report, the Incident Response domain was reported as operating at Level 4, Managed and Measurable. As a result, no recommendations were issued in this domain in the FY 2017 OIG FISMA report. Further reflecting these improvements, the DHS Trusted Internet Connection (TIC) audit score improved from 77% to 92%. These capabilities include:

- A zero trust model for network resource access
- Tightened encryption standards to include network encryption (data in transit, data at rest, data in use)
- Upgraded email security gateways to provide additional security functionality
- Full deployment of encrypted communications for all agency public websites (HTTPS and HSTS)

- Improved anti-malware solutions to detect malicious processes in real time
- Phishing training to improve use click rate, user response time and remediation time

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 continues 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.

The Agency has made significant improvements in Security Training in FY 2017 and will continue to improve the program in FY 2018. The Agency is now operating at CIGIE Information Security Continuous Monitoring Maturity Model Level 3, Consistently Implemented, for the agency-wide IT security awareness training program required by all Government employees and contractors. The program has also significantly improved tailored training for employees with significant security responsibilities. These improvements close out two FY 2016 OIG FISMA recommendations.

## **COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS**

OPM is required to comply with other legal and regulatory financial requirements. Information concerning these regulatory requirements can be found in the Other Information, Section 3, of this report.

OPM continues to work towards compliance with the Digital Accountability and Transparency Act (DATA Act) of 2014, Public Law No. 113-101, as it is being implemented by OMB and the Treasury Department. Among other requirements, it requires a federal agency to notify the Treasury of any legally enforceable non-tax debt owed to such agency that is over 120 days delinquent so that Treasury can offset such debt administratively; previously, it was 180 days per

the Debt Collection Improvement Act (DCIA). In FY 2015, OMB Memorandum M-15-12 was issued for reporting requirements pursuant to the DATA Act.

On July 17, 2015, the Office of Management and Budget introduced guidance to further the goal of accelerating payments to small businesses and small business subcontractors while also reducing the administrative burden and cost to taxpayers by utilizing electronic invoicing. OPM continues to work towards compliance with OMB Memorandum M-15-19 "Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing" which directs agencies to transition to electronic invoicing for appropriate Federal procurements by the end of FY 2018.

## **GOALS AND STRATEGIES**

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

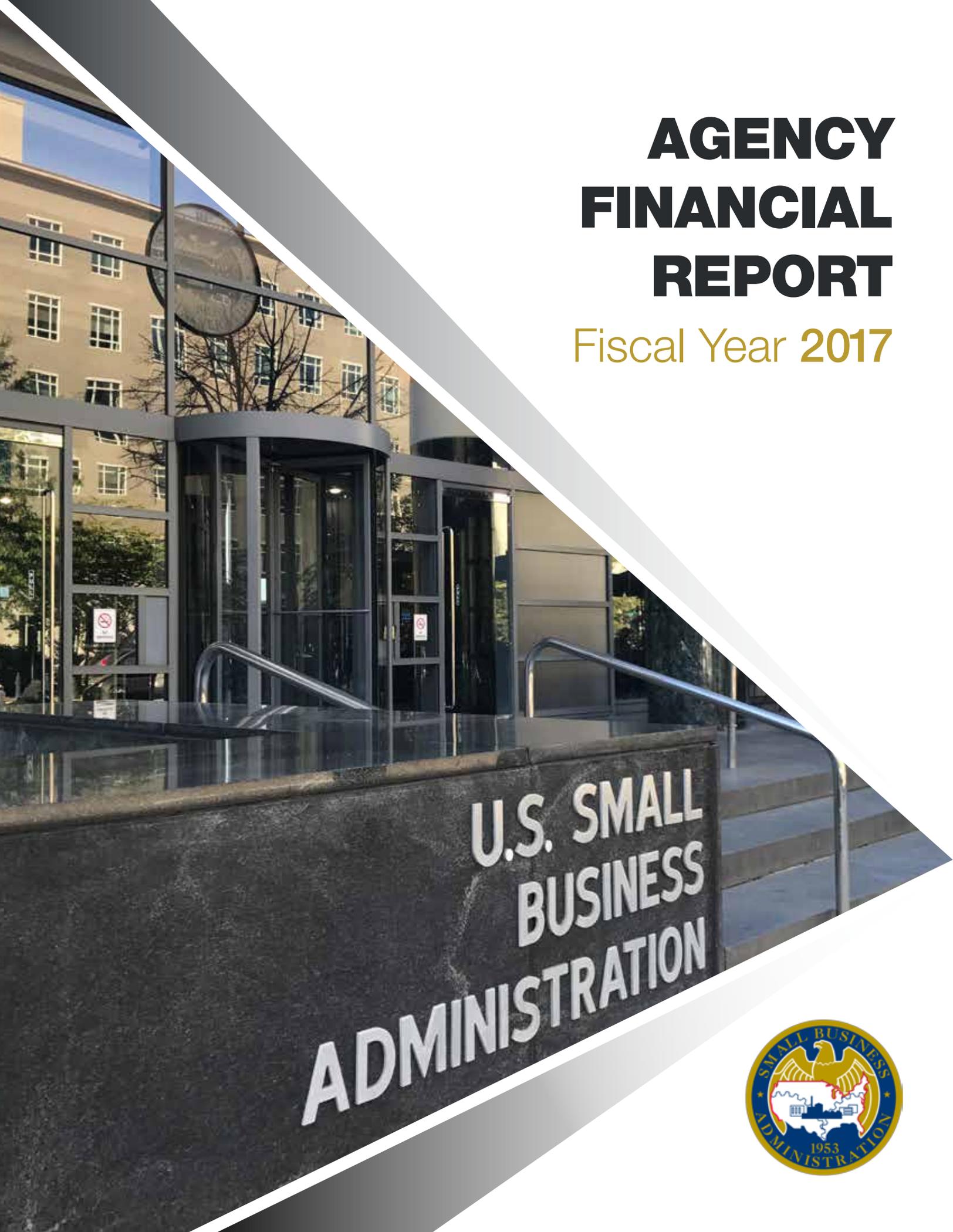
OPM established and has followed the strategy below to achieve the goals for improved financial-management performance:

- Ensure that critical financial performance indicators are objective, understandable, meaningful, fair, and fully measurable
- Improve internal controls over financial reporting through improved systems and processes
- Re-affirm processes, controls, and procedures to ensure that continuing Independent Public Accountant (IPA) unmodified audit opinions will be achieved on the annual financial statements

- Continue to implement a new integrated financial management system fully compliant with Federal standards providing sound, effective support to all customers
- Strengthen stewardship, accountability, and internal controls over financial reporting, as stipulated by revised OMB Circular No. A-123
- Reduce improper payments to target levels

### **LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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



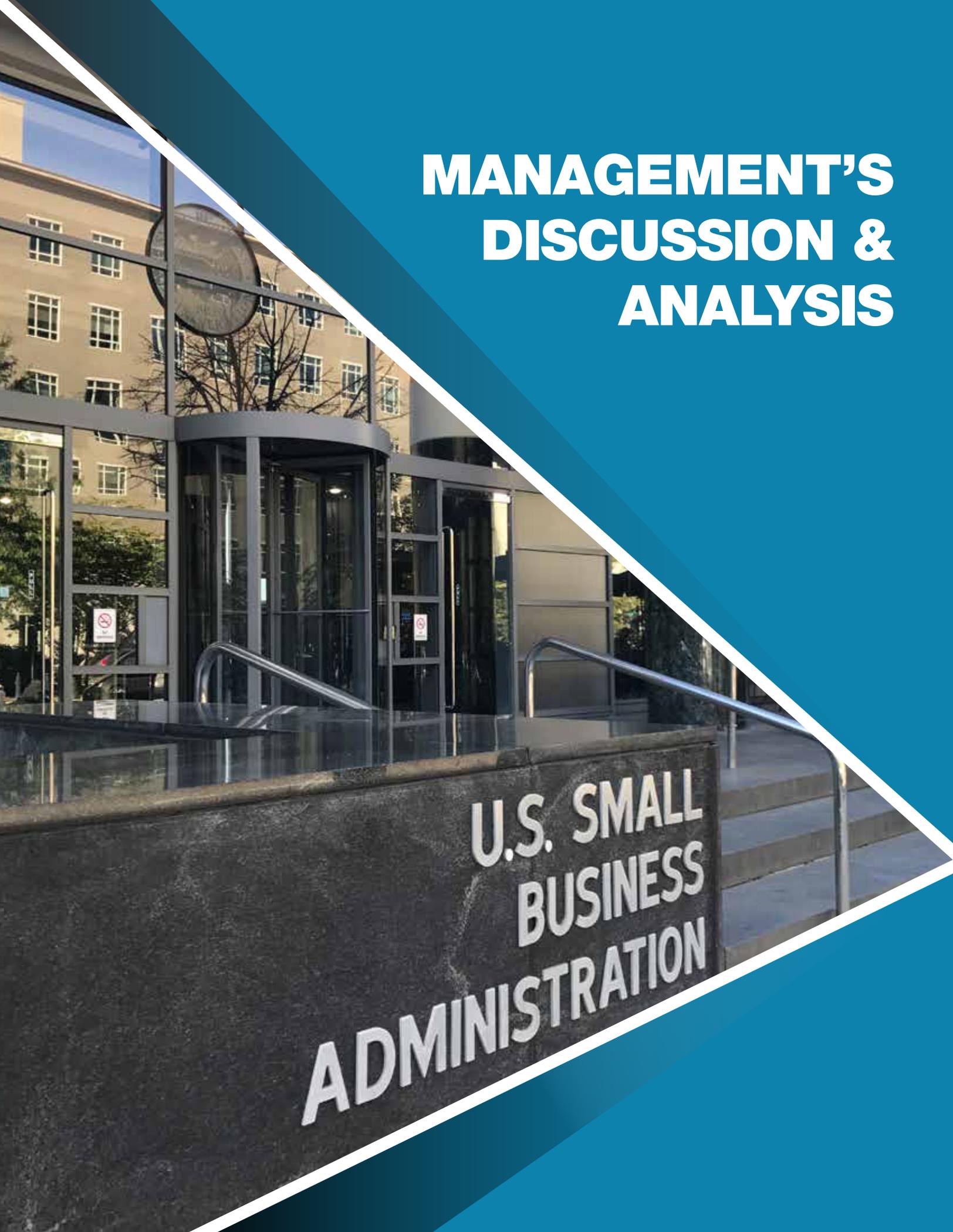
# AGENCY FINANCIAL REPORT

Fiscal Year 2017

U.S. SMALL  
BUSINESS  
ADMINISTRATION



# MANAGEMENT'S DISCUSSION & ANALYSIS

The image shows the exterior of a modern building with a glass and metal facade. In the foreground, a dark, textured concrete wall features the text "U.S. SMALL BUSINESS ADMINISTRATION" in white, bold, sans-serif capital letters. The wall is positioned in front of a set of stairs with a metal handrail. In the background, a multi-story building with many windows is visible. A large blue diagonal shape overlays the right side of the image, containing the title text.

U.S. SMALL  
BUSINESS  
ADMINISTRATION

## DID YOU KNOW

**CAPITAL** The growth in SBA's 7(a) and 504 loan programs indicates the continued outreach and streamlining of program delivery. The 7(a) loan program showed impressive gains in comparison to FY 2016, with over \$25.4 billion in approved loans—an increase of 5 percent. The 504 loan program increased in FY 2017, with \$5 billion in approvals. This level of program activity demonstrates that access to capital through conventional sources remains a challenge for America's small businesses.

## SUCCESS STORY

### Lender Partnerships are Key to Expanding Business and Economic Development

The Auto Bolt Company  
Cleveland, Ohio

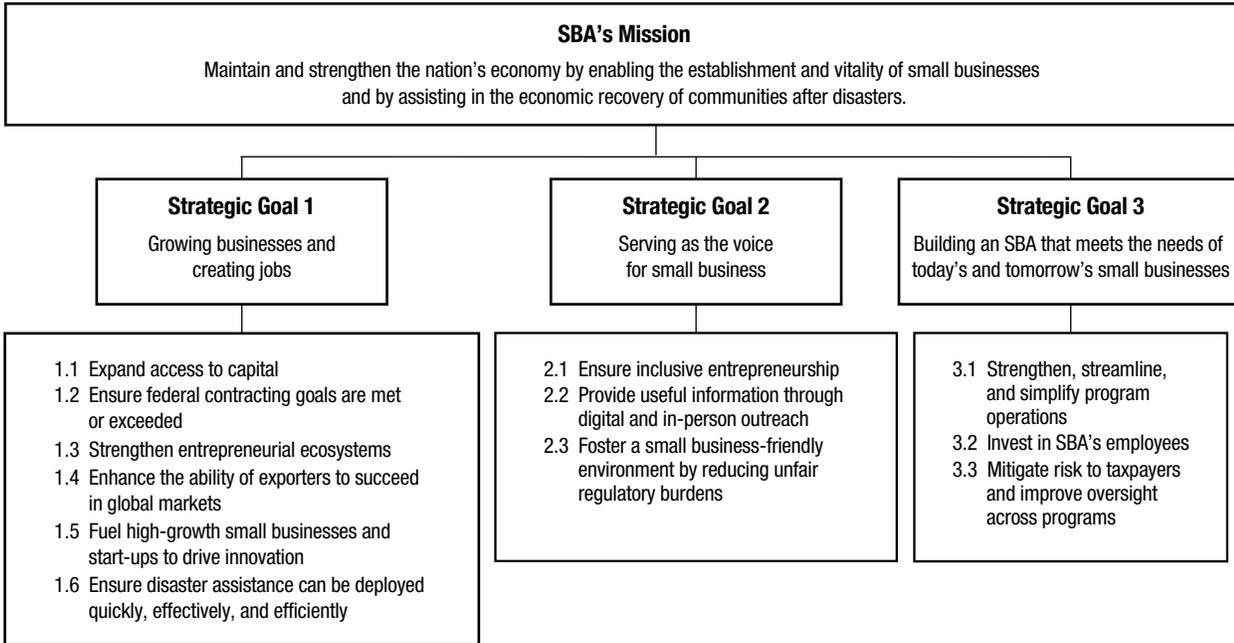


Founded in 1948, **Robert Chapman Kocian** has owned and operated the Auto Bolt Company since 2005. Robert, who has more than 28 years of experience in the fastener industry, has led the company's resurgence and growth. Just a year after Robert acquired the company, it received a \$372,000 SBA 504 loan from Certified Development Company Growth Capital Corp., which was the first of several SBA loans that has allowed Auto Bolt to realize sustained growth. In the last 5 years, the company has received six SBA 504 loans to purchase a new 100,000-square foot industrial building and acquire manufacturing equipment. The company also received a \$140,000 SBA Community Advantage Loan in 2014, which provided permanent working capital.

Auto Bolt's workforce has grown more than 35 percent, and it now employs upward of 60 employees. In addition, revenues are up more than 55 percent in the last 4 years. The company has provided an important economic effect to the local community. It has used lender partnerships that encourage and support comprehensive approaches to economic development.

## SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.” SBA’s headquarters is located in Washington, DC, while its business products and services are delivered with the help of field personnel and a network of private sector and nonprofit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA’s *FY 2014-2018 Strategic Plan*:



### STRATEGIC GOAL ONE — *Growing businesses and creating jobs*

Strategic Goal One focuses on business formation, job growth, and economic expansion through capital, contracting, entrepreneurship, exporting, innovation, and disaster assistance.

The *Office of Capital Access* assists small businesses in obtaining capital via the 7(a) Loan, 504 Certified Development Company Loan, and Microloan Programs, as well as obtaining bonds through the Surety Bond Guarantee Program.

The *Office of Disaster Assistance* provides affordable, timely, and accessible financial assistance to homeowners, renters, businesses, and private nonprofit organizations following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses. Disaster assistance funding is deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses back to operation.

The *Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of Small Business Development Centers, Women’s Business Centers, and SCORE and Entrepreneurship Education activities. In addition, SBA’s district offices support coordination between SBA resource partners and local small business communities.

The *Office of Government Contracting and Business Development* provides assistance to small businesses competing for federal prime contracting and subcontracting opportunities. These assistance programs include HUBZone, 8(a) Business Development, 7(j) Management and Technical Assistance, All Small Mentor-Protégé, and Women-owned and Veteran-owned Small Business set-asides. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business for a particular industry.

The *Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing

technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. Government's international commercial and economic agenda.

The *Office of Investments and Innovation* assists high-growth small businesses through the Small Business Investment Company, Small Business Innovation Research, and Small Business Technology Transfer programs.

## STRATEGIC GOAL TWO — *Serving as the voice for small business*

Strategic Goal Two focuses on socially and economically disadvantaged communities<sup>1</sup> in emerging markets and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all represented in Strategic Goal One) each have programs that support these communities.

The *Office of Communications and Public Liaison* communicates the Agency's programs and priorities to small businesses, their partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high-quality marketing materials, organizing events to gain feedback from small businesses, and coordinating strategic partnerships.

The *Office of Field Operations* is SBA's front-line operating team. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices, which are located in each state and territory.

The *Office of the National Ombudsman* works with all federal agencies that regulate small businesses to provide a means for businesses to comment on federal government enforcement activities, including audits, on-site inspections, compliance assistance efforts, and other enforcement efforts. The office also maintains a five-member Regulatory Fairness Board in each of SBA's 10 regions to hold public hearings on small business concerns.

The *Office of Intergovernmental Affairs* facilitates continuous and bilateral communications between the SBA and: state and local governments; American Indian,

Alaska Native, and Native Hawaiian tribal governments; and insular governments.

The *Office of Veterans Business Development* ensures applicability and usability of all the Agency's small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors. The office accomplishes its work through Veterans Business Outreach Centers, the Boots to Business program, Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal agencies and nonprofit organizations.

The *National Women's Business Council* is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the SBA on issues of economic importance to women business owners.

## STRATEGIC GOAL THREE — *Building an SBA that meets the needs of today's and tomorrow's small businesses*

SBA's management offices support Strategic Goal Three.

The *Office of the Chief Operating Officer* provides oversight of information technology, administrative services, and human resources for the SBA to maximize internal efficiency and responsiveness to small businesses.

The *Office of Credit Risk Management* within the Office of Capital Access focuses on the mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

The *Office of Performance Management and the Chief Financial Officer* provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs*, *Office of General Counsel*, and *Office of Hearings and Appeals*.

<sup>1</sup> Socially and economically disadvantaged communities in emerging markets include women, veterans, minorities, and individuals in HUBZone and rural areas.

## EXECUTIVE SUMMARY

America's 30 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs help drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital, federal contracting, counseling, and disaster assistance.

Throughout FY 2017, three goals from the SBA's *FY 2014-2018 Strategic Plan* guided the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the three Agency Priority Goals. An in-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report, released in February 2018.

### Financial Results

For FY 2017, SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were \$2.3 billion, and total nonbudgetary resources for loan financing used to purchase guaranteed loans in default and to make direct loans were \$4.0 billion. SBA's guaranteed portion of the outstanding loan principal rose 6.1 percent in FY 2017, to \$99.5 billion. New guaranties disbursed by SBA participating banks during FY 2017 were \$22.8 billion, a 7.1 percent increase this year that resulted in the net 6.1 percent increase in outstanding guaranties. Purchases of defaulted guaranteed loans increased, going from \$0.8 billion last year to \$1.0 billion this year. The loan receivables portion of the SBA credit program portfolio increased this year from \$6.2 billion to \$6.4 billion in FY 2017. The small spike in loan receivables was caused primarily by the increase in new disaster direct loan disbursements made to assist FY 2016 flood survivors in the southern United States.

### Performance Results

**Capital:** In FY 2017, the dollar amount of SBA's 7(a) loan program increased by 5 percent, leading to a record year of approvals. Additionally, the 504 loan program exceeded its FY 2017 target with \$5 billion in loan approvals. In all, through the 7(a) loan, 504 loan, and Microloan programs, the SBA approved more than 73,000 loans and provided more than \$30.5 billion in lending to small businesses. More than \$11 billion was invested in small businesses through the Small Business Investment Company program.

**Contracts:** The SBA continues to work with agencies across the Federal Government to expand small business contracting opportunities. From the beginning of FY 2012 through FY 2016, small businesses accessed nearly \$455 billion in federal contracts (FY 2017 contracting numbers continue to be collected and certified).

**Counseling:** The SBA provided mentoring, business advice, and training assistance to more than 1.4 million entrepreneurs and small businesses this year, which helped entrepreneurs start businesses and create or retain jobs.

**Disaster Assistance:** Disaster loan applications and approvals increased compared to the previous year, due to flooding in the southeast and hurricanes Harvey, Irma, and Maria. In FY 2017, the Agency worked on 306 active disaster assistance declarations and approved more than 27,000 disaster loans totaling nearly \$1.7 billion.

