

UNITED STATES OFFICE OF  
GOVERNMENT ETHICS



November 15, 2016

The Honorable Shaun Donovan  
Director  
Office of Management and Budget  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503

Re: Annual Financial Report

Dear Director Donovan:

I am pleased to transmit to you the Annual Financial Report (AFR) for the U.S. Office of Government Ethics (OGE) for fiscal year 2016. The AFR includes OGE's Management Discussion and Analysis of Results and OGE's Management Assurances and Audited Financial Statements.

OGE management is responsible for establishing and maintaining effective internal controls over financial reporting, safeguarding of assets, and complying with applicable laws and regulations. In accordance with OMB guidance, I have determined to the best of my knowledge and belief that the performance and financial data included in this report are complete and reliable. OGE has received an unqualified opinion on its financial statements as of September 30, 2016, and the auditors found no material weaknesses related to OGE's compliance in internal controls over financial reporting.

If you need additional information with regard to this submission please contact Shelley Finlayson, OGE's Chief of Staff and Program Counsel, at 202-482-9314.

Sincerely,

A handwritten signature in black ink that reads "Walter M. Shaub, Jr." with a stylized flourish at the end.

Walter M. Shaub, Jr.  
Director

UNITED STATES OFFICE OF  
**GOVERNMENT ETHICS**



Preventing Conflicts of Interest  
in the Executive Branch

**Annual Financial Report**  
**Fiscal Year 2016**

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## Part I – Management Discussion and Analysis

The U.S. Office of Government Ethics (OGE) has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR) in lieu of a Performance and Accountability Report. OGE will provide more detailed information regarding its performance goals and results in its fiscal year 2016 Annual Performance Report (APR), which OGE will publish with its fiscal year 2017 Congressional Budget Justification and will post on its website at <https://www.oge.gov/web/oge.nsf/Performance+&+Strategic+Documentshttp://www.oge.gov/About/Management-Reports-and-Policies/Performance-and-Strategic-Docs/Performance---Strategic-Documents/> by the Spring of 2017.

This section provides a brief description of OGE’s mission and organizational structure, a high-level discussion of OGE’s key performance goals, and an analysis of OGE’s financial statements and stewardship.

### Mission Statement and Background

The U.S. Office of Government Ethics (OGE), established by the Ethics in Government Act of 1978, provides overall leadership and oversight of the executive branch ethics program designed to prevent and resolve conflicts of interest. OGE’s mission is part of the very foundation of public service. The first principle in the Fourteen Principles of Ethical Conduct for Government Officers and Employees is, “Public service is a public trust, requiring employees to place loyalty to the Constitution, the laws and ethical principles above private gain.” Public servants are expected to make impartial decisions based on the interests of the public when performing their job duties. OGE, in concert with agency ethics practitioners throughout the executive branch, ensures that employees fulfill this great trust.

To carry out its leadership and oversight responsibilities, OGE promulgates and maintains enforceable standards of ethical conduct for approximately 2.7 million employees in over 130 executive branch agencies and the White House; oversees a financial disclosure system that reaches more than 26,000 public and more than 380,000 confidential financial disclosure report filers; ensures that executive branch agency ethics programs are in compliance with applicable ethics laws and regulations; provides education and training to the more than 4,500 ethics officials executive branch-wide; conducts outreach to the general public, the private sector, and civil society; and provides technical assistance to state, local, and foreign governments and international organizations.

OGE is a lean organization, operating at fewer than its 80 authorized full-time equivalents. OGE is led by a

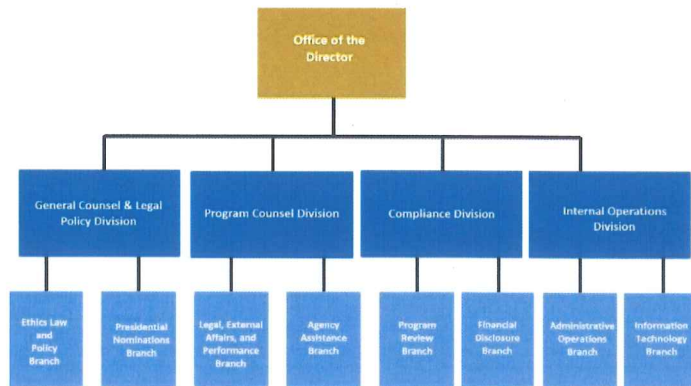


Figure 1: OGE Organizational Chart

Director who is appointed to a five-year term by the President and confirmed by the Senate. As shown in the organizational chart in Figure 1, in addition to the Office of the Director, OGE is divided into four divisions that work in concert to carry out OGE’s mission.

