UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Fiscal Year 2009
Agency Financial Report

United States of America

The United States Office *of* Personnel Management

Fiscal Year 2009
Agency Financial Report

Message *from* Director

I am pleased to present the U.S. Office of Personnel Management (OPM) Fiscal Year (FY) 2009 Agency Financial Report (AFR). OPM has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report pursuant to OMB Circular A-136. This AFR is one in a series of reports used to convey our budget, performance, and financial information to our constituents. Under separate cover OPM will submit our Annual Performance Report (APR), concurrent with the submission of the President's FY 2011 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a more succinct and easily understood reporting of OPM's accountability over its resources and improves our reporting by making information more meaningful and transparent to the public.

New Strategic Plan

During the spring of 2009, OPM kicked-off its 2010 – 2015 strategic planning effort. A cross-agency team was established to identify the major issues facing OPM over the coming six year period and to develop goals and strategies to address those issues. To engage both external and internal stakeholders in the development of the plan, we solicited feedback on the plan via the Internet. In what is believed to be a first for the Federal government, OPM solicited comments from stakeholders and the public using an "un-moderated format" approach. This approach allowed users to view all of the comments posted in real-time. Over 230 comments were received and many were incorporated into the latest draft of the plan. We expect to finalize our new strategic plan during the first quarter of FY 2010.

Hiring Reform Initiative

As the Federal government seeks to hire the best and brightest to meet new needs and replace those who retire, one of our most vexing issues is a cumbersome hiring process that frustrates hiring managers and discourages many talented individuals from even applying for Federal jobs. To address this problem, OPM has developed a new hiring reform initiative that will create central registers of qualified applicants for many high-demand jobs across the Federal government, and modify personnel regulations to eliminate knowledge, skill, and ability statements and other impediments to speed hiring and aid in hiring the best applicants. In addition, OPM will re-vamp the USAJOBS website, and add user-friendly features such as applicant notification during the hiring process. A decision tool that applicants can use to match their talents and interests with Federal jobs will be phased in beginning December 2009 and fully functional by January 2010.

Message *from* Director

Continued

Retirement System Modernization

OPM administers the retirement program for the Federal Government and its employees. The program is massive in scale and complexity, supporting over 2.5 million annuitants and managing the Federal retirement and disability trust fund, with over $764 billion in assets. The need to pay employees their retirement benefits in an accurate and timely manner is as critical as ever to the mission of OPM.

The Retirement System Modernization (RSM) program has faced a number of challenges over the years. In May 2008, OPM issued a stop work order to the contractor responsible for developing and maintaining the calculation engine for RSM because of concerns about the accuracy of the resulting calculations. Last spring, the Government Accountability Office (GAO) issued a report criticizing the implementation process and highlighting general management issues. However, our need for retirement system modernization remains. During FY 2009, OPM has been re-assessing our needs and improving internal processes to comply with GAO recommendations. We have refocused the program on the key improvements needed to make the program successful. These improvements include:

- Improving legacy IT systems at the core of the retirement program;
- Automating manual paper-based processes that slow the delivery of services and payments;
- Improving the accuracy of data;
- Improving customer service and retirement processing delays.

Other factors, such as whether to procure claims processing systems from the private sector or to build these systems in-house are not yet determined, but should be resolved during FY 2010.

Providing Investigative Services

Conducting background investigations continues to be an integral part of the Federal staffing and security compliance process. During FY 2009, OPM completed over 2 million background investigations for the Federal Government. Exceeding Federal timelines, OPM completed 90 percent of background investigations in an average of 37 days. In addition, nearly one million law enforcement agency record checks previously conducted manually each year by field agents nationwide or through mailed inquiries have been converted to centralized automated records checks. This allows OPM to use its investigators and resources more effectively and at lower cost. These timeliness goals are being met without impacting the quality of the investigations themselves.

Message *from* Director

Continued

Financial Management

I am pleased to report OPM received an unqualified audit opinion on its FY 2009 consolidated financial statements by the independent public accounting (IPA) firm of KPMG LLP. As reported in the independent auditor's report, OPM had no material weakness in internal control over financial reporting for FY 2009 and received an unqualified audit opinion on the FY 2009 individual combined financial statements of the Retirement, Health Benefits and Life Insurance Programs.

Operations

OPM conducted a review of its system of internal control over operations in FY 2009, and identified one material weakness on the Agency's overall information security governance program. OPM made progress in updating and issuing information security policies and procedures in FY 2009, and in bringing a new Information Technology Security Officer (ITSO) on board in September. Continuing corrective actions to reduce the material weakness is a high priority in FY 2010 for OPM's new Acting Chief Information Officer. We have made continued corrective actions to reduce the material weakness a high priority for FY 2010. We have also worked aggressively to resolve significant management challenges as they arise. A summary of our actions taken to resolve current management challenges is included herein.

In accordance with the Reports Consolidation Act of 2000, I have assessed the financial and performance data presented in this report. Except for the specific data limitations discussed in the report, I can provide reasonable assurance these data are valid, reliable and complete. There are no internal control deficiencies regarding this data.

Conclusion

In my short time at OPM, I have been pleased to find passionate, dedicated and talented civil servants. They work every day in the service of their fellow Federal workers to meet the human resource challenges facing our government. I am certain OPM will continue energetically in the years ahead to fulfill our vital mission of ensuring the Federal Government continues to draw the best and the brightest to public service to continually improve our agencies' ability to serve the American people.

Sincerely,

John Berry
Director
November 16, 2009

Section 1 — Management's Discussion and Analysis

(Unaudited — See accompanying Independent Auditors' Report)

Agency Financial Report Overview

The United States (U.S.) Office of Personnel Management (OPM) is the central human resources agency for the Federal Government. OPM's mission is to ensure the Federal Government has an effective and efficient civilian workforce. To carry out this mission, OPM provides human resource advice and leadership to Federal agencies, supported with human resources policies, and holds agencies accountable for their human resource practices and adhering to the merit system principles.

OPM delivers human resources products and services to agencies on a reimbursable basis, including personnel investigations, leadership development and training, examining, staffing, recruiting, organizational assessments, and training and management assistance. OPM also delivers services directly to Federal employees, those seeking Federal employment, and Federal retirees and their beneficiaries.

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, D.C., 20415. OPM delivers a variety of products and services with the help of approximately 5,000 headquarter employees as well as employees located across 16 locations around the country, including operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and, Macon, Georgia. The OPM website is *www.opm.gov*.

About This Report

The Fiscal Year (FY) 2009 Agency Financial Report (AFR) is the first document in a series of reports prepared to convey OPM's budget, performance and financial information in a matter we believe is most useful to our stakeholders and constituents.

The AFR provides an overview of OPM's financial performance and results to help Congress, the President, and the public assess OPM's stewardship over the financial resources entrusted to us. In addition to the AFR, OPM will submit an Annual Performance Report (APR) and a Summary of Performance and Financial Information. The APR and Summary of Performance and Financial Information will be published on February 15, 2010.

The AFR meets a variety of reporting requirements stemming from numerous 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. OMB is a Cabinet-level office and is the largest office within the Executive Office of the President of the United States (EOP) providing policy and guidance to executive agencies on numerous budgetary matters. Moreover, this AFR provides an accurate and thorough accounting of OPM's operational accomplishments during FY 2009 in fulfilling its mission.

This report is available on OPM's website at *www.opm.gov/gpra/opmgpra*.

Suggestions for improving this document, as well as requests for hard copies can be sent to the following address:

Office of Personnel Management
Center for Financial Services
1900 E Street NW, Room 5489A
Washington, D.C. 20415

OPM's Mission and Strategic Objectives

Over the past few years, OPM's Strategic and Operational Plan 2006-2010[1] has been the starting point for performance accountability. The Strategic Plan begins with a concise mission statement and describes the seven strategic objectives (see Table 1). OPM fulfilled this mission. In this 2006-2010 Strategic and Operational Plan, the strategic objectives are supported by a series of operational goals, and in many cases, performance measures. During this time period, OPM reviewed its operational goals and performance measures as a part of the annual budget planning, which ensures both internal and external stakeholders understand the level of program performance expected for the resources received.

OPM's mission is simple and direct: to ensure the Federal Government has an effective civilian workforce. This mission has been accomplished by achieving seven strategic objectives. Objectives A and B focus on the outcomes OPM is achieving for the Federal workforce; Objectives C and D focus on what OPM needs to achieve through Federal agencies; and the last three objectives E, F, and G describe OPM's aspirations for its performance internally, and its reputation among its partners and stakeholders.

The driving force of OPM's Strategic and Operational Plan have been the operational goals, which extend from the strategic objectives. Our operational goals have been the performance drivers — the specific actions OPM undertakes and the deliverables produced to improve program performance, achieve program outcomes, and enable us to meet our strategic objectives and fulfill the mission. The operational goals are straightforward, readily identifiable, and action-oriented. Each operational goal was assigned a date by which it must be accomplished and assigned an executive "owner" from within OPM. Operational goals were included in the performance appraisal

1. An Addendum to the Strategic Plan and Operational Plan 2006–2010, was published for the 2008–2010 period, and is available on the OPM Website at *www.opm.gov/strategicplan*.

Table 1 — OPM Mission and Strategic Objectives

OPM's Mission *Our mission is to ensure the Federal Government has an effective civilian workforce.*	
Strategic Objective A	The Federal civilian workforce will be focused on achieving agency goals
Strategic Objective B	The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers
Strategic Objective C	Federal agencies will be employers of choice
Strategic Objective D	Federal agencies will be recognized as leaders in having exemplary human resources practices
Strategic Objective E	OPM will be a model of performance for other Federal agencies
Strategic Objective F	OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government
Strategic Objective G	OPM will have constructive and productive relationships with external stakeholders

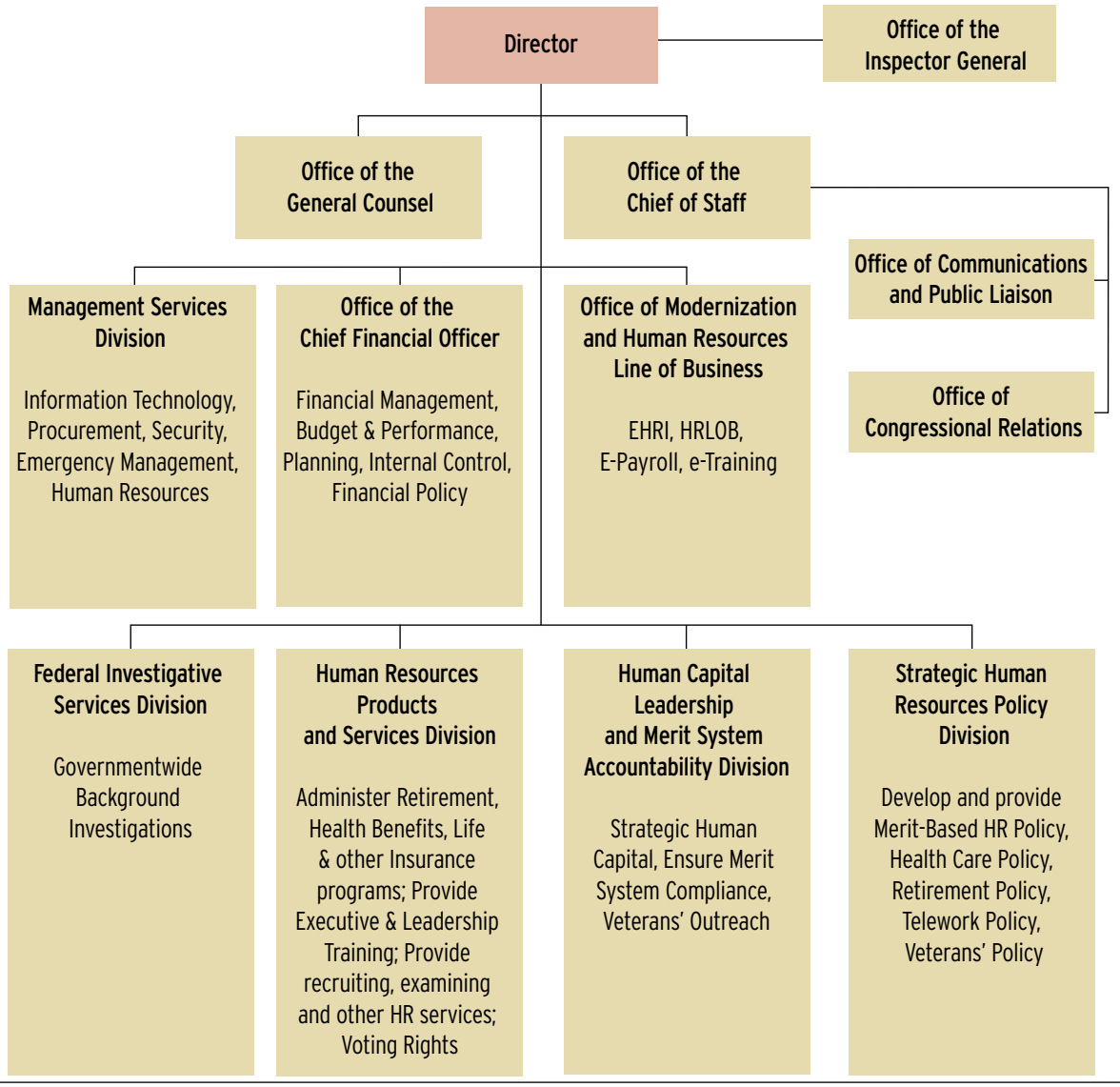
of the Senior Executive who had ownership. Under the FY 2008 Senior Executive Service (SES) performance-based pay system, executive compensation was directly linked to successful execution of operational goals. When OPM successfully completed its operational goals, program performance improved and the evidence of this improvement was reflected in the measures used to assess and monitor the program performance.

In late July 2009, OPM launched its new Draft 2010-2015 Strategic Plan. The goal is to have an approved plan in place by November 1, 2009. This will enable OPM to develop implementation plans for the various components during the first quarter of fiscal year 2010. OPM's Strategic Plan includes reforming the hiring process and improving agencies' outreach of veterans.

Organizational Structure

OPM's organizational structure reflects the primary business lines through which OPM carries out its programs and implements its strategic

Figure 1 — OPM Organizational Structure



objectives: developing Federal human resources management policy; supporting agencies in the implementation of that policy through best practices in human capital management, while adhering to the Merit System Principles; and, supporting these with human resources products and services. This structure positions OPM to respond to and meet the responsibilities the Agency has been given. As shown in Figure 1, Organizational Chart, OPM comprises the following organizational components.

Specific Officials on the Director's Core Management Team

- The *Office of the Chief of Staff* is responsible for advising the Director on issues affecting OPM and the Federal workforce, and for coordinating implementation of the Director's decisions throughout OPM.

Executive Offices

- The *Office of Communications and Public Liaison* advances and defends the heritage and principles of America's civil service. The office promotes the policies and directives of the President and of the OPM Director and ensures they are fully supported as they relate to the Strategic Management of Human Capital Initiative. The office provides the American citizenry, Federal employees, OPM customers, and pertinent stakeholders with accurate information to aid in their planning and decision making.
- The *Office of Congressional Relations* oversees and coordinates all of OPM's congressional relations, provides strategic advice and legislative analysis to OPM's Director and program offices, and responds to congressional initiatives that affect Federal human resources management issues.
- The *Office of the General Counsel* (OGC) provides legal advice and representation to OPM managers and leaders so they can ensure the Federal Government has an effective civilian workforce. OGC does this by rendering opinions; reviewing proposed policies and other work products, and commenting on their legal sufficiency; serving as OPM's representatives in administrative litigation; and, supporting the Department of Justice in its representation of the Government on matters concerning the civilian workforce.
- The *Office of Modernization and Human Resources Line of Business* oversees the development, implementation and standardization of new and existing programs within OPM. The Office is responsible for the development and integration of modern, large-scale, cross-agency, interoperable human resources solutions and initiatives so that Federal agencies can better serve the American taxpayer.
- The *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 Federal Employees Health Benefits Program (FEHBP) or other Federal programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of OPM programs and operations, and the necessity for corrective action.

Program Divisions

- The *Federal Investigative Services Division* (FISD) houses the Investigations Program through which it provides Federal agencies personnel background investigative and employment suitability services on a reimbursable basis to ensure Federal employees meet critical personnel security standards. FISD strives to provide these services within the timeframes mandated by the National Intelligence Directive.

- The *Human Capital Leadership and Merit System Accountability Division* (HCLMSA) supports the Human Capital Program by leading the transformation of human capital management across Government by proactively engaging agencies in the implementation of the Human Capital Standards for Success and providing them with technical advice and assistance. HCLMSA also supports the Merit System Compliance Program by assessing and reporting agencies' adherence to the Merit System Principles, veterans' preference, and other Governmentwide standards.
- The *Human Resources Products and Services Division* (HRPS) provides high-quality, cost-effective products and services that help OPM customers recruit and retain the best talent through the Talent Services Program; maintains independent administration of the voting Rights Program, as required by the Voting Rights Act; develops and maintains results-oriented leadership through the Leadership Capacity Services Program; and, delivers benefits services to Federal employees, annuitants, and their families through the employee benefit programs.
- The *Office of the Chief Financial Officer* (OCFO) is responsible for providing OPM offices with the full range of financial management, strategic planning, and budget services. The office also performs OPM's oversight of internal controls and risk assessments.
- The *Management Services Division* (MSD) provides OPM offices with the full range of administrative services, including human capital and equal employment opportunity management, contracting and administrative management, facilities management, property management, information technology, and security and emergency services. These services enable OPM to build mission capacity and maintain a high-quality and diverse workforce.
- The *Strategic Human Resources Policy Division* (SHRP) designs, develops, and leads the implementation of innovative, flexible, merit-based human resources policies and strategies that enable Federal agencies to meet their missions and achieve their goals. Most of SHRP's activities support the Human Capital Program, but the division also provides policy leadership to the employee benefit programs (retirement, health benefits, and life and other insurance).

Program Performance Summary

OPM's Strategic Management Process

During FY 2008, OPM's strategic management process was documented in our *Strategic and Operational Plan 2006–2010* and subsequent Addendums. In July 2009, OPM launched its Draft Strategic Plan, which it plans to implement during FY 2010. The execution of this plan will include developing implementation plans for the various components identified within the plan. Additionally, OPM's Strategic Plan includes reforming the hiring process and improving agencies' employment of veterans.

The seven strategic objectives described in OPM's *Strategic and Operational Plan 2006–2010* establish the overarching framework for how OPM fulfills its mission. Within this strategic management framework shown in Figure 2, OPM assessed nine overarching programs through which it achieves these objectives. These programs are: Human Capital, Merit System Compliance, Federal Civilian Retirement, Federal Employees Health Benefits, Federal Employees' Group Life Insurance, Federal Investigative Services, Talent Services, Leadership Capacity Services, and OIG FEHB Integrity. OPM has articulated the major program activities, and resulting outcomes for each of these programs and developed performance measures to assess their efficiency and effectiveness. OPM has articulated the major program activities, and resulting outcomes for each of these programs and developed performance measures to assess their efficiency and effectiveness. OPM has aligned these program outcomes with its strategic objectives described in OPM's Strategic and Operational Plan, and uses the resulting strategic management process to develop operational goals to drive program improvements. Thus OPM has strategically aligned all the elements of its management process, from the most granular element — operational goals — to OPM's mission, as shown in Figure 2.

Figure 2 — Strategic Management Framework

Table 2 shows how OPM's specific programs and program activities are aligned with its strategic objectives.

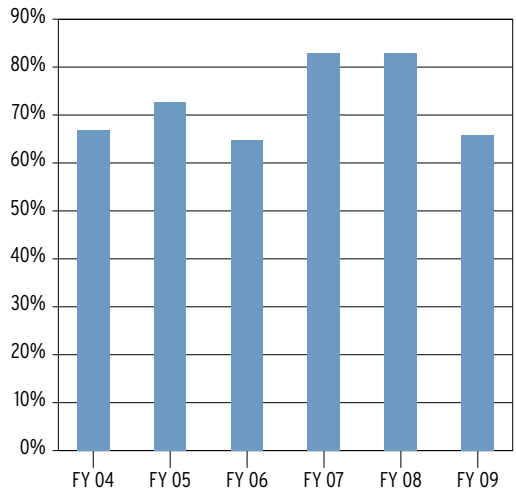
Table 2 — Relationship Between Strategic Objectives, Programs, and Program Activities

Strategic Objective	Program	Program Activity
Strategic Objective A: The Federal civilian workforce will be focused on achieving agency goals.	Human Capital	Performance Culture
Strategic Objective B: The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers.	Human Capital	Leadership Capacity
	Benefits	Retirement; Health Benefits; Life Insurance; Other Insurance
	Leadership Capacity Services	Federal Executive Institute; Management Development Centers; Presidential Management Fellows
	GoLearn	GoLearn
Strategic Objective C: Federal agencies will be employers of choice.	Human Capital	Talent
	Talent Services	Examining, Automated Hiring (USAStaffing®) and Assessment; Nationwide Testing; HR Information Technology; Training & Strategic HR Consulting Services
	USAJOBS	USAJOBS
Strategic Objective D: Federal agencies will be recognized as leaders in having exemplary human resources practices.	Human Capital	Strategic Alignment; HR LOB
	Merit System Compliance	Agency Audits; Delegated Examining Unit Audits; Classification Appeals
	Federal Investigative Services	Background Investigations
Strategic Objective E: OPM will be a model of performance for other Federal agencies.	Chief Financial Officer	Financial Management; Budget & Performance; Internal Control & Risk Management
	Management Services	Human Capital; Information Technology; Facilities, Administration, & Contracting; Security
	Executive Services	Congressional Relations; Communications & Public Liaison; General Counsel; Emergency Actions
	Inspector General	Investigations; Audits
Strategic Objective F: OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.	Executive Services	Congressional Relations; Communications & Public Liaison; General Counsel; Equal Employment Opportunity
Strategic Objective G: OPM will have constructive and productive relationships with external stakeholders.	Executive Services	Congressional Relations; Communications & Public Liaison; General Counsel

FY 2009 Performance Highlights

As shown in the Figure 3 summary bar chart below, OPM met 67 percent of its performance targets in FY 2009, a decrease from the 81 percent[1] met in FY 2008. This can be attributed, in part, to measures for which OPM does not yet have final results and are currently undetermined. Data will become available for all undetermined measures in December 2009 and a revised summary of FY 2009 results will be published in OPM's Annual Performance Report on February 15, 2010.

Figure 3 —OPM Performance Summary for FY 2004 through FY 2009



Notes: 1. The overall percentage of FY 2008 measures "Met" has been revised since the publication of OPM's FY 2008 Agency Financial Report on November 17, 2008.

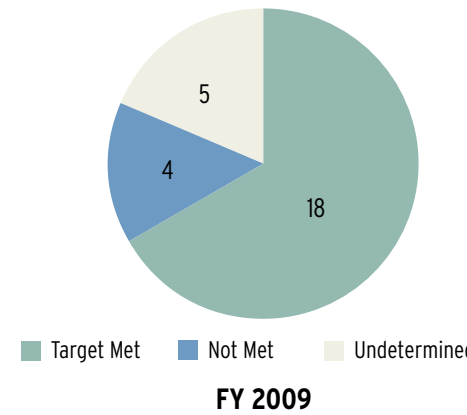
Focusing on the current FY 2009 results, Figure 4 shows that OPM met 67 percent of its targets, did not meet 15 percent, and the remaining 18 percent are currently undetermined. In December 2009, the Human Capital Leadership and Merit System Accountability Division will have final data for the following undetermined measures:

- Number of 26 agencies that meet their annual targets for closing mission-critical occupation/competency gaps
- Percentage of hires in each agency hired within the 45-day time frame, as described in OPM's hiring time frame model
- Percent of agencies that meet all 4 requirements of an effective strategic alignment system
- Percent of 26 large agency leadership development program graduates placed into positions of higher responsibility

Several of the measures above are tabulated based upon the results of Chief Human Capital Officer management studies, the results of which will not be available until December 2009.

Figure 4—FY 2009 Performance Results

Percentage of Reported Targets Met/Not Met/Undetermined



A breakdown of OPM's performance results by strategic objective can be found in Table 3.

Table 3 — FY 2009 Performance Summary by Strategic Objective

Strategic Objective	Performance Targets				Budgetary Resources/ FTEs*
	# Reported	# Met	# Not Met	# Not Determined	
Strategic Objective A: The Federal civilian workforce will be focused on achieving agency goals.	2	2	—	—	$8.2 Million 66.8 FTE
Strategic Objective B: The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers.	12	7	3	2	$212.0 Million 967.6 FTE
Strategic Objective C: Federal agencies will be employers of choice.	6	4	1	1	$404.4 Million 655.3 FTE
Strategic Objective D: Federal agencies will be recognized as leaders in having exemplary human resources practices.	5	4	—	1	$1,009.8 Million 2,565.0 FTE
Strategic Objective E: OPM will be a model of performance for other Federal agencies.	2	1	—	1	$116.5 Million 496.8 FTE
Strategic Objective F: OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.	0	N/A	N/A	N/A	$6.0 Million 34.5 FTE
Strategic Objective G: OPM will have constructive and productive relationships with external stakeholders.	0	N/A	N/A	N/A	$2.9 Million 22.8 FTE
FY 2009 Totals	27	18	4	5	

Note: Budgetary resources expressed as $ millions and include all funding sources (e.g., General Funds, Trust Funds, and Revolving Funds)
FTE = full-time equivalent.

The results for all 27 performance measures will be discussed in detail in OPM's *FY 2009 Annual Performance Report* scheduled for publication on February 15, 2010.

Performance Highlights by Strategic Objective

Strategic Objective A: The Federal civilian workforce will be focused on achieving agency goals

The Federal Government can be fully effective only if employees at all levels, including agency senior executives, are focused on and accountable for achieving results. In an effort to have agencies improve their executive performance management system, OPM is utilizing the Performance Appraisal Assessment Tool (PAAT). The PAAT evaluates various aspects of an agency's appraisal system and considers employee feedback gained from OPM's bi-annual Human Capital Survey. PAAT results provide insight as to how far along a Department or agency has progressed in developing a results-oriented performance culture.

Strategic Objective B: The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers

Employee benefits and services, including retirement, health and other insurance programs, are important competitive factors employees consider when comparing Federal employment with opportunities in other sectors. Training and other career development opportunities also are essential for maintaining a high performing Federal workforce. OPM has achieved this objective through the efficient and effective administration of its employee benefit and leadership development programs.