### Agency Priority Goals and Outcomes

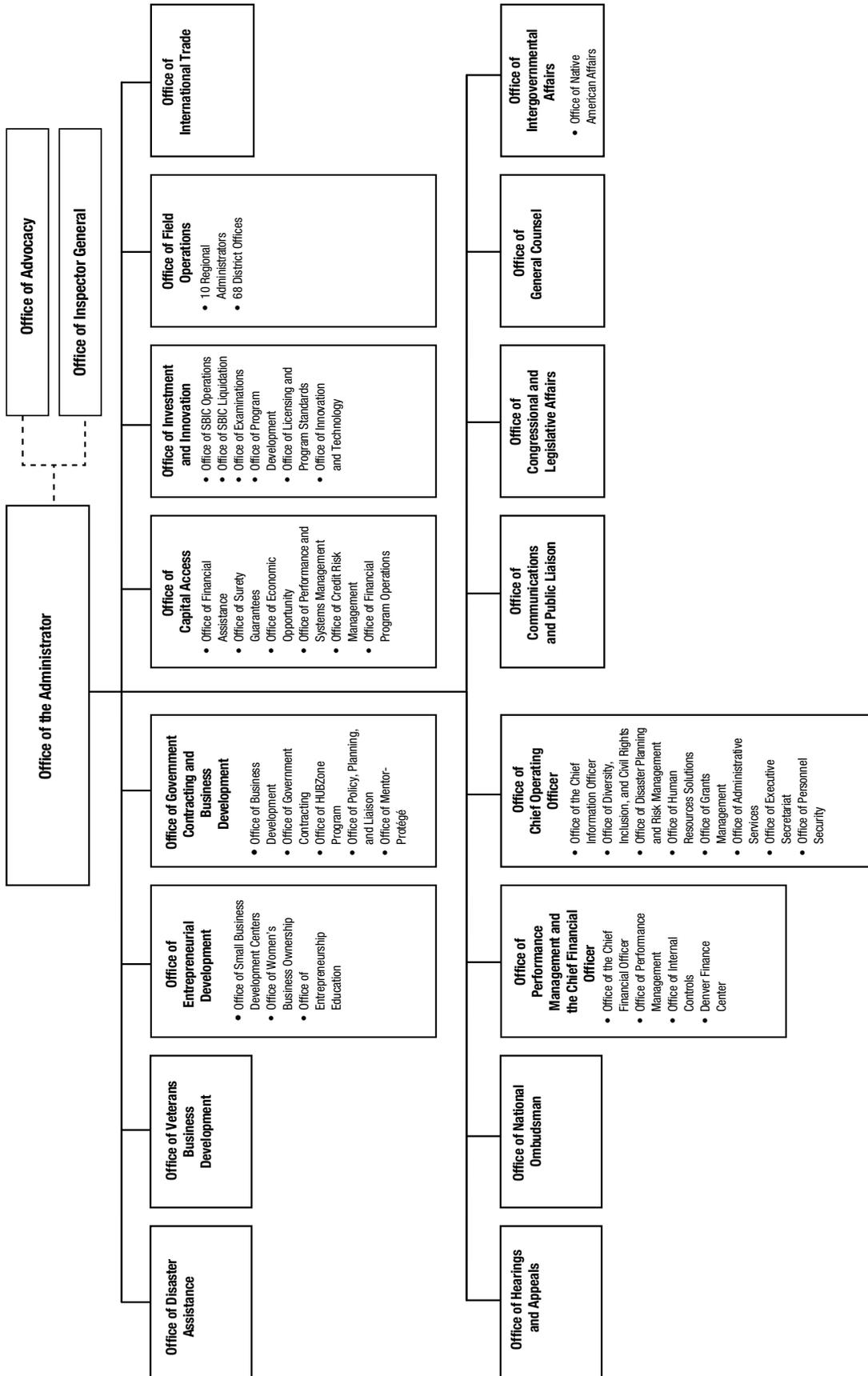
The Government Performance and Results Act Modernization Act of 2010 requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership. The SBA has established three APGs. The goals and outcomes from fiscal year 2017 were as follows.

- **Increase active lender participation.**
  - **Goal:** *By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.*
  - **Outcome:** The SBA increased small business access to capital by adding new and returning lenders to the 7(a) loan program. While the

Agency missed its FY 2017 target by 21 percent, lenders provided more than \$25 billion in loans to small businesses. Continuing bank mergers translates to fewer unique lenders being able to provide SBA guaranteed loans.

- **Maximize small business participation in government contracting.**
  - **Goal:** *Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.*
  - **Outcome:** The SBA will continue to collect and certify FY 2017 contracting numbers through the third quarter of FY 2018. The Agency exceeded its FY 2016 target with the Federal Government, making 24.34 percent of contracting dollars available to small businesses. The SBA provided continuous outreach to other federal agencies to ensure that the goal was exceeded.
- **Support more disadvantaged small businesses.**
  - **Goal:** *By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.*
  - **Outcome:** The SBA instituted several process improvements for the 8(a) Business Development program. The SBA spent time developing existing businesses in the 8(a) program and less time processing applications. As a result, the SBA was under target by 12 percent due to greater focus on increasing the number of 8(a) firms obtaining federal contracts.

# SBA ORGANIZATION CHART





## PRIMER OF SBA'S PRINCIPAL PROGRAMS

### CAPITAL ([www.sba.gov/financialassistance](http://www.sba.gov/financialassistance))

*The SBA has a business loan portfolio of \$113.7 billion.<sup>2</sup>*

**7(a) Loan Program** — The SBA offers government guaranties on loans (up to \$5 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

**504 Certified Development Company Loan Program** — These long-term, fixed-rate loans (up to \$5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by Certified Development Companies, which are private, nonprofit corporations. CDCs work with the SBA and private lenders to provide financing. The SBA guarantees the CDC's portion of these loans.

**Microloan Program** — The SBA provides loans to nonprofit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to \$50,000) to small businesses needing small-scale financing and technical assistance for startup or expansion.

**Surety Bond Guarantee Program** — A surety bond guarantee is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, then the SBG program provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses, up to \$6.5 million for non-federal contracts and up to \$10 million for federal contracts.

### CONTRACTING ([www.sba.gov/contracting](http://www.sba.gov/contracting))

*The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, which is inclusive of 5 percent set-asides for women-owned and small, disadvantaged/8(a) businesses and 3 percent set-asides for HUBZone and service-disabled veteran-owned small businesses.*

**Procurement Assistance to Small Businesses** — Small business contracts represent the largest form of direct monetary support for small business in the Federal Government. Within this goal are four subgoals:

**Small Disadvantaged Businesses** — This program provides assistance through the 8(a) Business Development program and set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of 9 years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.

**HUBZone Small Businesses** — This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographical areas.

**Service-Disabled Veteran-Owned Small Businesses** — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

**Women-Owned Small Businesses** — This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned by women.

### ADVISING, MENTORING, AND TRAINING ([www.sba.gov/local-assistance](http://www.sba.gov/local-assistance))

*The SBA and its partners serve more than 1.4 million small business clients a year through the following programs.*

**Small Business Development Centers** — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the United States and the insular territories.

<sup>2</sup> The business loan portfolio of \$113.7 billion consists of the following loan programs: 7(a), 504 loan, Microloan, ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi.

**Women's Business Centers** — WBCs provide advising and training through more than 100 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

**Veterans Business Outreach Centers** — SBA's 20 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members starting new small businesses or expanding established small businesses.

**SCORE** — SCORE is a nonprofit association comprised of nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of small businesses.

**Learning Center** — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and more to help small business owners explore and learn about many aspects of business ownership.

### EXPORTING ([www.sba.gov/oit](http://www.sba.gov/oit))

*The SBA provides loans to exporters and training assistance to small businesses.*

**Export Loans** — The SBA provides several types of export loans, including SBA Export Express loans (up to \$500,000), Export Working Capital loans (up to \$5 million), and International Trade loans (up to \$5 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success. The SBA provides technical assistance on trade finance and funding questions through staff located in U.S. Export Assistance Centers.

**U.S. Export Assistance Centers** — USEACs are staffed by professionals from the SBA, the Department of Commerce, and the Export-Import Bank. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

**State Trade and Export Promotion Program** — STEP provides grants to states to assist small businesses with the information and tools they need to succeed in export related activities. These activities include participation in foreign trade missions, foreign market sales trips, international marketing campaigns, export trade shows, and training workshops.

### HIGH-GROWTH SMALL BUSINESSES ([www.sba.gov/sbic](http://www.sba.gov/sbic))

*The SBA supports high-growth investments through a portfolio of \$11.8 billion in guaranteed debentures.*

**Small Business Investment Companies** — SBICs are privately owned and managed investment funds that use their capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

**Small Business Innovation Research** — The SBIR program is a highly competitive funding agreement program that stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small businesses. The SBIR program protects the small business and enables it to compete on the same level as larger businesses.

### DISASTER ASSISTANCE ([www.sba.gov/disaster](http://www.sba.gov/disaster))

*The SBA has a portfolio of \$6.2 billion in direct disaster loans to businesses of all sizes, private nonprofit organizations, homeowners, and renters.*

**Disaster Assistance** — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

## SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2014	FY 2015	FY 2016	FY 2017
<b>Principal Program Portfolio <sup>(1)</sup></b>	<b>Outstanding Principal Balance</b>	<b>\$ 114,434</b>	<b>\$ 118,767</b>	<b>\$ 124,118</b>	<b>\$ 131,815</b>
<b>Capital <sup>(2)</sup></b>					
7(a) Loans	Dollars of Gross Loans Approved	\$ 19,191	\$ 23,584	\$ 24,128	\$ 25,447
504 Loans	Dollars of Gross Loans Approved	\$ 4,199	\$ 4,298	\$ 4,740	\$ 5,014
Microloans	Dollars of Gross Loans Approved to Microborrowers	\$ 54	\$ 51	\$ 58	\$ 68
Surety Bonds	Dollars of Bid and Final Bonds Guaranteed	\$ 6,413	\$ 6,348	\$ 5,658	\$ 6,032
<b>Contracting <sup>(3)</sup></b>					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	\$ 91,682	\$ 90,702	\$ 99,960	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	\$ 7,000	\$ 6,422	\$ 6,864	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	\$ 34,700	\$ 35,430	\$ 39,134	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	\$ 17,200	\$ 17,807	\$ 19,670	N/A
Service-Disabled, Veteran-Owned Small Businesses	Dollars of Contracts Awarded to Service-Disabled, Veteran-Owned Small Businesses	\$ 13,500	\$ 13,832	\$ 16,337	N/A
<b>Advising, Mentoring, and Training <sup>(4)</sup></b>					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	485,487	454,898	453,427	451,041
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	140,037	140,716	145,415	149,121
SCORE	Number of Clients Mentored and Trained	442,374	349,539	433,394	613,286
Online Training	Number of Clients Trained Online	182,002	139,719	187,162	206,172
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	52,621	62,117	47,342	50,131
<b>Exporting</b>					
Export Loans	Dollars of Gross Loans Approved	\$ 1,341	\$ 1,454	\$ 1,546	\$ 1,872
<b>High-growth Small Businesses</b>					
Small Business Investment Company (SBIC)	Dollars of SBA Debenture Leverage Committed to SBICs	\$ 2,549	\$ 2,553	\$ 2,514	\$ 1,959
	Dollars of SBIC Debenture Capital to Small Businesses	\$ 5,465	\$ 6,286	\$ 5,529	\$ 5,727
<b>Disaster</b>					
Disaster Assistance <sup>(2)</sup>	Dollars of Gross Loans Approved	\$ 332	\$ 372	\$ 1,407	\$ 1,666

(1) The total portfolio consists of guaranteed business loans outstanding, guaranteed debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

(3) FY 2017 contracting numbers will continue to be collected and certified through the third quarter of FY 2018. Therefore, FY 2017 numbers are not yet available.

(4) Resource partners may input data up to 45 days after the close of the fiscal year.

## ANALYSIS OF PERFORMANCE RESULTS

### Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2017 performance data, including the three FY 2016-2017 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. The presentation of the performance data and analysis is organized by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Detailed performance information on all SBA programs will be presented, and all variances will be explained in the *FY 2017 Annual Performance Report* to be published in February 2018 with the *FY 2019 Congressional Budget Justification*.

#### STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

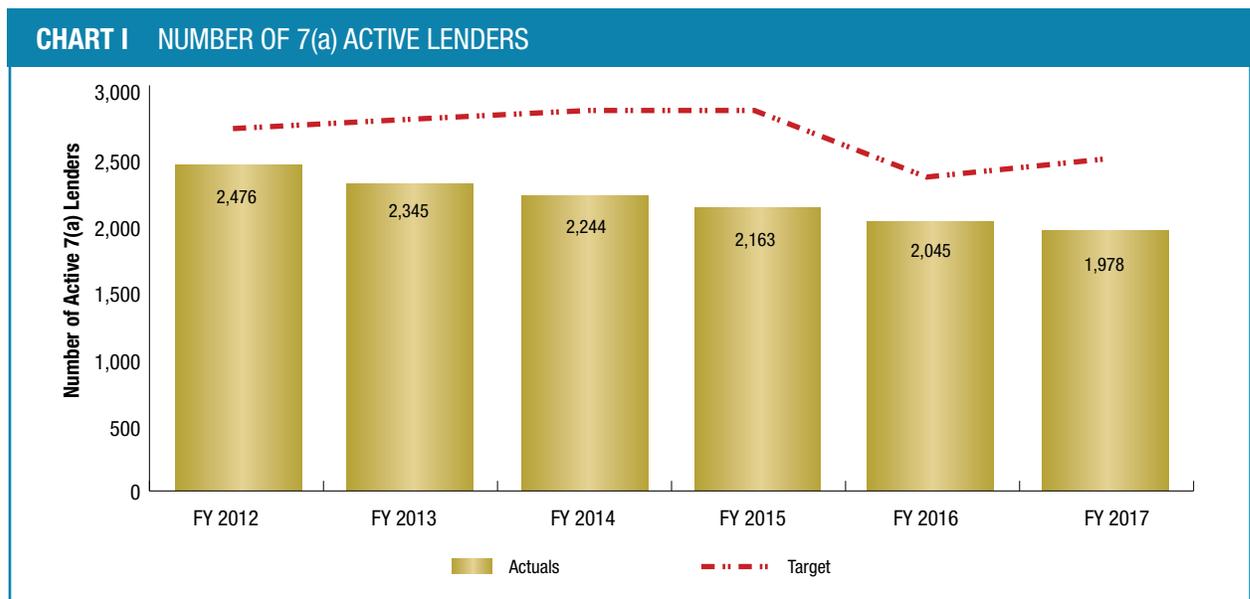
**Priority Goal:** By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.

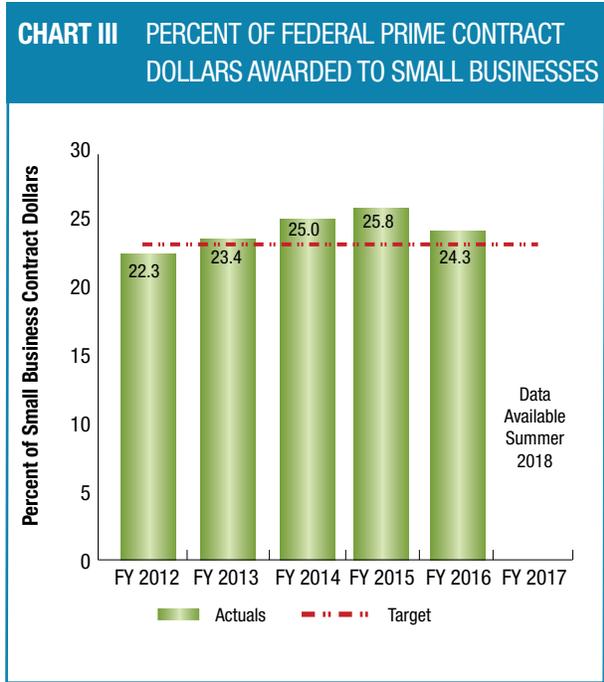
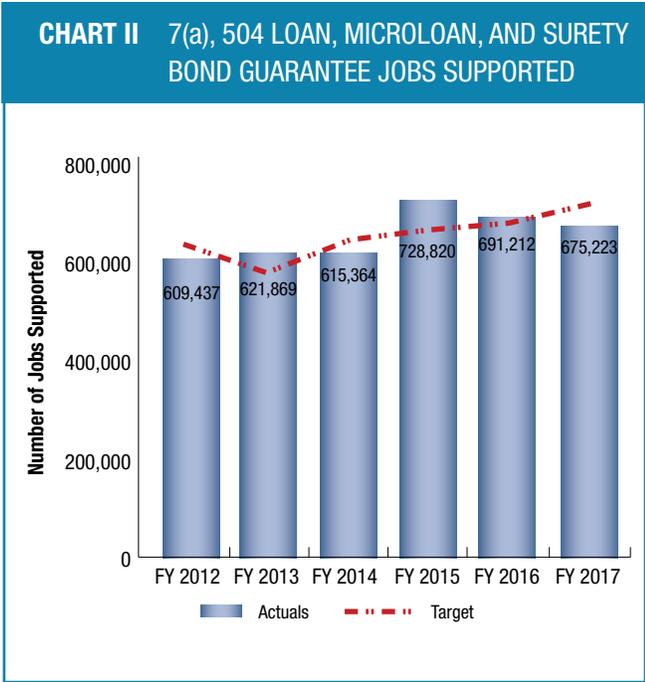
**Performance Analysis:** New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the number of loans approved and small businesses assisted. Attaining a high volume of active lenders from one fiscal year to the next creates a consistent

pipeline of SBA loans for small businesses. The SBA accomplished 78 percent of its FY 2017 target to reach 2,500 active lenders (see **Chart I**) that made loans totaling \$25.4 billion. The number of active lenders recruited slowed in the fourth quarter. A key challenge is the consolidation of lenders through mergers and acquisitions, which has been a continuing trend for several years. The lending community, however, has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements, and the SBA has been actively recruiting credit unions to join the 7(a) loan program.

**Performance Goal:** Support 726,900 jobs through capital assistance programs in FY 2017.

**Performance Analysis:** The number of jobs supported – jobs created and retained as a result of SBA intervention – is an important outcome measure of the effectiveness of SBA's programs. This measure tracks the number of jobs supported through the 7(a), 504 loan, microloan, and surety bond guarantee programs. Since FY 2012, the number of jobs has increased, with more than 675,000 jobs reported in FY 2017 (see **Chart II**). While the SBA missed its target by 7 percent, the Agency saw a record year of 7(a) loan approvals. The SBA's policies for fee relief on smaller dollar loans and continued outreach to credit unions should support more job creation and retention in the future. Additional outreach will be conducted with lenders in FY 2018 to help support this measure.



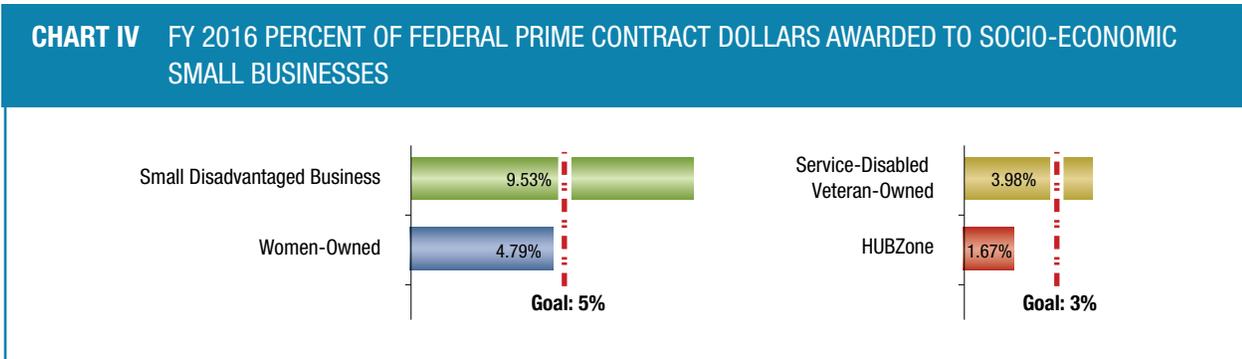


**STRATEGIC OBJECTIVE 1.2:** Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.

**Priority Goal:** Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.

**Performance Analysis:** By law, 23 percent of federal government prime contracting dollars are set-aside for small businesses, which includes 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**).

For the fourth consecutive year, in FY 2016 (the latest year of data available due to the data certification process), the Federal Government surpassed its prime contracting goal, awarding small businesses nearly \$100 billion in contracting dollars. The SBA surpassed its goals for service-disabled veteran-owned (FY 2016 result was 3.98 percent), and small disadvantaged businesses exceeded its 5 percent target (FY 2016 result was 9.53 percent). Also in FY 2016, women-owned small businesses achieved 4.79 percent of its goal of 5 percent, and HUBZone achieved 1.67 percent of its 3 percent goal (see **Chart IV**). The SBA continued to work with the Office of Federal Procurement Policy to integrate small business data quality reviews (anomaly reports) into each agency's contracting processes and procedures. The SBA developed potential anomaly reports for the top 10 agencies that issued small business award dollars to what appear to be large businesses, missing NAICS codes, or missing contracting officer's size selection data.



**Priority Goal:** By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.

**Performance Analysis:** The 8(a) program helps socially and economically disadvantaged entrepreneurs gain access to federal government contracting opportunities. In prior years, small businesses had a difficult time negotiating the lengthy 8(a) certification process. The SBA had major success in this program by streamlining the application process. The SBA approved 557 applications, missing the target by 12 percent. As a result of the transition to a new Administration, the SBA has been placing a greater focus on 8(a) firms obtaining federal contracts (see **Chart V**).