### Performance Highlights

When government decisions are made free from conflicts of interest, the public can have greater confidence in the integrity of executive branch programs and operations. The three strategic goals of OGE’s strategic plan for fiscal years 2014 through 2018 – uniformity, continuity, and transparency – reflect the long-term outcomes that OGE strives to achieve in order to prevent and resolve conflicts of interest. See Figure 2.

The daily work of OGE is driven by the strategic objectives and performance goals established under each of the overall strategic goals set forth below.

In fiscal year 2016, OGE met or exceeded each of its performance goals. Below are performance highlights from each of OGE’s major programs that support OGE’s strategic goals.

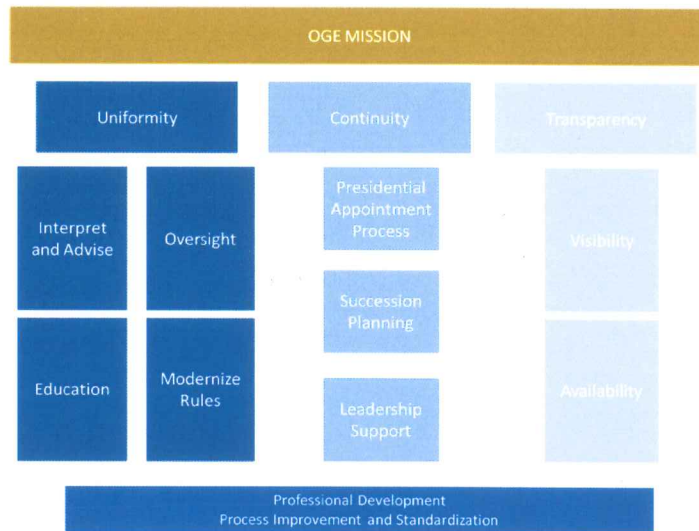


Figure 2: OGE’s Fiscal Year 2014 – 2018 Strategic Plan

*Strategic Goal 1: Advance a strong uniform executive branch ethics program.*

To achieve its strategic goal of advancing a strong uniform executive branch ethics program, OGE interprets and advises on ethics laws, policies, and program management issues; holds executive branch agencies accountable for carrying out effective ethics programs; contributes to the professional development of ethics officials; and modernizes and implements the ethics rules and regulations.

OGE is the supervising ethics office for a decentralized ethics community comprising thousands of ethics officials in over 130 agencies across the executive branch. OGE’s Desk Officer Program provides a vital communications link to this ethics community. OGE’s Desk Officers assist agencies in resolving difficult ethics issues requiring expertise that only the supervising ethics office can provide. In fiscal year 2016, OGE Desk Officers responded to approximately 1,700 requests for assistance from agencies. Desk Officers also proactively engaged with agency ethics offices through in-person meetings, to provide expertise and support, to increase uniformity across agencies, and to raise awareness of the range and availability of OGE’s services. OGE surveyed ethics officials who requested assistance from OGE’s Desk Officers during fiscal year 2016 to measure the performance of its Desk Officer program.

100 percent of survey respondents indicated that Desk Officers helped them to perform their job duties.

In addition to providing day-to-day assistance through the Desk Officer program, OGE issues legal and program advisories to disseminate critical information to the executive branch ethics community and to promote uniform interpretation of ethics laws, regulations, and policies. Advisories are an integral component of the body of interpretive and programmatic guidance that executive branch ethics officials rely on daily. OGE chose to issue advice on these and other topics to address subject matter of particular relevance during a Presidential transition, to respond to emerging ethics issues, and to respond to feedback from agency ethics officials about questions they received from employees. A survey of the ethics community found that 91 percent of respondents felt that OGE's advisories help them perform their job duties.

In addition to providing day-to-day assistance through the Desk Officer program and issuing advisories, OGE holds executive branch agencies accountable for carrying out an effective ethics program by conducting agency ethics program reviews and reviewing the financial disclosure reports of senior executive branch officials.

Through ethics program reviews — plenary, inspection, and follow-up reviews — OGE ensures consistent and sustainable ethics program compliance with established executive branch ethics laws, regulations and policies, and provides recommendations for meaningful program improvement. All three types of reviews are designed to identify and remediate systemic risks. They include an examination of ethics program materials such as financial disclosure reports, documentation of ethics advice provided to employees, training records, and ethics agreement compliance tracking. In fiscal year 2016, OGE conducted 36 program reviews and published a total of 25 program review reports. OGE also conducted 32 follow-up reviews and published 26 follow-up review reports. In fiscal year 2016, OGE issued 129 recommendations through program reviews. In cases in which OGE identified a program weakness during a program review, OGE exceeded its target for the percent of program reviews which, in turn, resulted in improvements in the reviewed agency's ethics program.