In FY 2009, the Federal Employees Health Benefits Program, included 269 plan choices including Fee-for-Service, Health Maintenance Organizations, Point of Service plans, Consumer Driven plans and High Deductible Health plans. Each year OPM has an open season in which qualified individuals are allowed to make changes to their current enrollment or select a different insurance plan.

In addition, OPM offers an optional dental and vision insurance program, known as Federal Employees Dental and Vision Insurance Program (FEDVIP). Currently, there are approximately 1.4 million individuals covered by the dental, vision or both plans. Today, there are seven dental programs and three vision programs. Employees are eligible to receive medical, dental and vision benefits on a pre-tax basis.

Moreover, OPM is critically aware of the importance of timely claims processing. Timely claims processing allows participants to swiftly determine the dollar amount insurance benefits cover and the portion they will be responsible for paying. In FY 2009, health benefits claims processing timeliness exceeded its target by processing 98.4 percent of claims within 30 days.

Strategic Objective C: Federal agencies will be employers of choice

For Federal agencies to successfully compete with other major employers for top talent, they must design and implement effective recruitment and retention strategies. To acquire and retain a 21st century workforce with the specific skills, knowledge, and abilities essential to achieving agency goals and missions, Federal agencies must make use of available recruiting, hiring and retention methods, tools, authorities and flexibilities. This includes using technology to simplify job seekers' experience of applying for Federal employment, streamlining hiring processes to bring on-board sought-after, valuable individuals quickly, and offering attractive workplaces which meet employees' diverse expectations and needs. Through a wide variety of initiatives in these areas, OPM made progress helping Federal agencies become "employers of choice".

The Center for Talent Services (CTS) program provides Federal agencies with relevant, cost-effective, reimbursable human-capital products and services, based upon merit system principles, needed to build a high-quality workforce and become high-performance organizations. The satisfaction of CTS's customers can be attributed to the alignment of service offerings with those of the *Human Resources Line of Business Reference Model*.

Strategic Objective D: Federal agencies will be recognized as leaders in having exemplary human resources practices

To create a performance culture where all employees are focused on achieving goals, providing competitive benefits and career development opportunities, and to effectively make the Federal Government a 21st century employer of choice, OPM supports exemplary human resources practices in Federal agencies. Chief among these are OPM's efforts to promote the strategic management of human capital; i.e., the alignment of Federal agencies human capital plans with the nine merit principles and provide Federal agencies with background information to determine the suitability of job candidates, new employees and contractors.

The purpose of the merit system compliance program is to ensure that executive agencies exercise their delegated personnel management authorities effectively and in accordance with merit system principles, Civil Service laws and regulations, and OPM standards. The compliance program ensures that agencies comply with laws, regulations, and merit system principles by identifying violations and other problems and requiring or recommending corrections. The 25 agencies represented on the President's Management Council have implemented systems of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards.

Strategic Objective E: OPM will be a model of performance for other Federal agencies

In order to successfully fulfill its mission and role as the leader of Federal human resources policy and practices, OPM recognizes, it must lead by example. The OPM's Management Services Division, Office of the Chief Financial Officer, and Executive Offices provide critical managerial and administrative control of OPM's internal operations to enable the programs to perform efficiently.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its AFR, as well as APR, accurately reflects its FY 2009 performance and is based on reasonably complete, accurate and reliable data.

OPM program offices document data collection, reporting, and verification procedures for program performance measures, establishing a control environment based on data quality standards established by OPM's Chief Financial Officer. Performance information pertinent to OPM's operational goals is validated with data evidence by the Office of the Chief Financial Officer to record the goal achieved and completed.

Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2009 APR and the Summary of Performance and Financial Information scheduled for publication on February 15, 2010.

Analysis of OPM's Financial Statements

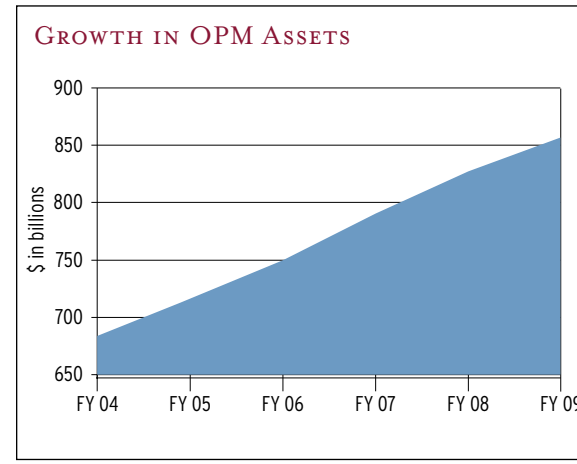
In accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, OPM prepares consolidated financial statements for OPM, which include OPM operations, as well as the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. These statements are audited by an independent certified public accountant, KPMG LLP. For the tenth consecutive year, OPM has received an unqualified audit report on its consolidated financial statements and on the individual combined financial statements of the Retirement, Health Benefits, and Life Insurance Programs. These consolidated and individual financial statements are the:

- 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*).

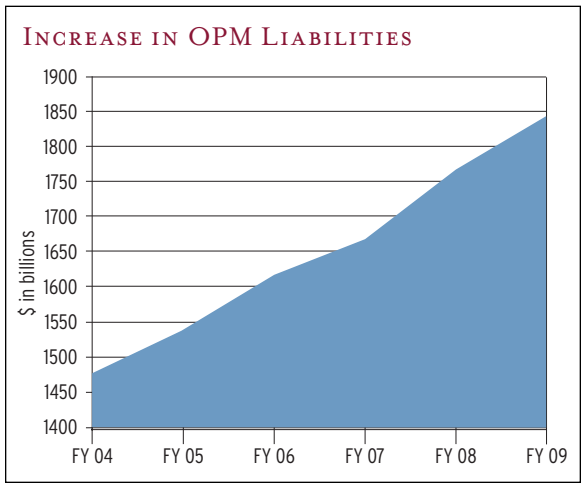
Assets



At the end of FY 2009, OPM held $856.6 billion in assets, an increase of 3.7 percent from $826.4 billion at the end of FY 2008. 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 $850.7 billion, which represents 99.3 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio (and consequently, its total assets) continues to grow. In FY 2009, the investment portfolio grew by 3.6 percent, with the largest increase for investments occurring in the Retirement Program. In FY 2009, the Total Earned Revenue was less than the applicable cost applied to the Pension Liability by $6.4 billion. This net effect allowed the Retirement Program the ability to reinvest interest earnings and apply the excess funds the U.S. Treasury Transferred-In to subsidize the under funding of the Civil Service Retirement System (CSRS) totaling more than $31.4 billion for FY 2009, which resulted in an increase in the investment portfolio of more than $29.7 billion for FY 2009 over FY 2008.

Liabilities



At the end of FY 2009, OPM's total liabilities were $1,845.3 billion, an increase of 4.4 percent from $1,767.1 billion at the end of FY 2008. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.3 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. The Retirement Program's economic assumptions for the Rate of Inflation and the Rate of Increase in Salary were unchanged compared to FY 2008. The Health Benefits economic assumptions remain the same except that the medical trend assumption changed from a constant 7% to a variable trend decreasing from 8% to 5.5% ultimately. In FY 2009, the Retirement and Health Benefits Program assumptions reflect an increase in actuarial liabilities of $76.0 billion from FY 2008. To compute these liabilities, the actuaries make many assumptions about the future economy and about the demographics of the future Federal employee and annuitant (retirees and their survivors) populations.

The *Pension Liability,* which represents an estimate of the future cost to provide CSRS and Federal Employees Retirement System (FERS) benefits to current employees and annuitants, is $1,454.7 billion at the end of FY 2009, an increase of over $67.5 billion, or 4.87 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 $339.9 billion at the end of FY 2009. This reflects an increase of approximately $8.5 billion from the amount at the end of FY 2008, or 2.5 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

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 always will, actuarial gains and/or losses will occur. For example, should the COLA be less than the actuary assumed, there will be an actuarial gain.

die in service. The Actuarial Life Insurance Liability increased by approximately $2.2 billion in FY 2009 to $39.0 billion, or 6.0 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Net Position

The funds related to the operation of the Retirement Program, the Health Benefits Program, and Life Insurance Program are "earmarked funds," as defined by the Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 27—*Identified and Reporting Earmarked Funds.* Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. 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 2009 by $988.7 billion, primarily due to the large actuarial liabilities. It is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 4–Net Assets Available for Benefits–shows that OPM's net assets available to pay benefits have increased by over $30.2 billion in FY 2009 to $856.6 billion.

Table 4 — Net Assets Available for Benefits

($ in Billions)	FY 2009	FY 2008	Change
Total Assets	$856.6	$826.4	$30.2
Less "Non-Actuarial" Liabilities	11.8	11.8	0.0
Net Assets Available to Pay Benefits	$844.8	$814.6	$30.2

Statement of Net Cost

The Statement of Net Cost is similar to a private-sector income statement. However, unlike an income statement, which reports revenues less expenses incurred to arrive at net income, the Statement of Net Cost reverses this. It reports expenses first and then subtracts the revenues that financed those expenses.

OPM's Statement of Net Cost 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 Human Resources 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 2009 Net Cost of Operations was $88.6 billion, as compared with $102.4 billion in FY 2008. The primary reason for the decrease is due to changes in the actuarial estimates, as further discussed below.

Net Cost to Provide CSRS Benefits

As presented in Table 5, OPM incurred a Pension Expense for the CSRS Benefits of $97.9 billion compared with $88.7 billion, an increase of $9.2 billion from FY 2008. The primary reason for the increase in CSRS pension expense from FY 2008 to FY 2009 is that there was a total actuarial loss of $15.8 billion in FY 2008, and a total actuarial loss of $23.7 billion in 2009. The losses combined effect results in an increase in pension expense from FY 2008 to FY 2009 by $9.2 billion. Both the loss in 2008 and the loss in 2009 are

primarily due to changes in assumptions and/or methodology for 2008 and higher Cost of Living Allowance (COLA) in 2009. In 2008, the Board of Actuaries decided to incorporate an assumption for future expected mortality improvement, mainly because private-sector plans had also been required to do this starting in 2007. This change in the mortality assumptions means employees and annuitants are expected to live longer. In FY 2008, the actual, general pay increase was 3.5 percent, and the actual COLA was 2.8 percent. In FY 2009, the actual, general pay increase was 3.9 percent, and the COLA was 5.8 percent.

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 (contributions by and for CSRS participants, and earnings on CSRS investments). The Pension Expense for the CSRS is the amount of future benefits earned by participants during the current fiscal year.

Contributions by and for CSRS participants decreased in FY 2009 by $0.2 billion from FY 2008 and OPM's earnings on CSRS investments declined by approximately $1.1 billion from FY 2008.

Table 5 — Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2009	FY 2008	Change
Gross Cost	$97.9	$88.7	$9.2
Associated Revenues	25.0	26.3	(1.3)
Net Cost	$72.9	$62.4	$10.5

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. OPM paid CSRS benefits of $62.9 billion, as compared to the $59.4 billion in FY 2008. The increase in benefits paid is due to the effect of the cost-of-living allowance paid to an increasing number of CSRS annuitants.

Net Cost to Provide FERS Benefits

As shown in Table 6, the Net Cost to Provide FERS Benefits in FY 2009 decreased by $7.6 billion from FY 2008. 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 (contributions by and for participants, and earnings on FERS investments). Under the actuarial assumptions, the real interest rate — that is the difference between the interest rate and the rate of inflation — increase caused the Gross Cost to decrease.

The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2009, OPM incurred a Pension Expense for FERS of $37.3 billion, as compared with $42.1 billion in FY 2008. The primary reason for the decrease in FERS pension expense from FY 2008 to FY 2009 was a total actuarial loss of $7.132 billion in FY 2008, which was followed by a total actuarial gain of $1.914 billion in 2009 for a combined total actuarial loss of $9.046 billion, contributing to the decrease in pension expense from FY 2008 to FY 2009 of $4.843 billion. In addition, the loss in FY 2008 was due primarily to changes in assumptions and/or methodology for 2008 and the gain in FY 2009 was mainly based on experience gains in 2009. In 2008, the Board of Actuaries decided to incorporate an assumption for future expected mortality improvement, mainly because private sector plans also had been required to do this starting in 2007. This change in the mortality assumptions means that employees and annuitants are expected to live longer. In FY 2008 and FY 2009, there were experienced gains because the actual pay raise and COLA

were different than what had been assumed. We assumed annual, general pay increases of 4.25 percent and FERS COLAs of 2.8 percent. In FY 2008, the actual, general pay increase was 3.5 percent, and the actual FERS COLA was 2.0 percent. In FY 2009, the actual general pay increase was 3.9 percent, and the FERS COLA was 4.8 percent.

Contributions by and for FERS participants increased by $1.9 billion, or 10.6 percent from FY 2008, also due to the increasing number of FERS participants.

Table 6 — Net Cost to Provide FERS Benefits

($ in Billions)	FY 2009	FY 2008	Change
Gross Cost	$37.3	$42.1	$(4.8)
Associated Revenues	36.3	33.5	2.8
Net Cost	$1.0	$8.6	(7.6)

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 2009, OPM paid FERS benefits of $4.6 billion, compared with $4.0 billion in FY 2008. The increase is due to the annual COLA and the increasing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2009 decreased by $17.1 billion from that in FY 2008 (Table 7). 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 7 — Net Cost to Provide Health Benefits

($ in Billions)	FY 2009	FY 2008	Change
Gross Cost	$45.6	$65.2	$(19.6)
Associated Revenues	31.2	33.7	(2.5)
Net Cost	$14.4	$31.5	$(17.1)

The Postal Service Retiree Health Benefits (PSRHB) Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, P.L. 111-68, Division B — Continuing Appropriations Resolution 2010 which contained significant changes to the funding requirements and scheduled payments of P.L. 109-435, retroactive to December 20, 2006, when the Postal Act became law. Section 164 of P.L. 111-68 amends P.L. 109-435 such that the USPS scheduled payment for FY 2009 is $1.4 billion rather than $5.4 billion.

The Post-Retirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2009, OPM incurred a PRHB expense of $21.2 billion, as compared with $41.7 billion in FY 2008, due primarily to the recognition of a large actuarial gain in FY 2009, and a large actuarial loss in FY 2008. There was an actuarial gain of $10.4 billion. This was a result of population change, medical experience, and a change in the assumed choice of health coverage in retirement and their associated costs. There was a small increase (actuarial loss) in the post-retirement medical liability estimated, as of September 2009, due to a modification in the method of computing the normal cost (this produced a slightly lower normal cost, thereby increasing the accrued liability), and a change in the medical trend assumption (the trend is assumed to be variable, decreasing from 8% to 5.5% ultimately — this replaces an assumption of a constant 7%).

Current Benefits and Premiums increased $0.3 billion from FY 2008, due mainly to the increase in health insurance premium rates indicative of the economy as a whole.

The contributions (for and by participants) decreased by $2.5 billion from FY 2008 to 2009 due to decreased health benefit participation. OPM's earnings on health benefits investments increased over $0.02 billion from FY 2008, as a larger health benefits investment portfolio offset the effect of lower returns.

Due to accounting standards, a portion of the costs to provide health benefits is netted against the PRBH Liability and not fully disclosed on the statement of Net Cost. The actual costs to provide health benefits are presented in Table 8.

Table 8 — Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2009	Total FY 2009
Claims	$19.4	$9.4	$28.8	$27.6
Premiums	4.0	2.5	6.5	6.5
Administrative and other	1.0	0.8	1.8	1.7

Net Cost to Provide Life Insurance Benefits

As seen in Table 9, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits increased from $(53.0) million in FY 2008 to $330 million in FY 2009. Gross cost increased $540 million due to the actuarial loss between 2008 and 2009. Associated revenues increased $157.0 million due to an increase in basic enrollment, partially offset by an annual pay increase, and a decrease on earnings on the investment portfolio.

Table 9 — Net Cost to Provide Life Insurance Benefits

($ in Millions)	FY 2009	FY 2008	Change
Gross Cost	$4,668	$4,128	$540
Associated Revenues	4,338	4,181	157
Net Cost (Excess of Revenue)	$330	($53)	$383

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 presents the sources of OPM's budgetary resources, their status at the end of the year, and the relationship between its budgetary resources and the outlays it made against them.

As presented in the Statement of Budgetary Resources, a total of $199.6 billion in budgetary resources was available to OPM for FY 2009. OPM's budgetary resources in FY 2009 include $47.2 billion (23.7 percent) carried over from FY 2008, plus three major additional sources:

- Appropriations Received = $40.6 billion (20.4 percent)
- Trust Fund receipts of $95.8 billion, less $27.9 billion* not available = $67.9 billion (34.1 percent)
- Spending authority from offsetting collections (SAOC) = $43.5 billion (21.8 percent).

* Total budgetary resources do not include $25.0 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with Public Law 109-435, contributions for the Postal Service Retirement Health Benefits (PSRHB) Fund of the Health Benefits Program are precluded from obligations totaling $2.8 billion and therefore temporarily not available.

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 2009	FY 2008
Trust Fund Receipts	34.1%	33.4%
Balance Brought Forward from Prior Year	23.7%	24.1%
SAOC	21.8%	21.6%
Appropriations	20.4%	20.8%

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

Obligations Incurred by Category

	FY 2009	FY 2008
Retirement Benefits	66.2%	65.9%
Health Benefits	30.7%	31.1%
Life Insurance Benefits	1.7%	1.7%
Other	1.4%	1.3%

From the $199.6 billion in budgetary resources OPM had available during FY 2009, it incurred obligations of $150.3 billion less the $31.4 billion transferred from the Treasury's General Fund (see Note 1.G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs.

The $2.8 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligations.

Most of the excess of budgetary resources OPM had available in FY 2009 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 of 1982
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Federal Managers' Financial Integrity Act (FMFIA)
- Prompt Payment Act (PPA), revised 1988
- Debt Collection Improvement Act (DCIA) of 1996
- Inspector General Act, as amended
- Civil Monetary Penalty Act
- Financial Management Systems
- Federal Information Security Management Act (FISMA) of 2002

Management Assurances

FMFIA and FFMIA Assurance Statement

OPM is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, OPM can provide reasonable assurance, with the exception of the one operational material weakness described in this report regarding OPM's information technology security governance program, that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems, as of September 30, 2009, was operating effectively. Some progress was made addressing this material weakness in FY 2009 and it will be a continuing priority for OPM in FY 2010.

In addition, OPM 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, OPM can provide reasonable assurance that its internal control over financial reporting as of June 30, 2009, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act* (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and use the *United States Standard General Ledger* (USSGL) at the transaction level. Based on my review of the auditor's report and other relevant information, I have determined that for FY 2009, OPM can provide reasonable assurance that s financial systems substantially comply with FFMIA requirements.

To this end, we have therefore made every effort to ensure our internal control systems meet the requirements of FMFIA and FFMIA.

John Berry

Director

Date Nov 5, 2009

Compliance with the Federal Financial Management Improvement Act

Financial Management Systems

The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2009, OPM substantially complies with FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level. OPM also determined there were other matters where the Revolving Fund (RF) Programs and the Salaries and Expenses (S&E) fund system were not consistent, specifically, the application of the USSGL at the transactional level.

As part of the financial statement audit process, auditors must report on whether the agency substantially complies with the three FFMIA requirements. In accordance with the Act, the audit of OPM's FY 2008 financial statements, performed by KPMG, noted that deficiencies in the operation of the Office of Chief Financial Officer's (OCFO) internal control over financial management and reporting, affecting the accuracy of the RF and S&E accounts, continued to exist at OPM and therefore does not substantially comply with the requirements of the FFMIA because of deficiencies in its adherence to Federal accounting standards and its application of the USSGL.

A majority of these deficiencies are attributable to OPM's current accounting system, which cannot be effectively configured to capture essential financial information and generate useful and accurate financial information related to intragovernmental activities and balances.

In accordance with the FFMIA, OPM has established a corrective action plan, in consultation with OMB, to resolve the deficiencies that have resulted in the other matter with regard to the RF Programs and S&E Fund.

FFMIA Remediation Activities

OPM's FY 2009 assessment of the Government Financial Information System (GFIS) disclosed that it does not comply with all pertinent requirements mandated by FFMIA. Specifically, the system does not support the requirement that transactions be posted in accordance with the USSGL. OPM has devoted a great deal of time and resources to resolving this deficiency. Center for Financial Services (CFS) staff analyzed abnormal and illogical account balances and related financial transactions to identify problems and take corrective actions. As a result, the OCFO continued to strengthen internal controls over transaction processing and entry into the core financial system, including automated interfaces with pertinent "feeder"/program systems. Work instructions for reconciling the GFIS cash balance to the Fund Balance with Treasury for the RF Programs and S&E Fund were completed and implemented in FY 2007. They were revised in FY 2008 and FY 2009 to include strict deadlines for the completion of monthly reconciliations. These work instructions have been instrumental and are being used to reconcile cash balances during FY 2009 and this effort continues to be supported under the Consolidated Business Information System (CBIS) through data analysis and cleansing activities. Additionally, the RF Programs and S&E Fund staff has taken action to resolve the differences identified, making correcting entries where necessary. OPM continued to strengthen its budgetary accounting controls in an effort to comply substantially with FFMIA requirements.

Significant effort is required to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls.

OPM began its deployment of CBIS Phase 1 on October 1, 2009. CBIS is OPM's new core financial business system that will provide financial, budgetary, reporting, and procurement functions.

The Center for Financial Systems Management (CFSM) is leading and managing the CBIS implementation activities and has the services of a commercial vendor with demonstrated experience in implementing and maintaining Financial Systems Integration Office certified commercial off-the-shelf (COTS) financial systems to assist the agency in addressing FFMIA non-compliance issues. A contractor is providing software, integration, hosting and operational support services under a 10-year Blanket Purchasing Agreement. CBIS will integrate and standardize administrative funds, trust funds, and procurement business processes to address regulatory and compliance deficiencies and will be implemented in two phases. Phase one will address OPM's S&E and RF accounts and Phase two will address OPM's Trust Fund accounts.

In preparation of financial statements, and related disclosures along with other financial information OPM is consistent with Federal Accounting Standards. In accordance with the CFO Act of 1990, OCFO implemented policies and procedures to prepare financial statements and related disclosures, budget reports, and other financial information for agency management decision-making consistent with Federal accounting standards. A financial manual was developed and maintained to provide OPM offices with comprehensive policies and procedures for financial activities. The OPM has begun to update these procedures during the implementation of the new accounting system.

Enhance Financial Management Systems

Notwithstanding efforts to upgrade GFIS' capabilities and controls, OPM management determined that the financial system was based on outdated architecture and technology and should be replaced. During FY 2005, OPM launched a financial management modernization initiative to implement a new core financial system for the OPM's Administrative Funds accounts. To oversee and direct the initiative, OPM established the CBIS Project Management Office (PMO). OPM expects CBIS to assist the agency in its efforts to improve business processes, facilitate data clean up, review access controls, and conduct business process analyses to ensure that the new CBIS solution is smooth and effective.

Compliance with the Federal Managers' Financial Integrity Act

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

OPM evaluated its systems of internal control, to ensure compliance with OMB Circular A-123, Management's Responsibility for Internal Control. OPM conducted an assessment of its internal control over Agency operations and compliance with applicable laws and regulations. As part of the assessment, the CFO required office heads to submit an assurance statement detailing if their internal control systems met the requirements of the FMFIA, as well as supporting documentation of control objectives and activities to mitigate those risks in individual units under the purview of those office heads. The Policy and Internal Control Group (PICG), under the authority of the CFO, also reviewed applicable GAO and OPM OIG reports to determine if they contained material weaknesses that needed to be reported. Based on the results of these assessments, OPM can provide reasonable assurance that its systems of internal control over the effectiveness and efficiency of operations

and compliance with laws and regulations as of September 30, 2009, were operating effectively with the exception of one continuing material weakness detailed below.

Material Weakness on Information Technology Security Governance Programs

In its FY 2007 and FY 2008 reports under FISMA, OPM's OIG reported a material weakness on information technology (IT) security policies and procedures. OPM reported an operational material weakness in the FY 2008 AFR. Specifically, OPM reported that important security policies and procedures had not been updated in the past few years.

As part of its work on the IT security program in FY 2009, the OIG is reporting that OPM has not established adequate information security governance activities in accordance with legislative and regulatory requirements. Specifically, OPM has not fully documented information security policies and procedures or established appropriate roles and responsibilities. Therefore, the OIG is expanding the reported operational material weakness to include the OPM's overall information security governance program and incorporating its concerns about OPM's information security management structure.

Specifically, the OIG reported that, as of late September 2009, there had been no permanent senior agency information security official (SAISO) in the agency for nearly 18 months. During this time, OIG observed a serious decline in the quality of OPM's information security program. In addition, there is not a permanent Privacy Program Manager assigned to manage the OPM's privacy program, and as a result, there are many deficiencies in the program. OPM appointed a new SAISO as of September 22, 2009. However, the OIG noted that it remains to be seen whether OPM will commit the necessary resources and develop the appropriate functions required of this role. The OIG will reevaluate this issue during the FY 2010 FISMA audit.

The OIG also reported some progress with IT security policies and procedures. For instance, in FY 2009, OPM published a new Certification and Accreditation Guide and an Information Security and Privacy Policy and deleted the majority of the outdated information from OPM's internal website. However, the OIG reported shortcomings with the Information Security and Privacy Policy and noted a lack of specific procedures in several areas on how OPM will implement and monitor security controls spelled out in government wide IT policies.

OPM's Office of the Chief Information Officer (CIO) has acknowledged and agreed to the operational material weakness noted by the OIG. The new Acting CIO has made it a priority for the recently appointed SAISO to develop both a short- and long-term plan to address this weakness immediately and improve the IT security and privacy program at OPM. The CIO's initial actions include reviewing and prioritizing the documentation (policies and guidance) that requires updating or writing. The CIO will also reach out to OPM system owners and system designated security officers, as needed, to ensure complete accountability of systems and to other internal and external sources to help correct the weaknesses. The CIO has identified additional resources to be detailed to the SAISO on both the security and privacy deficiencies to ensure immediate corrective actions are taken. Each area identified has been added to the OCIO Plan of Action and Milestones plan. OPM will ensure that all actions are corrected within the milestone timeframes and provide evidence of closure when complete.

Internal Control over Financial Reporting

In addition to its overall FMFIA assessment, OPM conducted an assessment of the effectiveness of internal control over financial reporting (ICFR) to ensure compliance with Appendix A of OMB Circular A-123. Appendix A requires federal agencies to provide additional assurance on financial

controls through testing and evaluation of entity, process and transaction level controls under the auspices of a senior assessment team.

