

THE UNITED STATES OFFICE
of PERSONNEL MANAGEMENT

FISCAL YEAR 2004

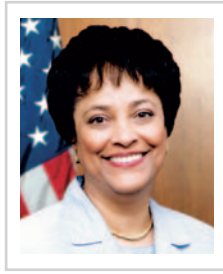
PERFORMANCE & ACCOUNTABILITY REPORT

(Unaudited — See accompanying Independent Auditors' Report)



MISSION STATEMENT

*It is OPM's job to build a high quality and diverse Federal workforce,
based on merit system principles, that America needs to guarantee freedom,
promote prosperity and ensure the security of this great Nation.*



A MESSAGE *from the* DIRECTOR

I am pleased to present the Office of Personnel Management's (OPM) Fiscal Year 2004 Performance and Accountability Report. During fiscal year (FY) 2004, we continued to respond to President Bush's top priorities of securing our homeland and winning the war on terrorism by supporting a variety of national security efforts and strengthening and honoring the civil service that serves and protects them. These themes are clearly reflected in OPM's mission and our accomplishments during FY 2004 demonstrate that we are fulfilling it.

We partnered with the Departments of Homeland Security and Defense to progress toward new human resources management systems that will enable these Departments to meet their critical missions, remain true to the core values of the civil service, and be a driving force in modernizing human resources management across Government. Fundamentally, national security and homeland security strategies depend upon the quality of the people and human resources management systems that support them. We recognize that fact and are committed to excellence.

We also recognize that OPM was among the agencies charged with the safety of the Federal workforce. Thus, we worked to improve emergency preparedness among Federal agencies across Government and made significant contributions to the National Response Plan.

We continued to successfully lead President Bush's Strategic Human Capital Initiative, and by holding agencies and ourselves accountable for their results, we saw an increasing number of agencies using best human capital practices so they can better hire and manage their employees. At the request of agency principals, such as the Secretary of Housing and Urban Development, Alphonso Jackson, we have offered "extreme makeovers" of agency hiring practices to assist agencies in their efforts to identify and recruit talent in a timely manner.

We moved the Senior Executive Service to pay-for-performance so that their performance ratings and pay are now tied to mission accomplishment. In addition, we led five successful projects in expanding electronic government (the most of any single Federal agency) and enhanced Federal employee benefits so that they continue to be models for other employers. More importantly, we continued to be the trusted voice within the Administration regarding the Merit System Principles and veterans' preference.

Along with our many successes, we translated several challenges into opportunities. For instance, we continued to address surging workloads in agencies' requests for personnel background investigations and in claims for benefits submitted by retiring Federal employees. In addition, we uncovered and began addressing institutional weaknesses in our financial management systems for the Revolving Fund Programs and Salaries and Expenses.

The independent public accounting firm of KPMG LLP has audited our fiscal year 2004 consolidated financial statements, as well as the individual financial statements of the Retirement,

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A MESSAGE from the DIRECTOR

Continued

Health Benefits and Life Insurance programs. I am proud to report that, for the fifth consecutive year, OPM has received unqualified audit opinions. This achievement demonstrates that OPM is committed to fulfilling its stewardship responsibilities with sound financial management practices.


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 that these data are valid, reliable and complete.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that I, as the Director of OPM, provide reasonable assurance that OPM's resources are protected from waste, fraud, abuse, and mismanagement. I am able to certify with reasonable assurance that, except for the material weakness specifically identified in this report and related to the administration of the Revolving Fund Programs and Salaries and Expenses, OPM is in compliance with the provisions of the FMFIA. I have directed our Chief Financial Officer (CFO) to take the steps necessary to ensure that this material weakness is resolved during FY 2005.

Specifically these steps include the establishment of a new Center for Internal Control and Risk Management and the recruitment and selection of a senior executive to lead it as an OPM Deputy Associate Director. The new Center will be responsible for a high-level internal control review and quality assurance function to reinforce a changed management culture that OPM is determined to ensure is present throughout the entire agency.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Federal agencies implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL). Based on my review of the auditors' report and other relevant information, I have determined that, for FY 2004, OPM complies substantially with all FFMIA requirements for the Retirement, Health Benefits, and Life Insurance programs. I have also determined that OPM does not comply substantially with the FFMIA requirements for adherence with applicable Federal accounting standards and the application of the SGL for the Revolving Fund Programs and Salaries and Expenses. As a whole, I have determined that OPM complies substantially with the requirements of the FFMIA for FY 2004.