OGE also reviews the public annual, termination, and transactions financial disclosure reports of executive branch leaders appointed by the President and confirmed by the Senate (PAS), as well as other reports filed by Designated Agency Ethics Officials (DAEOs) and certain White House officials. The timely review of these reports helps ensure that these senior officials remain free from conflicts of interest. In fiscal year 2016, OGE reviewed approximately 1,700 public financial disclosure reports (new entrant, annual, termination, and periodic transaction reports). OGE exceeded its target of completing reviews of public financial disclosure reports required to be submitted to OGE, within 60 days of receipt.

In addition, in fiscal year 2016, OGE offered a wide array of educational offerings to ensure that ethics officials had access to the expertise and tools needed to do their jobs. Ethics training is essential to ensuring uniformity in the application of ethics laws and policy. A key part of these offerings was OGE held the second National Government Ethics Summit (Summit) in March 2016. The Summit, a cost effective, multi-day training event was attended by over 500 in-person executive branch ethics officials and external stakeholders. To both expand the reach of the Summit and increase transparency of the executive branch ethics program, OGE

effectively utilized technology to broadcast, by live-streaming for free more than half of the sessions. OGE also held a full-day, in-person training event, with two financial disclosure tracks: one for beginner financial disclosure reviewers and one for nominee financial disclosure reviewers. The event helped prepare ethics officials to successfully manage the surge in financial disclosure filings related to the large numbers of departing employees and incoming nominees typical during a Presidential transition year.

In addition to in-person training, OGE continued to deliver its Ethics Fundamentals and Advanced Practitioner distance learning series. Topics covered included gifts, public and confidential financial disclosure, ethics records, and tools for delivering annual ethics training. As a result of attending courses offered by OGE, 100 percent of ethics officials reported that they better understand the subject matter presented and 97 percent believe they can more effectively perform their jobs. OGE also made available useful training products by developing a collection of scenarios ethics officials could use to deliver annual ethics training, and by developing a handbook for executive branch employees new to federal service.

In fiscal year 2016, OGE also undertook significant regulatory activities. OGE reviews and revises the ethics rules and regulations to ensure their continued effectiveness and applicability to situations faced by employees in a 21<sup>st</sup> century government. This includes publishing a final regulation revising regulations addressing the limitations on the ability of executive branch employees to seek employment other than government employment. OGE also published a proposed regulation in the Federal Register comprehensively revising its regulations addressing the limitations on the ability of executive branch employees to receive gifts from sources outside the government. In fiscal year 2016, OGE continued its work reviewing and revising its regulations covering executive agency ethics program responsibilities found at 5 C.F.R. part 2638. In June 2016, OGE published in the Federal Register a proposed regulation completely revising part 2638. Lastly, in fiscal year 2016, OGE made significant progress toward finalizing key regulatory changes to the financial disclosure regulations found at 5 C.F.R. part 2634 (Executive Branch Financial Disclosure, Qualified Trusts, and Certificates of Divestiture) to implement the additional financial disclosure requirements imposed by the STOCK Act.

*Strategic Goal 2: Contribute to the continuity of senior leadership in the executive branch.*

OGE contributes to the continuity of senior leadership in the executive branch by assisting in the President's constitutional duty to nominate and appoint officers to the executive branch, supporting succession planning in executive branch ethics programs, and promoting leadership support of the executive branch ethics program overall.

In fiscal year 2016, OGE reviewed the reports of nominees for approximately 12 percent of the PAS positions. By leveraging existing resources and improving internal processes and tracking, OGE was able to meet the priorities set by the White House and the Senate. In addition, in coordination with the Federal Election Commission, OGE reviewed all of the public financial disclosure reports of covered candidates for the Office of President of the United States, as well as the reports of candidates for the office of Vice President of the United States. OGE makes these reports available to the public upon request. OGE measures its performance by the successful and timely resolution of conflicts and technical reporting issues for nominee financial

disclosure reports. OGE's standard is to resolve conflicts and technical reporting issues no later than five days after a nomination is made. OGE exceeded its targets in this area.

In fiscal year 2016, OGE successfully operated its electronic filing system, *Integrity*. Throughout fiscal year 2016, OGE worked to transition 80 agencies and approximately 7,000 filers into *Integrity* in time for the 2016 annual filing season. As a result of OGE's multi-year over efforts 13,700 filers from 134 agencies were registered and used the system during the 2016 annual 278 filing season. Also in fiscal year 2016, OGE successfully developed and launched a complex new workflow functionality in *Integrity* for reviewing Presidential nominees that this functionality will enable OGE to better manage the influx of the highest-level officials in the next Administration, so they can securely and efficiently file their public financial disclosure reports electronically.