As with the prior years' assessments, FY 2009 Appendix A planning, testing, evaluation and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board for Internal Control over Financial Reporting. The Board is chaired by the Chief Financial Officer and includes senior representatives from OPM's major organizations. Testing and evaluation activities were conducted, under the Board's oversight, by the Office of the Chief Financial Officer's Policy and Internal Control Group (PICG).

No material weaknesses were found in the design or operation of the internal control over financial reporting during the FY 2009 evaluation and testing. Consequently, OPM is able to provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2009. Additionally, no matters came to the attention of the Board during the remainder of the fiscal year that would change that assessment. OPM also reported no material weaknesses in internal control over financial reporting for FY 2006, FY 2007, and FY 2008.

Compliance with the Prompt Payment Act

The Prompt Payment Act (Public Law 100-496), as amended, requires Federal agencies to pay vendors transacting business with them in a timely manner. With certain exceptions, the Prompt Payment Act requires agencies to make payments within 30 days of the later of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are obligated to pay interest on the amount owed at a rate established by the Department of the Treasury.

An agency's performance under the Prompt Payment Act for any given period is measured by the percentage of payments paid within the specified timeframes out of all payments subject to the Prompt Payment Act's provisions. For FY 2009, OPM reported that over 99.9 percent of its payments were made in accordance with specified Prompt Payment Act timeframes. OPM's FY 2009 performance objective was to continue to achieve the 98 percent performance metric. As of September 30, 2009, OPM's performance was 99.9 percent in terms of payment actions and 97.8 percent in terms of payment dollars.

OPM's highly successful performance under the Prompt Payment Act is achieved as a result of the large number and dollar magnitude of payments it makes to its investigative services contractors. Based on requests from Federal agencies, OPM processes several hundred thousand transactions per month for a variety of personnel background investigations that require payments to contractors. In accordance with payment provisions of OPM's contracts with its investigative services contractors, OPM annually remits tens of millions of dollars representing final payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. Table 10 summarizes OPM's FY 2009 prompt payment metrics by investigative services contractors and non-investigative services vendors. During the year, OPM paid $140,600 in interest penalties related to late payments.

Table 10 — FY 2009 Prompt Pay Act Metrics

	No. of Payments (Thousands)	No. of Payments Made Timely (Thousands)	Percentage by Payment Actions	Payments ($ Million)	Timely Payments ($ Million)	Percentage by Payment Dollars
Investigative services contractors	4,299.3	4,299.3	100.0%	$398.9	$398.9	100.0%
Non-investigative service vendors	27.7	25.7	92.9%	$668.0	$667.9	95.8%
Totals	4,327.0	4325.0	99.9%	$1,066.9	$1,066.8	97.8%

Compliance with the Debt Collection Improvement Act (DCIA)

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the DCIA of 1996 (Public Law 104- 134). The purpose of DCIA was to strengthen overall controls over collections due to the Government from private parties, including Federal employees. The DCIA has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 11 summarizes OPM's debt management activity for FY 2009 and FY 2008. OPM complies with the DCIA in the following ways:

Table 11 — Debt Management Activity

Retirement Program ($ in Millions)		
	FY 2009	FY 2008
Total Receivables at beginning of year	$259.9	$227.5
New receivables and accruals	160.2	198.3
Less collections, adjustments, and amounts written-off	149.6	165.9
Total receivables at end of year	$270.6	$259.9
Total delinquent	$40.6	$36.9
Percent delinquent of total receivables	15.0%	14.2%
Health Benefits Program ($ in Millions)		
	FY 2009	FY 2008
Total Receivables at beginning of year	$39.9	$32.2
New receivables and accruals	81.7	80.1
Less collections and adjustments	53.7	72.4
Total Receivables at end of year	$67.9	$39.9
Less management decisions in appeal	15.6	4.9
Currently available for collection	$52.3	$35.0

Cross-Servicing

Under the DCIA, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program (TOP). OPM has established an agreement with FMS to cross-service its debts, which allows FMS to refer automatically the debts to TOP as part of its collection effort. A debt is considered delinquent if it is 180 days past due and is legally enforceable. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action. To date, OPM has collected more than $6.9 million via FMS cross servicing.

Computer Data-Matching

OPM believes that it is important to prevent debts initially. Thus, OPM maintains an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of database matching between Federal agencies. As such, OPM exchanges payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2009, OPM's death data-matching activities identified more than $46 million in overpayments and prevented an additional $80 million from being overpaid (calculated saving to OPM).

Electronic Payments

As shown in Table 12, OPM continues to increase its rate of payments made electronically, including over 95.9 percent of OPM's 2.5 million monthly Retirement Benefits Program payments via electronic funds transfer.

Table 12 — Electronic Payments

Payment Type	Percentage FY 2009	Percentage FY 2008
Retirement benefits	95.9%	95.6%
Salary	97.5%	96.0%
Health Benefits and Life Insurance Programs	100.0%	100.0%
Other vendors	100.0%	99.9%

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances for each that is 61 or more days old. Tables 13 and 14 compare OPM's percentages that are 61 or more days old to Governmentwide rates.

Table 13 — Travel Card Usage

($ in Thousands)	FY 2009	FY 2008
Outstanding Balance	$1,710.0	$463.1
Outstanding more than 61 days	$6.5	$7.9
% outstanding more than 61 days (OPM)	0.19%	1.23%
% outstanding more than 61 days (Governmentwide)	2.19%	3.00%

Table 14 — Purchase Cards

($ in Thousands)	FY 2009	FY 2008
Outstanding Balance	$308.0	$1,826.6
Outstanding more than 61 days	$0.0	$0.0
% outstanding more than 61 days (OPM)	0.0%	0.0%
% outstanding more than 61 days (Governmentwide)	0.33%	0.81%

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

Compliance with the Inspector General Act

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its OIG. OPM is reporting on audit follow-up activities for the period October 1, 2008, through September 30, 2009. Table 15–Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

Table 15 — Inspector General Audit Findings

FY 2009	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2008	15	$34.2
New reports requiring management decisions	31[1]	48.5
Management decisions made during the year	34	72.1
Costs disallowed	—	73.8
Costs not allowed	—	(1.7)[2]
Reports with no management decision on September 30, 2009	12	$10.6

FY 2008	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2007	16	$24.0
New reports requiring management decisions	52	89.1
Management decisions made during the year	53	78.9
Costs disallowed	—	80.1
Costs not disallowed	—	(1.2)[2]
Reports with no management decision on September 30, 2008	15	$34.2

1. The number of new reports requiring a management decision represents reports with monetary recommendations. The total number of new reports issued during the fiscal year is 73, of which 42 included only procedural recommendations, or were without any recommendations.

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

Compliance with the Civil Monetary Penalty Act

A civil monetary penalty is any penalty, fine, or other sanction that is assessed or enforced by an agency pursuant to law, administrative proceeding, or a civil action in the Federal courts. OPM neither assessed nor collected a civil monetary penalty during FY 2009.

Financial Management Systems

The OPM utilizes two core financial systems that are based upon commercial off-the-shelf packages supplied by Corporate Governance Incorporated (CGI)-Federal (formerly American Management System) to support the financial management and accounting functions of OPM and its specific programs. The two systems are:

- The GFIS and Procurement Desktop (PD), which was implemented using Momentum software package developed by CGI-Federal, serves as OPM's core financial management system for its administrative funds accounts.
- The general ledger of the Benefit Financial Management System (BFMS), which was implemented using Federal Financial System, is used to administer the Retirement, Health Benefits and Life Insurance Programs.

Federal Information Security Management Act (FISMA)

The FISMA requires the CIO to conduct an annual agency security program review in coordination with agency program officials. OPM is pleased to provide the detailed results of this review conducted for FY 2009.

OPM's IT security and privacy program has managed to make some progress with the limited available resources. A new IT Security and Privacy Group (ITSPG) lead, referred to as the Information Technology Systems Officer (ITSO), was hired in September 2009 to manage and oversee the program. The mission of the ITSPG is to protect and defend against information security threats and risks, meet organizational goals, exceed industry best practices and federal security and privacy requirements to ensure the confidentiality, integrity, and availability of all resources within OPM. The ITSO, has identified resources needed and made recommendations regarding staffing changes that are under review with senior management. Further, as a result of the audit, each area identified has been added to the OCIO Plan of Action and Milestones listing. That list is under review for priority of actions to be taken based on the resources available. OPM will ensure that all actions are corrected within the milestones established.

In addition, in FY 2009 OPM successfully implemented an automated process for conducting mandatory training for all employees. This training included OPM policy and instructions for reporting data breaches and guidance for the use of personally identifiable information (PII). The training was completed by more than 99% of OPM's approximately 11,193 employees and contractors. The completion rate for role-based training in FY 09 was 96% for both Federal employees and contractors. OPM will continue to track the status of compliance with required annual training to ensure its employee populations are aware of IT security policies and processes.

The priorities for OPM's GITSPG in FY 2010 are to strengthen the security and privacy program to ensure the confidentiality, availability and integrity of the OPM network. ITSPG will focus will be on; establishing roles and responsibilities, aligning IT security and privacy responsibilities under ITSPG, improving certification and accreditation, policy and standards development, security training and awareness, network and cyber security, and the privacy program. OPM understands that we must remain committed to a strong and effective IT security and privacy program to protect our critical assets.

Goals and Strategies

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

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 IPA unqualified audit opinions will be received on the annual financial statements

- Implement a new integrated financial management system fully compliant with Federal standards, producing sound, effective support to all customers
- Strengthen stewardship, accountability and internal controls over financial reporting, as stipulated by revised OMB Circular 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 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, a sovereign entity.

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Section 2 — FY 2009 Financial Information

A Message from the Chief Financial Officer

A Message from the Chief Financial Officer

This is the second year the United States (U.S.) Office of Personnel Management (OPM) has chosen to produce its Agency Financial Report (AFR), which provides details on relevant financial data within 45 days of the accounting closing period in accordance with Office of Management and Budget (OMB) guidelines. Under a separate cover, OPM will submit the Annual Performance Report in conjunction with submission of the President's Fiscal Year (FY) 2011 Budget to Congress and a Summary of Performance and Financial Information which provides a more concise summary of the past year's outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management.

For the tenth consecutive year, OPM's consolidated financial statements have received an unqualified, or clean, audit opinion from our independent public accountants, KPMG LLP. This opinion assures the results are reported fairly and free of material error.

OPM continues to improve its financial management and work with our partners to modernize the current financial systems. Considerable progress was made this year to replace OPM's accounting systems with a Consolidated Business Information System (CBIS). We have been working with our vendor in support of the implementation and modernization process and plan to implement the first phase for the Revolving Fund Programs and Salaries and Expense (S&E) Fund accounts on October 1, 2009. Our goal is to implement a new, fully integrated system by FY 2012, to include the Trust Funds.

OPM also issued an unqualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular A-123, Management's Responsibility for Internal Control. Our reviews under the Improper Payments Information Act have been expanded to include payments to vendors for OPM's Background Investigations program which covers about 90 percent of government-wide background checks. The related reviews required the timely completion of rigorous assessments, documentation and testing of our procedures and controls over financial reporting. Implementation of CBIS will assist in reducing improper payments and improve reconciliation by direct transfer of case management information into CBIS.

OPM's Revolving Fund Programs business line is expanding and so is our accountability over these key resources. This year we have implemented a full budget function including 5 year business plans for each of our lines of business. With the implementation of CBIS, OPM will expand the audit activities over the Revolving Fund Programs and fully integrate these fundimental programs into the budgeting, accounting and accountability functions applied to all OPM activities. Users of the products and services will have a new understanding into the overall accounting for each line of business and the fees charged for those services.

We carry out our responsibilities over the $850 billion in the Federal employees earned-benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY 2009 AFR maintaining OPM's careful stewardship over Federal employees' retirement, health and life insurance funds documented by an unqualified audit opinion.

Sincerely,

Mark Reger
Chief Financial Officer

Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

November 13, 2009

Report No. 4A-CF-00-09-037

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2009 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2009 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

Audit Reports on Financial Statements, Internal Controls and Compliance with Laws and Regulations

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit OPM's consolidated financial statements as of September 30, 2009 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 07-04, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2009 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG found:

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

- There were no material weaknesses identified in the internal controls. 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.

  However, KPMG's report did identify two significant deficiencies:

  - Information systems general control environment (OPM and the Programs), and
  - Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO). (RF Program and S&E Fund)

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

- KPMG's report on compliance with certain provisions of laws and regulations disclosed one other matter related to the Federal Financial Management Improvement Act of 1996 (FFMIA). (RF Program and S&E Fund)

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2009 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;
- examined its working papers related to planning the audit and assessing internal controls over the financial reporting process;
- reviewed KPMG's audit reports to ensure compliance with Government Auditing Standards;
- coordinated issuance of the audit report; and
- performed other procedures we deemed necessary.

JOHN BERRY

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 10, 2009, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the OCFO respond directly to the OIG within 90 days of the date of this report advising us whether they agree or disagree with the audit findings and recommendations. As stated in OMB Circular A-50, where agreement is indicated, the OCFO should describe planned corrective action. If the OCFO disagrees with any of the audit findings and recommendations, they need to explain the reason for the disagreement and provide any additional documentation that would support their opinion.

In closing, we would like to congratulate OPM's financial management staff for once again issuing the consolidated financial statements by the November 16 due date. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG's audit, and the OIG's oversight of the financial statement audit this year. If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Mark Reger
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Director and Inspector General
U.S. Office of Personnel Management:

We have audited the accompanying consolidated balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2009 and 2008, and the related individual statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these consolidated and individual financial statements. In connection with our fiscal year 2009 audit, we also considered OPM's and the Programs' internal controls over financial reporting and tested OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated and individual financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as follows:

1. Information systems general control environment. (OPM and the Programs)

2. Financial management and reporting processes of the Office of Chief Financial Officer (OCFO). (Revolving Fund Program (RF Program) and Salaries and Expenses (S&E) Fund)

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed the following instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended:

3. Other matter related to Federal Financial Management Improvement Act (RF Program and S&E Fund)

The following sections discuss our opinion on OPM's consolidated financial statements and the Programs' individual financial statements; our consideration of OPM's and the Programs' internal controls over financial reporting; our tests of OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2009 and 2008, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2009 Agency Financial Report*.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2009 and 2008, and the consolidated and individual Programs' net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2009 Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Program and S&E Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2009*

Agency Financial Report (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual RF Program and S&E Fund. The financial statements of the RF Program and S&E Fund have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material aspects in relation to OPM's consolidated statements taken as a whole.

In addition, the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) statement of net cost information included in the consolidating statement of net cost (Schedule 2) is presented for purposes of additional analysis of the consolidated financial statements of OPM and the individual financial statements of the Retirement Program rather than to present the net costs of the CSRS and FERS funds. The CSRS and FERS statement of net cost information has been subjected to the auditing procedures applied in the audit of OPM's consolidated financial statements and the individual financial statements of the Retirement Program, and in our opinion is fairly stated in all material respects in relation to OPM's consolidated statements of net cost and the individual statement of net cost of the Retirement Program taken as a whole.

The information in the Other Accompanying Information, and Appendix A, included in OPM's *Fiscal Year 2009 Agency Financial Report*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

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

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting

that we consider to be significant deficiencies and that are described in Items 1 and 2 below. Exhibit I presents the status of prior year significant deficiencies.

1. Information systems general control environment

Information system general control deficiencies identified in previous years related to OPM and the Programs continue to persist or have not been fully addressed and consequently are not in full compliance with authoritative guidance. Specifically, security policies and procedures, including drafting risk assessment and security plans, have not been updated to incorporate current authoritative guidance, sufficient independent oversight of certain certification and accreditation activities are not consistently performed, and the procedures performed to certify and accredit certain financial systems were not complete. In addition, we noted that application access permissions have not been fully documented to describe the functional duties the access provides to assist management in reviewing the appropriateness of system access, instances where background investigations and security awareness training was not completed prior to access being granted, and certain weaknesses in granting access to application and physical access to system resources. Finally, we found that the Plans of Actions and Milestones (POA&M) were not always accurate and complete.

Recommendation

The OCIO should continue to update and implement entity-wide security policies and procedures and provide more direction and oversight to Program Offices for completing and appropriately overseeing certification and accreditation requirements and activities. In addition, documentation on application access permissions should be enhanced and linked with functional duties and procedures for granting logical and physical access needs to be refined to ensure access is granted only to authorized individuals. Finally, policies and procedures should be developed and implemented to ensure POA&Ms are accurate and complete.

Management Response

OPM concurs with these findings and recommendations. The Center for Information Services intends to take such additional actions as the following:

- Clarifying roles and responsibilities in the certification and accreditation of systems;
- Training the OPM's designated security officers in conducting certification and accreditation of systems and in the handling of plans of action and milestones ;
- Reviewing and revising as necessary OPM's process for establishing new user access accounts;
- Investigating tools that can be used to mask personally identifiable information in production use;
- Documenting and implementing change control monitoring procedures for data base administrator activities; and

- Beginning discussions with the staff of the OPM's Chief Financial Officer on how to establish and maintain functional descriptions.

2. Financial Management and Reporting Process of the Office of the Chief Financial Officer

Certain deficiencies in the operation of the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF Program and S&E Fund, continue to exist at OPM. The Government Financial Information System (GFIS) is not designed properly to allow for:

a. Capture of certain financial information and is not properly configured to produce useful financial reports that provide accurate information regarding related intragovernmental activities and balances.

b. Reconciliations are not consistently or always clearly documented and are not always performed in a timely manner for the S&E Fund.

c. Unidentified differences from prior years continue to exist between Treasury and GFIS.

According to OMB Circular A-123, transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for documentation.

Deficiencies in the ability to record, process, summarize and report financial data may misstate financial information reported in the RF Program and S&E Fund.

Recommendation

The OCFO should continue implementation of its corrective action plan which should reduce or eliminate the need for correcting journal entries. Further, we recommend that:

1. OPM complete the implementation of a new accounting system to ensure that all financial information is properly captured and is properly configured to produce useful financial reports that provide accurate information regarding related intra-governmental activities and balances.
2. OPM continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury. At such a time when no additional reductions can be identified, OPM should, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining Fund Balance with Treasury balance.
3. OPM CFO management actively enforce procedures regarding the documentation of Salaries and Expense Fund reconciliations in accordance with guidelines outlined in

the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."

Management Response

OPM acknowledges deficiencies in the GFIS system used for the Revolving Fund and Salaries and Expenses accounts and concurs with KPMG's recommendations. Beginning in fiscal year 2010, OPM migrated to a new software solution. OPM worked throughout FY 2009 towards the deployment of the new OPM accounting system. Extensive data cleanup was performed within FY 2009 in preparation for transferring balances between the old and new systems. The new system supports the capture and reporting of all financial information regarding related intra-governmental activities and balances. Additionally, OPM continues to reconcile, identify and correct differences between OPM's internal data and Treasury balances, processing adjusting entries as needed. OPM OCFO management will continue to enhance and enforce procedures to document timely reconciliations compliant with the *Treasury Financial Manual* and OPM's *Cash Management Policy and Procedures*.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act* of 1996 (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which OPM's or the Programs' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report. The results of our tests did disclose one other matter regarding FFMIA related to the RF Program and S&E Funds, as described below.

3. Other matter related to Federal Financial Management Improvement Act of 1996 (FFMIA)

United States Standard General Ledger

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable definitions, attributes, and processing rules defined in the United States Standard General Ledger at the transaction level. The OCFO does not consistently record RF Program and S&E Fund transactions at the United States Standard General Ledger transaction level.

Recommendation

We recommend that the OCFO should continue implementation of a new accounting system to replace the GFIS system and related processes and procedures to enable the OCFO to account for the RF Program and S&E Fund's transactions in accordance with the United States Standard General Ledger at the transaction level.

Management Response

OPM concurs with the recommendation. The GFIS financial system could not be configured to fully meet the requirements of FFMIA. OPM's new accounting system, Consolidated Business Information System (CBIS) was deployed for the RF program and the S&E Fund accounts on October 1, 2009. CBIS is designed and configured to properly capture and report all financial data necessary to provide accurate information regarding related intra-governmental activities at the transaction level. OPM will ensure that the implementations of the financial system requirements are in compliance with FFMIA.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements of OPM and the individual financial statements of the Programs; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to OPM.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the overall consolidated OPM financial statements and Programs' individual financial statements;

- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated OPM financial statements and Programs' individual financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2009 audit, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements of OPM and the individual financial statements of the Programs. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2009 consolidated and the Programs' fiscal year 2009 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in Section 803(a) of FFMIA. 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 OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 10, 2009.

OPM's responses to the findings identified in our audit are presented for each finding as Management Response, herein. We did not audit OPM's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of OPM's management, OPM's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2009

Exhibit I

1	Information Systems General Control Environment	All (A)	Significant Deficiency	Significant Deficiency – See FY 2009, Condition No. 1	OPM has made continual annual improvements to Information Systems General Control Environment, however, deficiencies still exist.
2	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	S&E; RF	Significant Deficiency	Significant Deficiency - See FY 2009, Condition No. 2	OPM has made improvements, however, deficiencies still exist because of system limitations.

(A) Includes the Retirement Program, Health Benefit Program (HBP), Life Insurance Program (LP), Revolving Fund (RF) Program and Salary and Expenses (S&E) Fund

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEET
As of September 30, 2009 and 2008
(In Millions)

	2009	2008
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$1,853	$1,731
Investments [Note 3]	850,703	820,907
Accounts Receivable [Note 4]	1,981	1,747
Total Intragovernmental	854,537	824,385
Accounts Receivable from the Public, Net [Note 4]	1,314	1,170
General Property and Equipment, Net	22	10
Other [Note 1L]	741	814
TOTAL ASSETS	$856,614	$826,379
LIABILITIES		
Intragovernmental [Note 6]	$685	$702
Federal Employee Benefits:		
Benefits Due and Payable	9,872	9,903
Pension Liability [Note 5A]	1,454,700	1,387,200
Post-retirement Health Benefits Liability [Note 5B]	339,884	331,417
Actuarial Life Insurance Liability [Note 5C]	38,955	36,757
Total Federal Employee Benefits	1,843,411	1,765,277
Other [Notes 6 and 7]	1,243	1,167
Total Liabilities	1,845,339	1,767,146
NET POSITION		
Unexpended Appropriations — Other Funds	84	75
Cumulative Results of Operations — Earmarked Funds [Note 8]	(989,143)	(941,122)
Cumulative Results of Operations — Other Funds	325	280
Total Net Position	(988,725)	(940,767)
TOTAL LIABILITIES AND NET POSITION	$856,614	$826,379

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2009 and 2008
(In Millions)

		2009	2008
Provide CSRS Benefits	Gross Costs	$97,870	$88,681
	Less: Earned Revenue	24,984	26,320
	Net Cost [Notes 9 and 10]	$72,886	$62,361
Provide FERS Benefits	Gross Costs	$37,279	$42,122
	Less: Earned Revenue	36,297	33,509
	Net Cost [Notes 9 and 10]	$982	$8,613
Provide Health Benefits	Gross Costs	$45,599	$65,198
	Less: Earned Revenue	31,214	33,718
	Net Cost [Notes 9 and 10]	$14,385	$31,480
Provide Life Insurance Benefits	Gross Costs	$4,668	$4,128
	Less: Earned Revenue	4,338	4,181
	Net Cost [Notes 9 and 10]	$330	($53)
Provide Human Resource Services	Gross Costs	$1,553	$1,457
	Less: Earned Revenue	1,487	1,440
	Net Cost [Notes 9 and 10]	$66	$17
Total Net Cost of Operations	Gross Costs	$186,969	$201,586
	Less: Earned Revenue	98,320	99,168
	Net Cost [Notes 9 and 10]	$88,649	$102,418

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2009 and 2008
(In Millions)

	2009			2008		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	($941,122)	$280	($940,842)	($878,479)	$152	($878,327)
Budgetary Financing Sources:						
Appropriations Used	40,579	79	40,658	39,716	112	39,828
Other	—	—	—	38	—	38
Other Financing Sources	(8)	32	24	4	33	37
Total Financing Sources	40,571	111	40,682	39,758	145	39,903
Net Cost of Operations	88,583	66	88,649	102,401	17	102,418
Net Change	(48,012)	45	(47,967)	(62,643)	128	(62,515)
Cumulative Results of Operations — Ending Balance	($989,134)	$325	($988,809)	($941,122)	$280	($940,842)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	$75	$75	—	$84	$84
Budgetary Financing Sources:						
Appropriations Received	$41,063	95	41,158	$40,138	103	40,241
Appropriations Used	($40,579)	(79)	(40,658)	(39,716)	(112)	(39,828)
Other Budgetary Financing Sources	(484)	(7)	(491)	(422)	—	(422)
Total Budgetary Financing Sources	—	9	9	—	(9)	(9)
Total Unexpended Appropriations — Ending Balance	—	84	84	—	75	75
Net Position	($989,134)	$409	($988,725)	($941,122)	$355	($940,767)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2009 and 2008
(In Millions)

	2009	2008
BUDGETARY RESOURCES		
Unobligated Balance — Brought Forward, October 1:	$47,229	$46,063
Recoveries of Prior-Year Unpaid Obligations	134	46
Budget Authority:		
Appropriations:		
Received	47,158	40,241
Other	(483)	(422)
Appropriated Trust Fund Receipts	95,883	97,694
Spending Authority from Offsetting Collections:		
Collected	43,327	40,978
Change in Receivables from Federal Sources and Unfilled Customer Orders	234	300
Subtotal	43,561	41,278
Temporarily Not Available Pursuant to Public Law	(27,823)	(33,781)
Permanently Not Available	(11)	—
Total Budgetary Resources	$199,648	$191,119
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 12]		
Direct	$148,503	$142,398
Reimbursable	1,808	1,492
Subtotal	150,311	143,890
Unobligated Balance:		
Apportioned	497	464
Unobligated Balance Not Available	48,840	46,765
Total Status of Budgetary Resources	$199,648	$191,119
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$12,170	$11,460
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,686	2,387
Total Unpaid Obligated Balance, Net	9,484	9,073
Obligations Incurred, Net	150,311	143,890
Less: Gross Outlays	149,928	143,133
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	134	46
Change in Uncollected Customer Payments from Federal Sources	234	300
Obligated Balance, Net, End of Period		
Unpaid Obligations	12,423	12,170
Less: Uncollected Customer Payments from Federal Sources	2,924	2,686
Total Unpaid Obligated Balance, Net, End of Period	9,499	9,484
NET OUTLAYS		
Net Outlays:		
Gross Outlays	149,928	143,133
Less: Offsetting Collections	43,327	40,978
Less: Distributed Offsetting Receipts [Note 15]	34,288	37,778
Net Outlays	$72,313	$64,377

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2009 and 2008
[$ in millions]

Note 1—Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The financial statements comprise the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds," as defined by *Statement of Federal Financial Accounting Standards Number (SFFAS No.) 27, Identifying and Reporting Earmarked Funds.* Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. For additional information on Earmarked Funds, please see Note 8 of Notes to Financial Statements.