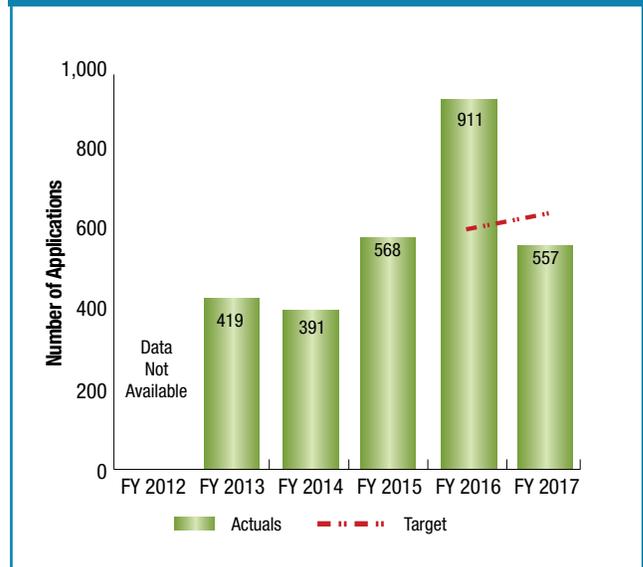
**STRATEGIC OBJECTIVE 1.3:**  
 Strengthen entrepreneurial ecosystems<sup>3</sup> through a variety of strategic partnerships to provide tailored training, mentoring, and counseling services that support entrepreneurs during every phase of their business growth.

**Performance Goal:** Reach 1.2 million clients with online and in-person advising, mentoring, and training in FY 2017.

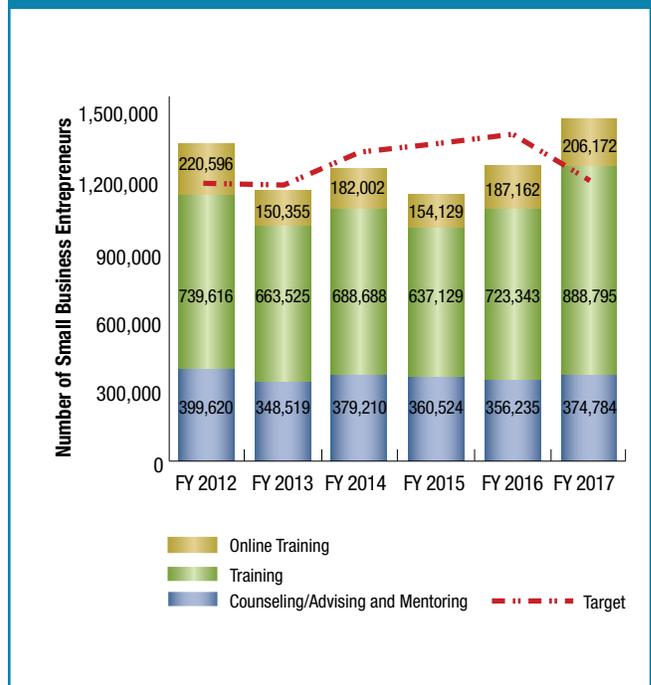
**Performance Analysis:** The SBA exceeded its performance target for advising, mentoring, and training assistance by 16 percent (see **Chart VI**). Resource partners may input data up to 45 days after the close of the fiscal year, and this information will be made available in the APR publication in February 2018. While the Small Business Development program experienced a slight decrease of 1 percent in the number of clients served from FY 2016 to FY 2017, SCORE and Women's Business Center programs experienced a 42 and 3 percent increase, respectively, in the number of clients advised and trained. SCORE implemented new online training, which greatly increased the number of entrepreneurs assisted. In addition, the SBA developed new regulations for the WBC to provide comprehensive guidance to grantees, and increased the number of VBOC and WBC locations, allowing more entrepreneurs to access vital small business services.

<sup>3</sup> The entrepreneurial ecosystem refers to external elements which contribute to the likelihood that a small business will be successful. This ecosystem includes access to markets, capital, technical support, personnel, suppliers, and infrastructure. The SBA addresses these needs through a variety of strategic partnerships with its resource partners.

**CHART V NUMBER OF 8(a) APPLICATIONS APPROVED**



**CHART VI SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED**



**STRATEGIC OBJECTIVE 1.4:** Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

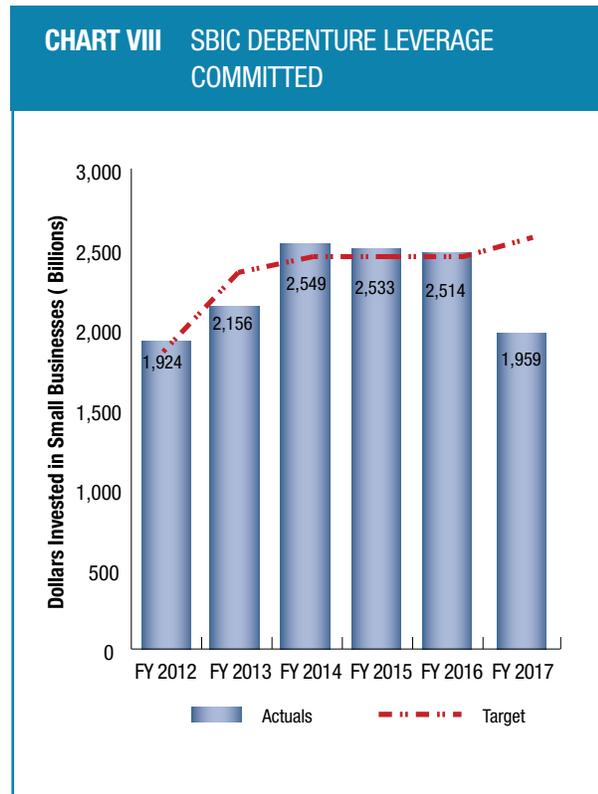
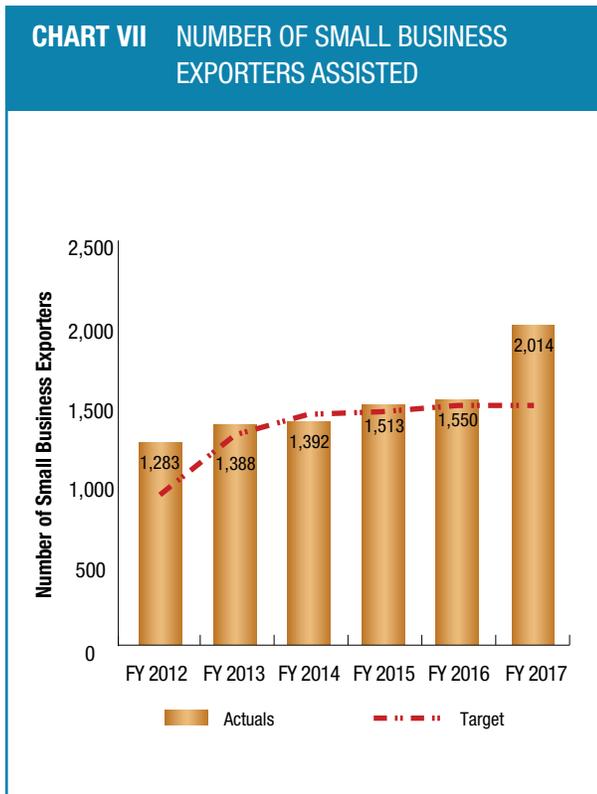
**Performance Goal:** Expand small business access to export financing by increasing the number of small business exporters receiving financing to 1,520 in FY 2017.

**Performance Analysis:** Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA assisted 2,014 small businesses in export financing, which exceeded the target of 1,520 small businesses by 33 percent (see **Chart VII**). This year, the SBA approved 2,152 export loans for \$1.87 billion from 483 lenders, achieving a new SBA record as exports started to increase after annual declines in FY 2015 and FY 2016. The SBA accomplished this result by training and counseling lenders and hosting export roundtables across the country to promote export lending.

**STRATEGIC OBJECTIVE 1.5:** Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

**Performance Goal:** Issue \$2.6 billion in debenture leverage to small business investment companies in FY 2017.

**Performance Analysis:** SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2017, the SBA accomplished 75 percent of its target, committing nearly \$2 billion in debenture leverage to SBICs. The debentures allowed SBICs to invest more than \$5.7 billion in nearly 1,000 small businesses (see **Chart VIII**). The SBA licensed 15 new SBICs and reduced the time to license by 29 percent from FY 2015. As a new strategy, the SBA intends to focus efforts on small businesses in emerging markets, which will be reflected in FY 2018 performance.



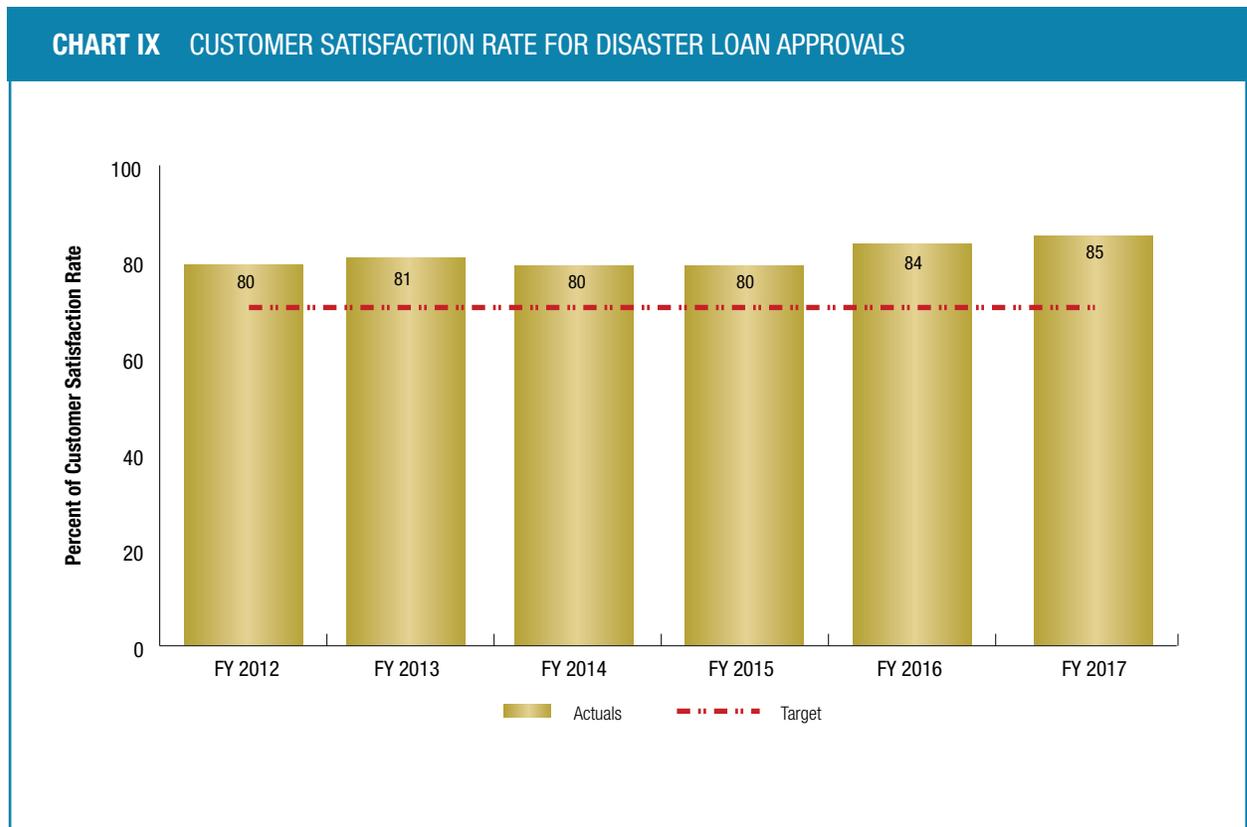
**STRATEGIC OBJECTIVE 1.6:**

Ensure that SBA's disaster assistance resources for businesses, nonprofit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

**Performance Goal:** Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2017.

**Performance Analysis:** The SBA tracks customer satisfaction for its disaster assistance program through an annual survey that uses the American Customer Satisfaction Index. The index summarizes key points in the loan process, including the application, final decision, and closing of the loan. The SBA had

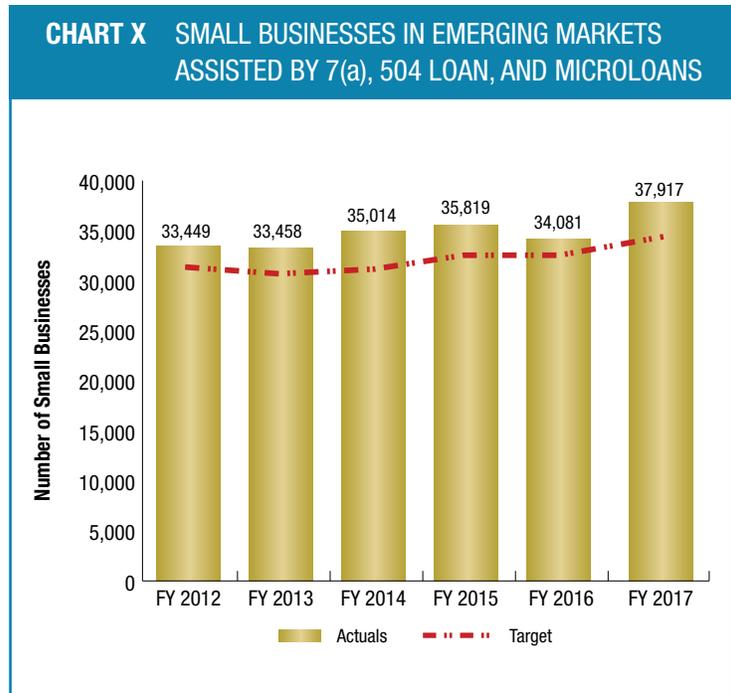
a customer satisfaction rate of 85 percent, which exceeds the 71 percent target (see **Chart IX**). The high satisfaction rate is a result of several factors, including the improvements to the application process and upgrades to the Disaster Loan Assistance portal, which allows applicants easier access to general questions, status of their applications, and electronic signatures.



**STRATEGIC OBJECTIVE 2.1:**  
Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.

**Performance Goal:** Assist 34,050 underserved small businesses through capital assistance programs in FY 2017.

**Performance Analysis:** Small businesses in socially and economically disadvantaged communities often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504 loan, and Microloans, the SBA assisted nearly 38,000 small businesses — exceeding the FY 2017 target by 11 percent (see **Chart X**). The elimination of the fees on small dollar loans (\$150,000 or less), streamlined processes, and program improvements attributed to the increase in number of small businesses assisted. In addition to the enhancements of the SBA One electronic platform to submit applications, the SBA introduced the online tool Lender Match to connect distinct borrowers with lenders.

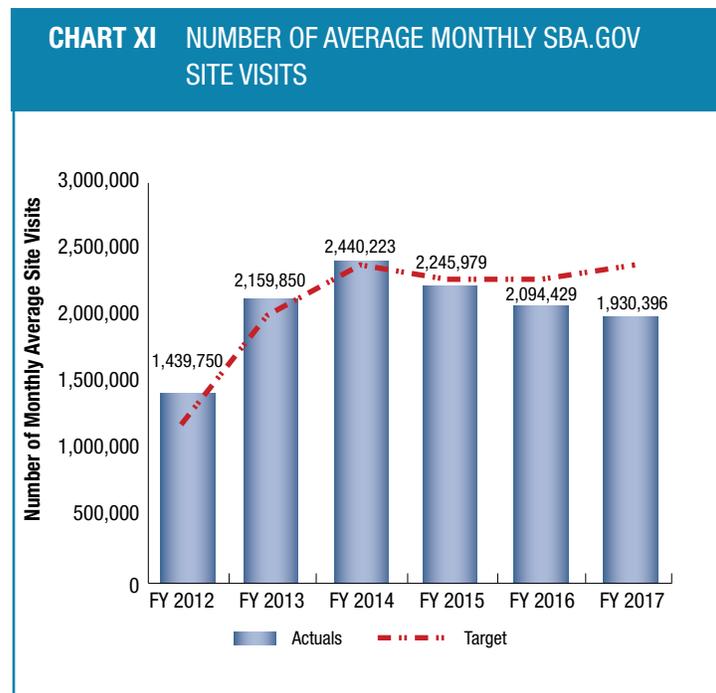


this fiscal year is a result of the transition and the continued focus on improving the SBA.gov website.

**STRATEGIC OBJECTIVE 2.2:**  
Provide timely, instructive, and useful information to the small business community through SBA’s extensive digital and in-person outreach efforts.

**Performance Goal:** Reach 2.4 million average monthly SBA.gov site visits in FY 2017.

**Performance Analysis:** In FY 2017, SBA.gov averaged 1.9 million monthly site visits. This number is lower than the 2.1 million visitors in FY 2016 and below the 2.4 million target for visits (see **Chart XI**). While the SBA monitors this data using cookies, more site visitors used a Do Not Track feature that the SBA chose to respect, which caused the numbers to decline. In addition, the downward trend



**STRATEGIC OBJECTIVE 2.3:** Foster a small business-friendly environment by encouraging federal agency awareness about the impact of unfair regulatory enforcement and compliance efforts and reducing burdens on small business.

**Performance Goal:** Maintain Regional Regulatory Fairness Board membership at 85 percent or better in FY 2017.

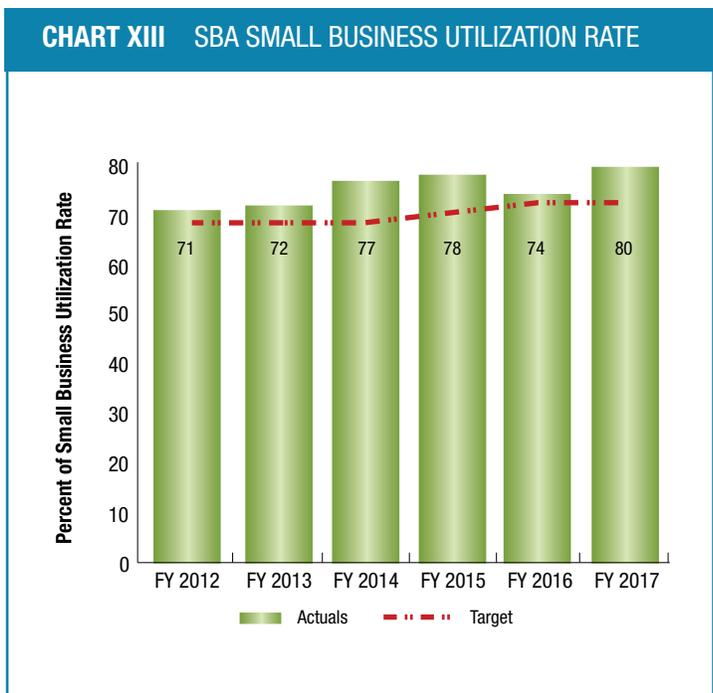
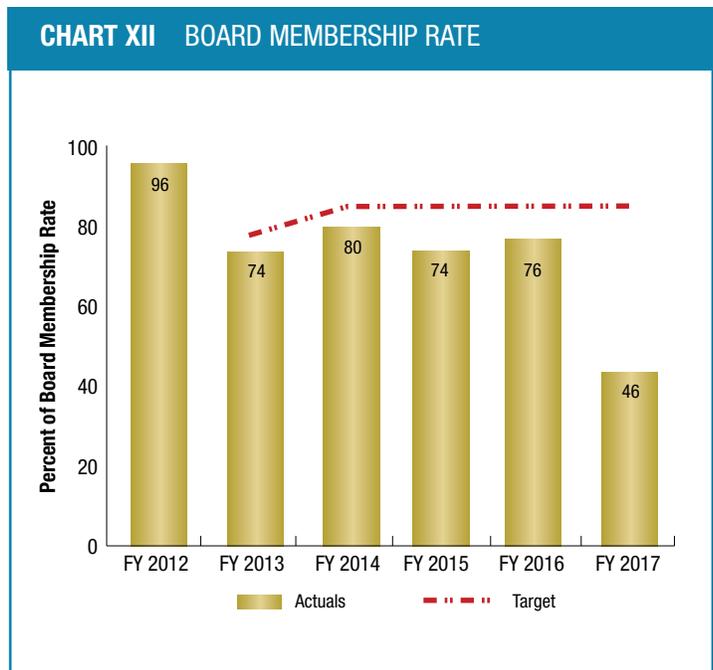
**Performance Analysis:** SBA's Office of the National Ombudsman works with federal agencies and the small businesses they regulate to provide a confidential, impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of communication. SBA's Regional Regulatory Fairness Board reviews federal regulations impacting small businesses and provides advice to the SBA National Ombudsman. The SBA stopped recruiting new board members due to the transition in administrations, which has led to a 46 percent membership rate on the Regulatory Fairness Board, 39 percentage points below the target of 85 percent (see **Chart XII**). In order to recruit new members and to reduce the time required through the vetting process, the SBA made revisions to the process in FY 2017, and will continue to build a pipeline of candidates to fill current and projected board member vacancies.