In fiscal year 2016, OGE expanded its efforts to prepare for the Presidential transition. OGE increased its collaboration with the Partnership for Public Service and transition service provider agencies, contributing to the development of products for campaigns and the transition team, and conducting in depth briefings and training presentations. Following passage of the Presidential Transition Act of 2016, OGE's Chief of Staff began serving on the executive branch-wide Agency Transition Directors Council. OGE increased its internal training of staff and began conducting similar training for agency ethics officials throughout the executive branch. OGE centered its 2016 National Government Ethics Summit around the theme of the Presidential transition, delivering three full days of instruction relevant to the Presidential transition to hundreds of ethics officials and other stakeholders. OGE presented a full-day symposium on financial disclosure, with separate tracks for beginner and advanced reviewers, to prepare for the surge in financial disclosure work during the Presidential transition. In addition, OGE continued to streamline its nominee processes, automating a number of functions and going paperless for nominees who file public reports. OGE also developed and presented a Presidential Transition Readiness series of courses and workshops to continue training agency ethics officials throughout fiscal year 2016. OGE also developed and published several products for use during the Presidential transition: an extensive Nominee Ethics Guide for Presidential nominees, a separate ethics guide for campaigns and the Presidential Transition Teams, a comprehensive web-based financial disclosure guide, and a one-page guidance document on Certificates of Divestiture that will be useful to nominees who are required to divest financial interests.

*Strategic Goal 3: Promote transparency of the executive branch ethics program.*

Transparency increases accountability and builds public confidence in the impartiality of government decision making. To promote transparency, OGE directs resources toward raising the visibility of the systems in place to identify and resolve conflicts of interest, and by making ethics documents publicly available. In fiscal year 2016, OGE worked to increase the number of external stakeholders that are aware of OGE and the executive branch ethics program.

OGE's website is its primary tool for communicating with its external stakeholders and building confidence in the systems designed to detect and resolve conflicts of interest in the federal executive branch. In fiscal year 2016, OGE rebuilt and relaunched its website in order to better control the timeliness of the content it makes available to the public, as well as



significantly reduce costs. In fiscal year 2016, OGE continued to use social media to broaden its reach to key external stakeholders.

In addition, OGE responded to 500 requests for information and assistance from its non-executive branch external stakeholders on topics such as public financial disclosure, gifts from outside sources, and post-employment. This assistance promotes understanding of the executive branch ethics program and related ethics rules and regulations. Of special note, in fiscal year 2016, OGE responded to over 160 requests for assistance from the press. These interactions result in more accurate reporting about the ethics rules and the executive branch ethics program in general and multiply OGE's ability to reach the general public to further promote a better understanding of its role in ensuring government integrity. OGE and the executive branch ethics program were mentioned in 190 media articles during fiscal year 2016.

## **Conclusion**

The above performance highlights demonstrate that OGE has been successful in achieving its strategic goals and accomplishing its mission. As noted at the beginning of the Management Analysis and Discussion section on page 1, OGE will provide more detailed information regarding its performance goals and results in its fiscal year 2016 Annual Performance Report (APR).

## **Analysis of Financial Statements and Stewardship**

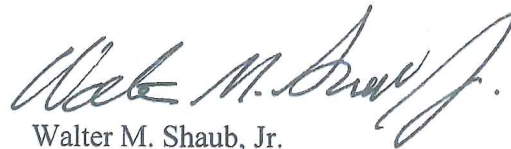
In fiscal year 2016, OGE demonstrated strong financial stewardship by maximizing the use of existing resources, improving internal processes, and advancing transparency initiatives to accomplish its strategic goals in support of White House priorities. In fiscal year 2016 OGE expanded use of *Integrity*, a secure, web-based electronic filing system for executive branch public financial disclosure report (OGE Forms 278e and 278T) filers mandated by the STOCK Act. The system is offered without charge to all executive branch agencies, and to date, 134 agencies and more than 13,700 senior executives and Presidential appointees are using the system. In order to fully prepare for and successfully support its role in the Presidential transition, OGE significantly enhanced *Integrity* functionality for reviewing Presidential nominees to better manage the influx of the highest level officials in the next Administration, along with several other critical enhancements essential to supporting OGE's work in the Presidential nomination process. In addition, preparation for the election and post-election periods in fiscal years 2017 and 2018 remained a top priority agency-wide during fiscal year 2016 as OGE rebuilt and relaunched its website, provided a wide variety of cost-effective training opportunities, exceeded targets for agency ethics program reviews, and undertook significant regulatory activities to ensure their continued effectiveness and applicability to government employees.