Retirement Program. The Program consists of two defined-benefit pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Together, the two plans cover substantially all full-time, permanent civilian Federal employees. The CSRS, implemented in 1921, is a stand-alone plan, providing benefits to most Federal employees hired before 1984. The FERS, established in 1986, uses Social Security as its base and provides an additional defined benefit and a voluntary thrift savings plan to most employees entering the Federal service after 1983; OPM does not administer the Thrift Savings Plan. Both plans are operated via the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. Title 5, United States Code, Chapters 83 and 84, provide a complete description of the CSRDF's provisions.

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. Title 5, United States Code, Chapter 89 provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service,* whose participants or their health-care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMO), which provide or arrange for services on a pre-paid basis through designated providers. Most of the contracts with carriers that provide fee-for-service benefits are *experience-*

rated, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated,* so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

In December 20, 2006, President Bush signed into law the Postal Accountability and Enhancement Act (the Postal Act), Public Law (P.L.) 109-435. Title VIII of the Postal Act made significant changes in the laws dealing with CSRS benefits and the funding of retiree health benefits for employees of the U.S. Postal Service (USPS). The Postal Act required the USPS to make scheduled payments to a new Postal Service Retiree Health Benefits (PSRHB) Fund. The PSRHB Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, P.L. 111-68, Division B—Continuing Appropriations Resolution 2010 which contained significant changes to the funding requirements and scheduled payments of P.L. 109-435, retroactive to December 20, 2006, when the Postal Act became law. Section 164 of P.L. 111-68 amends P.L. 109-435 such that the USPS scheduled payment for FY 2009 is $1.4 billion rather than $5.4 billion.

Life Insurance Program. The Program provides group, term-life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Employees Group Life Insurance Fund, a trust revolving fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. Title 5, United States Code, Chapter 87 provides a complete description of the fund's provisions. The Program provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

Revolving Fund Programs. OPM provides a variety of human resources-related services to other Federal agencies, such as pre-employment testing, security investigations and employee training. These activities are financed through an intragovernmental revolving fund.

Salaries and Expenses. Salaries and Expenses provides the budgetary resources used by OPM to administer the Agency. These resources are furnished by annual, multiple-year, and no-year appropriations. Annual appropriations are made for a specified fiscal year and are available for obligation only during that fiscal year. Multiple-year appropriations are available for a definite period in excess of one fiscal year. No-year appropriations are available for obligation without fiscal year limitation.

B. Basis of Accounting and Presentation

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

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

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

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

C. Use of Management's Estimates

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

D. Financial Statement Classifications

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

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

Exchange vs. Non-exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the entity's "predominant source of revenue;" OPM, therefore, classifies earnings on investments as earned revenue. Employing agency and participant contributions to the Retirement, Health Benefits and Life Insurance Programs and the scheduled payment contributions to the PSRHB Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits.

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

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

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

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

E. Net Cost of Operations

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

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

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

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

F. Program Funding

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. OPM's pension actuary applied the set of economic assumptions adopted by the Board of Actuaries of the Civil Service Retirement and Disability Fund to derive the FY 2009 cost factors for CSRS and FERS. For FY 2009 the service-cost for most or "regular" CSRS participants is 25.8 percent of basic pay, an increase of 0.6 percent from FY 2008. For FY 2009, the service cost for most or "regular" FERS participants is 12.3 percent of basic pay, an increase of 0.3 percent from FY 2008.

Agencies will not be required to pay these new normal costs until FY 2011 because of budgeting considerations. Therefore the contributions for FY 2009 remain the same as FY 2008, as shown below:

> ***CSRS.*** Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both FY 2009 and 2008. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury was required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for FYs 2009 and 2008, this amount was $31.4 and $30.9 billion, respectively.
>
> ***FERS.*** Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate (0.8 percent for most participants for FY 2009 and 2008). The employer contribution rate is equal to the FERS service-cost, less the participant contribution rate (11.2 percent of pay in FY 2009 and 2008 for most participants). The total contributions by and for FERS participants (12.0 percent), therefore, fully funded the FERS service-cost in both FY 2009 and 2008.

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

P.L. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from FY 2008 through FY 2016 according to the legislation. The payment for FY 2009 was reduced to $1.4 billion by P.L. 111-68, signed into law on October 1, 2009, and retroactive to when P.L. 109-435 was originally signed into law on December 20, 2006.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of post-retirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2009 and 2008) is not funded. Employing agencies must recognize this amount as an imputed cost.

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

G. Financing Sources Other Than Earned Revenue

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

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

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

H. Budgetary Resources

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

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

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance. The amounts collected by OPM in the PSRHB Fund are precluded from obligation until 2017 when the funds will be available to pay annual premium costs for the (USPS) post-1971 current annuitants [See Note 11].

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

I. Fund Balance with Treasury

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

J. Investments

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

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

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

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

K. Accounts Receivable, Net

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

L. Other Assets

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM.

M. General Property and Equipment

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

N. Benefits Due and Payable

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

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

R. Parent-Child Reporting — Salaries and Expense Fund Allocation Transfer

The Office of Personnel Management (OPM) is a party to allocation transfers with another federal agency, General Services Administration (GSA), the parent, as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate 'Building Fund' account, 2447X0600, was created in the U.S. Treasury as a subset of the GSA fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the OPM are charged to this allocation account as OPM executes the delegated activity on behalf of the GSA. The financial activity related to these allocation transfers is reported in the financial statements of the parent entity, GSA, from which the underlying legislative authority, appropriations and budget apportionments are derived.

Note 2 — Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type for fiscal years 2009 and 2008 are:

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$19	–	–	–	$19
Revolving Fund	–	–	–	$761	761
General Funds	–	$994	$5	63	1,062
Trust Revolving Funds	–	5	6	–	11
Total	**$19**	**$999**	**$11**	**$824**	**$1,853**
September 30, 2008 ($ in millions)					
Trust Fund	$20	–	–	–	$20
Revolving Fund	–	–	–	$695	695
General Funds	–	$894	$5	75	974
Trust Revolving Funds	–	37	5	–	42
Total	**$20**	**$931**	**$10**	**$770**	**$1,731**

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of FYs 2009 and 2008:

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$19	$999	$11	$824	$1,853
Investments	754,243	50,404	35,646	—	840,293
Total, Unexpended Balance	**$754,262**	**$51,403**	**$35,657**	**$824**	**$842,146**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	—	—	—	$497	$497
Unavailable	—	$13,126	$35,294	420	48,840
Obligated not yet Disbursed	$6,067	3,162	363	(93)	9,499
Precluded (See Note 11)	748,195	35,115	—	—	783,310
Total, Status of Unexpended Balances	**$754,262**	**$51,403**	**$35,657**	**$824**	**$842,146**

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$20	$931	$10	$770	$1,731
Investments	728,849	47,758	33,862	—	810,469
Total, Unexpended Balance	**$728,869**	**$48,689**	**$33,872**	**$770**	**$812,200**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	—	—	—	$464	$464
Unavailable	—	$12,859	$33,491	415	46,765
Obligated not yet Disbursed	$5,675	3,537	381	(109)	9,484
Precluded (See Note 11)	723,194	32,293	—	—	755,487
Total, Status of Unexpended Balances	**$728,869**	**$48,689**	**$33,872**	**$770**	**$812,200**

Note 3—Investments

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

The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to OPM as evidence of its receipts. Treasury securities are an asset to OPM and a liability to the U.S. Treasury. Because OPM and

the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. They are eliminated in consolidation for the U.S. Government-wide financial statements.

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $87 billion invested as of September 30, 2009. Approximately $52 billion are market-based and have some market value risk.

The following tables summarize OPM's investments by Program (all earmarked funds) at the end of fiscal years 2009 and 2008.

As of September 30, 2009 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
(1) Marketable:						
FFB Securities	$11,921	—	$139	$12,060	—	$11,921
(2) Non-Marketable: (PAR)						
Par-value GAS securities	705,137	—	8,895	714,032	—	705,137
Certificates of Indebtedness	37,185	—	23	37,208	—	37,185
Total Retirement Program	**$754,243**	**—**	**$9,057**	**$763,300**	**—**	**$754,243**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	15,389	($23)	72	15,438	($4)	15,975
Non-Marketable: (PAR)						
Par-value GAS securities	33,715	—	367	34,082	—	33,715
Certificates of Indebtedness	1,400	—	—	1,400	—	1,400
Total Health Benefits Program	**$50,504**	**($23)**	**$439**	**$50,920**	**($4)**	**$51,090**
Life Insurance Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	36,019	86	378	36,483	(41)	38,359
Total Life Insurance Program	**$36,019**	**$86**	**$378**	**$36,483**	**($41)**	**$35,359**
Total Investments	***$840,766***	***$63***	***$9,874***	***$850,703***	***($45)***	***$843,692***

Note 4—Accounts Receivable, Net

As of September 30, 2008 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$14,000	—	$164	$14,164	—	$14,000
Non-Marketable: (PAR)						
Par-value GAS securities	682,190	—	9,016	691,206	—	682,190
Certificates of Indebtedness	32,660	—	3	32,663	—	32,660
Total Retirement Program	**$728,850**	**—**	**$9,183**	**$738,033**	**—**	**$728,850**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	15,551	($1)	81	15,631	($15)	16,039
Non-Marketable: (PAR)						
Par-value GAS securities	26,694	—	316	27,010	—	26,694
Certificates of Indebtedness	5,600	—	—	5,600	—	5,600
Total Health Benefits Program	**$47,845**	**($1)**	**$397**	**$48,241**	**($15)**	**$48,333**
Life Insurance Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	34,097	158	378	34,633	(142)	35,957
Total Life Insurance Program	**$34,097**	**$158**	**$378**	**$34,633**	**($142)**	**$35,957**
Total Investments	***$810,792***	***$157***	***$9,958***	***$820,907***	***($157)***	***$813,140***

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2009 and 2008 are:

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,087	$781	$24	—	$1,892
Other	—	—	—	$89	89
Total	**$1,087**	**$781**	**$24**	**$89**	**$1,981**
September 30, 2008 ($ in millions)					
Employer contributions receivable	$934	$688	$22	—	$1,644
Other	—	—	—	$103	103
Total	**$934**	**$688**	**$22**	**$103**	**$1,747**

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2009 and 2008 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$185	$729	$158	—	$1,072
Overpayment of benefits [net of allowance of $79]	192	—	—	—	192
Due from carriers [net of allowance of $19]	—	49	—	—	49
Other	—	—	—	$1	1
Total	**$377**	**$778**	**$158**	**$1**	**$1,314**
September 30, 2008 ($ in millions)					
Participant contributions receivable	$172	$645	$140	—	$957
Overpayment of benefits [net of allowance of $74]	186	—	—	—	186
Due from carriers [net of allowance of $13]	—	27	—	—	27
Total	**$358**	**$672**	**$140**	**—**	**$1,170**

Note 5—Federal Employee Benefits

A. Pensions

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

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related expense remained unchanged from FY 2008. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2009 and 2008:

	2009	2008
Interest rate	6.25%	6.25%
Rate of inflation	3.50%	3.50%
Rate of increases in salary	4.25%	4.25%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2009 and 2008:

FY 2009 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$8,770	$19,168	$27,938
Interest cost	65,434	20,025	85,459
Actuarial loss/(gain)	23,666	(1,914)	21,752
Pension Expense	**$97,870**	**$37,279**	**$135,149**
FY 2008 ($ in millions)			
Service cost	$9,111	$17,376	$26,487
Interest cost	63,723	17,614	81,337
Actuarial loss	15,847	7,132	22,979
Pension Expense	**$88,681**	**$42,122**	**$130,803**

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

FY 2009 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2008	$1,074,000	$313,200	$1,387,200
Plus: Pension Expense	97,870	37,279	135,149
Less: Costs applied to Pension Liability	62,870	4,779	67,649
Pension Liability at September 30, 2009	**$1,109,000**	**$345,700**	**$1,454,700**
FY 2008 ($ in millions)			
Pension Liability at October 1, 2008	$1,044,700	$275,200	$1,319,900
Plus: Pension Expense	88,681	42,122	130,803
Less: Costs applied to Pension Liability	59,381	4,122	63,503
Pension Liability at September 30, 2008	**$1,074,000**	**$313,200**	**$1,387,200**

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2009 and 2008:

FY 2009 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$62,566	$4,628	$67,194
Refunds of contributions	191	103	294
Administrative and other expenses	113	48	161
Costs applied to the Pension Liability	**$62,870**	**$4,779**	**$67,649**
FY 2008 ($ in millions)			
Annuities	$59,071	$3,954	$63,025
Refunds of contributions	189	109	298
Administrative and other expenses	121	59	180
Costs applied to the Pension Liability	**$59,381**	**$4,122**	**$63,503**

B. Post-Retirement Health Benefits

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

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

	FY 2009	FY 2008
Interest rate	6.25%	6.25%
Increase in per capita cost of covered benefits	8.00%	7.00%

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2009 and 2008:

($ in millions)	FY 2009	FY 2008
Service cost	$11,561	$11,866
Interest cost	20,061	19,529
Actuarial (gain)/loss	(10,433)	10,354
PRHB Expense	**$21,189**	**$41,749**

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

($ in millions)	FY 2009	FY 2008
PRHB Liability at the beginning of the year	$331,417	$302,114
Plus: PRHB Expense	21,189	41,749
Less: Costs applied to the PRHB Liability	12,722	12,446
PRHB Liability at the end of the year	**$339,884**	**$331,417**

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in fiscal years 2009 and 2008:

($ in millions)	FY 2009	FY 2008
Current benefits	$9,373	$9,035
Premiums	2,503	2,573
Administrative and other expenses	846	838
Total costs applied to the PRHB Liability	**$12,722**	**$12,446**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries (8.0 percent in fiscal year 2009 and 7.0 percent in fiscal year 2008) has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in fiscal years 2009 and 2008:

($ in millions)	FY 2009		FY 2008	
	9.0% [One Percent Increase]	7.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	$22,400	$18,031	$22,136	$17,304
Service cost component	14,694	9,063	15,039	9,319
PRHB Liability	$382,781	$302,865	$378,821	$291,128

C. Life Insurance

Actuarial Life Insurance Liability. The Actuarial Life Insurance Liability (ALIL) is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the EPV of future contributions to be collected from those participants. In calculating the ALIL, OPM's actuary uses assumptions that are consistent with those used in computing the Pension Liability [See Note 5A].

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

($ in millions)	FY 2009	FY 2008
EPV of future benefits	$79,208	$76,602
EPV of future contributions by participants	(40,253)	(39,845)
ALIL	**$38,955**	**$36,757**

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2009 and 2008:

($ in millions)	FY 2009	FY 2008
New Entrant Expense	$282	$263
Interest cost	2,290	2,190
Actuarial loss/(gain)	143	(339)
Life Insurance Expense	**$2,715**	**$2,114**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for fiscal years 2009 and 2008 is:

($ in millions)	FY 2009	FY 2008
Life Insurance Expense	$2,715	$2,114
Less: Net Costs applied to Life liability	517	521
Future Life Insurance Benefits Expense	**$2,198**	**$1,593**

Note 6—Intragovernmental and Other Liabilities

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2009 and 2008:

September 30, 2009 ($ in millions)	Accounts Payable	Other	Total
Retirement	$61	—	$61
Health Benefits	270	—	270
Life Insurance	1	—	1
Revolving Fund	14	$410	424
Salaries and Expenses	1	3	4
Eliminations	(72)	(3)	(75)
Total Intragovernmental Liabilities	**$275**	**$410**	**$685**
September 30, 2008 ($ in millions)			
Retirement	$53	—	$53
Health Benefits	260	—	260
Life Insurance	1	—	1
Revolving Fund	3	$445	448
Salaries and Expenses	—	3	3
Eliminations	(60)	(3)	(63)
Total Intragovernmental Liabilities	**$257**	**$445**	**$702**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2009 and 2008:

September 30, 2009 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$668	—	—	—	$668
Health Benefits Program	—	$383	—	$1	384
Life Insurance Program	—	15	—	—	15
Revolving Fund Program	—	—	$141	—	141
Salaries and Expenses	—	—	34	1	35
Total Other Liabilities	**$668**	**$398**	**$175**	**$2**	**$1,243**
September 30, 2008 ($ in millions)					
Retirement Program	$617	—	—	—	$617
Health Benefits Program	—	$359	—	$8	367
Revolving Fund Program	—	—	$138	—	138
Salaries and Expenses	—	—	42	3	45
Total Other Liabilities	**$617**	**$359**	**$180**	**$11**	**$1,167**

Note 7—Contingencies

Health Benefits Program Carriers. OPM is a party to litigation in which three community-rated Health Benefits Program Carriers are seeking relief from a regulation incorporated into their contracts. In addition, there is litigation in which the FEHB contingency reserve would be chargeable. OPM has recorded a liability of $1 million and $8 million at September 30, 2009 and 2008, respectively, for the estimated amount of losses it will probably incur from this litigation. All losses involving this litigation will be paid from the Treasury Judgment Fund (TJF); OPM, however, does not have the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes the outcome of this litigation, either pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements and as such, OPM has accrued $260 million as of September 30, 2009 and $253 million as of September 20, 2008 in Intragovernmental Liabilities due to Treasury.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM has recorded a liability of $1 million and $3 million in Salaries and Expenses at September 30, 2009 and 2008, respectively, for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined, at September 30, 2009, it is reasonably possible that losses ranging from an additional $18 million to $318 million will result. For Salaries and Expenses the total of all reasonably possible losses is $7.3 million, for Revolving the total of all reasonably possible losses is $11.2 million, and for Life Insurance Funds the total of reasonably possible losses ranges from $.030 million to $300 million. Based upon the opinion of its General Counsel, OPM management believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Note 8—Earmarked Funds

Funds Purpose. The funds related to the operation of the Retirement Program, the Health Benefits Program (which includes the PSRHB Fund), and the Life Insurance Program, are "earmarked funds," as defined by SFFAS No. 27—"Identifying and Reporting Earmarked Funds." The standard defines earmarked funds as being financed by statutorily dedicated revenues, often supplemented by other financing sources, which remain available over time. The statutory authority for OPM's earmarked funds associated with Federal employees' benefit programs can be found in Title 5, United States Code; Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89 provides a complete description of the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees Group Life Insurance Fund provisions. In addition, Sections 802 and 803 of P.L. 109- 435, the Postal Act, amended certain provisions of Chapters 83 and 89 of Title 5 dealing with the Retirement Program and the Health Benefits Program, respectively.

A condensed version of the Earmarked Funds Balance Sheet as of September 30, 2009 and September 30, 2008 follows:

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$19	$999	$11	**$1,029**
Investments	763,300	50,920	36,483	**850,703**
Accounts Receivable	1,464	1,559	182	**3,205**
Other Assets	—	95	644	**739**
Total Assets	**$764,783**	**$53,573**	**$37,320**	**$855,676**
LIABILITIES and NET POSITION				
Intragovernmental	$61	$270	$1	**$332**
Benefits Due and Payable	5,343	3,787	742	**9,872**
Pension Liability	1,454,700	—	—	**1,454,700**
Post-Retirement Health Benefits Liability	—	339,884	—	**339,884**
Actuarial Life Insurance Liability	—	—	38,955	**38,955**
Other Liabilities	668	384	15	**1,067**
Total Liabilities	**$1,460,772**	**$344,325**	**$39,713**	**$1,844,810**
Cumulative Results of Operations	(695,989)	(290,752)	(2,393)	**(989,134)**
Total Liabilities and Net Position	**$764,783**	**$53,573**	**$37,320**	**$855,676**

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$20	$931	$10	**$961**
Investments	738,033	48,241	34,633	**820,907**
Accounts Receivable	1,292	1,360	162	**2,814**
Other Assets	—	146	625	**771**
Total Assets	**$739,345**	**$50,678**	**$35,430**	**$825,453**
LIABILITIES and NET POSITION				
Intragovernmental	$53	$260	$1	**$314**
Benefits Due and Payable	5,010	4,114	779	**9,903**
Pension Liability	1,387,200	—	—	**1,387,200**
Post-Retirement Health Benefits Liability	—	331,417	—	**331,417**
Actuarial Life Insurance Liability	—	—	36,757	**36,757**
Other Liabilities	617	367	—	**984**
Total Liabilities	**$1,392,880**	**$336,158**	**$37,537**	**$1,766,575**
Cumulative Results of Operations	(653,535)	(285,480)	(2,107)	**(941,122)**
Total Liabilities and Net Position	**$739,345**	**$50,678**	**$35,430**	**$825,453**

Sources of Revenue or Other Financing Sources. The following describes the sources of revenue and financing sources for OPM's earmarked funds. Earmarked funds' revenues represent both inflows of resources to the Government (contributions by participants) as well as intragovernmental flows (contributions by employing agencies). Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Since the combined 14.0 percent of pay does not cover the service cost of a CSRS benefit, to lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage.

The Health Benefits Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 in accordance with the legislation. Thereafter, the USPS will make annual payments of the sum of the normal cost payment. However, P.L. 111-68, approved 10/01/09, Division B — Continuing Appropriations Resolution 2010 made significant changes to the funding requirements of P.L. 109-435. Sec. 164 amends P.L. 109-435 such that the USPS contribution for FY 2009 is $1.4 billion rather than $5.4 billion.

The Life Insurance Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis. (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation.)

A condensed version of the Earmarked Funds' Statement of Net Cost for FY 2009 and FY 2008 follows:

FY 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$135,149	$45,599	$4,668	$185,416
Less Earned Revenues	61,281	31,214	4,338	96,833
Net Cost of Operations	**$73,868**	**$14,385**	**$330**	**$88,583**
FY 2008 ($ in millions)				
Gross Program Costs	$130,803	$65,198	$4,128	$200,129
Less Earned Revenues	59,829	33,718	4,181	97,728
Net Cost of Operations	**$70,974**	**$31,480**	**($53)**	**$102,401**

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for FY 2009 and FY 2008 follows:

FY 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($653,535)	($285,480)	($2,107)	($941,122)
Budgetary Financing Sources	31,414	9,113	44	40,571
Net Cost of Operations	$73,868	14,385	330	88,583
Change in Net Position	($42,454)	(5,272)	(286)	(48,012)
Net Position End of Period	**($695,989)**	**($290,752)**	**($2,393)**	**($989,134)**
FY 2008 ($ in millions)				
Net Position Beginning of Period	($613,537)	($262,738)	($2,204)	($878,479)
Budgetary Financing Sources	30,976	8,738	44	39,758
Net Cost of Operations	$70,974	$31,480	($53)	$102,401
Change in Net Position	($39,998)	($22,742)	$97	($62,643)
Net Position End of Period	**($653,535)**	**($285,480)**	**($2,107)**	**($941,122)**

Note 9—Intragovernmental Gross Costs and Earned Revenue

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" in fiscal years 2009 and 2008:

	GROSS COSTS			EARNED REVENUE		
	Intragovern-mental	With the Public	Total	Intragovern-mental	With the Public	Total
FY 2009 ($ in millions)						
Provide CSRS Benefits	—	$97,870	$97,870	$22,563	$2,421	$24,984
Provide FERS Benefits	—	37,279	37,279	34,974	1,323	36,297
Provide Health Benefits	6	45,593	45,599	20,574	10,640	31,214
Provide Life Insurance Benefits	—	4,668	4,668	1,815	2,523	4,338
Provide Human Resources Services	$162	1,391	1,553	1,484	3	1,487
Total	**$168**	**$186,801**	**$186,969**	**$81,410**	**$16,910**	**$98,320**
FY 2008 ($ in millions)						
Provide CSRS Benefits	—	$88,681	$88,681	$23,770	$2,550	$26,320
Provide FERS Benefits	—	42,122	42,122	32,308	1,201	33,509
Provide Health Benefits	—	65,198	65,198	23,858	9,860	33,718
Provide Life Insurance Benefits	—	4,128	4,128	1,817	2,364	4,181
Provide Human Resources Services	$142	1,315	1,457	1,438	2	1,440
Total	**$142**	**$201,444**	**$201,586**	**$83,191**	**$15,977**	**$99,168**

Note 10—Net Cost by Strategic Objectives

The following chart summarizes OPM's Strategic Objectives for fiscal years 2007–2011:

Strategic Objective A	The Federal civilian workforce will be focused on achieving agency goals
Strategic Objective B	The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers
Strategic Objective C	Federal agencies will be employers of choice
Strategic Objective D	Federal agencies will be recognized as leaders in having exemplary human resources practices
Strategic Objective E	The Office of Personnel Management will be a model of performance for other Federal agencies
Strategic Objective F	The Office of Personnel Management will be a leader in the human resources professional community and will have positive name recognition outside the Federal Government
Strategic Objective G	The Office of Personnel Management will have constructive and productive relationships with external stakeholders

The following table presents a cross-walk of OPM's net cost by responsibility-segment to its net cost by strategic objective for fiscal year 2009. Total costs for this table were allocated based on the distribution of budgetary resources.

Strategic Objectives 2009 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	–	–	–	–	$15	**$15**
	Less earned revenue	–	–	–	–	11	**11**
	Net program cost	–	–	–	–	$4	**$4**
Objective B:	Total program cost	$81,775	$31,148	$38,100	$3,900	$83	**$155,006**
	Less earned revenue	20,875	30,328	26,081	3,625	81	**80,990**
	Net program cost	$60,900	$820	$12,019	$275	$2	**$74,016**
Objective C:	Total program cost	–	–	–	–	$364	**$364**
	Less earned revenue	–	–	–	–	360	**360**
	Net program cost	–	–	–	–	$4	**$4**
Objective D:	Total program cost	–	–	–	–	$895	**$895**
	Less earned revenue	–	–	–	–	891	**891**
	Net program cost	–	–	–	–	$4	**$4**
Objective E:	Total program cost	$16,095	$6,131	$7,499	$768	$180	**$30,673**
	Less earned revenue	4,109	5,969	5,133	713	133	**16,057**
	Net program cost	$11,986	$162	$2,366	$55	$47	**$14,616**
Objective F:	Total program cost	–	–	–	–	$10	**$10**
	Less earned revenue	–	–	–	–	$7	**$7**
	Net program cost	–	–	–	–	$3	**$3**
Objective G:	Total program cost	–	–	–	–	$6	**$6**
	Less earned revenue	–	–	–	–	4	**4**
	Net program cost	–	–	–	–	$2	**$2**
Total	**Total program cost**	**$97,870**	**$37,279**	**$45,599**	**$4,668**	**$1,553**	**$186,969**
	Less earned revenue	**24,984**	**36,297**	**31,214**	**4,338**	**1,487**	**98,320**
	Net program cost	**$72,886**	**$982**	**$14,385**	**$330**	**$66**	**$88,649**

The following table presents a cross-walk of OPM's net cost by responsibility-segment to its net cost by strategic objective for fiscal year 2008. Total costs were allocated based on the distribution of budgetary resources.