**STRATEGIC OBJECTIVE 3.1:** Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

**Performance Goal:** Award 72.75 percent of SBA contracts to small businesses in FY 2017.

**Performance Analysis:** The SBA exceeded its small business utilization goal by awarding nearly 80 percent of contracts, totaling \$125 million, to small businesses (see **Chart XIII**) and exceeded its subgoals for women-owned,

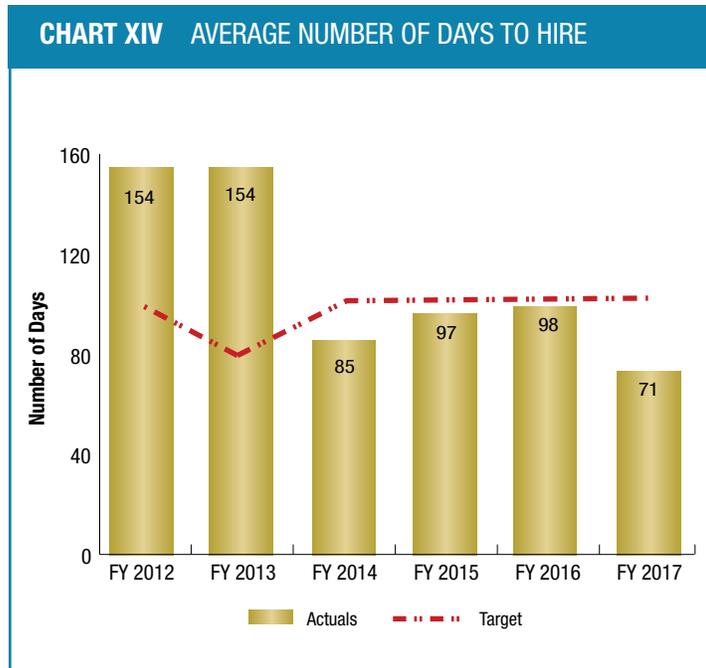
small disadvantaged, HUBZone, and service-disabled veteran-owned small businesses. The SBA exceeded the small business utilization rate by maintaining a default Agency position of awarding contracts to small businesses and only resorting to large vendors when all small business options were exhausted.



**STRATEGIC OBJECTIVE 3.2:** Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

**Performance Goal:** Ensure that the average time to hire will be less than 100 days in FY 2017.

**Performance Analysis:** In FY 2017, the SBA continued to improve operational efficiencies which positively impacted the Agency's average number of days to hire. The SBA exceeded its target of 100 days by 29 percent, with a time-to-hire of 71 days (see **Chart XIV**). The SBA partnered with the U.S. Office of Personnel Management to promote effective recruitment of high-quality candidates equipped with the essential skills to support the Agency's mission. A hiring freeze between January and April 2017 also impacted the number of days to hire by reducing the number of applications to process.

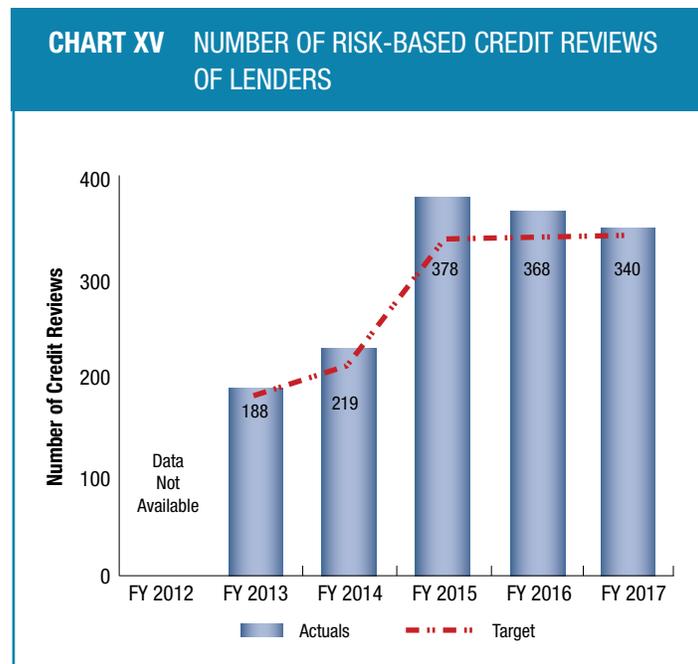


targets and ensured staff received training in order to provide small businesses with a better understanding of program eligibility requirements and compliance reviews.

**STRATEGIC OBJECTIVE 3.3:** Mitigate risk to taxpayers and improve oversight across SBA programs.

**Performance Goal:** Perform 335 risk-based credit reviews; review 100 percent of 8(a) and 10 percent of HUBZone firms; and conduct 65 financial reviews of entrepreneurial development resource partners in FY 2017.

**Performance Analysis:** The SBA continued efforts to further mitigate risk this year. For lender oversight, the Agency performed 340 risk-based credit reviews, which provided oversight of loan performance, credit scores, and compliance with SBA loan program requirements (see **Chart XV**). The Agency conducted 64 financial examinations of entrepreneurial development resource partners to review the accuracy in reporting and ensure finances were used properly. After the reviews, the SBA provided face-to-face feedback and training on issues and shared best practices. The SBA exceeded its HUBZone and 8(a) review



## Evidence and Evaluation

The SBA recognizes the importance of evidence and evaluation to understand and improve the efficiency and effectiveness of SBA programs and operations. Rigorous evidence allows leadership to make sound decisions about program strategy, policy, and resources. In FY 2017, the SBA continued to build and use evidence to improve program performance. SBA leadership uses evidence in its quarterly deep dive reviews and strategic objective annual reviews, and has woven evidence into the development of its Strategic Plan and Annual Performance Plan and Report.

The Agency is developing an enterprise learning agenda with a set of key research and evaluation questions. The ELA identifies areas where evaluation would provide insights about program effectiveness, progress toward outcomes, or test pilot initiatives. The SBA initiated four program evaluations to begin answering questions for the following programs or activities: HUBZone, Boots to Business, Community Advantage, and Small Business Development Centers. In addition, the SBA established a Performance and Evaluation Community of Practice to increase staff capacity and knowledge of program evaluation, developed a program evaluation framework and guidelines, and created an evidence registry. The SBA will initiate new program evaluations annually, which will ultimately continue to build a suite of evidence from which to better inform decisions. The SBA will publish evaluation results on its SBA.gov public website and incorporate findings into its performance management framework.

## Verification and Validation of Performance Data

Managing results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality is a priority for the SBA. The Agency's performance analysts work with SBA program office leads to acquire and review high-quality data as required by the GPRA Modernization Act and OMB Circular A-11. In addition to using output data internally from its systems, the SBA relies on data from resource partners, federal agencies, and other government entities to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality by:

- *Ensuring the validity of performance measures and data.* The SBA conducts an annual performance measure review to assess the validity of its measures

and underlying data. SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. These meetings help determine whether the proposed measures and underlying data are useful for demonstrating a program office's success, which is defined by the goals and objectives.

- *Fostering organizational commitment and capacity for data quality.* The SBA issues a monthly executive performance dashboard to apprise senior management on progress and holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency leadership reinforces its commitment to the performance metrics and works directly with program offices to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify their program office's performance data before it is externally reported and published at [www.sba.gov/performance/VV-fy2018](http://www.sba.gov/performance/VV-fy2018).
- *Assessing the quality of existing data.* SBA's performance analysts work with a program office's staff to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the program offices. These activities verify the data and the underlying processes used for reporting.
- *Responding to data limitations.* SBA's performance analysts work with program offices to identify data limitations and specify the necessary steps to improve data. In addition, some program offices rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The program offices have internal processes for working closely with their resource partners to ensure that data are correctly reported.

## Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of small business loan guaranties and direct loans portfolio of nearly \$132 billion. During FY 2017, the portfolio grew by \$7.7 billion, or 6.2 percent. Since existing loans are continually being paid, this growth

implies that SBA's lending during FY 2017 was significantly greater than the \$7.7 billion reflected in the portfolio growth. By program, the Agency's 7(a) loan portfolio expanded by \$7.4 billion, the 504 loan portfolio contracted by \$0.3 billion, and the SBIC portfolio grew by \$0.6 billion. The Agency's disaster loan portfolio increased by \$0.2 billion, while all other portfolios declined by \$0.2 billion. From FY 2012 through FY 2017, all of the portfolio's cumulative \$27.4 billion growth came from the 7(a) and SBIC programs (see **Chart XVI**).

### NEW GUARANTIED LOANS

The quarterly average loan volume continued to increase in FY 2017, with an average of \$7.6 billion. **Chart XVII** demonstrates the growth in loan approvals since FY 2012.

At least three main factors contributed to the loan guaranty portfolio's recent growth:

*Continuous Growth in the Economy* — Real Gross Domestic Product in the United States grew at an average quarterly rate of 2.2 percent during 2014-2017.<sup>4</sup> This increase in RGDP supports increased revenues and profits at small and large firms, which in turn increases their demand for credit.

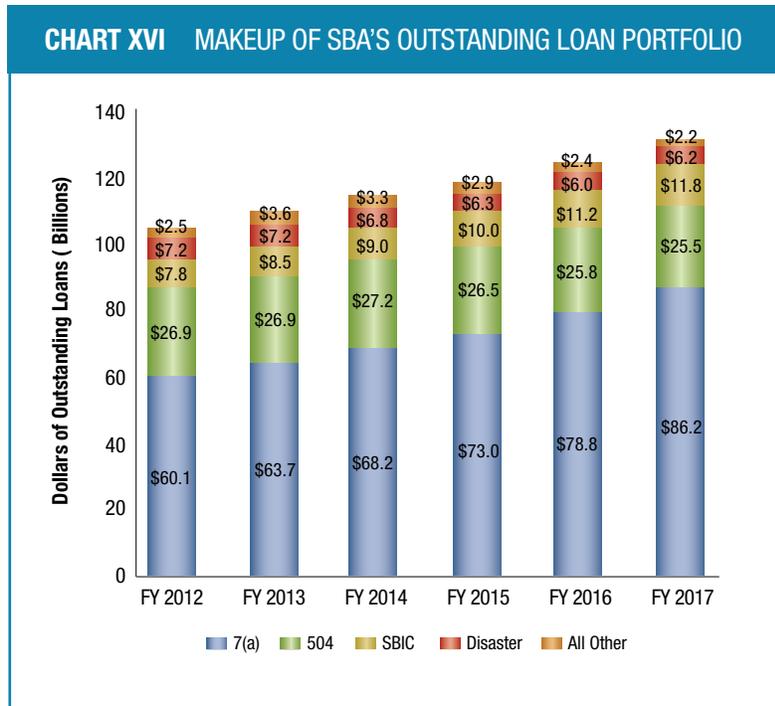
*Increase in Business Financial Stability* — As the economy continues to grow, several factors continue to influence demand and increases in revenues. First, inflation remains low (on average 1.3 percent in 2016),<sup>5</sup> keeping the cost of consumer goods and services affordable. Second, the dollar continued to maintain its strength in international exchange markets during 2016-2017,<sup>6</sup> which also supports the stability of U.S. prices. Finally, the unemployment rate has continued below 5 percent at pre-recession levels, which boosts consumer confidence and spending.<sup>7</sup>

4 U.S. Department of Commerce, Bureau of Economic Analysis: [www.bea.gov/newsreleases/glance.htm](http://www.bea.gov/newsreleases/glance.htm).

5 U.S. Department of Labor, Bureau of Labor Statistics: [www.bls.gov/cpi/home.htm](http://www.bls.gov/cpi/home.htm).

6 Financial Deposit Insurance Corporation: [www.macrotrends.net/1329/us-dollar-index-historical-chart](http://www.macrotrends.net/1329/us-dollar-index-historical-chart).

7 U.S. Department of Labor, Bureau of Labor Statistics: [data.bls.gov/timeseries/LNS14000000](http://data.bls.gov/timeseries/LNS14000000).

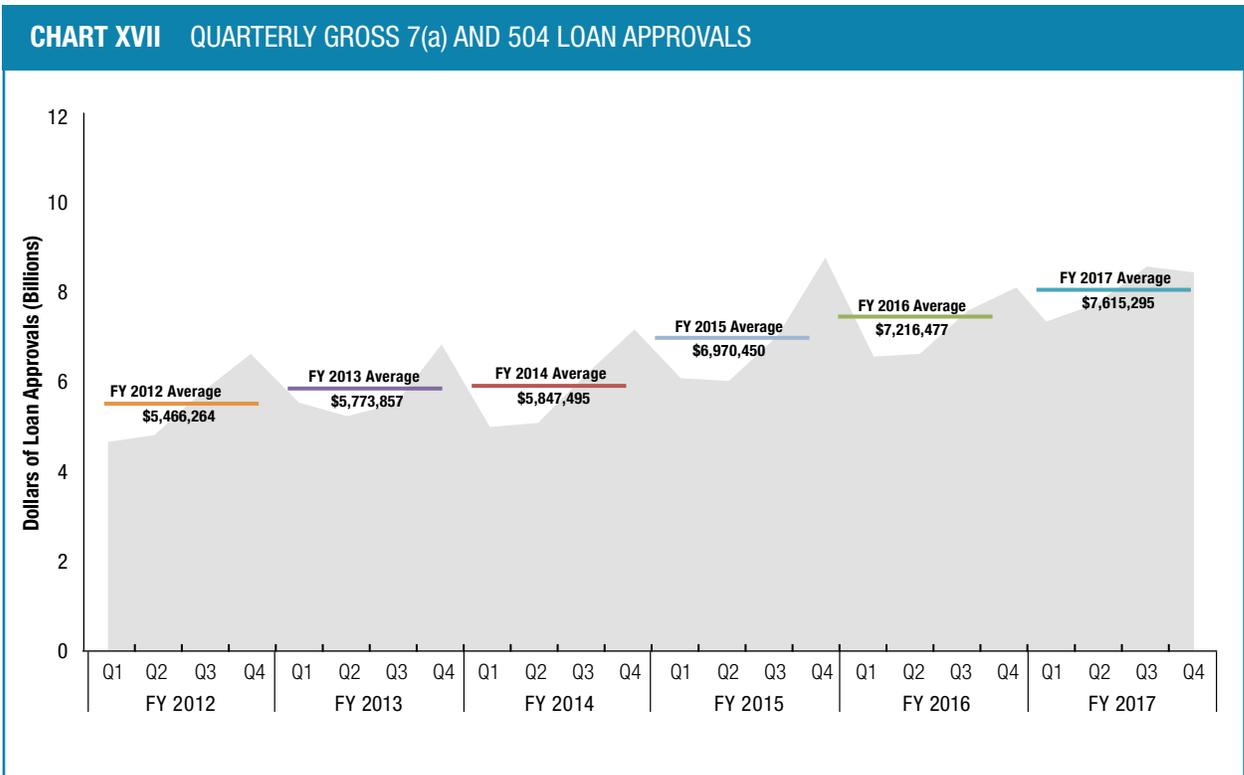


*Market for Small Business Lending* — According to data from the Federal Deposit Insurance Corporation, the total market for business loans has increased during 2012-2016 by 28 percent (\$686 billion). However, 95 percent (\$652 billion) of this increase is accounted for by loans to non-small businesses,<sup>8</sup> while total small business loans increased by nearly \$34 billion. This means the ratio of small business loans compared to the total bank market decreased (see **Chart XVIII**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between the 2012-2016 period by 16 percent. This makes SBA's mission of providing access to capital even more critical for growing small businesses that may be denied credit in the private loan market.

### NEW DIRECT LOANS

In FY 2017, SBA's annual lending for the Disaster Assistance program was nearly \$1.7 billion due to an increase in activity at the end of the year in response to hurricanes Harvey, Irma, and Maria. A large portion of the outstanding balance of the Disaster Assistance loan portfolio is comprised of lending from FY 2006 (hurricanes Katrina, Rita, and Wilma) and FY 2013 (Hurricane Sandy). The SBA will continue to make

8 Non-small businesses are firms that have more than 500 employees.



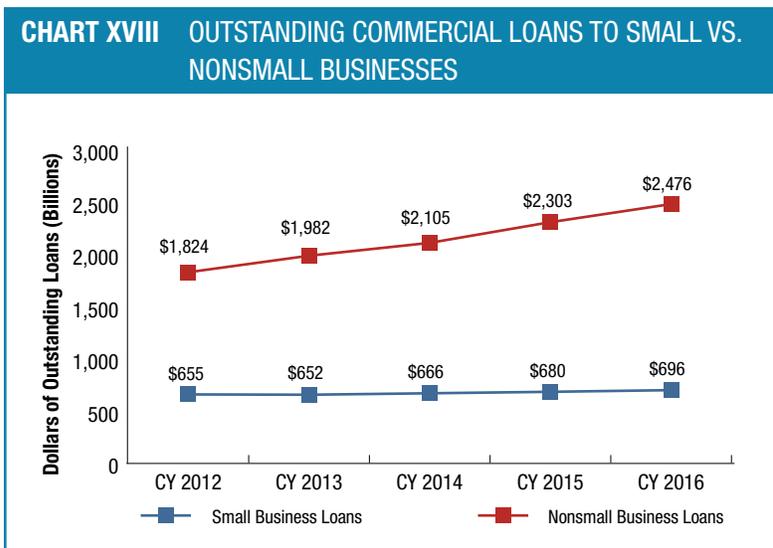
disaster loans an important recovery tool for businesses, homeowners, and renters who survive a disaster.

**PORTFOLIO PERFORMANCE — DELINQUENCIES**

Delinquency rates (i.e., borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e., the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general

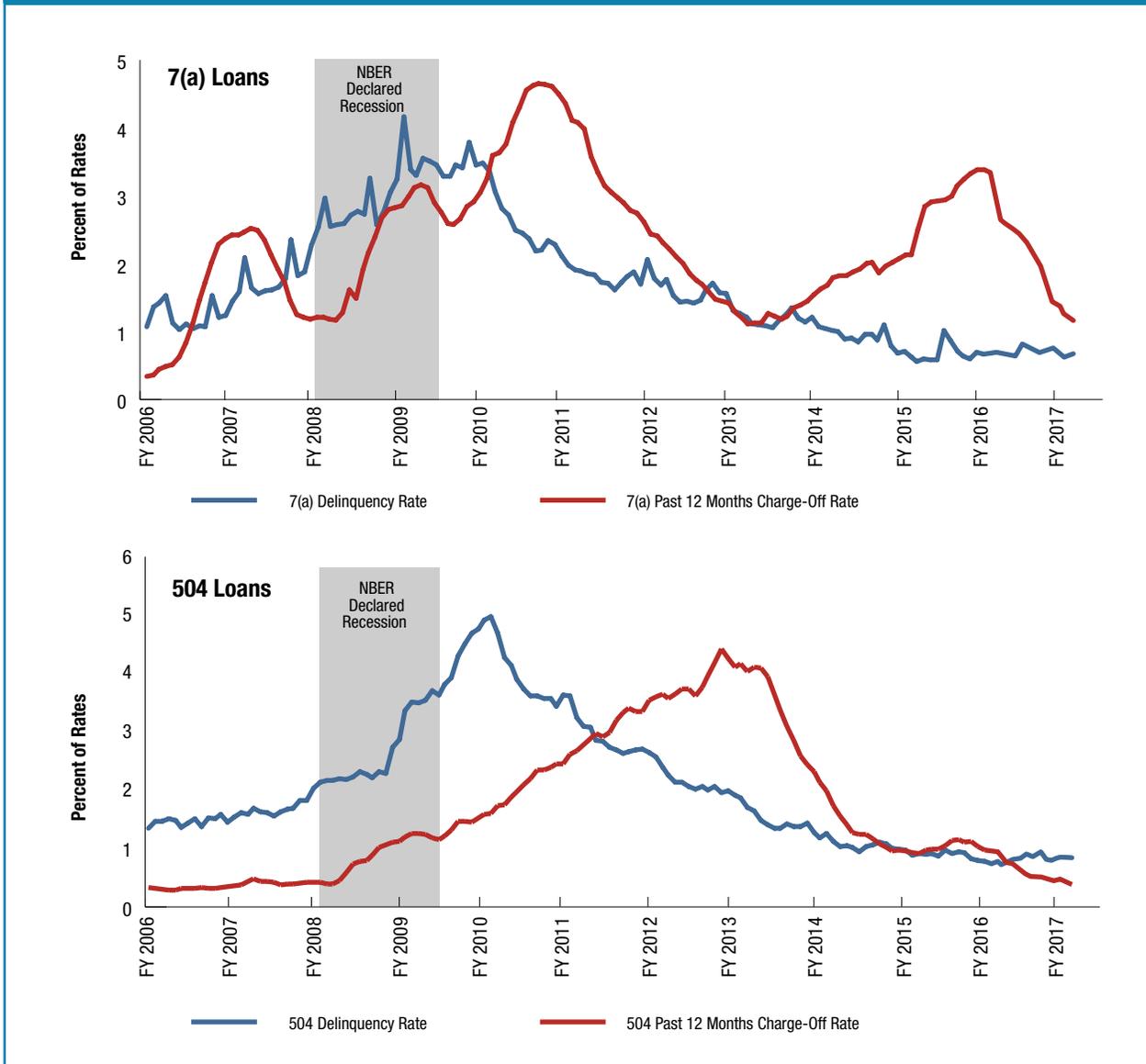
indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XIX**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter



part of 2009. A declining national unemployment rate, off a peak rate of 10 percent in October 2009, signals a generally improving environment for small businesses. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the peak 3.8 percent recorded during January 2009 to 0.7 percent recorded during July 2017. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak recorded during February 2010 to 0.8 percent recorded during July 2017.