Sincerely,



Kay Coles James
November 15, 2004



A MESSAGE *from the* CHIEF FINANCIAL OFFICER

I share with Director James the pleasure of presenting our fiscal year 2004 Performance and Accountability Report. We have been entrusted with over \$680 billion in assets that belong to our primary stakeholders — Federal employees, retirees and their survivors and families. We recognize our accountability and responsibility for these resources, which encompass safeguarding them from fraud, waste, and mismanagement and providing a timely and accurate accounting of how we use them.

Consequently, I am extremely satisfied that, for the fifth consecutive year, the independent public accounting firm of KPMG LLP has issued an unqualified or “clean” opinion on both our consolidated financial statements and on the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. Moreover, this year’s report is especially notable because we also met the requirement that it be published within 45 days after the end of the fiscal year. Receiving an unqualified opinion while publishing the report on an accelerated schedule are notable achievements, which I believe evidence our commitment to effective financial management.

On a less positive note, I must convey that KPMG LLP has reported a material weakness in internal controls for the Revolving Fund Programs and Salaries and Expenses. We are unwavering in our resolve to correct these deficiencies before the end of fiscal year 2005 and have, in fact, already made significant progress toward that goal. Over the past year, we have implemented more stringent management oversight and review, performed exhaustive reviews of transaction processing, and conducted extensive staff training.

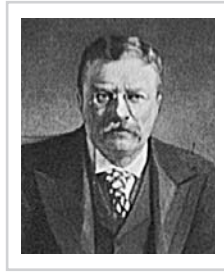
Our achievements in financial management during fiscal year 2004, including the preparation of this report, could not have been possible without the hard work of our financial and actuarial staff. I very much appreciate their professionalism and dedication.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Crawford'.

Clarence C. Crawford
Chief Financial Officer
November 15, 2004





PART 1: INTRODUCTION TO OPM

(Unaudited—See accompanying Independent Auditors' Report)

DESCRIPTION OF THE OFFICE OF PERSONNEL MANAGEMENT

The Office of Personnel Management (OPM) is the central human resources agency for the Federal Government and the primary policy agency supporting the President as he carries out his responsibilities for managing the Federal workforce. The Director of OPM serves as the President's principal advisor on issues related to the Federal workforce. OPM maintains the unique American tradition of a merit-based civil service in service to the executive branch and is the proud keeper of the Theodore Roosevelt legacy. OPM leads Federal agencies in the strategic management of their human capital, proposes and implements human resources management policy, and provides agencies with ongoing advice and technical assistance for implementing these policies and initiatives. OPM plays a vital role in shaping the workforce that serves and protects the Nation.

Equally important, OPM oversees and safeguards the Merit System Principles and veterans' preference, and administers Federal employee benefits programs. OPM also manages the process for personnel security and background checks for suitability and national security clearances. By carrying out these responsibilities, OPM has an immediate impact on the security of the Nation while also providing for the long-term health of the civil service.

OPM's leadership in the management of human capital is transforming the way agencies manage the Federal workforce and is enhancing the values of the civil service. New human resources management policies are streamlining the Federal hiring process, decreasing time to hire, and changing forever how Federal employees are paid and how their job performance is evaluated. New offerings in employee benefits are ensuring that the Federal Government

continues to be a competitive and model employer that balances work/life and family needs and offers choices to employees as consumers.

OPM's core values, as set forth in the Merit System Principles, require that Federal employees be hired, promoted, paid, and discharged on the basis of merit and in compliance with law. Its commitment to these principles is undiminished and sustains the role of a strong civil service in our Nation's system of governance. OPM continues to honor the Government's commitment to employees by managing the trust funds that support the retirement and insurance benefits they earn, and delivering excellent benefit services and support to these civil servants both during and after their Federal careers.

LOCATION

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 its 3,500 employees in D.C., its field presence in 16 locations across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; and Macon, Georgia. OPM's website is www.opm.gov.