Strategic Objectives 2008 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	—	—	—	—	$18	**$18**
	Less earned revenue	—	—	—	—	11	**11**
	Net program cost	—	—	—	—	$7	**$7**
Objective B:	Total program cost	$72,149	$34,270	$53,044	$3,358	$112	**$162,933**
	Less earned revenue	21,413	27,262	27,432	3,402	115	**79,624**
	Net program cost	$50,736	$7,008	$25,612	($44)	($3)	**$83,309**
Objective C:	Total program cost	—	—	—	—	$273	**$273**
	Less earned revenue	—	—	—	—	279	**279**
	Net program cost	—	—	—	—	($6)	**($6)**
Objective D:	Total program cost	—	—	—	—	$860	**$860**
	Less earned revenue	—	—	—	—	913	**913**
	Net program cost	—	—	—	—	($53)	**($53)**
Objective E:	Total program cost	$16,532	$7,852	$12,154	$770	$177	**$37,485**
	Less earned revenue	4,907	6,247	6,286	779	111	**18,330**
	Net program cost	$11,625	$1,605	$5,868	($9)	$66	**$19,155**
Objective F:	Total program cost	—	—	—	—	$11	**$11**
	Less earned revenue	—	—	—	—	7	**$7**
	Net program cost	—	—	—	—	$4	**$4**
Objective G:	Total program cost	—	—	—	—	$6	**$6**
	Less earned revenue	—	—	—	—	4	**$4**
	Net program cost	—	—	—	—	$2	**$2**
Total	**Total program cost**	**$88,681**	**$42,122**	**$65,198**	**$4,128**	**$1,457**	**$201,586**
	Less earned revenue	**26,320**	**33,509**	**33,718**	**4,181**	**$1,440**	**99,168**
	Net program cost	**$62,361**	**$8,613**	**$31,480**	**($53)**	**$17**	**$102,418**

Note 11—Availability of Unobligated Balances

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

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2009 and 2008:

September 30, ($ in millions)	2009	2008
Temporarily precluded from obligation at the beginning of the year	$723,194	$696,215
Plus: Trust fund receipts during the year	93,061	90,892
Plus: Appropriations Received	31,422	30,938
Less: Obligations incurred during the year	99,482	94,851
Excess of trust fund receipts over obligations incurred during the year	25,001	26,979
Temporarily Precluded from Obligation at the End of the Year	**$748,195**	**$723,194**

Health Benefits and Life Insurance Programs. OPM administers the Health Benefits and Life Insurance Programs through three trust revolving funds. A trust revolving fund is a single account that is authorized to be credited with receipts and incur obligations and expenditures in support of a continuing cycle of business-type operations in accordance with the provisions of statute. The unobligated balance in OPM's trust revolving funds is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

During fiscal years 2009 and 2008, receipts to the PSRHB Fund included USPS scheduled payment contributions of $1.4 billion and $5.6 billion, respectively, per legislation, as amended.

Also, FY 2009 and FY 2008 receipts included interest income. The following table presents the unobligated balance of the PSRHB Fund included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2009 and 2008:

September 30 ($ in millions)	2009	2008
Temporarily precluded from obligation at the beginning of the year	$32,293	$25,491
Plus: Special Fund receipts during the year	2,822	6,802
Excess of Special Fund receipts over obligations incurred during the year	2,822	6,802
Temporarily Precluded from Obligation at the End of the Year	**$35,115**	**$32,293**

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

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

Note 12—Apportionment Categories of Incurred Obligations

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

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2009 and 2008:

FY 2009 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$68,060	—	**$68,060**
Retirement Program	C	31,422	—	**31,422**
Subtotal		**$99,482**		**$99,482**
Health Benefits Program	B	46,217	—	**46,217**
Life Insurance Program	B	2,531	—	**2,531**
Revolving Fund Program	A	—	$1,733	**1,733**
Salaries and Expenses	A	273	75	**348**
Total		**$148,503**	**$1,808**	**$150,311**
FY 2008 Program/Fund ($ in millions)				
Retirement Program	B	$63,913	—	**$63,913**
Retirement Program	C	30,938	—	**30,938**
Subtotal		**$94,851**		**$94,851**
Health Benefits Program	B	44,659	—	**44,659**
Life Insurance Program	B	2,572	—	**2,572**
Revolving Fund Program	A	—	$1,445	**1,445**
Salaries and Expenses	A	316	47	**363**
Total		**$142,398**	**$1,492**	**$143,890**

Note 13—Comparison of Combined Statements of Budgetary Resources to the President's Budget

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources and for presentation in the "President's Budget." The President's Budget for FY 2011, which will contain budgetary resources information for fiscal year 2009, will be published in February 2010 and will be available on the OMB website at http://www.whitehouse.gov/omb/. The President's Budget for fiscal year 2010, which contains budgetary resource information for fiscal year 2008, was released on February 26, 2009.

There are no material differences between the Statement of Budgetary Resources and the SF-133 Report on Budgetary Execution for FY 2009 and FY 2008. Additionally, there are no material differences between the actual amounts for fiscal year 2008 published in the President's Budget and those reported in the accompanying FY 2008 Combined Statement of Budgetary Resources.

Note 14—Undelivered Orders at the End of the Period

The amounts of budgetary resources obligated for undelivered orders at the end of FY 2009 and FY 2008 are as follows

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2009	$479	$72	$551
FY 2008	$359	$77	$436

Note 15—Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2009 reconciliation and comparative FY 2008 reconciliation are as follows:

FY 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2009
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$99,482	$46,217	$2,531	$1,733	$348	$150,311
Less: Spending Authority from Offsetting Collections and Recoveries	—	37,370	4,290	1,765	270	43,695
Less: Appropriated Trust Fund Receipts	93,061	2,822	—	—	—	95,883
Obligations Net of Offsetting Collections and Recoveries	6,421	6,025	(1,759)	(32)	78	10,733
Less: Offsetting Receipts	31,466	2,822	—	—	—	34,288
Net Obligations	**($25,045)**	**$3,203**	**($1,759)**	**($32)**	**$78**	**($23,555)**
Other Resources	—	—	—	21	11	32
Total Resources Used to Finance Activities	($25,045)	$3,203	($1,759)	($11)	$89	($23,523)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$31,422	—	—	—	—	$31,422
Other	44	$2,821	($91)	$51	$17	2,842
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**31,466**	**2,821**	**(91)**	**51**	**17**	**34,264**
Total Resources Used to Finance the Net Cost of Operations	**$6,421**	**$6,024**	**($1,850)**	**$40**	**$106**	**$10,741**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in *Future Periods:*						
Increase in Actuarial Liabilities	$67,500	$8,467	$2,198	—	—	$78,165
Exchange Revenue Not in the Budget	(48)	(84)	(18)	$(1)	—	(151)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Period	67,452	8,383	2,180	(1)	—	78,014
Components Not Requiring or Generating Resources						
Other	(5)	(22)	—	(65)	($14)	(106)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(5)	(22)	—	(65)	(14)	(106)
Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period	**$67,447**	**$8,361**	**$2,180**	**($66)**	**($14)**	**$77,908**
NET COST OF OPERATIONS	***$73,868***	***$14,385***	***$330***	***($26)***	***$92***	***$88,649***

FY 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2008
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$94,851	$44,659	$2,572	$1,445	$363	$143,890
Less: Spending Authority from Offsetting Collections and Recoveries	—	35,487	3,955	1,637	245	41,324
Less: Appropriated Trust Fund Receipts	90,892	6,802	—	—	—	97,694
Obligations Net of Offsetting Collections and Recoveries	3,959	2,370	(1,383)	(192)	118	4,872
Less: Offsetting Receipts	30,976	6,802	—	—	—	37,778
Net Obligations	**($27,017)**	**($4,432)**	**($1,383)**	**($192)**	**$118**	**($32,906)**
Other Resources	—	—	—	21	12	33
Total Resources Used to Finance Activities	**($27,017)**	**($4,432)**	**($1,383)**	**($171)**	**$130**	**($32,873)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$30,938	—	—	—	—	$30,938
Other	76	$6,673	($241)	$57	$21	6,586
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**31,014**	**6,673**	**(241)**	**57**	**21**	**37,524**
Total Resources Used to Finance the Net Cost of Operations	**$3,997**	**$2,241**	**($1,624)**	**($114)**	**$151**	**$4,651**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in *Future Periods:*						
Increase in Actuarial Liabilities	$67,300	$29,303	$1,593	—	—	$98,196
Exchange Revenue Not in the Budget	(300)	(67)	(22)	$1	—	(388)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Period	67,000	29,236	1,571	1	—	97,808
Components Not Requiring or Generating Resources						
Other	(23)	3	—	(17)	($4)	(41)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(23)	3	—	(17)	(4)	(41)
Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period	**$66,977**	**$29,239**	**$1,571**	**($16)**	**($4)**	**$97,767**
NET COST OF OPERATIONS	***$70,974***	***$31,480***	***($53)***	***($130)***	***$147***	***$102,418***

Note 16—Health Benefits/Life Insurance Program Concentrations

During fiscal years 2009 and 2008, over half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

Consolidating Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2009
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$19	$999	$11	$761	$63	—	$1,853
Investments [Note 3]	763,300	50,920	36,483	—	—	—	850,703
Accounts Receivable [Note 4]	1,087	781	24	92	72	($75)	1,981
Total Intragovernmental	764,406	52,700	36,518	853	135	(75)	854,537
Accounts Receivable from the Public, Net [Note 4]	377	778	158	1	—	—	1,314
General Property and Equipment, Net	—	—	—	22	—	—	22
Other [Note 1L]	—	95	644	2	—	—	741
TOTAL ASSETS	$764,783	$53,573	$37,320	$878	$135	($75)	$856,614

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2009
LIABILITIES							
Intragovernmental [Note 6]	$61	$270	$1	$424	$4	($75)	$685
Federal Employee Benefits:							
Benefits Due and Payable	5,343	3,787	742	—	—	—	9,872
Pension Liability [Note 5A]	1,454,700	—	—	—	—	—	1,454,700
Post-retirement Health Benefits Liability [Note 5B]	—	339,884	—	—	—	—	339,884
Actuarial Life Insurance Liability [Note 5C]	—	—	38,955	—	—	—	38,955
Total Federal Employee Benefits	1,460,043	343,671	39,697	—	—	—	1,843,411
Other [Notes 6 and 7]	668	384	15	141	35	—	1,243
Total Liabilities	1,460,772	344,325	39,713	565	39	(75)	1,845,339
NET POSITION							
Unexpended Appropriations — Other Funds	—	—	—	3	81	—	84
Cumulative Results of Operations — Earmarked Funds [Note 8]	(695,989)	(290,752)	(2,393)	—	—	—	(989,143)
Cumulative Results of Operations — Other Funds	—	—	—	310	15	—	325
Total Net Position	(695,989)	(290,752)	(2,393)	313	96	—	(988,725)
TOTAL LIABILITIES AND NET POSITION	$764,783	$53,573	$37,320	$878	$135	($75)	$856,614

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2008
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2008
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$20	$931	$10	$695	$75	—	$1,731
Investments [Note 3]	738,033	48,241	34,633	—	—	—	820,907
Accounts Receivable [Note 4]	934	688	22	105	61	($63)	1,747
Total Intragovernmental	738,987	49,860	34,665	800	136	(63)	824,385
Accounts Receivable from the Public, Net [Note 4]	358	672	140	—	—	—	1,170
General Property and Equipment, Net	—	—	—	9	1	—	10
Other [Note 1L]	—	146	625	43	—	—	814
TOTAL ASSETS	$739,345	$50,678	$35,430	$852	$137	($63)	$826,379

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2008
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2008
LIABILITIES							
Intragovernmental [Note 6]	$53	$260	$1	$448	$3	($63)	$702
Federal Employee Benefits:							
Benefits Due and Payable	5,010	4,114	779	—	—	—	9,903
Pension Liability [Note 5A]	1,387,200	—	—	—	—	—	1,387,200
Post-retirement Health Benefits Liability [Note 5B]	—	331,417	—	—	—	—	331,417
Actuarial Life Insurance Liability [Note 5C]	—	—	36,757	—	—	—	36,757
Total Federal Employee Benefits	1,392,210	335,531	37,536	—	—	—	1,765,277
Other [Notes 6 and 7]	617	367	—	138	45	—	1,167
Total Liabilities	1,392,880	336,158	37,537	586	48	(63)	1,767,146
NET POSITION							
Unexpended Appropriations — Other Funds	—	—	—	3	72	—	75
Cumulative Results of Operations — Earmarked Funds [Note 8]	(653,535)	(285,480)	(2,107)	—	—	—	(941,122)
Cumulative Results of Operations — Other Funds	—	—	—	263	17	—	280
Total Net Position	(653,535)	(285,480)	(2,107)	266	89	—	(940,767)
TOTAL LIABILITIES AND NET POSITION	$739,345	$50,678	$35,430	$852	$137	($63)	$826,379

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2009
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	—	—	—	$6	—	$234	$241	($313)	$168
With the Public:									
Pension Expense [Note 5A]	$97,870	$37,279	$135,149	—	—	—	—	—	135,149
Post-retirement Health Benefits [Note 5B]	—	—	—	$21,189	—	—	—	—	21,189
Future Life Insurance Benefits [Note 5C]	—	—	—	—	$2,198	—	—	—	2,198
Current Benefits and Premiums	—	—	—	23,436	2,440	—	—	—	25,876
Other	—	—	—	968	30	1,286	105	—	2,389
Total Gross Costs with the Public	97,870	37,279	135,149	45,593	4,668	1,286	105	—	186,801
Total Gross Costs [Notes 9 and 10]	97,870	37,279	135,149	45,599	4,668	1,520	346	(313)	186,969
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,976	18,499	20,475	18,707	490	—	—	—	39,672
Earnings on Investments	20,587	16,475	37,062	1,867	1,325	—	—	—	40,254
Other	—	—	—	—	—	1,544	253	(313)	1,484
Total Intragovernmental Earned Revenue	22,563	34,974	57,537	20,574	1,815	1,544	253	(313)	81,410
With the Public:									
Participant Contributions	2,421	1,323	3,744	10,632	2,520	—	—	—	16,896
Other	—	—	—	8	3	2	1	—	14
Total Earned Revenue with the Public	2,421	1,323	3,744	10,640	2,523	2	1	—	16,910
Total Earned Revenue [Notes 9 and 10]	24,984	36,297	61,281	31,214	4,338	1,546	254	(313)	98,320
Net Cost of Operations [Notes 9 and 10]	$72,886	$982	$73,868	$14,385	$330	($26)	$92	—	$88,649

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2008
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2008
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	—	—	—	—	—	$209	$218	($285)	$142
With the Public:									
Pension Expense [Note 5A]	$88,681	$42,122	$130,803	—	—	—	—	—	130,803
Post-retirement Health Benefits [Note 5B]	—	—	—	$41,749	—	—	—	—	41,749
Future Life Insurance Benefits [Note 5C]	—	—	—	—	$1,593	—	—	—	1,593
Current Benefits and Premiums	—	—	—	22,542	2,532	—	—	—	25,074
Other	—	—	—	907	3	1,158	157	—	2,225
Total Gross Costs with the Public	88,681	42,122	130,803	65,198	4,128	1,158	157	—	201,444
Total Gross Costs [Notes 9 and 10]	88,681	42,122	130,803	65,198	4,128	1,367	375	(285)	201,586
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,045	16,742	18,787	22,006	471	—	—	—	41,264
Earnings on Investments	21,725	15,566	37,291	1,852	1,346	—	—	—	40,489
Other	—	—	—	—	—	1,495	228	(285)	1,438
Total Intragovernmental Earned Revenue	23,770	32,308	56,078	23,858	1,817	1,495	228	(285)	83,191
With the Public:									
Participant Contributions	2,550	1,201	3,751	9,852	2,362	—	—	—	15,965
Other	—	—	—	8	2	2	—	—	12
Total Earned Revenue with the Public	2,550	1,201	3,751	9,860	2,364	2	—	—	15,977
Total Earned Revenue [Notes 9 and 10]	26,320	33,509	59,829	33,718	4,181	1,497	228	(285)	99,168
Net Cost of Operations [Notes 9 and 10]	$62,361	$8,613	$70,974	$31,480	($53)	($130)	$147	—	$102,418

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2009
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($653,535)	($285,480)	($2,107)	($941,122)	$263	$17	$280	($940,842)
Budgetary Financing Sources:								
Appropriations Used	31,432	9,113	44	40,579	—	79	79	40,658
Other Financing Sources	(8)	—	—	(8)	21	11	32	24
Total Financing Sources	31,414	9,113	44	40,571	21	90	111	40,682
Net Cost of Operations	73,868	14,385	330	88,583	(26)	92	66	88,649
Net Change	(42,454)	(5,272)	(286)	(48,012)	47	(2)	45	(47,967)
Cumulative Results of Operations — Ending Balance	($695,989)	($290,752)	($2,393)	($989,134)	$310	$15	$325	($988,809)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	—	—	—	—	$3	$72	$75	$75
Budgetary Financing Sources:								
Appropriations Received	$31,422	$9,595	$46	$41,063	—	95	95	41,158
Appropriations Used	(31,422)	(9,113)	(44)	(40,579)	—	(79)	(79)	(40,658)
Other Budgetary Financing Sources	—	(482)	(2)	(484)	—	(7)	(7)	(491)
Total Budgetary Financing Sources	—	—	—	—	—	9	9	9
Total Unexpended Appropriations — Ending Balance	—	—	—	—	$3	$81	$84	$84
NET POSITION	($695,989)	($290,752)	($2,393)	($989,134)	$313	$96	$409	($988,725)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2008
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2008
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($613,537)	($262,738)	($2,204)	($878,479)	$111	$41	$152	($878,327)
Budgetary Financing Sources:								
Appropriations Used	30,938	8,734	44	39,716	—	112	112	39,828
Other	38	—	—	38	—	—	—	38
Other Financing Sources	—	4	—	4	22	11	33	37
Total Financing Sources	30,976	8,738	44	39,758	22	123	145	39,903
Net Cost of Operations	70,974	31,480	(53)	102,401	(130)	147	17	102,418
Net Change	(39,998)	(22,742)	97	(62,643)	152	(24)	128	(62,515)
Cumulative Results of Operations — Ending Balance	($653,535)	($285,480)	($2,107)	($941,122)	$263	$17	$280	($940,842)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	—	—	—	—	$3	$81	$84	$84
Budgetary Financing Sources:								
Appropriations Received	$30,938	$9,155	$45	$40,138	—	103	103	40,241
Appropriations Used	(30,938)	(8,734)	(44)	(39,716)	—	(112)	(112)	(39,828)
Other Budgetary Financing Sources	—	(421)	(1)	(422)	—	—	—	(422)
Total Budgetary Financing Sources	—	—	—	—	—	(9)	(9)	(9)
Total Unexpended Appropriations — Ending Balance	—	—	—	—	$3	$72	$75	$75
NET POSITION	($653,535)	($285,480)	($2,107)	($941,122)	$266	$89	$355	($940,767)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2009
BUDGETARY RESOURCES						
Unobligated Balance — Brought Forward, October 1	—	$12,859	$33,491	$825	$54	$47,229
Recoveries of Prior-Year Unpaid Obligations	—	—	—	121	13	134
Budgetary Authority:						
Appropriations:						
Received	$31,422	9,595	46	—	95	41,158
Other	—	(481)	(2)	—	—	(483)
Appropriated Trust Fund Receipts	93,061	2,822	—	—	—	95,883
Spending Authority from Offsetting Collections:						
Collected	—	37,236	4,294	1,536	261	43,327
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	134	(4)	108	(4)	234
Subtotal	—	37,370	4,290	1,644	257	43,561
Temporarily not Available Pursuant to Public Law	(25,001)	(2,822)	—	—	—	(27,823)
Permanently not Available	—	—	—	—	(11)	(11)
Total Budgetary Resources	$99,482	$59,343	$37,825	$2,590	$408	$199,648
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$99,482	$46,217	$2,531	—	$273	$148,503
Reimbursable	—	—	—	$1,733	75	1,808
Subtotal	$99,482	$46,217	2,531	1,733	348	150,311
Unobligated Balance:						
Apportioned	—	—	—	480	17	497
Unobligated Balance Not Available	—	13,126	35,294	377	43	48,840
Total Status of Budgetary Resources	$99,482	$59,343	$37,825	$2,590	$408	$199,648

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2009
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$5,675	$5,200	$785	$406	$104	$12,170
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	—	1,663	404	536	83	2,686
Total Unpaid Obligated Balance, Net	5,675	3,537	381	(130)	21	9,484
Obligations Incurred, Net	99,482	46,217	2,531	1,733	348	150,311
Less: Gross Outlays	99,090	46,458	2,553	1,470	357	149,928
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	—	—	—	121	13	134
Change in Uncollected Customer Payments from Federal Sources	—	134	(4)	108	(4)	234
Obligated Balance, Net, End of the Period						
Unpaid Obligations	6,067	4,960	763	548	85	12,423
Less: Uncollected customer payments from Federal Sources	—	1,798	400	644	82	2,924
Total Unpaid Obligated Balance, Net, End of Period	6,067	3,162	363	(96)	3	9,499
NET OUTLAYS						
Net Outlays:						
Gross Outlays	99,090	46,458	2,553	1,470	357	149,928
Less: Offsetting Collections	—	37,236	4,294	1,536	261	43,327
Less: Distributed Offsetting Receipts [Note 15]	31,466	2,822	—	—	—	34,288
Net Outlays	$67,624	$6,400	($1,741)	($66)	$96	$72,313

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2008
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2008
BUDGETARY RESOURCES						
Unobligated Balance - Brought Forward, October 1	—	$13,297	$32,064	$633	$69	$46,063
Recoveries of Prior-Year Unpaid Obligations	—	—	—	44	2	46
Budgetary Authority:						
Appropriations:						
Received	$30,938	9,155	45	—	103	40,241
Other	—	(421)	(1)	—	—	(422)
Appropriated Trust Fund Receipts:	90,892	6,802	—	—	—	97,694
Spending Authority from Offsetting Collections:						
Collected	—	35,320	3,934	1,474	250	40,978
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	167	21	119	(7)	300
Subtotal	—	35,487	3,955	1,593	243	41,278
Temporarily not Available Pursuant to Public Law	(26,979)	(6,802)	—	—	—	(33,781)
Total Budgetary Resources	$94,851	$57,518	$36,063	$2,270	$417	$191,119
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$94,851	$44,659	$2,572	—	$316	$142,398
Reimbursable	—	—	—	$1,445	47	1,492
Subtotal	94,851	44,659	2,572	1,445	363	143,890
Unobligated Balance:						
Apportioned	—	—	—	440	24	464
Unobligated Balance Not Available	—	12,859	33,491	385	30	46,765
Total Status of Budgetary Resources	$94,851	$57,518	$36,063	$2,270	$417	$191,119

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2008
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2008
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$5,450	$4,875	$747	$279	$109	$11,460
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	—	1,496	383	417	91	2,387
Total Unpaid Obligated Balance, Net	5,450	3,379	364	(138)	18	9,073
Obligations Incurred, Net	94,851	44,659	2,572	1,445	363	143,890
Less: Gross Outlays	94,626	44,334	2,534	1,274	365	143,133
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	—	—	—	44	2	46
Change in Uncollected Customer Payments from Federal Sources	—	167	21	119	(7)	300
Obligated Balance, Net, End of the Period						
Unpaid Obligations	5,675	5,200	785	406	104	12,170
Less: Uncollected customer payments from Federal Sources	—	1,663	404	536	83	2,686
Total Unpaid Obligated Balance, Net, End of Period	5,675	3,537	381	(130)	21	9,484
NET OUTLAYS						
Net Outlays:						
Gross Outlays	94,626	44,334	2,534	1,274	365	143,133
Less: Offsetting Collections	—	35,320	3,934	1,474	250	40,978
Less: Distributed Offsetting Receipts [Note 15]	30,976	6,802	—	—	—	37,778
Net Outlays	$63,650	$2,212	($1,400)	($200)	$115	$64,377

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

Required Supplemental Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2009
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2009
BUDGETARY RESOURCES							
Unobligated Balance — Brought Forward, October 1	—	$12,859	$33,491	$825	$54	—	$47,229
Recoveries of Prior-Year Unpaid Obligations	—	—	—	121	13	—	134
Budgetary Authority:							
Appropriations:							
Received	—	—	—	—	95	$41,063	41,158
Other	—	—	—	—	—	(483)	(483)
Appropriated Trust Fund Receipts	$93,061	2,822	—	—	—	—	95,883
Spending Authority from Offsetting Collections:							
Collected	—	37,236	4,294	1,536	261	—	43,327
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	134	(4)	108	(4)	—	234
Subtotal	—	37,370	4,290	1,644	257	—	43,561
Temporarily not Available Pursuant to Public Law	(25,001)	(2,822)	—	—	—	—	(27,823)
Permanently not Available	—	—	—	—	(11)	—	(11)
Total Budgetary Resources	$68,060	$50,229	$37,781	$2,590	$408	$40,580	$199,648
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$68,060	$37,103	$2,487	—	$273	$40,580	$148,503
Reimbursable	—	—	—	$1,733	75	—	1,808
Subtotal	68,060	37,103	2,487	1,733	348	40,580	150,311
Unobligated Balance:							
Apportioned	—	—	—	480	17	—	497
Unobligated Balance Not Available	—	13,126	35,294	377	43	—	48,840
Total Status of Budgetary Resources	$68,060	$50,229	$37,781	$2,590	$408	$40,580	$199,648

