

November 15, 2004

Report No. 4A-CF-00-04-030

MEMORANDUM FOR KAY COLES JAMES

Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2004 Consolidated Financial Statements

As required by the Chief Financial Officer's Act of 1990, an audit of OPM's Consolidated Financial Statements has been completed for FY 2004. KPMG performed the audit and this office conducted oversight of their work. This memo accompanies KPMG's audit report. KPMG's opinion states that the financial statements are fairly presented in all material respects, i.e., an unqualified opinion. In addition, they identified one material internal control weakness, three reportable internal control weaknesses, and two instances in which OPM's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The agency agrees with the weaknesses identified and is taking action to address them.

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. Our review was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls and whether OPM's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. KPMG is responsible for the enclosed auditor's report dated November 5, 2004, and the conclusions expressed in the report.

If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Harvey D. Thorp, Assistant Inspector General for Audits at 606-1200.

November 15, 2004

Report No. 4A-CF-00-04-030

MEMORANDUM FOR PAUL T. CONWAY
Chief of Staff

FROM: HARVEY D. THORP
Assistant Inspector General
For Audits

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2004 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 2004 Consolidated Financial Statements and the results of the Office of Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program (RP), Health Benefits Program (HBP), Life Insurance Program (LP), 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 the consolidated financial statements of OPM as of September 30, 2004 and for the fiscal year then ended. The contract requires that the audit be done in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 01-02, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2004 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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

- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- There was one material weakness identified in internal control over financial reporting:
 - Financial management and reporting processes of the Division of Management and Chief Financial Officer (MCFO).

A material weakness is a condition in which the design or operation of an internal control does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period.

In addition, KPMG's report identified three other reportable conditions:

- Information systems general control environment;
- Segregation of duties over the Letter-of-Credit system for the Experience-Rated Carriers; and
- Managerial cost accounting to determine full cost associated with strategic goals and major outcomes.

A reportable condition represents a significant deficiency in the design or operation of internal controls that could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements.

- KPMG's report on compliance with certain provisions of laws and regulations disclosed no instances of noncompliance, except for the following instances in which OPM's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA):
 - Standard General Ledger at the transaction level (RF and S&E only).
 - Federal Accounting Standards (RF and S&E only).

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 2004 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.

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 5, 2004, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted GAS.

In accordance with the OMB Circular A-50 and the Federal Acquisition Streamlining Act of 1994, section 6009, 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 MCFO 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 MCFO should describe planned corrective action. If the MCFO 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 applaud OPM's financial management staff for meeting the significant challenge of issuing consolidated financial statements by the November 15 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 Dennis K. Black, Deputy Assistant Inspector General for Audits at 606-4711.

cc: Clarence C. Crawford
Associate Director for
Management and Chief Financial Officer