## Part II - Management Assurances

### **Annual Assurance Statement on Internal Controls and Internal Controls over Financial Reporting**

OGE's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). OGE conducted its assessment in compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. After a thorough review of the results, and to the best of my knowledge and belief, OGE can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations were in compliance with applicable laws and regulations as of September 30, 2016, and with no material weaknesses found in the design or operations of the internal controls.

OGE relies on the U.S. Department of Treasury, Bureau of Fiscal Service (BFS), a shared service provider, for its accounting and financial systems and reporting requirements. OGE has no in-house financial systems. OGE uses Oracle Financials, hosted by BFS. OGE considers this financial system to be reliable and effective. OGE obtains the Statement on Standards for Attestation Engagements No. 16 from BFS, and reviews the statement to assist in assessing internal controls over OGE's financial reporting. After a thorough review of the results, OGE has not discovered any significant issues or deviations in its financial reporting during fiscal year 2016, and therefore concludes that OGE's internal controls over financial reporting are sufficiently strong.



Walter M. Shaub, Jr.  
Director  
U.S. Office of Government Ethics

## **Part III – Financial Statements and Independent Auditor’s Report**

### **Limitations of the Financial Statements**

OGE’s principal financial statements have been prepared to report its financial position and results of operations, pursuant to the requirements of 31 U.S.C. § 3515 (b). While the statements have been prepared from the books and records of OGE, in accordance with generally accepted accounting principles 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. These statements should be read with the realization that they are for a component of the United States government, a sovereign entity.

## Fiscal Year 2016 Financial Statements

### UNITED STATES OFFICE OF GOVERNMENT ETHICS BALANCE SHEET AS OF SEPTEMBER 30, 2016 AND 2015 (In Dollars)

	2016	2015
<b>Assets:</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 3,108,900	\$ 3,239,078
Total Intragovernmental	3,108,900	3,239,078
Accounts Receivable, Net (Note 3)	-	158
Property, Equipment, and Software, Net (Note 4)	3,808,238	5,067,603
<b>Total Assets</b>	<b>\$ 6,917,138</b>	<b>\$ 8,306,839</b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts Payable	\$ 1,671,399	\$ 30,065
Other (Note 7)	169,898	132,373
Total Intragovernmental	1,841,297	162,438
Accounts Payable	143,464	138,808
Federal Employee and Veterans' Benefits (Note 6)	418,188	387,659
Other (Note 7)	996,180	854,232
<b>Total Liabilities (Note 5)</b>	<b>\$ 3,399,129</b>	<b>\$ 1,543,137</b>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	\$ 830,171	\$ 2,767,360
Cumulative Results of Operations - Other Funds	2,687,838	3,996,342
<b>Total Net Position</b>	<b>\$ 3,518,009</b>	<b>\$ 6,763,702</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 6,917,138</b>	<b>\$ 8,306,839</b>

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS**  
**STATEMENT OF NET COST**  
**FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015**  
**(In Dollars)**

	2016	2015
<b>Program Costs: (Note 9)</b>		
Salaries and Expenses		
Gross Costs	\$ 19,479,687	\$ 17,054,232
Less: Earned Revenue	(39,585)	(39,698)
<b>Net Cost of Operations</b>	<b>\$ 19,440,102</b>	<b>\$ 17,014,534</b>

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015  
(In Dollars)**

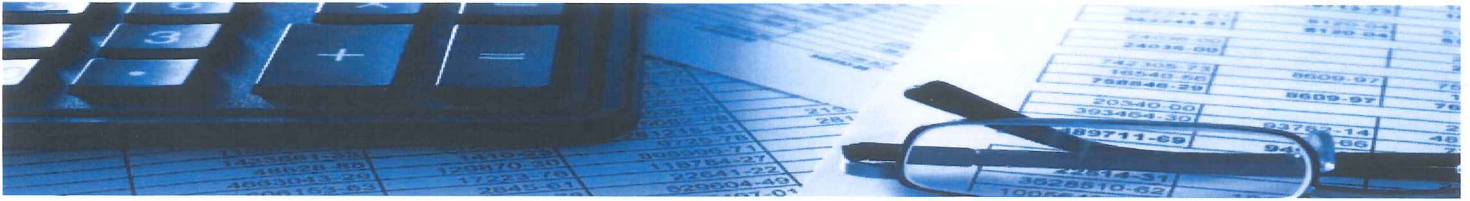
	2016	2015
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 3,996,342	\$ 3,850,020
<b>Budgetary Financing Sources:</b>		
Appropriations Used	17,576,212	16,686,464
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources (Note 10)	555,386	474,392
Total Financing Sources	18,131,598	17,160,856
Net Cost of Operations	(19,440,102)	(17,014,534)
Net Change	(1,308,504)	146,322
Cumulative Results of Operations	\$ 2,687,838	\$ 3,996,342
<b>Unexpended Appropriations:</b>		
Beginning Balances	\$ 2,767,360	\$ 4,225,451
<b>Budgetary Financing Sources:</b>		
Appropriations Received	15,742,000	15,420,000
Other Adjustments	(102,977)	(191,627)
Appropriations Used	(17,576,212)	(16,686,464)
Total Budgetary Financing Sources	(1,937,189)	(1,458,091)
Total Unexpended Appropriations	\$ 830,171	\$ 2,767,360
Net Position	\$ 3,518,009	\$ 6,763,702