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2009 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2009
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$5,675	$4,306	$780	$406	$104	$899	$12,170
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	—	1,663	404	536	83	—	2,686
Total Unpaid Obligated Balance, Net	5,675	2,643	376	(130)	21	899	9,484
Obligations Incurred, Net	68,060	37,103	2,487	1,733	348	40,580	150,311
Less: Gross Outlays	67,668	37,396	2,509	1,470	357	40,528	149,928
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	—	—	—	121	13	—	134
Change in Uncollected Customer Payments from Federal Sources	—	134	(4)	108	(4)	—	234
Obligated Balance, Net, End of the Period							
Unpaid Obligations	6,067	4,014	758	548	85	951	12,423
Less: Uncollected customer payments from Federal Sources	—	1,798	400	644	82	—	2,924
Total Unpaid Obligated Balance, Net, End of Period	6,067	2,216	358	(96)	3	951	9,499
NET OUTLAYS							
Net Outlays:							
Gross Outlays	67,668	37,396	2,509	1,470	357	40,528	149,928
Less: Offsetting Collections	—	37,236	4,294	1,536	261	—	43,327
Less: Distributed Offsetting Receipts	31,466	2,822	—	—	—	—	34,288
Net Outlays	$36,202	($2,662)	($1,785)	($66)	$96	$40,528	$72,313

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2008
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2008
BUDGETARY RESOURCES							
Unobligated Balance - Brought Forward, October 1	—	$13,297	$32,064	$633	$69	—	$46,063
Recoveries of Prior-Year Unpaid Obligations	—	—	—	44	2	—	46
Budgetary Authority:							
Appropriations:							
Received	—	—	—	—	103	$40,138	40,241
Other	—	—	—	—	—	(422)	(422)
Appropriated Trust Fund Receipts	$90,892	6,802	—	—	—	—	97,694
Spending Authority from Offsetting Collections:							
Collected	—	35,320	3,934	1,474	250	—	40,978
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	167	21	119	(7)	—	300
Subtotal	—	35,487	3,955	1,593	243	—	41,278
Temporarily not Available Pursuant to Public Law	(26,979)	(6,802)	—	—	—	—	(33,781)
Total Budgetary Resources	$63,913	$48,784	$36,019	$2,270	$417	$39,716	$191,119
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$63,913	$35,925	$2,528	—	$316	$39,716	$142,398
Reimbursable	—	—	—	$1,445	47	—	1,492
Subtotal	63,913	35,925	2,528	1,445	363	39,716	143,890
Unobligated Balance:							
Apportioned	—	—	—	440	24	—	464
Unobligated Balance Not Available	—	12,859	33,491	385	30	—	46,765
Total Status of Budgetary Resources	$63,913	$48,784	$36,019	$2,270	$417	$39,716	$191,119

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2008 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2008
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$5,450	$4,004	$742	$279	$109	$876	$11,460
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	—	1,496	383	417	91	—	2,387
Total Unpaid Obligated Balance, Net	5,450	2,508	359	(138)	18	876	9,073
Obligations Incurred, Net	63,913	35,925	2,528	1,445	363	39,716	143,890
Less: Gross Outlays	63,688	35,623	2,490	1,274	365	39,693	143,133
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	—	—	—	44	2	—	46
Change in Uncollected Customer Payments from Federal Sources	—	167	21	119	(7)	—	300
Obligated Balance, Net, End of the Period							
Unpaid Obligations	5,675	4,306	780	406	104	899	12,170
Less: Uncollected customer payments from Federal Sources	—	1,663	404	536	83	—	2,686
Total Unpaid Obligated Balance, Net, End of Period	5,675	2,643	376	(130)	21	899	9,484
NET OUTLAYS							
Net Outlays:							
Gross Outlays	63,688	35,623	2,490	1,274	365	39,693	143,133
Less: Offsetting Collections	—	35,320	3,934	1,474	250	—	40,978
Less: Distributed Offsetting Receipts	30,976	6,802	—	—	—	—	37,778
Net Outlays	$32,712	($6,499)	($1,444)	($200)	$115	$39,693	$64,377

LEGEND:

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

IN THE HEARTS
FOR WHOM HE SAVED THE UNION
THE MEMORY OF ABRAHAM LINCOLN
IS ENSHRINED FOREVER

Section 3 — Other Accompanying Information

(Unaudited)

Management Challenges

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

October 30, 2009

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Top Management Challenges

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

The four listed environmental challenges facing OPM are due to such things as increased globalization, rapid technological advances, shifting demographics, changing security threats and various quality of life considerations that are prompting fundamental changes in the way the Federal Government operates. Some of these challenges involve core functions of OPM that are effected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency has to deal with.

The internal challenges arise from issues that have minimal outside influence, and that once resolved will likely no longer be a challenge. The three internal challenges included in this letter represent OPM's need to replace two aging and inadequate information systems and its need to strengthen controls over the quality of background investigations.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, only one of this year's challenges is currently considered a material weakness – Information Security Governance. The remaining challenges are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. However, there is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management.

Honorable John Berry

We have categorized the items included on our list this year as follows:

Environmental Challenges

- Strategic Human Capital;
- Federal Employees Health Benefits Program;
  - Reorient FEHBP Management; and,
  - Prescription Drug Benefits and Costs.
- Wellness and Work-Life Balance; and,
- Information Technology (IT) Security
  - Information Security Governance; and,
  - Homeland Security Presidential Directive 12-Personal Identification Verification II.

Internal Challenges

- Retirement Systems Modernization;
- Background Investigations; and,
- Financial Management System and Internal Controls for the Revolving Fund and Salaries and Expenses Accounts.

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

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

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These summaries recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete and accurate characterization of the challenges is presented.

Honorable John Berry

I believe that the support of the agency's management is critical to meeting these challenges and will result in a better government for the American people. I want to assure you that my staff is committed to providing any audit or investigative support needed and that they continue to have an excellent working relationship with your managers.

If there are any questions, please feel free to call me, at 606-1200, or someone from your staff can contact Michael R. Esser, Assistant Inspector General for Audits, or Michelle B. Schmitz, Assistant Inspector General for Investigations, at 606-1200.

Attachment

Attachment

FISCAL YEAR 2009 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

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

For example, we believe that OPM has not effectively managed the challenge of proactively implementing the necessary information security controls to protect the agency's mission-essential operations. The foundation of effective controls is proper information security governance – identifying key roles and responsibilities and maintaining current information security policy. This year we reported a material weakness in the agency's overall information security governance program because of seriously outdated policies and longstanding vacancies in critical information security roles.

1. STRATEGIC HUMAN CAPITAL

The Government Accountability Office (GAO) first designated the strategic management of human capital as a high risk area in fiscal year (FY) 2001 for all of Government and it remains on GAO's 2009 high risk list. OPM is the Federal human resource management agency, and is charged with ensuring that the Federal workforce is managed effectively and efficiently. Government-wide, about one-third of the Federal workforce will be eligible to retire in 2012. In addition, over the next five years, the Federal Government may lose a significant portion of its valued workforce through attrition. As experienced employees leave the Federal workforce, they leave behind critical gaps in leadership and institutional knowledge, which could adversely affect the Government's ability to carry out its diverse responsibilities. While the so-called "retirement tsunami" that has been predicted has yet to arrive, it is essential that OPM prepare for this potential human capital shortage within the Federal Government by focusing on hiring reform.

There is broad agreement that the current competitive hiring process must be improved. Applicants regularly report confusion about differences between agencies' application processes, complex application requirements, and lack of communications from agencies regarding the hiring process and the applicant's status. Human resource (HR) professionals express frustration at a perceived lack of managerial commitment to participate fully in the key elements of hiring, such as workforce planning, and delays in decision making. Managers complain that HR policies and procedures are unclear, overly bureaucratic and non-responsive to their needs. These combined factors make it more difficult for the Federal Government to attract, hire, and retain qualified employees in an effective and timely manner at a time when the competition for quality talent is strong.

While OPM needs to ensure that agencies are aware of and use the personnel flexibilities available to them, so that they can hire the right people at the right time to meet their needs, there is general consensus that broad reform of the hiring process is still necessary. Therefore, it will continue to be essential for OPM to ensure that the Federal Government can effectively recruit, hire and retain talented employees.

Past attempts to address the Federal hiring processes have taken a stove-piped approach, with only minimal success in streamlining the process. Based on these previous experiences and agencies' current hiring needs, OPM's current attempt takes a comprehensive and integrated approach to Federal hiring. The key to OPM meeting this challenge is by achieving the following goals established in the hiring reform initiative:

- Promote innovative, integrated and well coordinated approaches to recruiting and hiring students, mid-career professionals, and retirees to meet agency talent needs;
- Streamline the hiring process to create a positive experience for applicants, managers, and HR specialists;
- Improve USAJOBS and integrate other components of the on-line hiring system to create a world-class experience for job seekers and agency recruiters;
- Provide tools, training and technical assistance to HR officials and agency hiring managers so that they better understand the current approaches, principles and concepts associated with Federal hiring;
- Conduct outreach and training through human capital officers and Federal executive boards to enable agencies to implement the hiring requirements; and,
- Promote efficiency and effectiveness in hiring practices and processes compliant with merit principles and other mandates as required.

Thus, OPM must continue to ensure that Federal agencies are equipped to acquire, develop, motivate, and preserve high performing employees.

2. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to approximately eight million Federal employees, retirees, and their families.

This year will present unique challenges for program officials. As the President and Congress work toward reform of the United States health care system, OPM must align the administration of the FEHBP with transformations in the industry. The

FEHBP must utilize industry best practices and ensure quality healthcare for enrollees while controlling costs. This includes adopting best practices and other changes resulting from national health care reform initiatives, which entail conforming benefit requirements, expanded access for employees and their families and benefit pricing methods. OPM must also explore creative ways to control costs and utilization of benefits, such as increased use of wellness initiatives and global purchasing of pharmacy benefits. These challenges may require legislative, regulatory, procurement & contracting, and administrative changes.

The following are two initiatives OPM believes will help ensure that the FEHBP continues to offer enrollee's quality health care services at fair and reasonable premium rates.

A. Reorient FEHBP Management

The ever-increasing cost of health care is a national challenge. For the upcoming year, the average FEHBP premium increase is 7.4 percent. While significant, this is still consistent with or less than projected premium increases for other employee-sponsored health care programs, which industry experts estimate will run between 8.0 and 11.8 percent.

The challenge for OPM is that, while the FEHBP directly bears the cost of health services, it is in a difficult position to analyze those costs and actively manage the program to ensure the best value for both Federal employees and taxpayers. OPM has not routinely collected or analyzed program-wide claims data. The capacity to collect, manage and analyze health services data on an ongoing basis will allow OPM to:

- Understand the drivers of cost increases for Federal employees – As an example, drug costs as a share of overall monthly premium per member have increased sharply in recent years – see discussion below. A number of alternatives have been suggested to address this growth – see discussion below. Since pharmacy costs account for over $10 billion in FEHBP spending, alternative approaches need to be carefully modeled, and subsequent experience monitored.
- Approach the design and management of Federal benefits in a more holistic way. Approximately 2 percent of Federal employees each year retire due to disability. Examination of health usage prior to disability may yield strategies that might appear costly in the short term (e.g., more intensive service for at risk populations), but could yield long-term savings in reduced disability benefits.
- Model the potential effects of health system reform or environmental changes on Federal employees. One element of medical effectiveness research is to evaluate whether treatment modalities are being used when they are most effective. Imaging technology in particular is an area where overuse with little clinical benefit is common. With a program-wide

database, OPM could analyze the rates of imaging use and take action against insurers/providers whose rates are excessive.

This initiative seeks to reorient the management of the FEHBP by capitalizing on the collection and analysis of program-wide data. Implementation will include:

- Data collection and maintenance – establish regular data feeds from the 10 largest FEHBP carriers (and major pharmacy benefit managers); develop/test front end edits to assure data integrity and consistency across plans; add insurers as expanding the database; manage data flows; assure and maintain data quality and integrity; and, manage data storage and back-up.
- Analysis support – design database and linking routines to link claims to individual demographics, provider files, and other OPM maintained data sets. Create databases that analysts can use to run specific analyses.
- Development of a data warehouse application that will allow flexible queries of the data set – not only general demographic queries, but also risk-adjusted profiles, comparison of chronically ill patients and other useful analytics.
- OPM analysis capacity – in order for OPM to take a forward-looking approach to analyzing and utilizing data, it will need to add new skill sets not currently present in the organization. These will need to be developed and/or acquired. Skills include econometric modeling of health trends, risk adjustment methodologies, pharmacy pricing, and negotiation among others. Some capacity will need to be purchased through outside contracts as internal capacity is developed; the need for outside expertise will decrease over time.

Developing such a database and analytical capability will better position OPM to negotiate effectively with FEHBP carriers to keep Federal premium increases below industry-wide levels.

B. Prescription Drug Benefits and Costs

As mentioned above, increases in drug costs have been a major contributor to the rapid growth in health care costs over the last few years, with drugs now accounting for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for the FEHBP carriers. The FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits. Currently these contracts lack transparency, which limits our ability to audit and provide adequate oversight of this high cost benefit. This lack of transparency makes it impossible for OPM to ensure that FEHBP enrollees are receiving quality benefits at a fair price.

There has also been Congressional interest in the lack of transparency and high cost of prescription drugs within the FEHBP. To date, there has been one hearing

and one roundtable forum presenting program concerns, as well as the pros and cons of potential changes to the current structure of the FEHBP prescription drug benefit. We anticipate continued interest by Congress in controlling prescription drug costs.

To help formulate a better understanding of prescription drug costs and the PBM industry, as well as to develop steps to strengthen the controls and oversight of the FEHBP pharmacy benefits, OPM established a working group. The working group has completed or planned the following activities:

- Meeting with Federal officials that run pharmacy programs for other large government-sponsored health care programs to develop best practices in managing drug programs. The programs included TRICARE, the Centers for Medicare and Medicaid Services, and the U.S. Department of Veterans Affairs.
- Meeting with various PBMs to get a better understanding of the many products and services they offer.
- Discussing the pros and cons of changing contracts, regulations, and/or laws to provide the necessary transparency, as well as improve controls and oversight.
- Exploring alternative approaches/changes in contracting arrangements with PBMs, such as:
  - using the Federal Supply Schedule to purchase prescription drugs at a lower cost;
  - carving out pharmacy services from the existing FEHBP benefit structure; and,
  - developing an alternative prescription drug plan design.

Due to the complexities and the significant costs associated with the FEHBP pharmacy benefit program, it is critical that all alternative approaches be carefully evaluated and modeled before implementing changes. Changes must ensure the health and safety of all FEHBP enrollees and be cost effective.

3. WELLNESS AND WORK-LIFE BALANCE

OPM is challenged with providing Federal agency Work-life and wellness staff with guidance and support for the policies, programs, and practices in the field of Work-life, thus enabling agencies to support employee needs. Work-life is the practice of providing employees with a flexible, supportive work environment that allows employees to be focused and productive at work. Workplace wellness focuses on programs designed to improve employees' health and productivity and to reduce health care costs.

In recent Congressional testimony, the National Business Group on Health summarized why many businesses are interested in worksite wellness:

- The Centers for Disease Control and Prevention Community Guide Task Force concluded that worksite health promotion programs reduced tobacco use, dietary fat consumption, high blood pressure, total cholesterol levels and days of work lost, while also increasing productivity *(Goetzel and Ozminkowski, 2008)*.
- A review of 25 return on investment (ROI) studies of workplace health promotion and disease management programs found an average annual cost reduction of 2 – 4 percent of total medical claims costs, which translated into an ROI of 1:1.5 to 1:3.0 for health promotion programs. In other words, looking only at direct medical costs (not factoring in productivity, absenteeism or other indirect costs), these worksite health promotion programs showed a small but definite positive ROI *(Serxner et al, 2006)*.
- An ROI projection model used by The Dow Chemical Company (Dow) to analyze the breakeven point for its investments in employee wellness showed that even small improvements in health risks for Dow employees would yield large savings in health costs for the company. "The breakeven point, at which savings exactly equals investment dollars, occurs when each health risk is reduced by 0.17% annually." *(Goetzel et al, 2005)*. Increasingly, employers see themselves as population health managers – especially in companies with relatively low employee turnover – and small risk reductions over a large workforce carried out over several years can dramatically reduce health expenditures.

In May 2009, President Barack Obama requested that the OPM, OMB, National Economic Council, and the Department of Health and Human Services explore the development of Wellness Programs for the Federal workforce.

OPM proposed to launch a government-wide Wellness Program. OPM's plan is based on best management practices focusing on producing outcomes that increase employee satisfaction and that drive employee engagement. Research has indicated employee satisfaction and engagement are positively linked to building high-performing organizations. Organizations striving to become employers of choice must focus their attention on employee work-life and health and well-being issues. The elements of OPM's comprehensive worksite Wellness Program are:

- Health education;
- Supportive social and physical environments;
- Integration of worksite Wellness Program into organizational structure;
- Screening programs; and,
- Linkages with related benefits programs (FEHBP, Flexible Spending Account, Employee Assistance Program, Flexible schedules, and Telework, etc.).

An employee's wellness and ability to balance work and life is the responsibility of the employee, as well as the employer. Work-life effectiveness is accomplished through well planned and implemented programs, services, practices and policies that address the specific needs of the agency. OPM's challenge will be to determine how

best to put into practice a wide-ranging Wellness Program that will meet the President's goals.

4. INFORMATION TECHNOLOGY SECURITY

In a July 27, 2007 report to Congress (GAO-07-837 Federal Information Security), the GAO stated that "Federal agencies rely extensively on computerized information systems and electronic data to carry out their missions. The security of these systems and data is essential to prevent data tampering, disruptions in critical operations, fraud, and the inappropriate disclosure of sensitive information."

Information technology (IT) security represents a continuous environmental challenge that encompasses a wide variety of issues for which Federal agencies are required to develop a set of specific IT security controls. The implementation of these controls will strengthen OPM's overall IT security environment. The areas of information security governance, protection of personally identifiable information, and Homeland Security Presidential Directive 12, "Policy for a Common Identification Standard for Federal Employees and Contractors", have been highlighted as specific IT security challenges for OPM in FY 2010.

A. Information Security Governance

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

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

For several years, the OIG has reported increasing concerns about the state of the agency's information security governance. In May 2009, the OIG issued a Flash Audit Alert (FAA) to you and the Chief Information Officer highlighting these concerns. The primary issues outlined in the FAA included outdated information security policies and procedures, and an understaffed IT security program, particularly the longstanding lack of a permanent senior agency information security official (SAISO).

In the interim, there has been limited progress in correcting these issues. The underlying cause, in our opinion, is that OPM has not established adequate information security governance activities in accordance with legislative and regulatory requirements. Specifically, the agency has not fully documented information security policy and procedures or established appropriate roles and responsibilities.

The lack of policies and procedures was reported as a material weakness in the FY 2007 and FY 2008 Federal Information Security Management Act (FISMA) audit reports. This year we are expanding the material weakness to include the agency's overall information security governance program and incorporating our concerns about the agency's information security management structure.

As of late September 2009, there had been no permanent SAISO in the agency for nearly 18 months. During this time, we observed a serious decline in the quality of the agency's information security program. In addition, there was no permanent Privacy Program Manager assigned to manage the agency's privacy program. As a result, there are many deficiencies in OPM's privacy program, including non-compliance with OMB guidance and outdated internal policy.

In late September 2009, the agency appointed a new SAISO; however, it remains to be seen whether the agency will commit the necessary resources and develop the appropriate functions required of this role. Clearly management faces a major challenge in correcting the ongoing and very serious deficiencies in information security governance at OPM.

B. Homeland Security Presidential Directive 12 – Personal Identification Verification II

On August 27, 2004, President Bush signed Homeland Security Presidential Directive 12 (HSPD-12), "Policy for a Common Identification Standard for Federal Employees and Contractors." HSPD-12 requires the development and agency implementation of a mandatory, government-wide standard for secure and reliable forms of identification for Federal employees and contractors.

One critical component of HSPD-12 relates to personal identification verification (PIV II). It calls for all Federal employees and contractors to use a standard smart card credential (card) to verify their identity for secure access to Federal buildings and information systems. OPM is participating in USAccess, a General Services Administration shared service solution for PIV II compliant identity credentials.

There are three phases to the PIV II project. Phase I involves issuing the cards to all employees and contractors who require credentials. Phase II is integrating PIV II compatibility with building access control systems, and the third phase relates

to incorporating the PIV II cards with logical access to agency information systems.

OMB Memorandum M-08-01 requires that agencies issue PIV II cards to all Federal employees and contractors by October 27, 2008. Although OPM did not meet the OMB deadline, it made significant progress. As of September 10, 2009, OPM has:

- Activated PIV II cards for 94 percent of all applicable OPM employees and 54 percent of all relevant contractors. OPM expects to complete phase I by the end of the third quarter of FY 2010.
- Implemented the PIV II credential into the physical access control system at the OPM Theodore Roosevelt Building in Washington, DC. OPM plans to expand this to its facility in Boyers, Pennsylvania, completing phase II of the project by the end of FY 2010. OPM's other facilities, which include multi-tenant buildings, will be managed by GSA's Public Building Service.

OPM has initiated activity for the logical access phase (phase III) of the PIV II project, with a targeted completion date of December 31, 2011. The Agency is participating in a multi-agency working group to identify proven logical access control solutions, and will separately develop budgetary estimates for implementation. The target date is contingent upon approval and funding of the implementation plan, and of course is subject to unknown technical challenges moving forward.

Completing the PIV project will remain a significant management challenge for three main reasons. First, there are not enough GSA/USAccess processing centers to accommodate the remaining OPM employees and contractors who require cards, especially those located in remote areas. Unfortunately, the GSA light activation solution that would have mitigated this concern has not been made available as planned. Second, OPM has a dynamic population of contractors located throughout the country. Identifying these contractors and determining whether PIV II cards are required continues to be a major challenge, as is negotiating the necessary contract modifications. Third, designing and building a new infrastructure to accommodate PIV II integration with logical access to OPM's existing information systems will most likely be a difficult process fraught with considerable uncertainty.

INTERNAL CHALLENGES

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

1. RETIREMENT SYSTEMS MODERNIZATION

Processing the retirement payments of Federal employees is a mission-critical OPM program. As the administrator of the Federal employees retirement program, OPM is challenged with the massive scale and complexity of supporting over 2.9 million active employees, 2.5 million annuitants, and managing the Federal retirement and disability trust fund, which consists of over $740 billion in assets.

The Retirement Systems Modernization (RSM) program is OPM's long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. RSM is critical for two reasons: 1) the workload of the Retirement Program staff has grown over the years and will continue to grow as up to 60 percent of the Federal workforce will become eligible to retire in the next 10 years; and 2) the Retirement Program's existing systems and paper-based processes cannot support the most fundamental needs of the program – providing timely and accurate benefit payments to more than 2.5 million annuitants and their families.

While OPM depends on IT systems to deliver retirement service and to pay its retirees, the RSM program has faced a number of challenges over the years. The most recent failure to deliver a calculation engine has impaired OPM's ability to:

- Pay accurate retirement benefit payments on time with more efficient and flexible processes;
- Automate retirement processing with active employee data available through recurring electronic feeds from the Enterprise Human Resources Integration (EHRI) initiative and Federal agencies;
- Enhance customer service including single-call issue resolution made possible by changing from paper to electronic data; and,
- Allow real-time automated and self-service processing.

The RSM program is now challenged with refocusing its efforts to determine the best solution for implementing a modernized retirement administration environment, as well as obtaining a calculation engine to calculate and process retirements while continuing to remain focused on the following:

- Updating the Federal Annuity Calculator and Estimator System (FACES) to add the remaining calculation types and a modeling tool for Federal employees;
- Ensuring that agency data received is accurate, complete, useable, and compatible with the technology solution;
- Ensuring that the business rules are documented and validated to enable any future solution to correctly calculate annuities of retiring Federal employees;
- Ensuring that the technology solutions and other systems involved in RSM are secure and in compliance with FISMA and in compliance with all relevant laws, regulations, rules and official guidance that govern the design and creation of electronic systems of record;
- Ensuring that the users are properly and adequately trained to use the technology solution in order to provide effective and efficient customer service;
- Incorporating the post-adjudication processes, for which final decisions have not been made, into the new technology; and,
- Acquiring needed skills in new technology to supplement existing staff that are very knowledgeable in the business rules coded in the legacy applications.

During this transition period, OPM must continue to maintain the existing legacy processes and process claims for annuitants and survivors with fewer full-time equivalent staff, limited technology, and increased workloads and customer service expectations.

The need to pay Federal annuitants is as critical as ever to OPM's mission. The RSM program must meet these challenges to continue moving forward in providing a solution to modernize the Federal retirement process.

2. BACKGROUND INVESTIGATIONS

OPM's Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FISD conducts approximately 90 percent of all personnel background investigations for the Federal Government. With a staff of over 8,400 Federal and contract employees, FISD processed approximately 2 million investigations in FY 2009.

While FISD has enhanced the timeliness and efficiency of its background investigations by meeting the mandates in the Intelligence Reform and Terrorism Prevention Act of 2004, the Office of the Inspector General (OIG) has observed a dramatic upsurge in the number of referrals it has received pertaining to fraudulent activity within the background investigations program. Many of these violations involve fabrication by investigators (i.e., the submission of work products that purport to represent investigative work which was not in fact performed). As of September 10, 2009, we have referred 18 such cases to U.S. Attorney's offices for criminal prosecution, 8 of which have resulted in convictions. Of the remainder, six

are pending prosecution, one committed suicide after indictment, and three were declined for prosecution. In addition, the OIG has active or pending criminal investigations of approximately 50 background investigators for various offenses, to include suspected falsification of work product and misuse/abuse of credentials. The full significance of our concerns regarding investigator integrity lies in its implications for the national security of the United States.

Prior to 2005, the OIG did not receive fraud referrals from FISD. FISD is to be complimented on their efforts in recent years to aggressively pursue wrongdoing on the part of Federal and/or contractor staff and on their referral of suspected fraud to the OIG. We acknowledge that the increase in referrals to the OIG since 2005 is attributable, in part, both to the significant increases in the total number of FISD's Federal and contractor staff since 2005 and to the improved communication between FISD and the OIG concerning suspected fraud. Nevertheless, this is an area requiring continued close attention by OPM management. Agencies use the reports of investigations conducted by OPM to determine individuals' suitability for Federal civilian, military, and Federal contract employment, as well as their eligibility for access to national security classified information. If a background investigation contains incorrect, incomplete, or fraudulent information, a qualified candidate may be wrongfully denied employment or an unsuitable person may be cleared and allowed access to Federal facilities or classified information. In our estimation, the sensitivity of the Federal Government's personnel security and suitability program demands that OPM meets the challenge of continually strengthening its quality control efforts, identifying risks, addressing wrongdoing by its background investigators, and implementing reliable controls over critical processes.

3. FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

During the audit of OPM's FY 2008 financial statements, the Auditors noted that deficiencies continued to exist in the operation of the Office of Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E). A majority of these deficiencies are attributable to OPM's current accounting system, Government Financial Information System (GFIS), which cannot be effectively configured to capture essential financial information and generate useful and accurate financial reports related to intragovernmental activities and balances.

In an effort to improve their financial management system including information system software, business processes and procedures, outsourcing support, and internal controls, OPM acquired the services of Accenture National Security Services. Accenture National Security Services is providing software, integration, hosting and operational support services for the Consolidated Business Information System (CBIS) Project under a 10-year blanket purchasing agreement.

To further improve and modernize its accounting processes, the OCFO implemented OPM's first Financial Management Manual (FMM) in 2006, providing policy and procedural guidance for the entire Agency, including detailed procedural guidance to the OCFO staff responsible for accounting operations and reporting, particularly those governing the RF and S&E accounts. The OCFO will revisit and update the FMM and associated work instructions as part of the CBIS implementation.

OPM has had a long standing issue with reconciling its RF account with the Department of the Treasury (Treasury). Revisions to the work instructions for reconciling the GFIS cash balances to the Fund Balance with Treasury for the RF were made in FY 2008 and 2009 to include strict deadlines for the completion of monthly reconciliations. These work instructions are being used to reconcile cash balances during FY 2009 and this effort continues to be supported under the CBIS Project through data analysis and cleansing activities. Additionally, the RF and S&E staff has taken action to resolve differences, making correct entries where necessary.

The CBIS Project recently deployed Phase 1 Release 1 at the beginning of October 2009, and as the next phases of the implementation progress, OPM will continue to be challenged with ensuring adequate oversight over requirements management, testing, data conversion, systems interfaces, and change management.

Continuing into FY 2010, it is critical that OPM ensure they are able to capture and generate useful, accurate, and complete financial information in their current financial, procurement, and budgetary legacy systems. OPM is challenged to continue to improve business processes, facilitate data clean up, review access controls, and conduct business process analysis to ensure a smooth and effective implementation of CBIS.

Agency Response

November 6, 2009

MEMORANDUM FOR PATRICK E. McFARLAND
Inspector General

FROM: MARK REGER
Chief Financial Officer

SUBJECT: Agency Comments on the OIG Report – Top Management Challenges

The Management Challenges identified in your annual report are by definition, issues that are not easily resolved. In many cases, they will require investments or upgrades to technology or substantial changes in long-standing procedures or program activities both within and outside OPM. Completely addressing these Management Challenges will take years, but as you know, we have plans to address each with steps each year. In order to provide perspective on the Agency's progress, I have attached a status summarizing the actions taken this year to resolve management challenges from last year.

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

Attachment

Progress in Meeting FY2009 Management Challenges

Environmental Challenges

OPM's Office of the Inspector General (OIG) identified and reported to the Director the most serious management challenges facing the agency for FY2009 on October 29, 2008. Below is the progress the agency has made toward meeting the identified environmental and internal challenges.

Strategic Human Capital

OPM's leadership of federal Human Resources (HR) management practices continues across the range of strategic HR systems. Through establishing direction and development of innovative approaches to HR management, coupled with ongoing assistance from OPM Human Capital Officers (HCOs) and rigorous evaluation of federal HR programs, OPM drives transformation of federal HR to make the Federal Government a competitive workplace for 21st century talent.

In FY 2009, anticipating a high level of attrition through retirement eligibility, OPM increased pressure on agencies to demonstrate aggressive implementation of the End-to-End (E2E) Hiring Roadmap. Issued on September 1, 2008, E2E requires agencies to meet rigorous standards for an integrated approach to talent management. Building on the Human Capital Assessment and Accountability Framework (HCAAF)'s five systems for effective HR management, E2E integrates talent management from workforce planning through recruiting, hiring, clearance, and orientation, and provides step-by-step actions agencies can take to effectively plan, recruit, hire, clear and acculturate the talent they need to meet their mission. OPM partnered with the Office of Management and Budget (OMB) to incorporate E2E requirements into the FY 2011 budget call. The FY 2011 budget call requires agencies to meet by December 15, 2009, four requirements in the Hiring component of E2E – streamlining job opportunity announcements, mapping current hiring processes against the 80 calendar-day standard (which builds off OPM's previous 45-day model) , communicating with applicants through the hiring process, and involving managers in hiring. Based on a memorandum issued by Director Berry, agencies are required to establish SWAT teams led by agency programmatic leaders, and to collaborate via OMB's MAX portal. OPM is supporting agencies in meeting these requirements by providing interagency training, assigning HCOs to agency SWAT teams to provide ongoing assistance, and providing tools such as JOA templates and an interactive mapping tool. OPM has also provided training through the Federal Executive Boards to reach managers and HR professionals working in the field, where 88% of the federal workforce is located.

OPM is also supporting President Obama's call for a review of the use of contracting to meet federal talent needs. OPM partnered with OMB to develop a multisector workforce planning framework based on strategic HR management principles as outlined in the HCAAF and required in 5 CFR part 250. The multisector workforce planning framework was issued through a memorandum from OMB Director Orszag, and agencies will be required to pilot the multisector workforce planning process in a component that has relied heavily on contractors to achieve results. OPM is developing tools, training, and technical assistance in support of the key role that Chief Human Capital Officers (CHCO) and the agency HR professionals will play in the multisector workforce planning initiative.

Across the Federal Government, agencies share an urgent need for certain mission-critical occupations (MCO). OPM has long provided assistance to agencies in identifying their MCOs, assessing their current workforce against projected need, and creating strategies to close competency gaps. Building on this effort, OPM is collaborating with a number of agencies and organizations to

create governmentwide strategies to meet shared need for MCO talent. In FY09, OPM worked with the Chief Information Officers Council to add Information Technology (IT) workforce assessment to OPM's successful Federal Competency Assessment Tool (FCAT). Agencies will now be able to use the FCAT to meet their competency assessment requirements for HR managers, leadership and supervisory positions, and the IT workforce. In addition, OPM partnered with agencies employing veterinarian medical officers to meet a critical governmentwide shortage in skills in this occupational group. OPM has created an interagency Talent Management Advisory Council that will sustain a government-wide strategy for planning, recruiting and developing a workforce that will enable the Federal Government to meet projected needs in this area—including avian influenza response. Based on this successful model, OPM expects to expand to other governmentwide MCOs in FY 2010.

OPM is also expanding the use of central registers agencies can use to hire workers in occupations that are common across agencies. OPM has successfully implemented central registers for entry-level HR, clerical and acquisition jobs, and is expanding to high-level positions and other shared occupations. By using the central registers, agencies can draw from an already-certified pool of qualified applicants, significantly shortening the time it takes to hire these critical workers.

OPM will continue to provide leadership and assistance to agencies in integration of HR systems, change management, and reshaping their workforce to meet 21st century requirements. OPM partners with the CHCO Council to design deploy and share innovations in key HR management areas such as workforce planning, knowledge management, leadership development, and performance culture. OPM is supporting design of a new initiative sponsored by the CHCO's HR Workforce Subcommittee to address long-standing shortfalls in the federal government's HR professional workforce. OPM is assisting the subcommittee to create a governmentwide approach to HR selection, development and assessment – saving significant resources now spent on duplicative programs that can be combined into one governmentwide program that will assure the Federal Government has the HR talent needed to continue driving improvements in how the workforce is managed.

Federal Employee Health Benefits Programs (FEHB)

The increasing cost of health insurance is a national challenge. OPM works very hard to contain premium costs through tough contract negotiations and extensive carrier oversight. Annual average premium increases were about 2 percent in 2007 and 2008 and about 7 percent for the 2009 contract year.

OPM is committed to expanding the use of health information technology (HIT). Ongoing initiatives include promoting electronic health records, e-Prescriptions, and disease management programs. These HIT initiatives improve the quality of healthcare and contain the costs of insurance by reducing manual claims processing, improving coordination of high-quality healthcare, and preventing costly medical errors. OPM is effectively managing implementation costs and continues to ensure that participant data is secure.

OPM provides health insurance benefits to about eight million Federal employees, retirees and their families. The FEHB Program offers a variety of plan choices with diverse benefits within the framework of authorizing legislation first passed in 1959. The President and Congress are working toward reform of the U.S. healthcare insurance system and OPM is working to align the FEHB Program to any upcoming transformation(s). The FEHB Program continues to utilize industry best practices to ensure high-quality healthcare for enrollees while containing costs. This will include adopting best practices and changes resulting

from national healthcare reform initiatives such as promoting conforming benefit requirements, expanded access for employees and their families and benefit pricing methods. OPM must also explore creative ways to control cost and utilization of benefits such as increased use of wellness initiatives and global purchasing of pharmacy benefits. These challenges may require legislative, regulatory, or statutory changes.

Background Investigations

The Federal Investigative Services Division (FISD) has worked to enhance the timeliness and efficiency of background investigations to meet the mandates established in the Intelligence Reform and Terrorism Prevention Act of 2004. FISD took a major step toward meeting these mandates by eliminating the backlog of investigations; all investigative resources are now focused on meeting the timeliness goals for current investigations while maintaining quality standards. In March 2009, 90 percent of all initial clearances were completed in an average of 39 days, 90 percent of initial Top Secret investigations were completed in an average of 68 days (goal: 85 days or less), and 90 percent of Secret/Confidential investigations were completed in an average of 35 days (goal: 60 days or less).

The EPIC Transformation is another major step that is underway to enhance the timeliness, quality, and security of the investigative process. This project will transform the suite of IT systems used to request, process, track, and deliver investigations. It will enable FISD to move from batch processing to real-time processing, reduce manual efforts, provide additional automated data validation mechanisms, enable timely system changes and updates, and provide improved security technology.

As a stakeholder of the Joint Reform Team, FISD is also heavily involved in researching and developing implementation strategies for investigative reform initiatives that will streamline and improve the investigative process, including tiered investigations, automated records checks, expanded focused investigations, and e-Adjudication. FISD is currently developing a strategic plan that will identify key tasks that FISD must accomplish by the end of calendar year 2010. The plan will be part of a submission to Congress that outlines mission and overall strategic goals, performance measures.

Information Technology (IT) Security

- Protection of Personally Identifiable Information (PII) and,
- Homeland Security Presidential Directive 12-Personal Identification Verification II

FISD has taken numerous steps to highlight the importance of protecting PII. The Assistant Director for Security Programs was designated to oversee FISD's PII program and was tasked to reduce the number of PII incidents by 20 percent in FY09. A FISD working group was convened to help establish an overall PII Protection Plan, Standard Operating Procedures, and refine the notification process.

FISD completed an analysis of all staff roles and responsibilities in protecting PII and developed a consolidation plan for the Associate Director to streamline operations, reduce overall resource requirements, and reduce the number of PII breaches. The Associate Director decided not to consolidate all PII functions, but this analysis highlighted a number of areas where improvements have been made that will both reduce resource requirements and improve the security of PII.

FISD also instituted an aggressive educational campaign to stress the importance of protecting PII. During the All-Hands Training sessions in FY2009, all Federal staff were provided with an overview of PII breaches in 2007-2008 and were provided detailed information on how to better protect PII. The importance of protecting PII has also been

addressed during quarterly meetings with FISD contractors.

The Office of the Inspector General completed a year-long assessment of FISD's PII Program and issued a final report outlining eight findings. FISD corrected five of the eight findings within 90 days of the report being issued and have continued to work on the remaining findings with an anticipated completion date of October 31, 2009.

To enhance the overall awareness of need to protect PII, FISD held a "NO-PII WEEK" from February 15-21, 2009. During this timeframe, all FISD Federal and contractor staff were challenged to complete a week without having a PII breach. Overall, the week was one of our best with only two (2) PII breaches total, and the Federal staff went the entire week without a single PII breach. When considering the hundreds of thousands of PII data elements handled by FISD every week, this is a phenomenal accomplishment.

Throughout FY2009, the Center for Security Programs issued regular and recurring reminders of the importance of protecting PII. These included regular articles in the Quarterly Program Updates; special alerts when a new vulnerability was detected, and periodic reminders of the methods for protecting PII and procedures for reporting any breaches. FISD updated its PII Reporting Form on three occasions in FY2009 to better serve to identify potential problem areas, increase our likelihood for recovery, and to reduce the number of inaccurate reporting.

MSD/CIS implemented in September 2006 logging and tracking of PII extracts through the Automated Change Tracking System (ACTS) used by the Benefits Systems Group (BSG) and the Administrative Systems Group (ASG). ACTS records and tracks all user requests that involve production databases. Processes were installed in ACTS to identify all requests involving the extract of PII data to computer-readable media. Automated triggers are generated by the system at 90 days to notify users to validate that the extract was erased. This information is retained as part of the original ACTS request for audit purposes. The users then confirm that the data has been destroyed and updates the ACTS record accordingly or provides an explanation for why it has not been destroyed.

DCG has made progress in influencing electronic data exchange partners to encrypt PII data at rest prior to electronic transmission. In addition to protecting the data from exposure before, during and after transmission, encrypting the data positions OPM and its data exchange partners will utilize encryption key expiration described above should that capability be funded and deployed. DCG has developed and implemented a policy that prohibits the creation, delivery, or acceptance of physical media containing PII data unless the data is encrypted. The Production Control Branch (PCB) requires a form that identifies if media contains PII to be completed by users submitting physical media. Also, PCB will not create physical media containing unencrypted PII data. DCG is working with the other CIS groups and our customers to develop a simplified method of identifying all Enterprise Server files that contain PII data to alert the data owner of the access request and permit them to make an informed decision to approve or deny the request and track the approvals. DCG, BSG, ASG and the Network Management group (NMG) are further exploring methods and products that can be used to disguise or mask PII data when displaying the true content is unnecessary. DCG has begun holding vendor product demonstrations attended by the development staff. BSG and ASG have encrypted the hard drives on all their development laptops.

When releasing PII data to entities outside of OPM, BSG first obtains approval from the data owner and then uses the standard data exchange acceptance package form to document what data

was delivered, how it was delivered and the fact that all PII has been removed from the data. Signatures of key players are a part of the form.

MSD/CIS has updated the Information Security and Privacy Policy to more fully address NIST guidance. The policy has completed clearance through the Office of the General Counsel (OGC) and is in clearance with the Office of Communications and Public Liaison (OCPL) at this time. Once the policy is fully cleared CIS will have it published on THEO and will conduct an awareness campaign to ensure that agency users are aware of it.

CIS has requested funds to plan and manage an SSN reduction program for the agency's forms and information systems. However, the funds, which were requested through the unfunded needs process, have not been allocated.

Nonetheless, as part of the Paperwork Reduction Act (PRA) compliance program, the OPM PRA and forms officer in CIS asks program offices to verify their need for the SSN whenever they indicate a need to collect it. In addition, OPM is working with an interagency group to share issues and concerns related to SSN reduction.

NMG had completed several initiatives to address the finding related to encrypting sensitive data on mobile computers and devices including:

1. Ensured all backup tapes rotated off site were encrypted
2. Enforced encryption on all BlackBerry handheld devices
3. Implemented secure email system that automatically encrypts any outbound email that contains sensitive data
4. Provided all OPM employees with a mechanism to encrypt data via WinZip
5. Rolled out laptop image to all FISD investigators that utilizes full disk encryption

In addition to these enhancements, NMG has augmented the OPM IT Security and Privacy Policy to define handling requirements for sensitive information and incorporated these handling requirements in annual security awareness training and via all OPM email bulletins.

In January of 2009, OPM submitted to OMB a revised HSPD-12 agency implementation plan. The revised plan reflects estimated completion dates of March 31, 2010 for the issuance of PIV credentials to all OPM employees, with a June 30, 2010 target date for full issuance to OPM contractors. As of July 30, 2009, OPM has issued PIV cards to 92% of OPM employees and 52% of OPM contractors, nationwide. HSPD-12 compliant physical access control card readers and turnstiles have been installed at the OPM Headquarters facility, which operate using the PIV card.

Challenges remain in issuing PIV cards due to the limited number of permanent PIV processing stations located throughout the country. As a result, many employees and contractors are not located within a reasonable driving distance of a processing center. Further complicating matters is that card issuance is a two step process, where employees/contractors must be physically present at a processing center for two separate appointments before a card can be issued. Finally, while OPM has made significant progress in issuing PIV cards to OPM employees, OPM contractor issuance lags behind due to the vast number of contracts, high contractor employee turnover, and remote contractor locations with small populations.

To address these issues the General Services Administration (GSA), as OPM's card issuance provider, has developed additional shared processing stations; however, gaps still exist where no processing capabilities are present. Based on a partnership of several MSO agencies to include United States Department of Agriculture (USDA), OPM, Department of Energy (DOE), Department of Treasury, Department of Justice (DOJ) and GSA, a mobile enrollment station was developed which

toured the country in areas with few permanent stations, yet these stations were only able to process the "enrollment" phase of card issuance. A solution has not yet been determined for the phase II "activation" of mobile circuit cards. Further, the mobile circuits were a temporary, one-time solution and must ultimately be replaced by permanent stations to ensure that new employees receive cards. GSA is also pursuing a combination enrollment and activation station, which will better equip agencies to process individuals located in remote areas. This concept, once tested, approved, and issued by GSA, should assist greatly in PIV issuance.

OPM continues to revise contractor listings by aggressively working with contract companies to ensure accurate and valid data. In an effort to reach contractors and employees in remote locations, OPM/CSEA traveled to six FISD annual conferences throughout the country. The conferences provided OPM an opportunity to temporarily re-locate a permanent PIV processing center in an effort to reach conference attendees that are not located in an area with a permanent station. Additionally, OPM leased stations were temporarily located in OPM facilities at Ft. Meade, MD and Grove City, PA. The temporary relocations allowed large populations of OPM employees and contractors to be processed on site.

Internal Challenges

Retirement Systems Modernization (RSM)

In FY 2009, OPM was in the process of deciding the direction of a modernized retirement administration environment. During the transition, we have had to and continue to have to maintain our existing legacy processes and process claims with fewer full time equivalent (FTE) staff. We have reduced FTE in recent years in anticipation of a new, more efficient, automated retirement processing and records management systems. It was a challenge in 2009 to process over 180,000 claims given the current FTE level.

Capabilities to efficiently serve annuitants and survivors are constrained by limited staff and limited technology while customer service expectations are increasing. Workloads throughout the Retirement Program have grown over the past several years and are projected to increase further as more Federal employees become eligible to retire.

OPM's Retirement Program will continue to provide retirement services to the 2.5 million Federal retirees and survivors who receive annuity payments. It will continue to make benefit determinations based on applicable laws and regulations. The scope of program activities includes making initial eligibility determinations, adjudication, post retirement changes, and survivor processing.

BSG is prepared to update the Federal Annuity Calculator and Estimator System (FACES) to add as many of the remaining calculation types and to build out the necessary functionality to add a modeling tool for Federal employees. The analysis by the FACES programming team has begun.

The post adjudication legacy applications are in dire need of modernization. The challenge as stated – "incorporating the post adjudication processes into the new technology" – is dependent on acquiring needed skills in new technology to supplement existing staff that are very knowledgeable in the business rules coded in the legacy applications. Final decisions have yet to be made regarding the process by which the post adjudication applications will be modernized/enhanced.

Financial Management Systems and Internal Controls for the Revolving Fund and Salaries and Expenses Accounts

In the audit of OPM's FY 2007 financial statements, KPMG noted that deficiencies in the operation of the Office of Chief Financial Officer's (OCFO) internal control over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E), continue to exist at OPM. A

majority of these deficiencies are attributable to OPM's current accounting system, which cannot be effectively configured to capture essential financial information and generate useful and accurate financial information related to intragovernmental activities and balances.

Significant effort is required to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls.

OPM's acquisition in July 2008 will provide the software, development, integration, and hosting services to integrate and standardize our RF and S&E fund processes, trust funds processes, and procurement business processes to address regulatory and compliance deficiencies. This work will span across two phases. Phase one will address OPM's RF and S&E processes and Phase two will address OPM's Trust Fund processes.

The Center for Financial Systems Management is leading and managing the CBIS implementation activities and has the services of commercial vendor with demonstrated experience in implementing and maintaining Financial Systems Integration Office certified commercial off-the-shelf (COTS) financial systems. Accenture National Security Services is providing software, integration, hosting and operational support services under a 10-year Blanket Purchasing Agreement. The CBIS Project is currently completing testing activities to support the initial deployment of Phase 1 Release 1 beginning October 1, 2009.

To further improve and modernize its accounting processes, the OCFO, in FY 2006 implemented OPM's first Financial Management Manual providing policy and procedural guidance for the entire Agency, including the RF and S&E accounts. In FY 2007, the OCFO significantly expanded the scope and number of work instructions, providing more detailed procedural guidance to the OCFO staff members responsible for accounting operations and reporting, particularly those governing the RF and S&E accounts.

Work instructions for reconciling the Government Financial Information System cash balance to the Fund Balance with Treasury for the RF and S&E were completed and implemented in FY 2007. They were revised in FY2008 and FY2009 to include strict deadlines for the completion of monthly reconciliations. These work instructions have been instrumental and are being used to reconcile cash balances during FY 2009 and this effort continues to be supported under the CBIS Project through data analysis and cleansing activities. Additionally, the RF and S&E staff has taken action to resolve these differences, making correcting entries where necessary.

Although OPM has taken steps to improve the internal controls over financial management and reporting, OPM continues to be challenged with capturing and generating useful, accurate, and complete financial information in their current financial, procurement, and budgetary legacy systems. OPM expects to continue to improve business processes, facilitate data clean up, review access controls, and conduct a business process analysis to ensure that implementation of the new CBIS solution is smooth and effective.

Summary of Financial Statement and Audit Management Assurances

OPM's Summary of Financial Statement Audit and Management Assurances are shown in Tables 16 and 17, respectively

Table 16 — Summary of Financial Statement Audit

Financial Statement Audit Opinion and Material Weaknesses					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Table 17 — Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
None	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**
Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IT Security Program Governance	1	0	0	0	0	1
Total Material Weaknesses	**1**	**0**	**0**	**0**	**0**	**1**
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
None	0	0	0	0	0	0
Total Non-Conformances	**0**	**0**	**0**	**0**	**0**	**0**
Compliance with Federal Financial Management Improvement Act (FFMIA)						
Overall Substantial Compliance	**Agency**			**Auditor**		
	Yes			Yes		
Compliance with Specific Requirements						
Systems Requirements	Yes					
Accounting Standards	Yes					
USSGL at Transaction Level	**Yes**					

Improper Payment Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Additionally, the OMB has specified that improper payments include payments where the agency's review cannot discern whether a payment was proper as a result of insufficient or lack of documentation. In 2002, Congress enacted the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities. In Appendix C to OMB Circular A-123, a program was defined as being susceptible to significant improper payments if it has improper payments that exceed both 2.5 percent and $10 million of program spending. The Office of Personnel Management's (OPM) improper payments for FY 2009 are $211.7 million in retirement benefits, $28.8 million in background investigations, $112.3 million in health benefits, and $.9 million in life insurance benefits, for a total of $353.7 million dollars.

Program Descriptions

OPM's three earned benefit programs — Retirement, Health Benefits and Life Insurance — are, by definition, susceptible to potential improper payments. OPM has an approved Improper Payment (IP) plan that discusses the causes of benefit program improper payments; sampling approaches; actions taken and underway to correct causes; results of actions; timelines for reducing improper payments; statutory barriers; and projected reduction targets.

OPM has also designated payments to contractors under the Background Investigations program as susceptible to improper payments based on overall risk assessment of payments in the RF and S&E appropriations conducted in FY 2008 and is reporting detailed improper payment rates and targets for the first time in this report.

Retirement Program

The Retirement Program (RP) paid over $67,194 million per year in defined pension benefits to Federal retirees, their survivors, and families. The RP is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, when covered employees leave the Federal service before they are eligible for benefits, their retirement contributions, if so requested, will be returned to them in a lump-sum refund payment.

Health Benefits Program

The Health Benefits Program (HBP) is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the HBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of over $30,528 million on behalf of the HBP, and the HBP paid $6,585 million in premiums to CRCs.

Life Insurance Program

The Federal Employees' Group Life Insurance Program (FEGLI) provided life insurance benefits of $2,506.2 million in FY 2009 to more than 88,474 claimants of Federal employees and annuitants. FEGLI is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The FEGLI provides Basic life insurance coverage, as well as three life insurance options and living benefits.

Background Investigations Program

OPM conducts approximately 90 percent of the background investigations for the Federal government. The primary purpose of the investigations program is to conduct high-quality, timely background investigations which will be used by Federal agencies to determine individuals' suitability for federal civilian, military, or contractor employment. The completed background investigations also are used by agencies to determine individuals' eligibility for access to classified national security information. While OPM uses OPM employees to perform background investigations, it also uses contractor resources to conduct investigations, as well as provide associated support activities such as scheduling investigations and reviewing files for completeness. OPM closed almost 1.6 million background investigations and processed nearly 2 million new requests through the first three quarters of FY 2009. Total estimated contractor payments for FY 2009 were $467.9 million.

OPM's program office in charge of background investigations, the Federal Investigative Services Division (FISD), starts the process for conducting an investigation once requests are received from customer agencies either by mail, or electronically through Electronic Questionnaires for Investigative Processing (e-QIP) or the Fingerprint Transfer System (FTS). Cases are scheduled for work in the Personnel Investigative Processing System (PIPS). FISD's current practice is to pay its investigative contractors on a daily basis under current terms of those contracts. During FY 2009 and prior years, PIPS regularly sent payment transactions for closed cases from PIPS to the PIPS Financial Information System (PFIS), which summarizes all payments by vendor. PFIS was established to provide the ability to monitor payment transactions at the case level. Beginning in FY 2010, OPM's Consolidated Business Information System (CBIS), will be able to process transactions associated with cases directly from PIPS.

Improper Payment Sampling

Retirement Program

In FY 2007, OPM consolidated its retirement adjudication and extended-benefits test approaches to leverage monthly sampling across newly added retirements and survivors under each of the two distinct retirement systems (CSRS and FERS). The contract statistician stratified the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviewed retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself. In FY 2009, seven months of audited claims calculations were used to determine the RP's IP rate. The ability to use results from several months increases the reliability of the results and tightens the Improper Payments estimate ranges inherent in sampling large disbursements. The new methodology helps to minimize variability and potential errors correlated to anomalies within sample months selected, since several months are represented.