**CHART XIX DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR**



**PORTFOLIO PERFORMANCE — CHARGE-OFFS**

The 12-month charge-off rate for the 7(a) loan program experienced a pronounced decline during the FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013, but then experienced a noticeable increase thereafter, until coming back down in July 2017 to 1.1 percent (see **Chart XIX**). The 7(a) loans that are not sold on the secondary market become a charge-off only after all efforts to recover a delinquent balance have been exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate starting in

2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate is mirroring the delinquency rate for FY 2017.

The 12-month charge-off rate for the 504 loan program experienced a continuous increase from FY 2008 to the early part of FY 2013, peaking at 4.4 percent during January 2013, but then recorded a pronounced decline thereafter, dropping to 0.4 percent during July 2017. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus.

As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of 2017, commercial real estate prices are increasing.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at [www.sba.gov/performance](http://www.sba.gov/performance).

## FORWARD LOOKING ANALYSIS

The SBA is committed to maintaining and strengthening the nation's economy through the growth of small businesses. While much work has been done to support America's small businesses since the creation of the SBA in 1953, the Agency is committed to ensuring it can adapt to a changing environment. The following areas present the greatest insights into how the Agency shapes its programs and responds to entrepreneurs and small business owners.

### An Ever-changing Economy

A small business often feels the first impacts of a slowing economy. Unemployment, taxation, and regulatory uncertainty all determine whether entrepreneurs will invest their time and resources into a new venture. Without large reserves of capital like many corporations, a small business can be shuttered within months during economic decline. To meet these needs, the SBA plays a key role in supporting access to capital. The Agency will continue to depend on lenders to issue capital. However, the decline in the number of banks and credit unions is a concern. As fewer lenders remain, small businesses must become nimbler when searching for capital, and the SBA must provide this support in an ever-changing economy.

### Advancements in Technology

It would have been unimaginable 30 years ago to obtain a loan from a bank in Connecticut, submit a patent for a new idea, and then develop and sell that product in the international marketplace all while working from one's home in North Carolina. Today, technology has evolved to the point that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. Therefore, the SBA must be aware of these technological advancements to better communicate and share successes for entrepreneurs across the country. The SBA needs to develop

more online tools and adapt Agency processes to the 21<sup>st</sup> century. The Agency continues to make progress on this front through tools like SBA One, [Certify.SBA.gov](http://Certify.SBA.gov), and Lender Match. Greater advancements in technology will continue to develop and shape how small businesses operate and how the Agency responds to and supports small businesses.

### Threats from Disasters

A natural disaster can destroy lives, businesses, and communities in little time. While the SBA has many capabilities to respond to hurricanes, tornados, forest fires, and floods, the growing threat and number of these occurrences remain a serious concern, particularly with a changing climate. This year, hurricanes Harvey, Irma, and Maria have demonstrated the threats from an active hurricane season. To this end, small businesses must adapt by planning in advance where to produce and sell goods and services. Disaster preparedness is a key component of SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. Among these growing threats, the SBA must be more nimble while simultaneously responding to multiple, large-scale disasters.

### An Evolving Workforce

The SBA workforce continues to age and enter a period where the majority of its employees have reached retirement eligibility. As baby boomers retire, the Agency continues to search for ways to recruit and retain the best talent. Competition with industry and other agencies is strong, and retention of new employees can be challenging. The Agency is identifying critical mission areas and developing workforce plans to ensure that it understands where gaps exist. At the same time, the Agency seeks to ensure that its workforce is representative of the public it serves and that it can effectively communicate with entrepreneurs and small business owners in meeting their needs. To this end, the SBA has begun a series of training sessions for its field staff to ensure that they have the tools to help small businesses succeed.

To address these areas and continue enhancing customer service to small businesses, the Agency has instituted processes to help mitigate and improve performance. For example, the SBA is identifying ways to streamline the processing of business development and loan applications. At the same time, new information systems will reduce staff requirements to collect reports and data for compliance purposes, which will allow for greater time supporting small businesses.

## ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

## Highlights of Financial Results (As of September 30)

(Dollars in Thousands)

At End of Fiscal Year	2017	2016	% Change
<b>CONDENSED BALANCE SHEET DATA</b>			
Fund Balance with Treasury	\$ 6,719,641	\$ 6,255,936	7.41%
Credit Program Receivables and Related Foreclosed Property, Net	6,359,969	6,182,889	2.86%
All Other Assets	136,309	218,347	-37.57%
<b>Total Assets</b>	<b>\$ 13,215,919</b>	<b>\$ 12,657,172</b>	<b>4.41%</b>
Debt	7,693,059	8,019,526	-4.07%
Downward Reestimate Payable to Treasury	1,215,102	1,239,814	-1.99%
Liability for Loan Guaranties	2,556,368	2,371,505	7.80%
All Other Liabilities	239,060	252,143	-5.19%
<b>Total Liabilities</b>	<b>11,703,589</b>	<b>11,882,988</b>	<b>-1.51%</b>
Unexpended Appropriations	1,653,684	1,425,883	15.98%
Cumulative Results of Operations	(141,354)	(651,699)	78.31%
<b>Total Net Position</b>	<b>1,512,330</b>	<b>774,184</b>	<b>95.35%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 13,215,919</b>	<b>\$ 12,657,172</b>	<b>4.41%</b>

For the Fiscal Year	2017	2016	% Change
<b>STATEMENT OF NET COST BY STRATEGIC GOAL</b>			
Goal 1: Growing Businesses and Creating Jobs			
Loan Subsidy Cost Including Reestimates	\$ (899,415)	\$ (547,531)	-64.27%
All Other Costs, Net of Revenue	757,712	687,711	10.18%
Goal 2: Serving as the Voice for Small Business	86,286	123,151	-29.93%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses	36,678	41,326	-11.25%
Costs Not Assigned	22,649	34,820	-34.95%
<b>Net Cost of Operations</b>	<b>\$ 3,910</b>	<b>\$ 339,477</b>	<b>98.85%</b>

<b>CONDENSED STATEMENT OF CHANGES IN NET POSITION</b>			
Beginning Cumulative Results of Operations	\$ (651,699)	\$ (262,817)	-147.97%
Total Financing Sources	514,255	(49,405)	1,140.90%
Less: Net Cost of Operations	3,910	339,477	-98.85%
<b>Ending Cumulative Results of Operations</b>	<b>\$ (141,354)</b>	<b>\$ (651,699)</b>	<b>78.31%</b>
Beginning Unexpended Appropriations	1,425,883	1,600,847	-10.93%
Total Budgetary Financing Sources	227,801	(174,964)	230.20%
<b>Ending Unexpended Appropriations</b>	<b>\$ 1,653,684</b>	<b>\$ 1,425,883</b>	<b>15.98%</b>
<b>Ending Net Position</b>	<b>\$ 1,512,330</b>	<b>\$ 774,184</b>	<b>95.35%</b>

<b>CONDENSED STATEMENT OF BUDGETARY RESOURCES</b>			
Unobligated Balance Brought Forward	\$ 4,966,556	\$ 4,978,665	-0.24%
Other Budgetary Resources, Net	(123,924)	6,238	-2,086.60%
Appropriations (discretionary and mandatory)	1,933,824	1,144,588	68.95%
Borrowing Authority (discretionary and mandatory)	1,548,576	1,610,202	-3.83%
Spending Authority from Offsetting Collections	3,918,122	3,138,319	24.85%
<b>Total Budgetary Resources</b>	<b>\$ 12,243,154</b>	<b>\$ 10,878,012</b>	<b>12.55%</b>
Obligations Incurred, Budgetary	\$ 2,333,955	\$ 1,700,731	37.23%
Obligations Incurred, Nonbudgetary	4,033,287	4,210,725	-4.21%
Unobligated Balances, Available and Unavailable	5,875,912	4,966,556	18.31%
<b>Total Status of Budgetary Resources</b>	<b>\$ 12,243,154</b>	<b>\$ 10,878,012</b>	<b>12.55%</b>

## Analysis of Financial Results

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control 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 U.S. Government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that were derived from the Financial Statements and Notes in this report. As a result, the definitions of the loan and guaranty balances used in this Analysis of Financial Results may differ somewhat from the balances in the Operational Portfolio Analysis section. For example, for the 7(a) program, the total amount of guaranteed loans is used in the Portfolio Analysis, but only SBA's guaranteed portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

### BACKGROUND

The SBA is a major federal credit agency of the U.S. Government. The SBA had 3,271 employees at the end of FY 2017, including disaster FTE employees. As a result, only \$1.1 billion of SBA's \$12.2 billion budgetary resources in FY 2017 were for salaries and expenses, with the rest supporting SBA's credit programs. Budgetary resources when apportioned by OMB are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post-1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

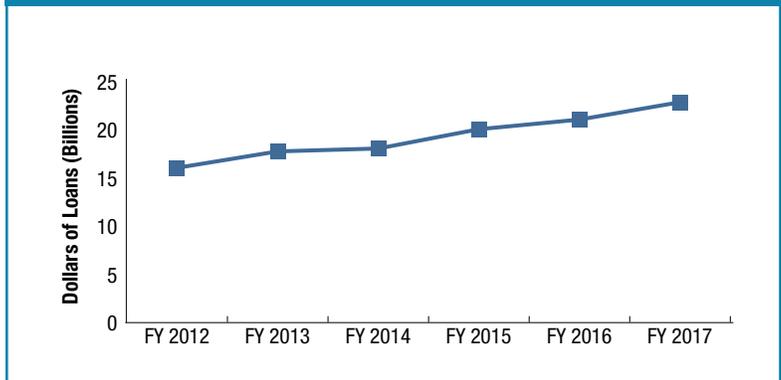
The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA,

direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by OMB. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guaranteed loans. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. The SBA's FCRA accounting is discussed further below in this section and in Notes 1 and 6.A in the financial statements.

The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense for non-zero subsidy loan programs. In accordance with the FCRA, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. An upward reestimate occurs when the present value of expected cash outflows exceeds the present value of expected cash inflows. A downward reestimate occurs when the present value of expected cash inflows exceeds the present value of expected cash outflows. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

The portion of the outstanding principal guaranteed by the SBA was \$99.5 billion as of September 30, 2017, an increase of 6.1 percent from the \$93.8 billion guaranteed as of September 30, 2016 (see Note 6.C in the financial statements). As shown in **Chart XX**, new guaranties

**CHART XX** GUARANTIED LOANS DISBURSED



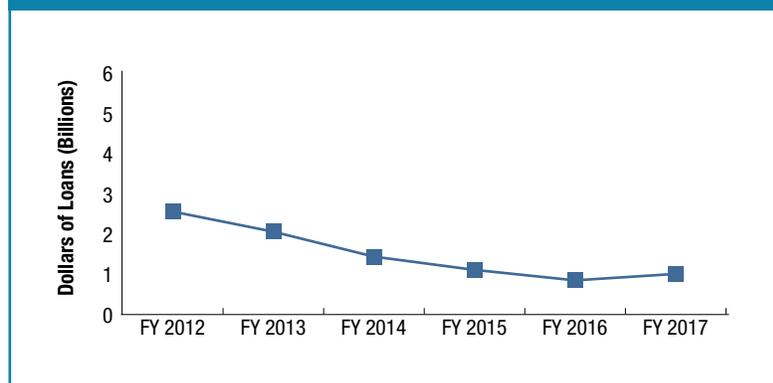
disbursed by SBA participating banks during FY 2017 were \$22.8 billion, a 7.1 percent increase compared to the FY 2016 figure of \$21.3 billion. The \$1.5 billion increase resulted from a \$0.3 billion increase in 504 Certified Development Company loans, a \$1.4 billion increase in 7(a) loans, and a \$0.2 billion decrease in SBIC Debentures in FY 2017. This net increase in FY 2017 guaranty disbursements and reduction in purchases of guaranteed loans contributed to the 6.1 percent increase in outstanding guaranteed principal mentioned above.

Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs, which are offset by an allowance for subsidy. The allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset, and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. The subsidy allowance for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at \$6.4 billion in FY 2017, which was an increase of \$0.2 billion from FY 2016. The change in the credit program receivables resulted from an increase of \$0.2 billion in direct disaster loans. The amount of defaulted guaranteed loans decreased slightly as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an economy that continued to improve in FY 2017. The amount of direct disaster loans increased as collections and charge-offs were exceeded by new loans, plus a lower subsidy allowance amount.

As reflected in **Chart XXI**, guaranteed loan purchases increased \$0.2 billion in FY 2017 to \$1.0 billion. The increase in purchases this year did reduce the amount of the decrease in the outstanding guaranteed business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

**CHART XXI PURCHASES OF GUARANTIED LOANS**



## FINANCIAL POSITION

### Assets

The SBA had total assets of \$13.2 billion at the end of FY 2017, up 4.4 percent from FY 2016. Total assets increased primarily due to a \$463.7 million increase in the Fund Balance with Treasury, plus a \$177.1 million increase in Credit Program Receivables and Related Foreclosed Property. The increase in the FBWT was due primarily to an increase in appropriations received to fund the disbursement of disaster loans. The increase in Credit Program Receivables and Related Foreclosed Property was due primarily to the net increase in the amount of direct disaster loans as collections and charge-offs did not exceed new loans.

### Liabilities

The SBA had total liabilities of \$11.7 billion at the end of FY 2017, down 1.5 percent from FY 2016. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury.

The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. The Liability for Loan Guaranties for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are returned to Treasury by the Agency. The Liability for Loan Guaranties increased \$0.2 billion due to the net of downward reestimates of future costs for SBA's guaranty portfolio, guaranteed loan purchases, and the collection of fees.

The Downward Reestimate Payable to Treasury decreased \$24.7 million due largely to the change in the year-end accrual of reestimates resulting from lower than projected purchases in FY 2017 for some cohorts in the 7(a) and SBIC Debenture programs, and higher than expected recoveries for the 504 loan program. Better than projected loan performance and higher than expected recoveries across most cohorts were the primary reasons for the downward reestimate in FY 2017.

Debt with Treasury decreased \$0.3 billion due to the increase in the amount of borrowing repayments to Treasury in FY 2017, as well as a decrease in borrowing needed to cover disaster loan programs. Note 9 in the financial statements provides additional detail on SBA debt with Treasury.

**Net Position**

**Cumulative Results of Operations** is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased \$510 million because unfunded upward subsidy reestimates at year-end for almost every program were less for FY 2017 compared to FY 2016. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended Appropriations** increased \$228 million this year primarily because the amount of appropriations used was not greater than the appropriations received in FY 2016 for business, disaster, and administrative activities. This affected Budgetary Financing Sources and the Ending Net Position.

**NET COSTS OF OPERATIONS**

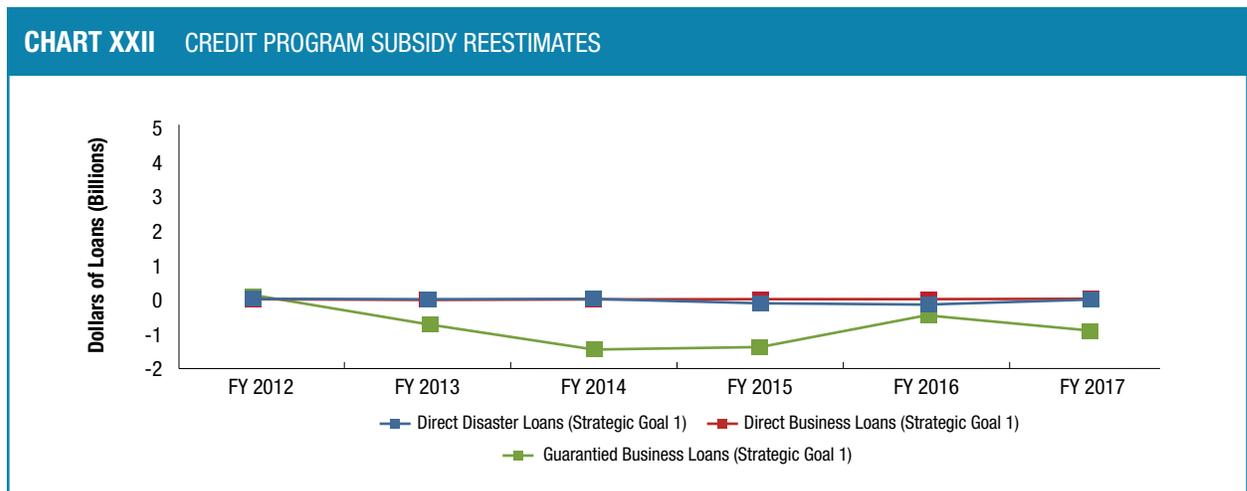
The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end.

Net downward reestimates were larger in FY 2017 than last year due to a large decrease in the amount of upward reestimates, which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XXII** reflects the change in the net subsidy reestimates for the guaranteed business and direct disaster loan programs in FY 2017.

The net downward reestimate of \$0.3 billion in the 7(a) programs was due mostly to lower than average purchases during FY 2017 that decreased the overall purchase curve, which decreased purchase projections in future years and contributed to the downward reestimate for FY 2017.

The 504, 504 Recovery Act, and 504 Jobs Act programs had a large net downward reestimate of \$0.4 billion due to better than projected loan performance for the FY 2016 cohort. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

The SBIC Participating Securities and Debenture programs had a net downward reestimate of \$0.2 billion in FY 2017 that was due mostly to actual default purchases that were lower than projected in FY 2017.



### BUDGETARY RESOURCES

Total Budgetary Resources of \$12.2 billion increased \$1.4 billion in FY 2017. This increase is primarily the net result of a large increase in appropriations and spending authority from offsetting collections this year, as well as the other factors shown in the Highlights table and discussed below. Other Budgetary Resources, Net decreased by \$130 million in FY 2017. This change is attributable to a large increase in prior year recoveries, and a significant increase in the amount of debt repaid.

Appropriations (discretionary and mandatory) increased \$789 million in FY 2017. As shown in **Chart XXIII**, the increase was the combination of the increase in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, as well as an increase in the need for subsidy to fund the Agency's disaster program in FY 2017.

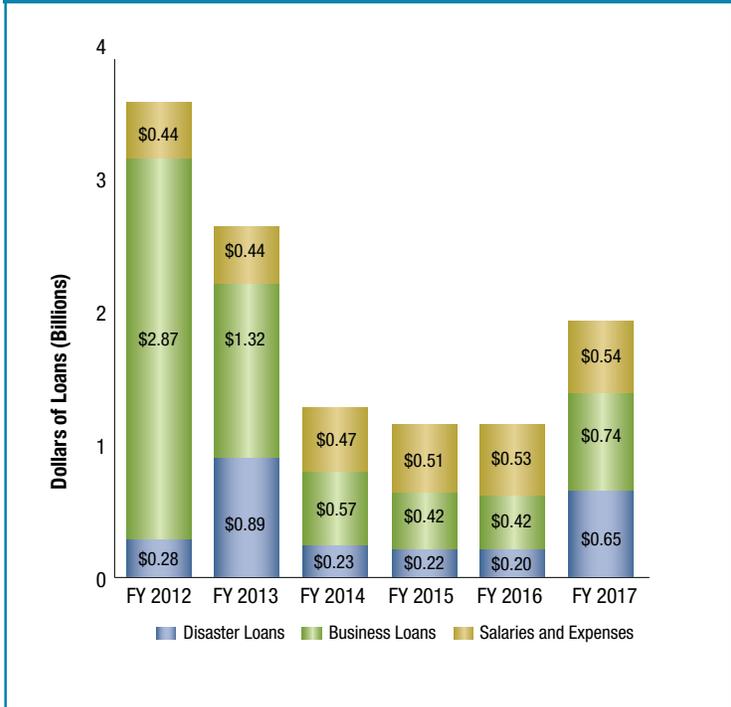
Borrowing Authority decreased \$62 million in FY 2017 due to a decrease in borrowing needed to cover disaster loan-making, offset by an increase to cover cash shortfalls in the guaranteed loan programs. Borrowing authority initially granted to the SBA was \$1.8 billion, but the SBA withdrew \$0.3 billion at year-end FY 2017, as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections increased \$0.8 billion in FY 2017. This increase is attributable to larger net collections in both the disaster and guaranteed programs. A significantly higher amount of subsidy collected, combined with higher loan repayments and offset by the repayment of borrowings from current year authority in FY 2017, resulted in a higher ending balance.

### STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources increased \$1.4 billion in FY 2017 to \$12.2 billion. Budgetary obligations increased by \$0.6 billion in large part due to the larger upward subsidy reestimate in FY 2017. Nonbudgetary obligations decreased \$0.2 billion due to a decrease in guaranteed program downward reestimates offset with an increase in purchases of guaranteed loans.

**CHART XXIII APPROPRIATIONS RECEIVED**



Unobligated balances as of September 30, 2017 and 2016 were \$5.9 billion and \$5.0 billion, which included \$4.2 billion and \$3.0 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts (\$4.6 billion in FY 2017 and \$3.9 billion in FY 2016) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

## ANALYSIS OF SBA'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources are used in accordance with the mission of the Agency;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Program and operation activities are in compliance with laws and regulations; and
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements or maintains effective internal controls over operations, reporting, and compliance to achieve programmatic goals. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 in accordance with the Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The FMFIA requires that the assessment results be reported to the President and Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and SBA's Office of Inspector General (OIG).