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE YEARS ENDING SEPTEMBER 30, 2016 AND 2015**  
(In Dollars)

	2016	2015
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 1,016,430	\$ 763,082
Recoveries of Prior Year Unpaid Obligations	148,103	339,999
Other changes in unobligated balance	(101,496)	(175,150)
Unobligated balance from prior year budget authority, net	1,063,037	927,931
Appropriations	15,742,000	15,420,000
Spending authority from offsetting collections	39,585	16,932
<b>Total Budgetary Resources</b>	<b>\$ 16,844,622</b>	<b>\$ 16,364,863</b>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total) (Note 12)	\$ 16,026,395	\$ 15,348,433
Unobligated balance, end of year:		
Apportioned, unexpired account (Note 2)	90,090	405,982
Expired unobligated balance, end of year (Note 2)	728,137	610,448
Unobligated balance, end of year (total)	818,227	1,016,430
<b>Total Budgetary Resources</b>	<b>\$ 16,844,622</b>	<b>\$ 16,364,863</b>
<b>Change in Obligated Balance</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 2,222,648	\$ 4,037,071
New obligations and upward adjustments (Note 12)	16,026,395	15,348,433
Outlays (gross)	(15,810,267)	(16,822,857)
Recoveries of Prior Year Unpaid Obligations	(148,103)	(339,999)
Unpaid Obligations, End of Year (Gross)	2,290,673	2,222,648
<b>Uncollected payments:</b>		
Uncollected Customer Payments, Federal Sources, Brought Forward, October 1	\$ -	\$ (39,055)
Change in Uncollected Payments, Federal Sources	-	39,055
<b>Memorandum entries:</b>		
Obligated Balance, Start of Year	\$ 2,222,648	\$ 4,037,071
Obligated Balance, End of Year (Note 2)	\$ 2,290,673	\$ 2,222,648
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 15,781,585	\$ 15,436,932
Actual offsetting collections	(41,065)	(72,464)
Change in Uncollected Payments, Federal Sources	-	39,055
Recoveries of prior year paid obligations	1,480	16,477
<b>Budget Authority, net, (total)</b>	<b>\$ 15,742,000</b>	<b>\$ 15,420,000</b>
Outlays, gross	\$ 15,810,267	\$ 16,822,857
Actual offsetting collections	(41,065)	(72,464)
<b>Agency outlays, net</b>	<b>\$ 15,769,202</b>	<b>\$ 16,750,393</b>

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



## UNITED STATES OFFICE OF GOVERNMENT ETHICS NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The U.S. Office of Government Ethics (OGE), established by the Ethics in Government Act of 1978, provides overall leadership and oversight of the executive branch ethics program designed to prevent and resolve conflicts of interest. OGE's mission is part of the very foundation of public service. The first principle in the Fourteen Principles of Ethical Conduct for Government Officers and Employees is, "public service is a public trust, requiring employees to place loyalty to the Constitution, the laws and ethical principles above private gain." Public servants are expected to make impartial decisions based on the interests of the public when performing their job duties. OGE, in concert with agency ethics practitioners throughout the executive branch, ensures that employees fulfill this great trust.

To carry out its leadership and oversight responsibilities, OGE promulgates and maintains enforceable standards of ethical conduct for approximately 2.7 million employees in over 130 executive branch agencies and the White House; oversees a financial disclosure system that reaches more than 26,000 public and more than 380,000 confidential financial disclosure report filers; ensures that executive branch agency ethics programs are in compliance with applicable ethics laws and regulations; provides education and training to the approximately 4,500 ethics officials executive branch-wide; conducts outreach to the general public, the private sector, and civil society; and provides technical assistance to state, local, and foreign governments and international organizations.

OGE's greatest resource is its multidisciplinary staff of attorneys, ethics and finance experts, and support personnel. OGE is a lean organization, operating at fewer than its 80 authorized full-time equivalents, and accomplishes its responsibilities by organizing cross-functional teams to perform such diverse tasks as working with Presidential nominees for appointments requiring Senate confirmation to resolve potential financial conflicts of interest, training executive branch ethics officials, and conducting oversight of executive branch ethics programs. OGE is led by a Director who is appointed to a five-year term by the President and confirmed by the Senate.