HOW TO READ THIS REPORT

This Performance and Accountability Report has been designed to meet a variety of reporting requirements and to serve multiple audiences that have varying information needs, interests and points of view. The report consists of seven parts plus two appendices, which together provide an accurate and thorough accounting of OPM's accomplishments toward supporting national security and strengthening the civil service as the agency serves the American people.

"We live in an exciting time as this great Nation, and indeed the world, undergoes unprecedented change. More than ever, the Federal Government needs inspired, committed, and talented new leaders to embrace the future. Each and every day, men and women make great sacrifices to serve their country, but the rewards of such service are invaluable."

—Kay Coles James, OPM Director

Part 1: Introduction to OPM provides a brief history and overview of the agency and its role within the executive branch of the Federal Government.

Part 2: FY 2004 Highlights offers a summary of what OPM has accomplished during the year in terms that are of importance to the American people, rather than organized by strategic goal or to meet other reporting requirements.

Part 3: Management Discussion and Analysis is a high-level overview of the agency's financial and program performance during FY 2004. Designed to meet the various statutory, regulatory, and other requirements governing Federal agency financial and performance reporting, this part outlines OPM's strategic goals and objectives, and summarizes the agency's progress toward achieving them during FY 2004, based on key performance data. It also provides a review of OPM's plans for the future.

In addition, Part 3 analyzes OPM's financial statements for FY 2004 and discusses the agency's compliance with legal and regulatory requirements, including the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, Inspector General Act Amendments, and the Prompt Payment and Debt Collection Acts.

Part 4: FY 2004 Performance Information presents OPM's performance results in comprehensive detail. It organizes OPM's FY 2004 annual goals according to the strategic goals and objectives described in its *Strategic Plan 2002–2007*. Here, OPM reports whether

it achieved each of its annual goals as demonstrated by specific and targeted performance indicators and other relevant information. It compares OPM's planned activities against actual results, explaining for each annual goal why performance exceeded or fell short of plans. This level of detail will be useful to members and staff in Congress; resource management offices at the Office of Management and Budget (OMB); analysts in OPM's Office of the Inspector General (OIG); the Government Accountability Office (GAO); and interested citizens, customers, and other stakeholders.

Finally, Part 4 provides a complete and thorough discussion of the completeness, accuracy, and reliability of the performance data and information disclosed in the report, and describes OPM's data validation and verification process.

Part 5: FY 2004 Financial Information will, along with Part 6, interest anyone who is concerned with tracking OPM's financial performance. This part contains the agency's consolidated financial statements, footnotes, and other required supplementary information.

Part 6: Independent Auditor's Report contains an assessment of OPM's consolidated financial statements by an independent certified public accounting firm. The objective of the financial audit is to determine whether the financial statements are free of material misstatement and whether serious weaknesses exist in the agency's financial systems, policies, and procedures. The auditors report on their examination of the evidence support-

ing the amounts and disclosures in OPM's consolidated financial statements, and individual financial statements for the Retirement, Health Benefits, and Life Insurance programs. The auditors also report on their consideration of OPM's and the programs' internal controls over financial reporting, and tests of OPM's and the programs' compliance with certain provisions of applicable laws, regulations, and contracts.

Part 7: Top Management Challenges is a summary of the most significant challenges facing OPM as it moves forward to fulfill its mission, as described by the agency's Office of the Inspector General.

The *Appendices* provide an analysis of the sources from which OPM collects its performance data, and a list of the acronyms and abbreviations used in this report.

OPM employees prepared this Performance and Accountability Report. Limited contractor support was used to develop the performance information disclosed in the report. Contractor support was used to develop the financial information reported for the health benefits, life insurance, and long-term care insurance programs because much of that information originates with the carriers participating in those programs. In addition, contractor support was used for editing and graphic design, and in printing the report.

This report is available on OPM's website at www.opm.gov/gpra/opmgpra. Hard copies may be obtained by contacting Ronald Walters, U.S. Office of Personnel Management, Center for Financial Services, Room 5474, 1900 E Street, NW, Washington, D.C. 20415.

[Click here for Part 2, "FY 2004 Highlights"](#)