SBA's Office of Internal Controls (OIC) provides training and tools, including checklists designed specifically for program support offices and district offices, to aid management in assessing and documenting the

effectiveness of internal controls within their respective area of responsibility. These assessments are performed based on the five components and 17 principles of internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

In support of the Agency's internal control program, the Senior Assessment Team (SAT) oversees the assessment of internal controls conducted by the OIC and directs compliance with the requirements of the OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*. The SAT, chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices, meets monthly to discuss the progress of the internal control assessment and other emerging internal control matters. The SAT employs a risk-based approach in the selection of processes and systems for a more robust internal control evaluation. SAT members may request additional reviews of business processes that have no material impact on the financial statements but did present some potential for risk or exposure to the Agency. The OIC documents the process and key controls, evaluates and tests the design and effectiveness of controls, and presents the results to the SAT. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of business processes in FY 2017, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. The SAT evaluated the review findings and determined that none reached the level of material weakness.

The SBA Enterprise Risk Management Board continued to oversee and guide SBA's enterprise risk management efforts. The Board is chaired by the Deputy Administrator and comprised of senior leaders from major SBA programs and support offices. The Board continues to consolidate, assess, and prioritize enterprise-level risks and to conduct deep dive assessments on high-impact risks. The Board assigns responsibility for risk response and ongoing monitoring of the risk environment. In addition, the Board has begun the process of strengthening integration efforts with agency strategic planning and performance management. During FY 2017, the Board undertook efforts to better align the Agency's process with GAO's risk management framework, which successfully resolved the related long-standing management challenge previously reported by GAO.

In FY 2017, SBA management identified a control weakness related to the distribution of excess principal to investors when a loan prepays in the secondary market guarantee program. SBA's auditors classified this control weakness as a significant deficiency. The SBA addressed the issue by requiring its fiscal transfer agent to implement a corrective action to accelerate the payment of excess principal to investors. This process change will be reflected in the payments to investors beginning on November 25, 2017.

The SBA continued to have a significant deficiency in information technology security controls, including access controls and change controls. In FY 2017, the SBA continued strengthening the overall security posture of its information technology systems. The enterprise IT system weakness management and oversight program continued prioritizing remediation efforts across all IT systems, especially high-value assets. As a result, the SBA was able to close approximately 60 percent of open OIG Federal Information Security Modernization Act (FISMA) audit findings during FY 2017.

## Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout the *FY 2017 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996<sup>9</sup> which requires compliance of the Agency's financial

<sup>9</sup> The purpose of the Federal Financial Management Improvement Act of 1996 is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity, and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMLIA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public. (Office of Management and Budget [www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2009/m09-06.pdf](http://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2009/m09-06.pdf))

management systems with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment to improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. After migrating the Agency's systems to a state-of-the-art data center with system redundancy and disaster recovery capabilities that allow for continuity of operations, the SBA has focused on reducing costs and leveraging technology advancements to optimize infrastructure in accordance with the Data Center Optimization Initiative established in OMB Memorandum M-16-19.

In FY 2017, the SBA also appointed a Chief Data Officer to oversee improvements to financial and award system integration to ensure consistency of data, enhance reporting capability, and improve SBA's data analytics capabilities to assist in management decision making. Additionally, the Chief Data Officer oversees the development and interpretation of DATA Act financial reports to analyze and evaluate the effectiveness of SBA programs and operations as well as the development of interactive and flexible data dashboards that present SBA award and financial information for consumption by the public.

The SBA has taken steps to enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. SBA's tightly integrated financial systems allow the Agency to respond quickly to both internal and external financial information inquiries and requirements. The SBA completed all requirements of the DATA Act and received the Treasury Secretary's Certificate of Appreciation, recognizing the SBA as the first agency to complete the recommended eight steps in the DATA Act Agency Progress Dashboard.

Core financial systems at the SBA are comprised of three systems operated and managed by the Office of the Chief Financial Officer and the Office of Capital Access. The systems include:

- *Oracle Federal Financials* — The SBA will upgrade to the most current release for budget execution

and management for administrative activity in the first quarter of FY 2018.

- *Loan Systems* — SBA-built systems support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — An SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

## Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2017

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2017. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives, and that SBA's independent auditor issued an unmodified opinion on the Agency's FY 2017 financial statements for the 13th year in a row.

SBA management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Section 2 and 4 of the Federal Managers Financial Integrity Act. The SBA conducted its assessment of internal controls in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Agency managers have issued assertions to me as to the status of the FY 2017 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of the Agency managers' assessments and noting the control deficiency identified by the external auditors, I can provide reasonable assurance that internal controls over operations and reporting, as of September 30, 2017, were operating effectively, and no material weaknesses were identified in the design or operation of those internal controls. I can also provide reasonable assurance of compliance with applicable laws and regulations with the exception of an instance of non-compliance identified by SBA's independent auditor.

This instance of non-compliance item related to delays encountered with approving and processing charge-off actions in SBA's internal systems prevented the timely referral of all borrowers and guarantors of direct and guaranty loans to the Department of the Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA). Specifically, a one-time systematic update in November 2016 allowed for principals on loans to be referred to the Department of the Treasury for collection; however, this update prevented liable guarantors from being referred. In addition, untimely data entry of charge-off activities at the SBA loan centers resulted in untimely referrals. The SBA has a DCIA Compliance Team comprised of representatives from the Office of Capital Access' Office of Financial Program Operations, the Office of Performance Systems Management, and the Office of the Chief Information Officer; who work together to identify and resolve problems pertaining to the implementation of the DCIA. The team worked to remediate defective system coding that caused untimely referral of loans, and will implement an internal control to identify non-referral of borrowers and guarantors when system upgrades occur in the future. In addition, the team worked with the loan servicing center directors to ensure charge-offs are processed timely to ensure compliance with DCIA.

In addition, the SBA conducted its assessment of the effectiveness of internal controls 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, I can provide reasonable assurance that internal controls over financial reporting were operating effectively and no material weaknesses were identified in the design or operation of internal controls over financial reporting for FY 2017. I can also provide reasonable assurance that the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The Federal Financial Management Improvement Act requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2017.

In compliance with OMB Circular A-11, Section 51.3, the Chief Information Officer and the Chief Financial Officer and Associate Administrator for Performance Management have provided a signed statement that attests:

## MANAGEMENT'S DISCUSSION & ANALYSIS

- The SBA Chief Information Officer reviewed and approved the major IT investments portion of the SBA budget request;
- The SBA Chief Information Officer had a significant role in reviewing planned IT support for major program objectives and significant increases and decreases in IT resources; and
- The SBA IT portfolio includes appropriate estimates of all IT resources included in the budget request.



Linda E. McMahon  
Administrator  
November 14, 2017

## Improper Payments Summary

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the federal government. SBA management continually develops strategies to reduce improper payments for responsible stewardship of public assets.

The Improper Payments Information Act of 2002 (IPIA), as amended, and as implemented by the Office of Management and Budget (OMB) in Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, requires SBA management to review programs and activities to identify those that are susceptible to significant erroneous payments, and to estimate annually the amount of erroneous payments made in those programs deemed risk susceptible. SBA management performs testing to estimate the rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

The SBA has five programs and activities that are subject to annual improper payment reporting: the 7(a) loan program (approvals and purchases), the 504 Certified Development Company loan program, the Disaster loan program, and disbursements related to goods and services. Since FY 2014, the SBA has reported improper payments for those receiving Hurricane Sandy Disaster Relief funds, which include grant programs and disaster-related administrative expenses of payroll, purchase cards, and travel, to comply with the Disaster Relief Appropriations Act, 2013. In FY 2017, the SBA was granted relief from reporting Hurricane Sandy Disaster Relief funds by OMB, as SBA adequately demonstrated that the previously reported program and activities had at least two consecutive years of improper payments reporting below the IPERA thresholds.

The Circular requires risk assessments at least once every 3 years to determine a program's susceptibility to significant improper payments. The term significant improper payments is defined as gross annual improper payments exceeding (i) both 1.5 percent of program outlays and \$10 million of all program or activity payments, or (ii) \$100 million. In FY 2017, the SBA identified 10 programs and activities that exceeded the \$10 million threshold and conducted assessments according to the guidance to determine whether they were susceptible to significant improper payments. Based on the risk assessments, the SBA

concluded that they did not and therefore, for FY 2017, the SBA did not identify any additional programs or activities as susceptible to significant improper payments.

At the beginning of FY 2016, the 7(a) Guaranty Approvals Program was deemed to be a high-priority program for improper payment reporting purposes by OMB, based on the estimated improper payment amount reported in the FY 2015 Annual Financial Report. SBA management has diligently worked to meet the additional requirements for the high-risk program, and has taken several actions to reduce and prevent future improper payments through streamlining and simplifying the lending process as well as improving the quality of the documentation. As a result, the estimated improper payment amounts for FY 2016 and FY 2017 have been significantly reduced and no longer exceed the threshold for a high-priority program. The SBA plans to request that this program be relieved from reporting as a high-priority program in FY 2018.

The majority of improper payments for SBA are due to administrative and documentation errors, which are caused by the absence or lack-of-completeness of supporting documentation necessary to verify the accuracy and validity of a payment. The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section of this report.



# **AGENCY FINANCIAL REPORT**

**Fiscal Year 2017**

**SocialSecurity.gov**





# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



The *Management's Discussion and Analysis (MD&A)* section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* highlights our mission as set forth in our *Agency Strategic Plan*. We identify the major programs we administer and provide a brief explanation of our organization.

The *Overview of Our Fiscal Year 2017 Goals and Results* provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2017 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and Objectives, and discuss how we plan to address the challenges we face.

The MD&A also addresses our financial performance in the *Highlights of Financial Position*. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds.

Finally, *Systems and Controls* describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*.

# OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

## OUR MISSION

*Deliver Social Security services that meet the changing needs of the public*

## SOCIAL SECURITY BENEFITS AMERICA

Few government agencies touch the lives of as many people as we do. We administer three programs under the *Social Security Act*:

- **Old-Age and Survivors Insurance:** Created in 1935, the Old-Age and Survivors Insurance (OASI) program provides retirement and survivors benefits to qualified workers and their family members. In fiscal year (FY) 2017, we paid approximately \$793 billion in OASI benefits to an average of approximately 51 million beneficiaries a month, including 88 percent of the population age 65 and over.
- **Disability Insurance:** Established in 1956, the Disability Insurance (DI) program provides benefits for workers who become disabled and their families. In FY 2017, we paid approximately \$141 billion in DI benefits to an average of more than 10 million disabled beneficiaries and their family members a month.
- **Supplemental Security Income:** Established in 1972, the Supplemental Security Income (SSI) program provides financial support to aged, blind, and disabled adults and children who have limited income and resources. In FY 2017, we paid approximately \$51 billion in Federal benefits and State supplementary payments to over 8 million SSI recipients on average each month.

In addition, we support other national programs, such as Medicare, *Employees Retirement Income Security Act of 1974*, *Coal Act*, Supplemental Nutrition Assistance Program (formerly Food Stamps), *Help America Vote Act*, State Children's Health Insurance Program, E-Verify, Medicaid, and Federal Benefits for Veterans.

We have implemented enterprise risk management processes to improve the effectiveness of our organization. Our goals are informed by both the strategic opportunities ahead, as well as our management of risks that threaten our core mission activities.

## HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2017

- A combined total of around \$986 billion was paid in Social Security and SSI benefits;
- About 88 percent of the American population age 65 and over received Social Security benefits;
- About 95 percent of individuals age 20–49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
- On average each month, more than 1.2 million blind or disabled children under age 18 received SSI benefits.

## HOW WE SERVED AMERICA IN FISCAL YEAR 2017

- Issued 16 million new and replacement Social Security cards;
- Performed over 2.1 billion automated Social Security number verifications;
- Posted 290 million earnings items to workers' records;
- Handled over 36 million calls on our National 800 Number;
- Assisted 42 million visitors in field offices;
- Mailed nearly 250 million notices;
- Registered over 5.7 million users for *my* Social Security, a personalized online account;
- Processed 155.5 million online transactions;
- Completed 10 million claims for benefits;
- Completed 685,657 hearing dispositions;
- Completed 160,776 Appeals Council requests for review;
- Handled 18,590 disability cases in Federal court;
- Completed 874,411 full medical continuing disability reviews (CDR);
- Performed nearly 2.6 million non-medical redeterminations of SSI eligibility;
- Through data exchange partnerships with the Centers for Medicare and Medicaid Services, we identified over \$23 million in estimated incorrect payments; and
- Provided access to the Social Security Benefit Statement (Statement), mailing 13,673,994 paper Statements and allowing beneficiaries to access their Statements online more than 46.2 million times.

---

## OUR ORGANIZATION

---

More than 61,000 Federal employees and approximately 16,000 State employees serve the public from a network of offices across the country and around the world. The vast majority of our employees serve the public directly or provide support to employees who do.

We administer our programs and services through a network of more than 1,200 field offices. Each day, over 170,000 people visit and 260,000 call one of our field offices nationwide for a variety of reasons such as to file claims, ask questions, or update their information.

Our National 800 Number handles over 30 million calls each year. Callers can conduct a variety of business transactions by speaking directly with a customer service representative or through our 24-hour automated services, which include requesting benefit verification letters, ordering replacement Medicare cards, and obtaining claim status updates.

Our processing centers handle complex Social Security retirement, survivors, and disability claims, as well as provide support to our National 800 Number. State agencies make disability determinations for initial claims, reconsiderations, and CDRs. Administrative law judges in our hearings offices and administrative appeals judges in our Appeals Council decide appealed cases.

For information about our components and their functions, visit our [Organizational Structure webpage](http://www.socialsecurity.gov/org) ([www.socialsecurity.gov/org](http://www.socialsecurity.gov/org)).

# OVERVIEW OF OUR FISCAL YEAR 2017 GOALS AND RESULTS

## HOW WE MANAGE PERFORMANCE

**Our Performance Framework:** The *Government Performance and Results Modernization Act of 2010* (GPRMA) describes how agency strategic plans and goals should align with presidential terms and broader Federal efforts.

Setting goals and measuring our performance is vital to our success. We define our performance framework in the *Fiscal Year (FY) 2014-2018 Agency Strategic Plan* ([www.socialsecurity.gov/asp](http://www.socialsecurity.gov/asp)). Our *Agency Strategic Plan* (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

- Strategic Goal 1: Deliver Innovative, Quality Services;
- Strategic Goal 2: Strengthen the Integrity of Our Programs;
- Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program;
- Strategic Goal 4: Build a Model Workforce to Deliver Quality Service; and
- Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services.

**Our Planned Performance:** In May 2017, we published our *Annual Performance Plan for FY 2018, Revised Annual Performance Plan for FY 2017* ([www.socialsecurity.gov/agency/performance](http://www.socialsecurity.gov/agency/performance)) and our *Annual Performance Report FY 2016* ([www.socialsecurity.gov/agency/performance](http://www.socialsecurity.gov/agency/performance)), as part of the *President's FY 2018 Budget Request* ([www.socialsecurity.gov/budget/](http://www.socialsecurity.gov/budget/)). These plans and report outline our tactical plans for achieving the goals and objectives in our ASP and complete our performance commitments for FY 2017.

Each September, a draft consolidated *Annual Performance Plan and Annual Performance Report* (APR) accompanies our budget submission to the Office of Management and Budget. The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the *FY 2017 Operating Plan* ([www.socialsecurity.gov/budget/](http://www.socialsecurity.gov/budget/)).

**Our Actual Performance and Program Results:** We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR, containing our actual FY 2017 results, in February 2018. The final APR will be available on our [Budget Estimates and Related Information website](http://www.socialsecurity.gov/budget/) ([www.socialsecurity.gov/budget/](http://www.socialsecurity.gov/budget/)).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2017. The following table shows our operating expenses by Strategic Goal.

**FY 2017 Operating Expenses by Strategic Goal**  
(Dollars in Millions)

Deliver Innovative, Quality Services	\$ 2,862
Strengthen the Integrity of Our Programs	\$ 2,354
Serve the Public through a Stronger, More Responsive Disability Program	\$ 6,033
Build a Model Workforce to Deliver Quality Service	\$ 353
Ensure Reliable, Secure, and Efficient Information Technology Services	\$ 1,130

**Our Priorities:** In support of the GPRMA, we established four Agency Priority Goals (APG). Our APGs were aggressive 24-month goals and reflect the performance improvement priorities of our executive leadership as well as those of the Administration. We routinely review our progress and take actions to improve our outcomes, promote innovation, and deliver favorable results.

For FYs 2016 and 2017, our APGs were:

1. Improve customer service and convenience by increasing online transactions by 25 million each year;
2. Increase customer satisfaction with our services;
3. Improve the integrity of the Supplemental Security Income (SSI) program by ensuring that 94 percent of our payments are free of overpayment; and
4. Improve customer service by reducing the wait time for a hearing decision.

---

## SUMMARY OF FISCAL YEAR 2017 PERFORMANCE

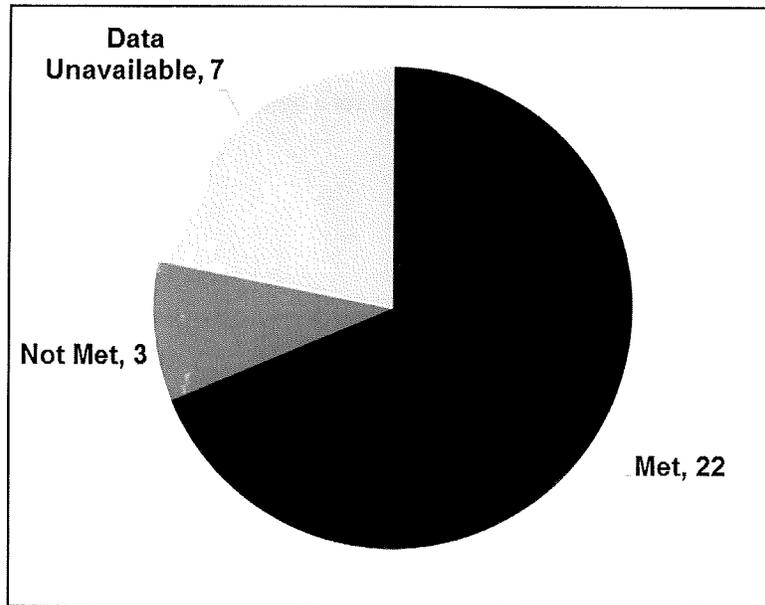
---

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2017. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on the President's Budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

Below, we highlight 10 performance measures and targets that promote our Strategic Goals. Final data for 3 of the 10 performance measures and targets we highlighted were not available at the time we published this report. We will include those overall results in our FY 2018 *Agency Financial Report*. We met our targets for six of the seven performance measures with available data.

Overall, we met our targets for 22 of the 32 total performance measures that we use to track agency progress towards meeting our Strategic Goals and objectives. Final data for 7 of the 32 performance measures and targets were not available at the time we published this report. Data on those performance measures will be published in our *Annual Performance Plan for FY 2019, Revised Performance Plan for FY 2018, and Annual Performance Report for FY 2017* in February 2018.