OGE's General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

OGE has rights and ownership of all assets reported in these financial statements. OGE does not possess any non-entity assets.

#### B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of OGE. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and



follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of OGE in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and OGE accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control OGE's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

### **C. Basis of Accounting**

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

### **D. Fund Balance with Treasury**

Fund Balance with Treasury is the aggregate amount of the OGE's funds with Treasury in expenditure, receipt, and revolving fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The OGE does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury.

Treasury disburses funds for the agency on demand.

### **E. Accounts Receivable**

Accounts receivable consists of amounts owed to OGE by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

### **F. Property, Equipment, and Software**

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. OGE's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

<u>Description</u>	<u>Useful Life (years)</u>
Leasehold Improvements	9
Office Furniture	5
Computer Equipment	3
Office Equipment	5
Software	5

## **G. Advances and Prepaid Charges**

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

## **H. Liabilities**

Liabilities represent the amount of funds likely to be paid by OGE as a result of transactions or events that have already occurred.

OGE reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, and actuarial Federal Employees' Compensation Act (FECA) liability fees.

## **I. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 100%.

## **J. Accrued and Actuarial Workers' Compensation**

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the OGE employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the OGE terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

## **K. Retirement Plans**

OGE employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of OGE matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and OGE matches any employee contribution up to an additional four percent of pay. For FERS participants, OGE also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, OGE remits the employer's share of the required contribution.

OGE recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to OGE for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. OGE recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

OGE does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets,

accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

## **L. Other Post-Employment Benefits**

OGE employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSIP) may continue to participate in these programs after their retirement. The OPM has provided the OGE with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. OGE recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by OGE through the recognition of an imputed financing source.

## **M. Use of Estimates**

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

## **N. Imputed Costs/Financing Sources**

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. OGE recognized imputed costs and financing sources in fiscal years 2016 and 2015 to the extent directed by accounting standards.

## O. Reclassification

Certain fiscal year 2015 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

## NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2016 and 2015, were as follows:

	2016	2015
<b>Fund Balances:</b>		
Appropriated Funds	\$ 3,108,900	\$ 3,239,078
<b>Total</b>	<b>\$ 3,108,900</b>	<b>\$ 3,239,078</b>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 90,090	\$ 405,982
Unavailable	728,137	610,448
Obligated Balance Not Yet Disbursed	2,290,673	2,222,648
<b>Total</b>	<b>\$ 3,108,900</b>	<b>\$ 3,239,078</b>

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (see also Note 13).

### NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2016 and 2015, were as follows:

	2016	2015
With the Public		
Accounts Receivable	\$ -	\$ 158
Total Accounts Receivable	\$ -	\$ 158

The accounts receivable is made up of employee receivables.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2016 and 2015.

### NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2016

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 57,406	\$ 19,136	\$ 38,270
Furniture & Equipment	239,343	150,403	88,940
Software	5,866,030	2,185,002	3,681,028
Total	\$ 6,162,779	\$ 2,354,541	\$ 3,808,238

Schedule of Property, Equipment, and Software as of September 30, 2015

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 57,406	\$ 12,757	\$ 44,649
Furniture & Equipment	239,343	70,622	168,721
Software	5,866,030	1,011,797	4,854,233
Total	\$ 6,162,779	\$ 1,095,176	\$ 5,067,603

#### NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for OGE as of September 30, 2016 and 2015, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

	2016	2015
Intragovernmental – FECA	\$ 86,948	\$ 76,876
Intragovernmental – Unemployment Insurance	1,310	-
Unfunded Leave	613,953	606,884
Actuarial FECA	418,188	387,659
Total Liabilities Not Covered by Budgetary Resources	\$ 1,120,399	\$ 1,071,419
Total Liabilities Covered by Budgetary Resources	2,278,730	471,718
Total Liabilities	\$ 3,399,129	\$ 1,543,137

FECA liabilities represent the unfunded liability for actual workers compensation claims paid on OGE's behalf and payable to the DOL. OGE also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

#### NOTE 6. ACTUARIAL FECA LIABILITY

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for OGE's employees are administered by the DOL and ultimately paid by OGE when funding becomes available.

OGE bases its estimate for FECA actuarial liability on the DOL's FECA model. The DOL method of determining the liability uses historical benefits payment patterns for a specific incurred period to predict the ultimate payments for the period. Based on the information provided by the DOL, OGE's liability as of September 30, 2016 and 2015, was \$418,188 and \$387,659 respectively.