Since implementation of the new methodology, OPM continuously samples a like number of cases from each of the four lanes monthly (that is, 30 cases from each of CSRS and FERS initial claims, and

30 cases from each of CSRS and FERS survivor claims, for a total of 120 claims per month). For each retirement system, we selected 30 retirement and 30 survivor claims, totaling 120 claims per month, or 840 claims in the seven months used for this year's Extended Benefits Testing. The auditor sampled these results and the OIG performed further sub-sampling of this data. This was done to maximize our confidence in the sampling methodology. Projections are based on a 95 percent confidence that the size of the Improper Payments estimated falls between the upper and lower limits identified. The information gleaned from these 'rolling reviews' is made continuously available to the RP's management, thus enabling management to implement staffing, training, and internal control procedures as warranted in a timely manner to ensure the highest-possible accuracy levels in case adjudication.

Health Benefits Program

As it did for FY 2008, OPM used the results of historical audits of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs. One hundred percent of FEHBP premium payments are subject to audit. Based upon selected criteria from OPM management and themselves, the Health Plans selected for audit do, in fact, exceed the sample size required by OMB in Appendix C to OMB Circular A-123. This sample is judgmental, not random, targeting the most likely areas of improper payments in the Program. In fact, it likely overstates erroneous payments in the Program because those carriers chosen for audit tend to be those more prone to improper payments.

OPM, for FY 2009 continued to rely upon the existing audit procedures to estimate improper payments to CRCs. For ERCs, OPM will implement a process to estimate statistically the extent of improper payments of benefits by the ERCs, as well as the charges to the Program they make for administrative expenses. In accordance with OPM reporting and auditing guidelines, all ERCs have, for a number of years, prepared annual financial statements and have subjected those financials to audit by independent public accounting firms (IPA). While OPM's guidelines require the IPAs to sample paid benefits and administrative expenses, they do not provide for detailed reporting of the results, nor do they prescribe sampling procedures that allow for the aggregation of those results. The OPM OIG is conducting audits that are more frequent and has audits targeting coordination of benefits and duplicate claim payment problems. We will continue the results of the OIG audits in determining the error rates.

Life Insurance Program

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data-match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife. In May 2006, OPM implemented a new, automated method to certify life insurance for deceased annuitants, which further reduced improper payments. This Automated Certification of Life Insurance (Auto Cert) process has taken the place of hard-copy certification for most deceased annuitants. This was the second full year since the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were extremely accurate during FY 2009, with over 99.9 percent of accounts being accurately paid, and over 99.97 percent of dollars being accurately disbursed.

To more fully represent the FEGLI disbursement in its entirety, we expanded our analysis to include non-annuitants (deceased employees). We developed a match for this group of payments comparable to

the annuitant paid-claims match beginning with the fourth quarter of FY 2006. Although we have made significant progress in adding non-annuitant payments to our Improper Payment review, we have encountered several challenges using the CPDF as our primary data source to validate FEGLI coverage. The non-annuitant match requires subsequent labor-intensive reconciliations, which we have concluded may remain until all agencies have converted to e-OPF and full FEGLI coverage data is available for both Executive and Postal employees. Until e-OPF can be fully leveraged, reported results are based on a combination of actual disbursement review for deceased annuitants, plus error sampling / and projections based on analysis of raw output from the non-annuitant match. The two matches are performed independent of each other with different reporting cycles.

We have now conducted a match comparing CPDF data against MetLife payments for portions of FY 2006-2009. With this experience reviewing non-annuitant disbursements, we have concluded these disbursements are as accurate as the disbursements made on behalf of deceased annuitants. This makes considerable sense, as the records of current employees who decease were current and actively being maintained by the agencies for which they were employed.

Background Investigations Program

OPM used the universe of closed cases for the first 9 months of FY 2009 to select a sample for review. OPM analyzed quarterly trends in the number of closed cases for prior years, and based on that review believes that the first 9 months of the year provided an adequate representation of cases on which to base projections for the entire fiscal year. OPM will continue to refine its methodology and sample selection in future years.

The overall size of the sample was a derivative of both the population size (1,586,802 closed cases from October 1, 2008 through June 30, 2009) and a degree of confidence that the results of the analysis would be sufficient to represent the entire population (95% degree of confidence that the cost of errors measured in the sample set would be within plus or minus 5% of that result in the entire population). Based on that universe and degree of confidence, the sample set was calculated at a total of 375 closed cases. OPM further stratified the sample set of 375 case types by 21 different investigation types of investigation cases (e.g., single scope background investigation, national agency check with law and credit) that generate payment transactions to contractors. The different types of investigations entail different amounts of work and therefore contractors are paid different amounts based on the investigation type.

For each closed case in the sample, OPM reviewed up to three separate payment categories types generated in the 375 cases selected: (a) payments made to support contractors for scheduling cases in PIPS and associated tasks (375 payments), (b) payments made to contractors for conducting investigative fieldwork (97 payments), and (c) payments to contractors to conduct reviews of completeness of field work for completed cases (114 payments). Results are presented in Table 20 for each category of payment.

To ensure that payments in the sample were proper, OPM reviewed various system and manual documentation including:

- Ensuring that payments were in accordance with the terms and conditions in the contracts;
- Verifying that payments for each case in PIPS were included in the PIPS total summarized payment;
- Confirming that payment transactions indicated on the PFIS report were in the summarized payment amount disbursed by GFIS;
- Verifying the proper payment was disbursed by GFIS to the contractor by comparing the summarized amounts on the PIPS-PFIS

summary report to the undisbursed payment reports; and

- Reviewing the results of a FISD review of the completeness of selected case files.

Causes of Improper Payments and Actions to Reduce Them

Retirement Program

The following are the principle causes for improper payments in the Program:

- Delayed reports (or no reports) on changes in status (death, marriage, recovery from disability, etc.) furnished from beneficiaries or family members that resulted in a different (or no) benefit payment.
- Inaccurate and/or incomplete information provided by former employing agencies about a retiree's Federal service history.
- Dual Federal benefits provided to individuals (laws generally allows only one).
- Adjudication errors by OPM employees (these comprise only a very small percentage of the total improper payments in the Program).

To reduce improper payments, OPM currently takes several actions. OPM surveys benefit recipients annually to verify that they continue to meet eligibility requirements. We administer active data-matching programs with Departments of Defense, Labor, Veterans Affairs (VA), and the Social Security Administration (SSA). OPM is also exploring alternate methods to learn in a timelier manner when eligibility for benefits has changed.

To further reduce improper payments in the Program, OPM must modernize its legacy systems; enable access to integrated, electronic, retirement-related data; and improve business processes and workforce support. The RSM program is OPM's strategic initiative to implement technical enhancements to support the Retirement Program's ability to meet the needs of Federal employees as they prepare for retirement and annuitants throughout their time as a retirees or survivors. Once implemented, RSM will allow OPM to reduce improper payments by:

- Enabling agency benefit officers, and retirement administrators access to integrated retirement data and imaged records.
- Obtaining retirement data from agencies in a standard format throughout an employee's career via an electronic data interface and applying edits and data analytics to the data to improve data quality standards Federal-wide.
- Tracking initial data quality and providing help to agencies in achieving higher standards and avoiding typical mistakes in providing retirement data.
- Consolidating retirement data in one place to minimize information gaps in claims processing.
- Implementing standardized systems for determining and calculating retirement benefits that are integrated with the retirement information database and are accessible to OPM and Federal agencies.

Health Benefits Program

Two types of carriers participate in the HBP. The first type is community-rated carriers (CRC). The Community-rated method is based on a "per enrollee per month" carrier premium rate. OPM negotiates adjustments to this base rate for a variety of reasons, including changes to the community-rated carrier's (CRC) standard benefits package, the demographics of the Federal group, and the utilization of benefits by the Federal group. CRCs are subject to audit by the OPM's Inspector General, which may find that a CRC has negotiated a defective community rate and/or that they have charged unallowable administrative expenses to its contract with OPM or benefit cost findings.

The second type of carrier participating in the Program is the experience-rated carrier (ERC). An ERC pays benefits on behalf of OPM and incurs

necessary and reasonable administrative charges. Benefits payments consist of the payments an ERC makes to health care providers and participants for covered hospitalization and major medical protection. Administrative expenses generally include such items as taxes (excluding premium taxes), insurance and reinsurance premiums, medical and dental consultants used in the adjudication process, utilization review, carrier personnel, equipment, and facilities directly used in the delivery of health care services. Administrative expenses are subject to a limitation, or a ceiling, which is negotiated each year and included in ERC contracts.

To reduce improper benefit payments, OPM is expanding its audit program and has already begun audits targeting coordination of benefits and duplicate claim payment problems. Furthermore, the contracting official is taking a proactive approach by focusing on the most common causes of improper payments and charges of administrative expenses to reduce their frequency.

Life Insurance Program

The amount of benefits paid to the beneficiary of a participant is based upon an employing agency or Retirement Program (for annuitants) certification of the participant's eligibility and level of coverage. About half of the improper payments in the Program historically resulted from incorrect life insurance certifications. As stated earlier, implementation of AutoCert has dramatically reduced improper payments due to certification errors. The remaining errors are due to a combination of anomalies that we continue to actively monitor.

Current Initiatives to reduce Retirement, Health and Life Improper Payments

OPM has initiated several diverse activities to reduce Improper Payments. We will continue to work with our own Office of the Inspector General as well as other federal agencies to implement cost-effective activities to detect, pursue and reduce fraudulent, wasteful, and abusive activities that result in Improper Payments. Some of our current initiatives include:

Proof of Life

The purpose of the Proof of Life study was to develop a sustainable and verifiable method that prevents fraud, increases electronic enrollment and saves administrative costs, while providing better service to our annuitants overseas. OPM has been able to leverage the resources and expertise of the Social Security's Office of International Operations (OIO), the Department of Veterans Affairs, the Department of State, the U.S. Treasury and the Federal Reserve to come to an agreement that that involves technical, financial, and operational cooperation and coordination. This agreement made it possible for OPM to use new and existing techniques while leveraging the efforts of 50 Foreign Service Nationals working in three embassies worldwide at a modest cost.

Work in the Philippines began in FY 2008. Two Retirement Services Program employees, worked closely with SSA and US Embassy staffs to conduct proof-of-life fairs. Manila area annuitants were sent instructions to attend the fairs with proper identification for personal authentication. Additional data was collected for future use.

Current Results as of August 1, 2009:

2969 surveyed	**(100%)**
2410 verified	**(81%)**
267 deceased	**(9%)**
285 unverified	**(10%)**

OPM will send a final notice instructing those who were unverified to report to the Embassy or have their payments suspended. Annuitants who respond to suspensions will be reinstated. Those who do not respond will have their annuities terminated. SSA will conduct field investigations for cases that appear to be special problems. OPM believes that a significant portion of these unverified cases will turn out to be deceased.

The effort included other benefits. OPM:

- established a reputation for checking on unreported deaths
- strengthened relationship with SSA staff
- converted 80% of surveyed check recipients to direct deposit (saving postage and check replacement cost)
- corrected addresses
- resolved representative payee issues

OPM continued Proof of Life activities in FY 2009 including conducting fairs in the Philippines Visayas Islands. Simultaneously, we set up a direct deposit relationship with Japanese banks. This will include both a Proof of Life initiative as well as converting paper checks to electronic transfers, resulting in decreased erroneous payments and direct savings to our administrative budget in the form of lower postal costs. The Proof of Life project has been very successful to date.

International Direct Deposit

OPM is also working to expand its International direct deposit program, known as International Treasury Services (ITS). We now service Canada, the United Kingdom, Ireland, Germany, Italy, France, Spain, Panama, and Japan and are working on adding Greece to ITS. Currently we have two ways to send electronic payments to our international customers: via correspondence banking (i.e., forwarding funds to a U.S. bank that has an agreement with a foreign bank) or by sending payments by way of the Federal Reserve (ITS.gov). Not all countries have the ability to be paid by ITS, but for those that do, we intend to utilize this mechanism to the maximum extent possible. We currently pay about 71 percent of our overseas annuitants electronically with approximately 46 percent of those payments through ITS. Last year we reduced foreign check payments by 10 percent and are working to further expand ITS.

Inspector General (IG) Workgroup

OPM's Center for Retirement and Insurance Services (CRIS) is committed to further strengthening internal controls to guard against waste, fraud, abuse and mismanagement of taxpayer resources. We maintain a close working relationship with the Office of the Chief Financial Officer and the OPM/OIG in the area of retirement fraud, payment reclamation, and erroneous payment interception.

OPM has convened an inter-divisional workgroup to collaboratively assess Improper Payment improvement ideas by the Office of the Inspector General and CRIS. Topics vary, but include such items as:

- Renewing the Master Death Match against Social Security's comprehensive Master Death File to supplement the weekly consolidated matches we

currently perform. In FY 2009, OPM's recurring death data-matching activities identified more than $46 million in overpayments and prevented an additional $80 million from being overpaid (calculated savings to OPM).

- Improving procedural documentation of, and automation of, our check reclamation process, further improving process and recovery efficiency.
- Recovering benefit payments made to abandoned bank accounts as well as those escheated to the respective state coffers.

Most Improper Payment (IP) detection activities are necessarily followed by labor intensive processes to confirm the IP, gather evidence, administer due process and collect overpayments. In this environment, oversight and audit activities compete with normal operations. By working collaboratively to identify, analyze, prioritize and implement IP reduction activities, we limit exposure to IP's and save processing costs, plus leverage talent to save administrative costs.

CRIS has a robust Internal Control program that incorporates effective safeguards and controls encompassing its organizational structure, reporting capabilities, system edits, procedural foundation and review and audit activities. We are committed to implementing sound recommendations that will strengthen our internal controls and increase the level of service to our customers.

Background Investigations Program

OPM had previously reviewed the flow of payments from PIPS to PFIS to GFIS during its risk assessment completed in FY 2008 (based on FY 2007 data), and had classified background investigation payments as susceptible to improper payments based on a lack of support for tracing transactions between the three systems. Based on additional program knowledge and analysis, OPM took an enhanced approach with this year's initial full review and did more in-depth work to see that payments were supported by contractual terms and PIPS system documentation, in addition to following the flow of payments through the three systems. OPM's FY 2009 review found the following improper payment transactions (full results are provided in Table 20).

- 3 of 375 sample payments made to support contractors for scheduling cases and associated tasks were improper;
- 4 of 97 sample payments to contractors for conducting investigative fieldwork were improper; and
- 3 of 114 sample payments to contractors for reviewng case files for completeness were improper.

Based on OPM's review of the sample, the primary causes of improper payments to contractors for background investigations were adjustments to cases that were not scheduled in PIPS as required and therefore not completed, and investigations that were not adequately completed as required under terms of the contracts. As the improper payments sample review has recently been completed (October 2009), FISD will develop additional corrective actions to address these problems in the coming months, and OPM will update its existing corrective action plan (CAP). Also, as previously noted, OPM has deployed its new system, CBIS, to replace GFIS. CBIS will be able to take data directly from PIPS and therefore PFIS will no longer be needed. Although none of the improper payments found in this year's review were related to the flow of payment data from PIPS to PFIS to GFIS, the new system will allow for a simplified interface and should therefore generally reduce the risk of improper payments.

Recovery Auditing

The OIG, under the amended Inspector General Act of 1978, administers audits in partnership with the FEHB Program and has established an Audit Resolution function to validate audit findings and determines whether questionable charges are allowable under FEHBP regulation (e.g. FAR, FEHBAR). OPM's OIG performs comprehensive audits of its contracts with the Health Benefits and Life Insurance Program carriers.

To comply further with the policy above, OPM's OIG continually reviews the agency's cost effective financial and programmatic controls to identify contractor overpayments. These effective internal controls prevent, detect, and recover overpayments to contractors. All contracts negotiated by OPM are subject to audit and are included in the audit universe with comprehensive audits of the FEHBP carriers conducted to ensure compliance with contract provisions, provide program oversight, and minimize fraud, waste, and abuse. The costs for this program include salary, administrative, and other expenses spread across several agency Centers. As part of OPM's day-to-day program administration, corrective action plans are developed and implemented based upon the nature of the audit payment error identified. Corrective action plans are reviewed annually and may be incorporated, as applicable, into an updated Improper Payments Plan as part of the Management Improvement Plan.

A recovery audit identifies contactor overpayments by examining agency information supporting payments. The FEHB audits rely on judgmental, not random, sampling, which provides a reasonable estimate of improper payments and probably overstates Program payments because carriers selected tend to have more payments that are improper. Since the terms and conditions of all OPM's contracts with Health Benefits and Life Insurance Program carriers provide for adjustments based on the OIG's audits, OPM has excluded them from the requirement for recovery audits. As disclosed in our approved Improper Payments Plan, this process overall has proven highly effective in detecting and recovering improper payments.

While the Retirement and Life Insurance programs have robust procedures in place for identifying and recovering erroneous payments through various means and at different payment thresholds, each has nominal contract costs and internal staff perform audit and recovery functions, also described in the agency's Improper Payments Plan. OMB Circular A-136, Table 18, provides information on recovery auditing data for the benefits programs.

As the review of improper payments has been recently completed, OPM will explore the feasibility and methods for recovering erroneous payments in the background investigations program in the coming months and will report results in future reports.

Table 19 — Improper Payments (IP)

OPM Fund	FY 2009 Dollar Amount Subject to IP Review (in Millions)	FY 2009 IP Amount Received and Reported (in Millions)	FY 2009 IP Amount Identified for Recovery (in Millions)	FY 2009 IP Amounts Recovered (in Millions)	IP Amount Identified for Recovery in Prior Years (in Millions)	Amounts Recovered In Prior Years (in Millions)	Cumulative Amounts Identified in Prior Years + FY 2009 (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2009 (in Millions)
Retirement	$67,194.1	$160.1	$155.9	$149.6	$757.8	$596.8	$913.7	$746.4
FEHB	$37,113	$81.5	$65.9	$53.8	$229.7	$204.5	$295.6	$258.3
Life Insurance	$2,506.2	$4.14	*$2.98	$1.9	$12.43	$9.78	$15.41	$11.68

* Annuitant IP amounts through August 2009, projected through September; Non-annuitants (Executive only) through Q1 FY 2009
# Number of extrapolated and subject to adjustment once OFEGLI FY 2009 audit is completed.

Accountability for Reducing and Recovering Improper Payments

OPM's Deputy Associate Director for CRIS, Human Resources Products and Services Division, has been designated as the official responsible for establishing policies and procedures to assess agency and program risks of improper payments for the benefit programs, taking actions to reduce those payments, and reporting the results of the actions. OPM's Chief Financial Officer (CFO) will be primarily responsible for reducing the risk of improper payments on the background investigations program and will work closely with the Deputy Associate Director, CRIS, on a comprehensive OPM IP Plan. See Table 19 on next page for reduction outlook.

Table 20—Improper Payment Reduction Outlook

	2008 Outlays	2008 IPs	2008 IPs	2009 Outlays	2009 IPs	2009 IPs	2010 Outlays	2010 IPs	2010 IPs	2011 Outlays	2011 IPs	2011 IPs	2012 Outlays	2012 IPs	2012 IPs
	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT															
Total Program	63,025	.39	245.9	67,194.1	.32	211.7	71,000	.31	216.6	74,400.0	.30	219.5	77,800.0	.28	217.1
Overpayments		.31	198.3		.24	160.1		.23	161.0		.22	162.0		.21	162.0
Under Payments		.08	47.6		.08	51.6		.08	55.6		.08	57.5		.07	55.1
HEALTH BENEFITS															
All carriers	35,323.5	.24	83.7	37,093.9	.30	112.3	38,913.0	.29	113.4	40,713.0	.28	115.4	42,513.0	.27	116.4
Overpayments		.23	80.1		.30	110.5		.29	111.5		.28	113.5		.27	114.5
Under Payments		.01	3.6		.00	1.8		.00	1.9		.00	1.9		.00	1.9
*CRCs total**	6,429.1	.90	58.1	6,566.0	.50	32.9	6,820.0	.48	32.7	7,055.0	.46	32.6	7,290.0	.43	31.6
Overpayments		.90	58.1		.50	32.9		.48	32.7		.46	32.6		.43	31.6
Under Payments		.00	.00		.00	.00		.00	.00		.00	.00		.00	.00
*ERCs total**	28,894.4	.088	25.6	30,527.9	.26	79.4	32,093.0	.25	80.7	33,658.0	.25	82.8	35,223.0	.24	84.8
Overpayments		.076	22.0		.25	77.6		.25	78.8		.24	80.9		.24	82.9
Under Payments		.012	3.6		.01	1.8		.01	1.9		.01	1.9		.01	1.9
LIFE INSURANCE															
Total Program	2,487.7	.05	0.6	2,506.2	.04	0.9	2,525.0	.04	0.9	2,544.0	.04	0.9	2,563.0	.04	0.7
Non-Annuitant	844.3	.02	0.2	964.8	.02	0.2	972.0	.02	0.2	979	.02	0.2	986	.02	0.2
Overpayments		.02	0.2		.01	.01		.01	0.1		.01	0.1		.01	0.1
Under Payments		.00	0.0		.01	.01		.01	0.1		.01	0.1		.01	0.1
Annuitant only	1,526.9	.03	0.5	1,541.4	.04	0.7	1,553	.04	0.7	1,565.0	.04	0.7	1,577.0	.03	0.5
Overpayments	N/A	.00	0.1		.01	0.2		.01	0.2		.01	0.2		.01	0.2
Under Payments		.03	0.4		.03	0.5		.03	0.5		.03	0.5		.02	0.3
REVOLVING FUND—BACKGROUND INVESTIGATIONS															
Total Program				467.9	6.00	28.1	491.2	4.43	21.7	515.8	3.10	16.0	541.6	2.20	11.9
Support Contractors				57.5	.79	0.5	60.3	.5	.3	63.4	0.40	.2	66.5	.2	.1
Investigative Contractors				406.5	6.76	27.5	426.8	5.0	21.3	448.1	3.50	15.7	470.5	2.50	11.8
Review Contractors				3.9	3.48	.1	4.1	2.5	.1	4.3	1.50	.1	4.6	.50	.0

Notes: Due to rounding conventions, columns do not necessarily round to totals.

Annuitant IP actuals through August 2009, projected through September; Non-annuitants (Executive only) through Q1 FY 2010. All FEGLI data less Option C. The non-annuitant are through Q2 of FY 2009.

N/A=Not Applicable; OPM did not conduct improper payments review for Background Investigations in FY 2008.

Barriers to Reducing Improper Payments

Retirement Program

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek to collect from the individual who last withdrew money from the account. Based on current law and Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The law (i.e., 31 CFR Part 210) and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition by designating them as benefits paying agencies, but OPM did not receive this designation under this statute. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. The Department of the Treasury has drafted legislative language to address this issue which designates OPM as a benefit paying agency and is working to publish a notice of proposed rulemaking to amend 31 CFR Part 210.

FERS disability overpayments occur because the law requires that individuals applying for FERS benefits must also apply for Social Security disability benefits. If the individual receives both forms of benefits, they will have incurred a debt to the Government. Since FERS disability benefits usually begin well before the claim for Social Security benefits is fully processed, FERS annuitants will receive several unreduced months of benefits before they begin to receive Social Security benefits. The annuitant will owe OPM for the cumulative amount of the reductions that should have been made to their FERS annuity. Currently, OPM seeks to recover the bulk of the amount overpaid via its "off-roll" collection process. OPM's experience is that, although FERS annuitants are notified of their obligation to repay, by the time OPM bills them, many recipients claim that they do not have the wherewithal to repay the debt. OPM has drafted legislation to address this issue. OPM continues to look for means of advancing this initiative in future years.

Background Investigations Program

Because this is the first year of OPM's full detailed analysis of closed investigation case transactions, OPM has not yet identified barriers to reducing improper payments in this area. OPM will identify barriers in future improper payments reporting as applicable.

Appendix A—Acronyms and Abbreviations

(Unaudited—See accompanying Independent Auditors' Report)

ACTS	Automated Change Tracking System
ALIL	Actuarial Life Insurance Liability
AFR	Agency Financial Report
APR	Annual Performance Report
ASG	Administrative Systems Group
AutoCert	Automated Certification of Life Insurance
BSG	Benefits System Group
CFR	Code of Federal Regulations
CFS	Center for Financial Services
CHCO	Chief Human Capital Officer
CIS	Center for Information Services
CLCS	Center for Leadership Capacity Services
COTS	Commerical Off-The-Shelf
CRC	Community-Rated Carrier
CRIS	Center for Retirement and Insurance Services
CBIS	Consolidated Business Information System
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
CTS	Center for Talent Services
DCIA	Debt Collection Improvement Act
E2E	End to End
EHRI	Enterprise Human Resources Integration
eOPF	Electronic Official Personnel Folder
EPV	Expected Present Value
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
FAA	Flash Audit Alert
FACES	Federal Annuity Calculator and Estimator System
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FISD	Federal Investigative Services Division
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FTE	Full-time equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GFIS	Government Financial Information System
GMRA	Government Management Reform Act of 1994
GSA	General Services Administration
HBF	Health Benefits Fund
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
HCO	Human Capital Officer
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRLOB	Human Resources Line of Business
HRPS	Human Resources Products and Services Division
CFR	Internal Control over Financial Reporting
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPIA	Improper Payment Information Act
ITSPG	Information Technology (IT) Security and Privacy Group
IT	Information Technology
MD&A	Management Discussion and Analysis
MetLife	Metropolitan Life Insurance Company
MSD	Management Services Division

N/A	Not applicable
NFR	Notice of Finding and Recommendation
OCFO	Office of the Chief Financial Officer
OCPL	Office of Communications and Public Liaison
OCR	Office of Congressional Relations
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OIO	Office of International Operations
OMB	U. S. Office of Management and Budget
OPM	U. S. Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PCB	Production Control Branch
PFIS	PIPS Financial Information System
PIPS	Personnel Investigative Processing System
PII	Personally Identifiable Information
PIV	Personal Identification Verification
PMF	Presidential Management Fellows
PRA	Paperwork Reduction Act
PRHB	Postretirement Health Benefits
RF	Revolving Fund
RP	Retirement Program
RSM	Retirement Systems Modernization
SAISO	Senior Agency Information Security Official
SAOC	Spending Authority from Offset Collections
SES	Senior Executive Service
S&E	Salaries and Expenses

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