### Summary of Our FY 2017 Performance Measure Results



**STRATEGIC GOAL 1:  
DELIVER INNOVATIVE, QUALITY SERVICES**

**Strategic Objectives**

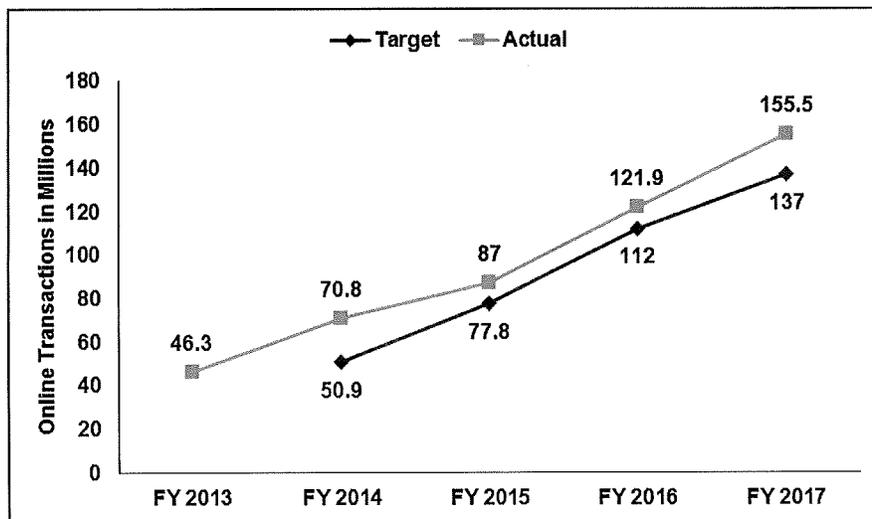
- Develop and Increase the Use of Self-Service Options
- Enhance the Customer Experience by Completing Customers' Business at the First Point of Contact
- Partner with Other Agencies and Organizations to Improve Customers' Experience and Align with the Administration's One-Government Approach
- Evaluate Our Physical Footprint to Incorporate Improved Service Options



Create an account:  
[www.socialsecurity.gov/myaccount](http://www.socialsecurity.gov/myaccount)

We selected the following performance measures to help demonstrate our progress in delivering innovative, quality services:

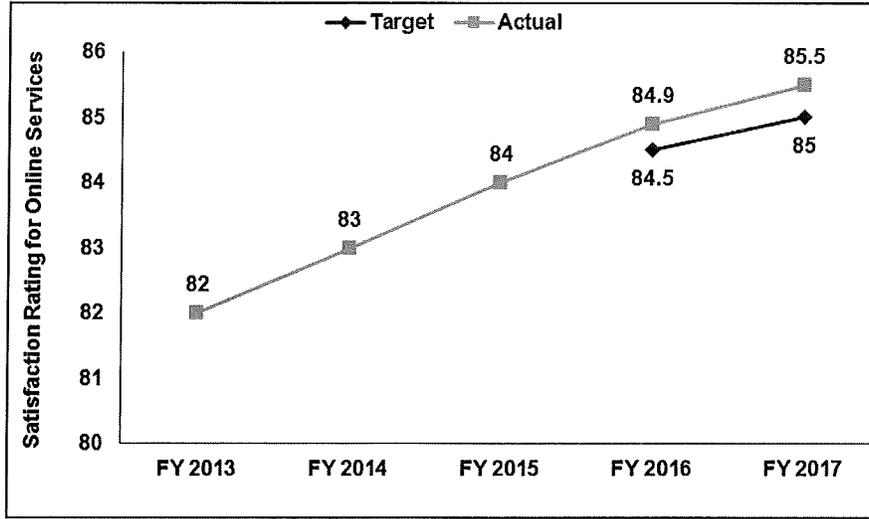
**Improve customer service and convenience by increasing online transactions by 25 million each year (APG)**



Analysis: We processed 155.5 million online transactions in FY 2017. We continue to look for opportunities to add new online features to improve service delivery. Individuals who register for a *my* Social Security account can access their personal Social Security information and complete certain services with us online. In FY 2017, we enhanced *my* Social Security by adding the Get Help widget and Message Center. Users can check the status of their initial claims or appeals, and if they receive disability benefits, they can now report their wages online. In FY 2017, we also enhanced the security of *my* Social Security by requiring multifactor authentication for each registration.

**Increase customer satisfaction with our services (APG)**

**Online Services**



**Office and Telephone Services**

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2017 Target	Target Achieved
<b>Performance</b>	80% satisfaction rating	Data is not available	79% satisfaction rating	80% satisfaction rating	80% satisfaction rating	80% satisfaction rating	Met

Analysis: Demonstrating our commitment to customer service, we are pleased that 7 of our 8 online applications earned scores of at least 80 out of 100 in the Forsee E-Government Satisfaction Index. (Note: A score of 80 or higher is considered the threshold for excellence.)

Our efforts to deliver innovative, quality services include:

### **ENHANCE *my* Social Security**

Individuals who register for a *my* Social Security account can access their personal Social Security information and complete certain services with us online. In FY 2017, we enhanced *my* Social Security by adding the Get Help widget and Message Center. Users can check the status of their initial claims or appeals, and if they receive disability benefits, they can now report their wages online. In FY 2017, we also enhanced the security of *my* Social Security by requiring multifactor authentication for each registration.

### **EXPAND THE AVAILABILITY OF THE ONLINE SOCIAL SECURITY REPLACEMENT CARD APPLICATION**

Replacing Social Security cards is one of our most requested services. Each year, we process about 10 million Social Security replacement cards in our field offices. Adults with a *my* Social Security account, who meet certain criteria, may apply for a replacement card through the Internet Social Security Number Replacement Card (iSSNRC) online application.

Since we launched iSSNRC in November 2015, we have increased the number of States where people may request a replacement Social Security card. We currently offer iSSNRC in 24 States and the District of Columbia. In FY 2016, we successfully issued more than 100,000 replacement cards through iSSNRC, and issued approximately 500,000 cards through the iSSNRC application in FY 2017.

**STRATEGIC GOAL 2:  
STRENGTHEN THE INTEGRITY OF OUR PROGRAMS**

**Strategic Objectives**

- Transform the Way We Record Earnings to Enhance Data Accuracy
- Protect the Public's Data and Provide Secure Online Services
- Increase Payment Accuracy

**Report Wages from Your Mobile Device**



Available now in  
[Google Play: play.google.com/store](https://play.google.com/store) and [Apple app: www.apple.com/itunes/charts/free-apps/](https://www.apple.com/itunes/charts/free-apps/)

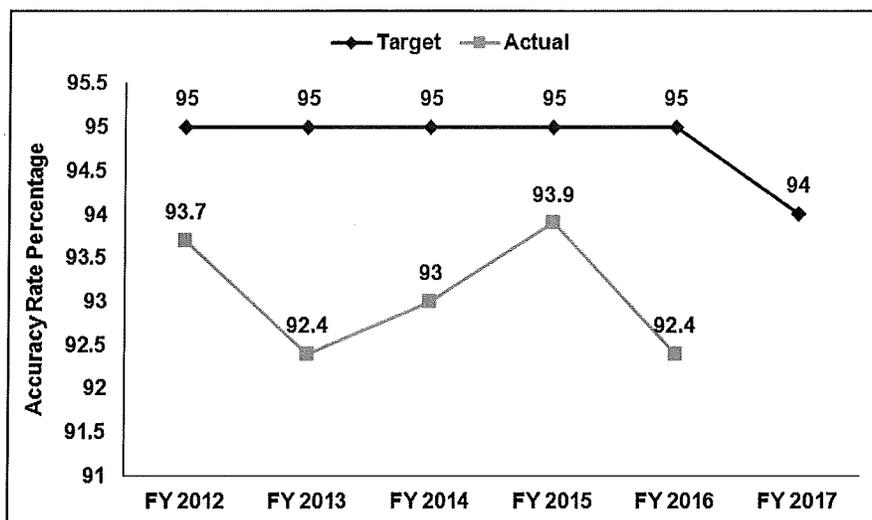
We selected the following performance measures to indicate our progress in strengthening the integrity of our programs:

**Increase secure access to the public's data**

Fiscal Year	2017 Actual	2017 Target	Target Achieved
<b>Performance</b>	Completed all mainframe encryption in our data centers in May 2017	Encrypt all mainframe data stored in our data centers by September 2017	Met

Analysis: We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. We are strengthening the security of our systems by implementing consistent management controls at all of our data facilities. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. As part of the *Cybersecurity Act of 2015*, Federal agencies must encrypt data that is stored or passing through the agency's information systems. In FY 2017, we began the Data at Rest Encryption initiative to protect data in our most sensitive information technology (IT) environments and completed Data at Rest Encryption for mainframe.

**Improve the integrity of the SSI program by ensuring that 94 percent of our payments are free of overpayment (APG)**



Analysis: The primary cause of overpayment (O/P) errors is the failure by SSI recipients and their representative payees to report payment-affecting changes, which has been a perennial problem since the inception of the SSI program. In FY 2016, our O/P accuracy was 92.4 percent, based on improper payments totaling a projected \$4.3 billion (compared with \$3.4 billion in FY 2015). This decrease is statistically significant from the FY 2015 O/P accuracy rate of 93.9 percent, the highest O/P accuracy rate since FY 2003. FY 2017 data is not available until summer 2018.

Some of the initiatives we are undertaking to strengthen the integrity of our programs include:

**IMPROVE THE DEATH REPORTING SYSTEM PROCESS**

We are updating our death reporting system to ensure we are collecting accurate data from Federal, State, and local agencies as well as from other countries with whom we have Totalization agreements. We rely on our death reporting system, so we can stop Social Security and SSI benefits as soon as possible after an individual’s death. The early detection of an individual’s death is a key means of preventing improper payments.

**EXPAND OUR COOPERATIVE DISABILITY INVESTIGATIONS PROGRAM**

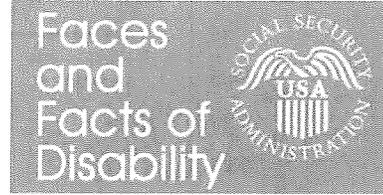
Cooperative Disability Investigations (CDI) units are jointly operated by SSA, the Office of the Inspector General, State disability determination services (DDS), and State and local law enforcement. Generally, CDI units investigate suspected fraud before the agency awards benefits as well as during the CDR and redetermination process when fraud may be involved.

Currently, the CDI program has 40 units, covering 34 States, the Commonwealth of Puerto Rico, and the District of Columbia. In FY 2017, we expanded coverage to New Jersey.

**STRATEGIC GOAL 3:  
SERVE THE PUBLIC THROUGH A STRONGER, MORE RESPONSIVE DISABILITY PROGRAM**

Strategic Objectives

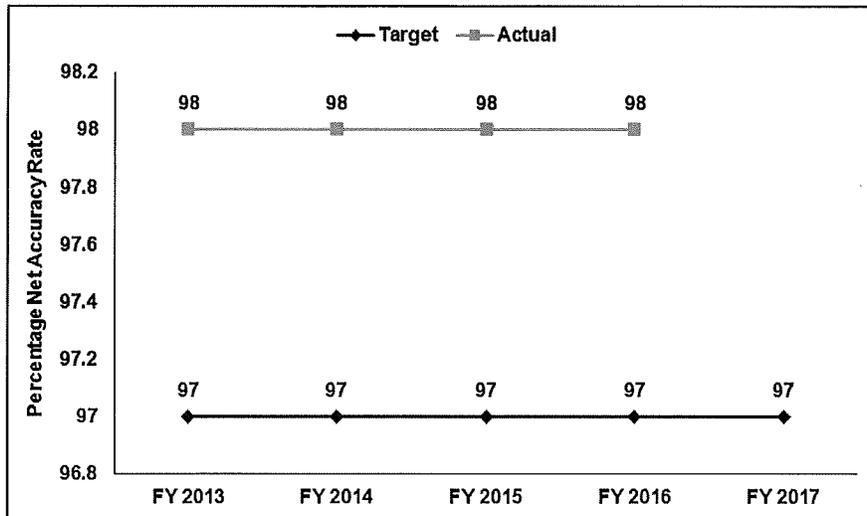
- Improve the Quality, Consistency, and Timeliness of Our Disability Decisions
- Maximize Efficiencies throughout the Disability Program
- Enhance Employment Support Programs and Create New Opportunities for Returning Beneficiaries to Work



Disability facts:  
[www.socialsecurity.gov/disabilityfacts/index.html](http://www.socialsecurity.gov/disabilityfacts/index.html)

We selected the following performance measures to demonstrate our efforts to serve the public through a stronger and more responsive disability program:

**Ensure the quality of our decisions by achieving the disability determination services net accuracy rate for initial disability decisions**



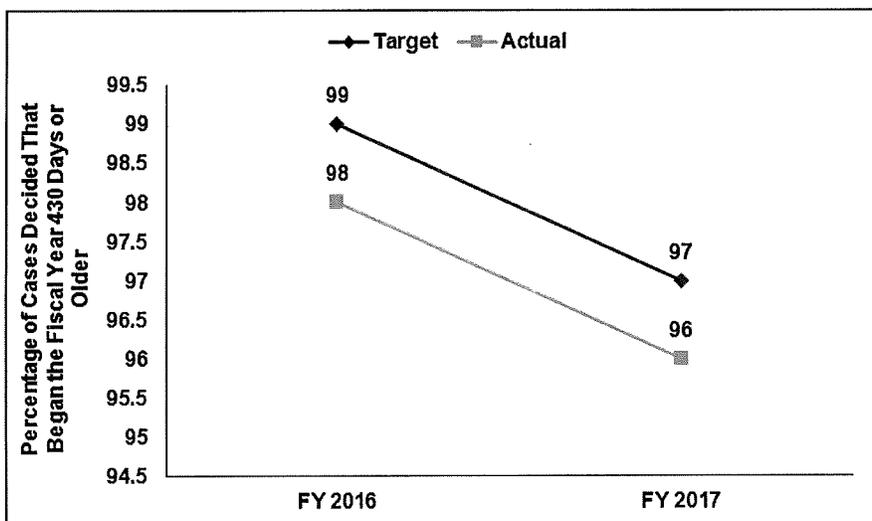
Analysis: The public expects us to make timely and accurate decisions. We have consistently met our target for this measure since FY 2010. In FY 2016, we demonstrated the quality of our decisions by achieving the DDS net accuracy rate of 98 percent for initial disability decisions, exceeding our target of 97 percent. FY 2017 data is not available until January 2018.

**Increase our ability to provide timely decisions by reducing the percentage of pending Appeals Council requests for review 365 days or older**

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2017 Target	Target Achieved
Performance	88% of cases pending less than 365 days	91.1% of cases pending less than 365 days	84% of cases pending less than 365 days	82% of cases pending less than 365 days	83% of cases pending less than 365 days	94% of cases pending less than 365 days	82% of cases pending less than 365 days	Met

Analysis: As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions. In FY 2017, we increased the percentage of cases pending less than 365 days to 94 percent, our highest percentage since we began tracking the data.

**Improve customer service by reducing the wait time for a hearing decision (APG)**



Analysis: Currently, over 1 million people are waiting for a hearing decision. In FY 2017, due in part to reduced disability receipts and increased adjudicative capacity, we began reducing the number of hearings pending. We continue to prioritize those who have waited the longest for a hearing decision.

Our efforts to deliver quality disability decisions and services include:

**EXPAND ACCESS TO ELECTRONIC MEDICAL EVIDENCE**

We depend on healthcare providers to gather the medical records we need to determine whether a claimant is disabled. On average, the agency processes over 15 million pieces of medical evidence per year. We are improving our process by expanding the use of electronic medical evidence. Electronic medical evidence provides faster access to medical information and reduces the time providers spend to comply with our requests. By using medical evidence and applying business rules, we can complete disability claims faster.

## **INCREASE THE NUMBER OF PEOPLE WITH DISABILITIES WHO RETURN TO WORK**

Many disabled beneficiaries want to work, and with adequate support, some beneficiaries attain self-sufficiency. The Ticket to Work and the Vocational Rehabilitation (VR) cost reimbursement programs help beneficiaries transition to employment and progress towards reduced reliance on disability related benefits.

We continue to improve our outreach to beneficiaries. Ongoing mailings; marketing efforts, and monthly webinars; and an interactive presence on social media have also led to thousands of beneficiaries connecting with employment networks (EN) and State VR agencies to get the services they need to return to work. In FY 2017, we implemented systems enhancements to our Internet Ticket Operation Support System to expedite business processes for our EN service providers. We also automated and modernized the VR payment operation eliminating paper claims and streamlining the VR payment process.

## **REDUCE THE HEARINGS BACKLOG**

In FY 2017, due in part to less disability receipts and increased adjudicative capacity, we began reducing the number of hearings pending. To reduce the backlog and enhance productivity, we implemented numerous initiatives as part of our Compassionate And REsponsive Service (CARES) plan. We updated our plan this year to take into consideration the \$90 million in special funding that Congress provided to address the backlog.

Along with hiring, our CARES plan includes a variety of initiatives to increase decisional capacity and achieve business process efficiencies, as well as plans for IT investments.

**STRATEGIC GOAL 4:  
BUILD A MODEL WORKFORCE TO DELIVER QUALITY SERVICE**

**Strategic Objectives**

- Attract and Acquire a Talented and Diverse Workforce That Reflects the Public We Serve
- Strengthen the Competency, Agility, and Performance of Our Workforce to Align with the Needs of the Public
- Foster an Inclusive Culture that Promotes Employee Well-Being, Innovation, and Engagement
- Enhance Planning and Alignment of Human Resources to Address Current and Future Public Service Needs



Best places to work:  
[www.bestplacetowork.org/BPTW/index.php](http://www.bestplacetowork.org/BPTW/index.php)

The following performance measure demonstrates our efforts to build a model workforce to deliver quality service:

**Become one of the Top 10 Best Places to Work among large agencies in the Federal Government**

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2017 Target	Target Achieved
Performance	Top 10 Rank	Top 10 Rank	Top 10 Rank	Top 10 Rank	Data available December 2017	Top 10 Rank	TBD

Analysis: One of our strategic objectives is to foster an inclusive culture that promotes employee well-being, innovation, and engagement. Our employees are our most valuable asset. Each year since 2007, our employees have ranked us in the top 10 Best Places to Work in the Federal Government. For FY 2016, we increased our target to become one of the top five best places to work among large agencies. Although we did not reach our goal, our employees still ranked us as number nine among large agencies. Data for FY 2017 will not be available until December 2017.

Some of the initiatives we undertook to remain an employer of choice for top talent included:

**EXECUTE TALENT MANAGEMENT AND SUCCESSION PLANNING**

Through talent management and succession planning, we will provide the structure and processes needed to ensure continuity of effective leadership at the highest organizational levels. In FY 2017, we addressed succession planning among the Senior Executive Service (SES) by refreshing our SES talent inventory and conducting talent management and succession planning reviews.

**IMPLEMENT PERFORMANCE IMPROVEMENT TRAINING AND SUPPORT FOR MANAGERS**

To provide supervisors with the tools to address employee performance, we developed a full suite of employee and labor relations training that addresses employee performance. In FY 2017, we trained practitioners and supervisors at headquarters and in the regions.

**STRATEGIC GOAL 5:  
ENSURE RELIABLE, SECURE, AND EFFICIENT INFORMATION TECHNOLOGY SERVICES**

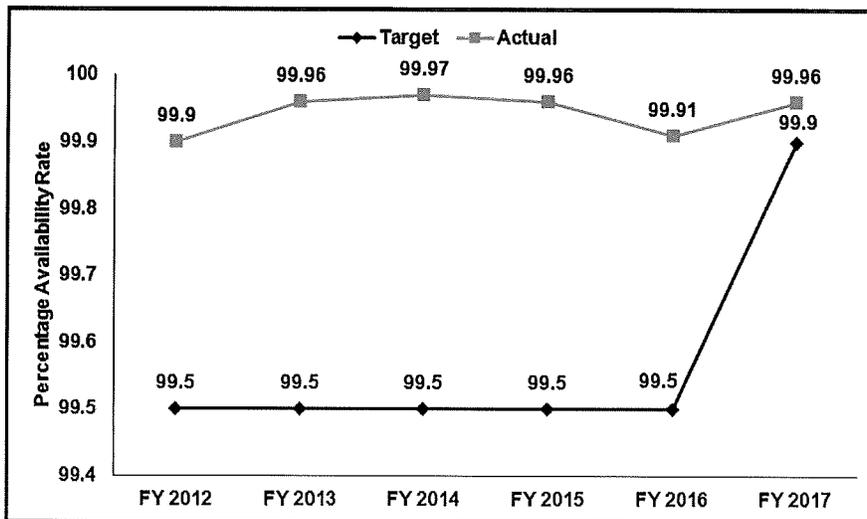
Strategic Objectives

- Maintain System Performance and the Continuity of Information Technology Services
- Enhance and Execute Plans to Modernize Our Systems
- Incorporate Innovative Advances in Service Delivery
- Continuously Strengthen Our Cybersecurity Program



We selected the following performance measures to demonstrate our efforts to ensure reliable, secure, and efficient IT services:

**Provide uninterrupted access to our systems during scheduled times of operation**



Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to meeting our obligation to the public. Since FY 2012, we have exceeded the target for this measure.

**Provide secure and effective services to the public by improving cybersecurity performance**

Fiscal Year	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2017 Target	Target Achieved
Performance	<p>Homeland Security Presidential Directive 12 Compliance – result 87%</p> <p>Information Security Continuous Monitoring – result 98%</p> <p>Trusted Internet Connections Consolidation – result 100%</p> <p>Trusted Internet Connections 2.0 Capabilities – result 94%</p>	<p>Hardware Asset Management – result 100%</p> <p>Software Asset Management – result 100%</p> <p>Vulnerability and Weakness Management – result 100%</p> <p>Unprivileged Network Users – result 86%</p> <p>Privileged Network Users – result 99%</p> <p>Anti-Phishing Defense – result 100%</p> <p>Malware Defense – result 100%</p> <p>Blended Defense – result 100%</p>	<p>Hardware Asset Management – result 100%</p> <p>Software Asset Management – result 100%</p> <p>Vulnerability and Weakness Management – result 100%</p> <p>Anti-Phishing Defense – result 100%</p> <p>Malware Defense – result 100%</p> <p>Blended Defense – result 100%</p>	<p>Achieved an average of 100% for the following Cybersecurity Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management</p> <p>Achieved an overall score of Level 3 on the President's Management Council Cybersecurity Scorecard (exceed government-wide targets in all 5 areas of the National Institute of Standards and Technology Cybersecurity framework)</p>	<p>Continue to achieve an average of 100% for the following Cybersecurity Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management</p> <p>Achieve an overall score of Level 3 on the President's Management Council Cybersecurity Scorecard (exceed government-wide targets in all 5 areas of the National Institute of Standards and Technology Cybersecurity framework)</p>	Met

Analysis: Continuously strengthening our cybersecurity is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. Since FY 2013, we have met the Department of Homeland Security cybersecurity standards and requirements.

Some of our ongoing efforts to maintain secure and reliable IT services include:

**MODERNIZE THE DISABILITY CASE PROCESSING SYSTEM**

In an ongoing effort to issue timely decisions, we are continuing work to modernize our disability processing system. When complete, we will replace 52 independently operated, aging systems. In FY 2017, we deployed our disability case processing system to nine DDS sites (Delaware, Maine, Ohio, Virginia, Iowa, Rhode Island, South Dakota, Washington, and Nebraska).