## NOTE 7. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2016 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 11,773	\$ 75,175	\$ 86,948
Unemployment Insurance Liability	1,310	-	1,310
Payroll Taxes Payable	81,640	-	81,640
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 94,723</b>	<b>\$ 75,175</b>	<b>\$ 169,898</b>
With the Public			
Payroll Taxes Payable	\$ 13,035	\$ -	\$ 13,035
Accrued Funded Payroll and Leave	369,086	-	369,086
Unfunded Leave	613,954	-	613,954
Other Liabilities	105	-	105
<b>Total Public Other Liabilities</b>	<b>\$ 996,180</b>	<b>\$ -</b>	<b>\$ 996,180</b>

Other liabilities account balances as of September 30, 2015 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 8,759	\$ 68,117	\$ 76,876
Payroll Taxes Payable	55,497	-	55,497
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 64,256</b>	<b>\$ 68,117</b>	<b>\$ 132,373</b>
With the Public			
Payroll Taxes Payable	\$ 14,166	\$ -	\$ 14,166
Accrued Funded Payroll and Leave	233,183	-	233,183
Unfunded Leave	606,883	-	606,883
<b>Total Public Other Liabilities</b>	<b>\$ 854,232</b>	<b>\$ -</b>	<b>\$ 854,232</b>

## NOTE 8. LEASES

### Operating Leases

The OGE occupies office space under a lease agreement that is accounted for as an operating lease. The lease term is for a period of ten (10) years commencing on February 2, 2014 and ends February 1, 2024:

Fiscal Year	Office Space
2017	\$ 1,314,174
2018	1,329,484
2019	1,345,253
2020	1,361,495
2021	1,378,225
Thereafter	3,257,594
<b>Total Future Payments</b>	<b>\$ 9,986,225</b>

The operating lease amount does not include estimated payments for leases with annual renewal options.

## NOTE 9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between OGE and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2016	2015
Salaries and Expenses		
Intragovernmental Costs	\$ 8,944,352	\$ 7,267,968
Public Costs	10,535,335	9,786,264
Total Program Costs	19,479,687	17,054,232
Intragovernmental Earned Revenue	(38,909)	(39,652)
Public Earned Revenue	(676)	(46)
Net Program Costs	\$ 19,440,102	\$ 17,014,534

## NOTE 10. IMPUTED FINANCING SOURCES

OGE recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the periods ended September 30, 2016 and 2015, imputed financing was \$555,386 and \$474,392, respectively.



**NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President's Budget that will include fiscal year 2016 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2017 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2016 Budget of the United States Government, with the "Actual" column completed for 2015, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

**NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2016 and 2015 consisted of the following:

	2016	2015
Direct Obligations, Category A	\$ 15,986,751	\$ 15,308,223
Reimbursable Obligations, Category A	39,644	40,210
<b>Total Obligations Incurred</b>	<b>\$ 16,026,395</b>	<b>\$ 15,348,433</b>

Category A apportionments distribute budgetary resources by fiscal quarters.

**NOTE 13. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

For the periods ended September 30, 2016 and 2015, budgetary resources obligated for undelivered orders amounted to \$11,945 and \$1,750,931 respectively.

**NOTE 14. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**

OGE has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2016	2015
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 16,026,395	\$ 15,348,433
Spending Authority From Offsetting Collections and Recoveries	(189,168)	(373,408)
Net Obligations	15,837,227	14,975,025
Other Resources		
Imputed Financing From Costs Absorbed By Others	555,386	474,392
Net Other Resources Used to Finance Activities	555,386	474,392
Total Resources Used to Finance Activities	16,392,613	15,449,417
Resources Used to Finance Items Not Part of the Net Cost of Operations	1,738,986	571,316
Total Resources Used to Finance the Net Cost of Operations	18,131,599	16,020,733
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
	1,308,503	993,801
<b>Net Cost of Operations</b>	<b>\$ 19,440,102</b>	<b>\$ 17,014,534</b>



**BROWN & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

## INDEPENDENT AUDITOR'S REPORT

U.S. Office of Government Ethics  
Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying balance sheets of the U.S. Office of Government Ethics (OGE) as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OGE as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

### *Other Matters*

#### Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A) and *Required Supplementary Information* (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. *The Message From the Director* and the *Other Information* sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the OGE's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OGE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to OGE. The objective was not to provide an opinion on compliance with those provisions of laws, regulations, contracts and grant agreements, and according, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

## **Management's Responsibility for Internal Control and Compliance**

OGE's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

## **Auditor's Responsibilities**

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 15-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to OGE. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 15-02 that we deemed applicable to OGE's financial statements for the fiscal year ended September 30, 2016. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

## **Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters**

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of OGE's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OGE's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of OGE, OMB, and U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown & Company*

Largo, Maryland  
November 10, 2016