**STRENGTHEN OUR INFORMATION SECURITY PROGRAM AND MODERNIZE OUR CYBERSECURITY INFRASTRUCTURE**

We maintain a comprehensive, agency-wide information security program to protect our network, information, and communications assets. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. We are strengthening the security of our systems by implementing consistent management controls at all of our data facilities.

As part of the *Cybersecurity Act of 2015*, Federal agencies must encrypt data that is stored or passing through the agency's information systems. In FY 2017, we began the Data at Rest Encryption initiative to protect data in our most sensitive IT environments and completed Data at Rest Encryption for mainframe.

---

## LOOKING FORWARD – FACING OUR CHALLENGES

---

The Social Security Administration touches the lives of nearly every member of the public. For more than 80 years, we have delivered critical services at significant times like birth, marriage, retirement, disability, and death. The public expects and deserves well-managed programs that provide timely and accurate payments.

Our priorities and goals for the coming years will focus on delivering services effectively, improving the way we do business, and ensuring stewardship. We must be able to deliver our services effectively to the people who come to us for assistance regardless of whether it is in-person, on the telephone, or online. As we interact with the public every day, our employees experience firsthand the impact of our programs. We understand that doing our work well matters. We know that our programs are not stagnant and that advancements in technology provide opportunities to do business differently, and often more efficiently and conveniently.

We must continuously evaluate our policies and business processes using data and modern methods to ensure we meet service demands that reinforce efficient and effective service. Recognizing that our current technology infrastructure and existing business system would not allow us to serve the public the way we want or the way they expect us to, we developed a plan to modernize our IT systems. This modernization effort is foundational to our overall ability to improve service to the public.

We are committed to being good stewards of taxpayer dollars to ensure the public has confidence that we manage their tax dollars wisely. We take our stewardship of our programs seriously and we will continue to demonstrate a commitment to sound management practices. To ensure stewardship and efficient administration of our programs, we will focus our efforts in three major areas: improving program integrity, enhancing our fraud prevention and detection activities, and improving workforce performance and increasing accountability.

As we have done since 1935, we will continue to monitor risks to our progress, seize opportunities for improvement, and evolve to meet the public's changing needs.

# HIGHLIGHTS OF FINANCIAL POSITION

## OVERVIEW OF FINANCIAL DATA

We received an unmodified opinion on our financial statements from KPMG LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 41 through 96 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2015 through 2017 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

**Table of Key Financial Measures<sup>1</sup>**  
(Dollars in Billions)

Net Position (end of fiscal year)			
	2017	2016	2015
Total Assets	\$2,934.8	\$2,888.4	\$2,856.7
Less Total Liabilities	\$115.3	\$113.7	\$112.4
Net Position (assets net of liabilities)	\$2,819.6	\$2,774.6	\$2,744.3
Change in Net Position (end of fiscal year)			
	2017	2016	2015
Net Costs	\$999.1	\$982.2	\$945.0
Total Financing Sources <sup>2</sup>	\$1,044.1	\$1,012.5	\$967.5
Change in Net Position	\$45.0	\$30.3	\$22.5

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 44.

**Balance Sheet:** The Balance Sheet displayed on page 42 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2017 are \$2,934.8 billion, a 1.6 percent increase over the previous year. Of the total assets, \$2,917.7 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.5 percent of our assets, increased \$47.3 billion over the previous year.

Liabilities grew in FY 2017 by \$1.6 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries. The majority of our liabilities (89.8 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew \$45.0 billion to \$2,819.6 billion, reflecting the higher growth in assets than liabilities.

**Statement of Net Cost:** The Statement of Net Cost displayed on page 43 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2017, our total net cost of operations increased \$16.9 billion to \$999.1 billion, primarily due to a 2.3 percent increase in the number of OASI beneficiaries. The OASI net cost increased by 3.6 percent, while the DI and SSI net cost decreased 2.1 percent and 12.5 percent respectively. Operating expenses decreased for the OASI, DI, and SSI programs by 2.3 percent, 9.1 percent, and 7.5 percent, respectively.

In FY 2017, our total benefit payment expenses increased by \$17.7 billion, a 1.8 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2017 and FY 2016 for each of our three major programs.

**Benefit Changes in Our Major Programs During Fiscal Years 2017 and 2016**

	FY 2017	FY 2016	% Change
<b>OASI</b>			
Benefit Payment Expense	\$793,155	\$765,024	3.7%
Average Monthly Benefit Payment	\$1,304.21	\$1,283.82	1.6%
Number of Beneficiaries	51.19	50.02	2.3%
<b>DI</b>			
Benefit Payment Expense	\$141,206	\$144,018	(2.0)%
Average Monthly Benefit Payment	\$1,037.89	\$1,028.50	0.9%
Number of Beneficiaries	10.45	10.64	(1.8)%
<b>SSI</b>			
Benefit Payment Expense	\$51,355	\$58,976	(12.9)%
Average Monthly Benefit Payment	\$540.72	\$540.09	0.1%
Number of Beneficiaries	8.26	8.29	(0.4)%

Notes:

- Benefit payment expense and the number of beneficiaries are presented in millions.
- The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.
- The average monthly benefit payment for OASI and DI programs reflects the September average monthly benefit payment for FY 2017 and FY 2016.
- The FY 2017 number of beneficiaries and average monthly benefit payment for the SSI program are presented for August 2017, since September figures are not yet available. The values presented for FY 2016 are from September 2016.

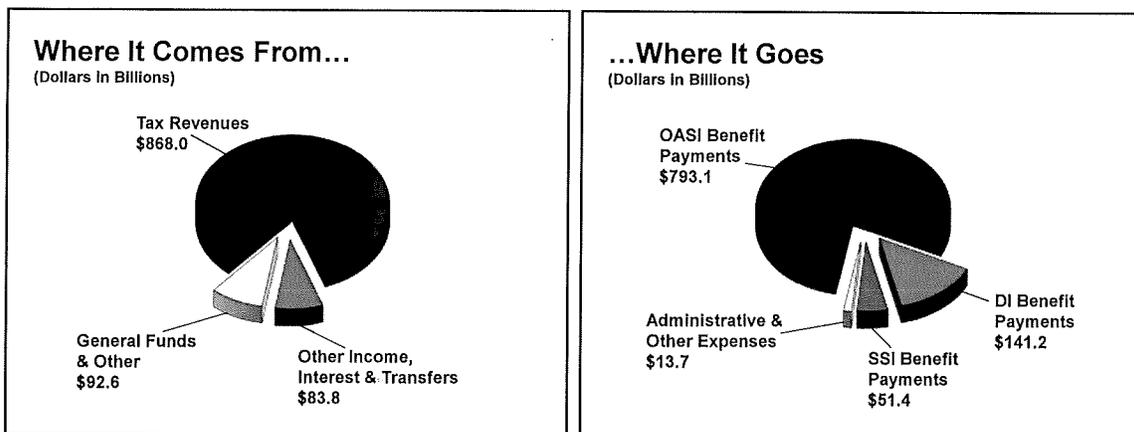
**Statement of Changes in Net Position:** The Statement of Changes in Net Position displayed on page 44 presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of \$45.0 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, the total of all tax revenues and interest earned continue to exceed benefit payments made to OASDI beneficiaries, keeping the agency's programs solvent. The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorizes a

temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions Act* payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in increased tax revenue for the DI Trust Fund, which resulted in DI's net position increasing \$25.4 billion from \$20.8 billion to \$46.2 billion.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.4 percent.

In FY 2017, total financing sources, as shown in the Table of Key Financial Measures displayed on page 26, increased by \$31.6 billion to \$1,044.1 billion. The primary source for this increase is additional tax revenues received in FY 2017. The \$1,044.1 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From..." as seen below. The activity reported in the chart includes \$0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2017.

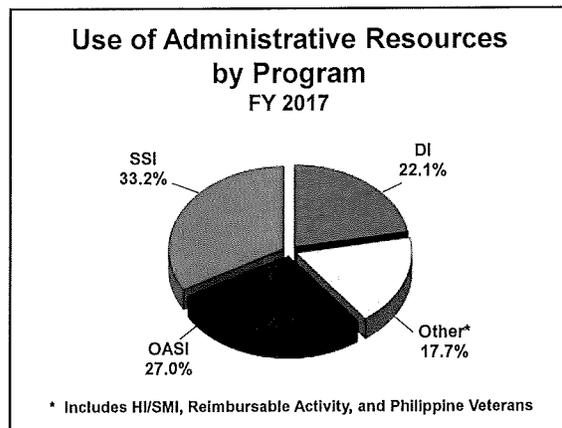


The SSI program's Cumulative Results of Operations are negative due to unfunded Benefits Due and Payable liabilities. Unadjudicated and adjudicated, or pending, claims make up a significant portion of SSI's Benefits Due and Payable activity. SSI will pay for these benefits using future years' resources. While the activity is unfunded, we still record an expense, which creates the negative Cumulative Results of Operations since we do not record an associated financing source.

**Statement of Budgetary Resources:** The Statement of Budgetary Resources displayed on page 45 provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2017. The Statement shows that we had \$1,064.6 billion in budgetary resources, of which \$5.5 billion remained unobligated at year-end. We recorded total net outlays of \$1,000.8 billion by the end of the year. Budgetary resources increased \$25.8 billion, or 2.5 percent, from FY 2016, while net outlays increased \$24.0 billion, or 2.5 percent. The increase in budgetary resources is primarily due to an increase in tax revenues. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries.

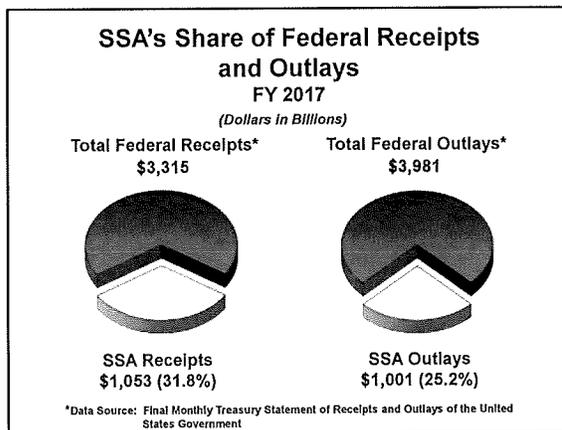
## USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2017 in terms of the programs we administer or support. Although the DI program comprises only 14.3 percent of the total benefit payments we make, it consumes 22.1 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.2 percent of the total benefit payments we make, it consumes 33.2 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2016 use of administrative resources by program was 26.2 percent for the OASI program, 23.0 percent for the DI program, 33.9 percent for the SSI program, and 16.9 percent for Other.



## SSA'S SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2017 represented 31.8 percent of the \$3.3 trillion in total Federal receipts, an increase of 0.6 percent over last year. Outlays decreased by 0.2 percent to 25.2 percent of Federal outlays.



## OVERVIEW OF SOCIAL INSURANCE DATA

**Table of Key Social Insurance Measures<sup>1</sup>**  
(Dollars in Billions)

Statements of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2017	2016	2015
Present value of future net cash flows <sup>2</sup> for current and future participants over the next 75 years (open group measure), current year valuation	-\$15,357	-\$14,169	-\$13,440
Present value of future net cash flows <sup>2</sup> for current and future participants over the next 75 years (open group measure), prior year valuation	-\$14,169	-\$13,440	-\$13,330
Change in present value	-\$1,187	-\$730	-\$110

## Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Future net cash flows are estimated over the appropriate 75-year period.

**Statements of Social Insurance:** As displayed on page 46, the Statements of Social Insurance present the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age (age 62 and over) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age (ages 15–61) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants (those under age 15, and to be born during the period) and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those to be born during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -\$14.2 trillion, as of January 1, 2016, to -\$15.4 trillion, as of January 1, 2017. The deficit, therefore, increased in magnitude by about \$1.2 trillion. Including the asset reserves in the combined OASI and DI Trust Fund increases this open group measure to -\$12.5 trillion for the 75-year valuation period. Therefore, including the asset reserves decreases the open group measure, in magnitude, by about \$2.8 trillion.

The present value of estimated future net cash flows for all current participants (who attain age 15 or older in the first year of the projection period) over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is -\$30.3 trillion (closed group measure). Including future participants (those under age 15, and to be born during the projection period) over the next 75 years decreases the projected deficit by \$17.8 trillion to the open group measure of -\$12.5 trillion.

**Statements of Changes in Social Insurance Amounts:** The Statements of Changes in Social Insurance Amounts displayed on page 47 reconcile the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

**From January 1, 2016 to January 1, 2017:** The present value as of January 1, 2017 decreased (became more negative) by \$0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2091. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of estimated future net cash flows by less than \$0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by \$0.6 trillion;
- Changes in programmatic data, assumptions, and methods decreased the present value of estimated future net cash flows by less than \$0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than \$0.1 trillion.

Significant changes made for this valuation included:

- Incorporating recent data led to higher death rates throughout the projection period and lower disabled worker incidence rates during the short-range period;
- Lower real-wage differential in the first 10 years of the projection period and lower near-term interest rates; and
- Reduction of the level of actual and potential gross domestic product by about 1 percent for all years after the short-range period.

**From January 1, 2015 to January 1, 2016:** The present value as of January 1, 2016 decreased (became more negative) by \$0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2090. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by \$0.6 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by \$0.9 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by less than \$0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by \$0.1 trillion.

Significant changes made for this valuation included:

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent for the current valuation period, compared to 2.7 percent for the previous valuation period;

- The ultimate real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period;
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent for the current valuation period, compared to 2.9 percent in the previous valuation period; and
- The effects of the *Bipartisan Budget Act of 2015*.

## OASI AND DI TRUST FUND SOLVENCY

### PAY-AS-YOU-GO FINANCING

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing.

The following table shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 38.9 months at the end of FY 2013, to 37.6 months at the end of FY 2014, to 36.8 months at the end of FY 2015, and to estimated values of 36.1 and 34.9 months at the end of FY 2016 and FY 2017, respectively. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to reverse in FY 2016 and FY 2017 due to the *Bipartisan Budget Act of 2015*, which reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund.

**Number of Months of Expenditures  
Fiscal-Year-End Asset Reserves Can Pay<sup>1,2</sup>**

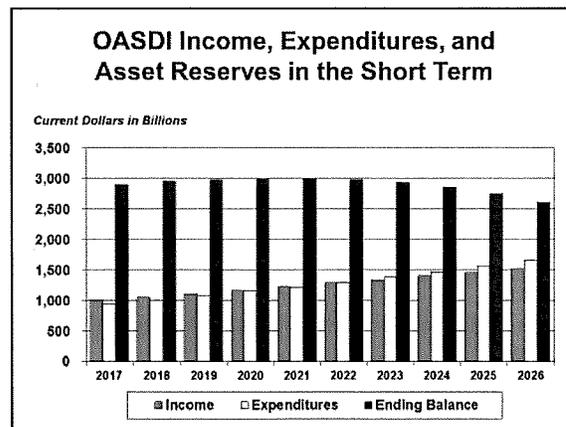
	2013	2014	2015	2016	2017
OASI	45.2	43.9	43.1	42.0	40.1
DI	8.3	5.7	3.4	3.7	5.5
Combined	38.9	37.6	36.8	36.1	34.9

Notes:

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
2. Values for FY 2016 and FY 2017 are estimates based on the intermediate set of assumptions of the 2017 Trustees Report.

### SHORT-TERM FINANCING

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2017 Trustees Report indicate that, on a hypothetical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2017 Trustees Report, OASDI estimated cost of \$1,665 billion and income of \$1,521 billion for 2026 are 81 percent and 59 percent higher than the corresponding amounts in 2016 (\$922 billion and \$957 billion, respectively). From the end of 2016 to the end of 2026, asset reserves are projected to decrease by 8 percent, from \$2.8 trillion to \$2.6 trillion.



---

## LONG-TERM FINANCING

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2034, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 77 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 73 percent of scheduled benefits in 2091.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is \$12.5 trillion, which is 2.66 percent of taxable payroll and 0.9 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

- Increasing payroll taxes;
- Slowing the growth in benefits;
- Finding other revenue sources (such as general revenues); or
- Increasing expected returns by investing the OASI and DI Trust Fund asset reserves, at least in part, in private securities.

Significant uncertainty surrounds the estimates for the Statements of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, pages 85 through 96 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

---

## LIMITATIONS OF THE FINANCIAL STATEMENTS

---

The principal financial statements beginning on page 41 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control 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 U.S. Government, a sovereign entity.

# SYSTEMS AND CONTROLS

## MANAGEMENT ASSURANCES

### Federal Managers' Financial Integrity Act Assurance Statement Fiscal Year 2017

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, that are effective for fiscal year 2017. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017.

The agency's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. Generally Accepted Accounting Principles. Management is also responsible for designing, implementing, and maintaining effective internal control over financial reporting. An entity's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

We performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Based on that evaluation, we concluded that, as of September 30, 2017 SSA's internal control over financial reporting is effective.



Nancy A. Berryhill  
Acting Commissioner  
November 9, 2017

### AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;

- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Acting Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control Committee determines if the weakness is a material weakness that they would need to forward to our agency head for a final determination on whether to report a material weakness.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. We incorporate the necessary controls into the user requirements, certify the controls are in place by having management review the new or changed processes and systems, and test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observations of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance that our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report for more information.

### **MANAGEMENT CONTROL REVIEW PROGRAM**

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes, such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State disability determination services (DDS). These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

### **FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM**

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2017, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

### **GOVERNMENT ACCOUNTABILITY OFFICE'S, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT**

In FY 2017, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design,

implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO's standards.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2017. In making this determination, she considered all the information available, including the auditors' opinion on our FY 2017 financial statements, the report on the effectiveness of internal control over financial reporting, and the report on compliance with laws and regulations. She also considered the results of our management control reviews and financial management systems reviews conducted by our independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report for more information.

## FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with KPMG LLP (KPMG) for the audit of our FY 2017 financial statements. KPMG found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

KPMG also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2017, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2016 to January 1, 2017, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

KPMG found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In this year's financial statement audit, KPMG continued to cite two significant deficiencies identified in prior years. One significant deficiency concerns certain financial information systems controls, and the other relates to our accounts receivable/overpayments. We are committed to resolving these deficiencies as quickly as possible through our risk-based corrective action plans, and to strengthening our control environment.

This year, KPMG also identified a new significant deficiency concerning controls over the reliability of information used in certain control activities. While we are confident in the controls over our information, we enhanced our processes to provide additional assurance and will continue to do so in the future, including for the process areas cited in the finding.

Please refer to the *Auditors' Report* section of this report for more information on the auditors' findings and our plans to correct the findings.

## FEDERAL INFORMATION SECURITY MODERNIZATION ACT

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. We submitted this year's report timely. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

During FY 2017, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by the auditors in our prior year financial statement audit. We made significant progress in improving our access management processes and developing our cybersecurity strategic and tactical plans to address risk. Additionally, we completed Authority to Operate documentation for nearly 800 non-centralized applications throughout our regions and DDS offices agency-wide. We also re-engineered and updated our Comprehensive Integrity Review Process to a modern predictive analytics platform within our Security Integrity Center to improve efficiency and accuracy of case investigations.

For the FY 2017 FISMA audit, KPMG assessed our overall maturity at Level 2 – Defined, and acknowledged that we had made some progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The auditors cited weaknesses in some areas, including Risk Management, Configuration Management, Identity and Access Management, Security Training, Information Security Continuous Monitoring, Incident Response, and Contingency Planning.

As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

## FINANCIAL MANAGEMENT SYSTEMS STRATEGY

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve government-wide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of nine financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

For our Debt Management category, in FY 2016, we began planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently. We currently plan to begin development and implementation starting in FY 2018 through FY 2023.

In December 2014, we completed the nationwide rollout of the Social Security Electronic Remittance System (SERS) to collect administrative fees in all field offices. SERS fits our agency's vision to upgrade our receipt processes to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are compliant with Payment Card Industry security standards. In FY 2017, we continued to expand the functionality of SERS to include the collection of programmatic debt. We completed the development phase and piloted the system in 20 field offices. Full system rollout to all field offices will be completed in December 2017. We accept checks, money orders, and debit/credit cards for programmatic debt payments.

Beginning in FY 2017, we began planning and analysis on additional mechanisms for submitting programmatic debt payments electronically. This initiative is a multi-year, multi-phase project of which SERS is the first phase.

For the Financial/Administrative systems category, OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

The agency implemented requirements for reporting under the *Digital Accountability and Transparency Act of 2014* (DATA Act). The agency submitted the required reports for the second and third quarters of this fiscal year. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

## **NATIONAL ANTI-FRAUD COMMITTEE**

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). In FY 2014, we reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, and Management (formerly Budget, Finance, Quality, and Management). The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Serving as an advisory board for the Office of Anti-Fraud Programs (OAFP);
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency's commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

While the reinstatement of the NAFC provided strategic governance over our anti-fraud efforts, we also established OAFP to provide centralized oversight and accountability for our anti-fraud program. OAFP leads our anti-fraud activities and works across organizational lines to ensure that employees throughout the agency have the tools to combat fraud.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention. On September 25, 2017, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2018 priorities and initiatives.